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Ruben Pereira,
Policy Manager,
Electricity Network Charging,
Ofgem.

By email only to: ElectricityNetworkCharging@ofgem.gov.uk

19 January 2022

Dear Ruben,

Subject: CMP308 – Minded-to decision and draft impact assessment

Shell Group (Shell)¹ welcomes the opportunity to respond to Ofgem's consultation on the minded-to decision and draft impact assessment in relation to CMP308 - Removal of BSUoS charges from Generation.

This response is made on behalf of a number of Shell UK business units, including: Shell Energy Europe, which provides power and environmental product trading and market access for several retailers and generators; Shell Energy Retail, which supplies 100% certified renewable electricity to around one million domestic customers (before taking into account their new customers acquired through various recent Supplier of Last Resort [SoLR] processes, which they are currently working through); Shell Energy UK (previously Hudson Energy), which supplies non-domestic customers ranging from microbusinesses through to large industrial users; and Limejump, Shell's aggregator business, which manages 1.2GW of PPAs on behalf of around 1,000 renewable energy generators.

Please see our responses to the questions posed included with this letter. We very much encourage you to reach out to us for any clarification or relevant follow up.

Yours sincerely,

A handwritten signature in black ink, appearing to be "D Parry".

Daniel Parry,
Head of Regulation,
Shell Energy UK Limited.

¹ Shell Group refers to Royal Dutch Shell plc and its subsidiaries. The companies in which Royal Dutch Shell plc directly and indirectly owns investments are separate legal entities.

Questions

1. Do you agree with our assessment that CMP308 better facilitates the Applicable CUSC Objectives?

Shell: Shell agrees that CMP308 will better achieve the Applicable CUSC Objective (a) - facilitating effective competition - across the various types of generation.

To support the Objectives for electricity consumers, we strongly believe it is crucial to ensure the concurrent implementation of CMP361 (preferred alternative: WACM 1) to provide sufficient notice of ex-ante charges that would be borne entirely by Final Demand sites. This approach would also support Applicable CUSC Objective (e) – promoting efficiency in the implementation and administration of the charging methodology.

Shell supports the implementation date of 1st April 2023 for both CMP308 and CMP361.

2. Do you agree that charging BSUoS charges only to Final Demand reduces distortions between Large Generators and other forms of generation? Please explain why.

Shell: We agree that charging BSUoS costs to only Final Demand reduced distortions between the forms of electricity generation, including generation delivered from outside of the United Kingdom which is delivered via interconnector imports.

In order to facilitate BSUoS charges going to the targeted Final Demand sites, Shell considers that there is a dependency for National Grid ESO to confirm the process and timings for claiming non-final demand status including any rules for more complex sites.

3. Do you have any views on the impact of this proposal on Behind The Meter Generation and its competitiveness?

Shell: Shell supports Ofgem's approach to monitor the competitiveness of Behind the Meter Generation (BTMG) following the implementation of CMP308. We encourage a purposeful and enduring dialogue with industry participants on this matter to develop meaningful analysis of the benefits of BTMG – green initiatives by final demand consumers and reduced stress on the network – balanced against cost-recovery charges over time.

4. Do you have any views on our reasoning on this proposal's effect on price signals or generation dispatch?

Shell: We consider the removal of BSUoS charges from wholesale prices offered to the market by generators will provide more clarity of the commodity value of electricity in the GB network. We also accept that the cost stack merit order will be more reflective of cost of generation by type if BSUoS charges are moved to Final Demand.

5. Do you have any views on our reasoning on this proposal's effect on competition between different generator types?

Shell: Please see our response to Question 4.

6. Do you have views on our assessment of the decarbonisation impacts of this proposal, both in respect of emissions from the GB energy system and of overall emissions?

Shell: Shell broadly agrees with Ofgem's analysis that the amount CCGT-generated electricity will increase if CMP308 is implemented and BSUoS charges are set to zero for large generators. This would have the effect as to increase UK net emissions until sufficient renewable / low carbon generation is built and online.

We have noted in the Impact Assessment Table 4, that the net present value (NPV) of the wider benefits of CMP308 for society, not including estimated emissions from other markets, is negative against 2020 Carbon central series values by circa £1,000. This is compared to a benefit of between £800 for consumer transformation and £1,860 for steady progression metrics when other markets' net emissions are included.

If the UK measures its emissions targets in the round by incorporating data from other markets, then there is an argument that GB suppliers should have the option to purchase green certificates from these markets. This also provides more choice to UK-based final demand consumers looking for green-backed supply products. Similarly, as more renewable generation is built in the UK over time, green certificates linked to export flows to Europe through interconnectors could be sold to neighbouring markets' participants.

We would also support further discussion around the evolution of the UKTS certification and how low carbon generation will be represented in suppliers' fuel mix disclosure to support Net Zero targets.

7. Do you have views on whether and the extent to which the changes proposed in this modification have already been incorporated into supplier decisions?

Shell: The current energy market crisis (Autumn 2021 to present) has made it challenging to determine the extent to which wholesale offers and supplier purchases have incorporated a zero generation BSUoS cost along the curve.

We note Ofgem has stated it intends to expedite its decision on this consultation and we encourage this to allow suppliers to plan accordingly for Spring 2023 and onwards.

8. Do you have views on the impact of this proposal on existing supply contracts, including the possibility of costs or delayed benefits to consumers stemming from windfall gains to industry parties, or double payments?

Shell: Shell supports a decision to the proposal in Q1 2022 to afford suppliers as much time as possible to review existing supply contracts. Delaying benefits to consumers stemming from windfall gains does not, to our mind, meet the Applicable CUSC Objectives and we support Ofgem's stated intention to address this anomaly. Please also see our response to Question 15.

9. Do you have views on this proposal's impacts on generator and supplier risks, including on exposure to volatile charges?

Shell: Shell supports efforts to reduce exposure to volatile charges. BSUoS charges in Winter 21 have been particularly volatile so it is important that Applicable CUSC Objective (b) – cost-reflective charging – is given due consideration in this consultation process.

Shell believes that CMP308 should be implemented in conjunction with CMP361 WACM 1 as a longer notice period would allow Suppliers to better account for BSUoS in their tariffs. Suppliers could provide future notice of tariffs in their business models as there would be a greater number of fixed priced Settlement Periods within the Financial year, reducing the need for elevated risk premia.

10. Do you have views on the interactions between this proposal and other changes in the sector, including other BSUoS charging reform proposals?

Shell: As noted above, Shell considers CMP308 to be intrinsically linked to CMP361 and that the two proposals must be implemented together.

11. Do you have views on the modelled assessment of consumer and energy system benefits? Please provide quantitative analysis and any further information.

Shell: Shell notes that the impact of a reduction in REGOs, as CCGTs become more competitive against renewable generation in the cost stack, has not been mentioned in the Impact Assessment. This combined with reduced imports from European renewable generators via interconnectors has the potential to add further premiums to green-backed tariffs for consumers who are trying to support the UK's renewable energy ambitions.

12. Is our assessment of non-monetised costs and benefits reasonable? Are there any other factors we should consider?

Shell: Final demand sites that consume overnight but do not have on-site storage such as batteries are shown in the Impact Assessment to fare worse than other consumer groups. Shell broadly agrees with the findings and encourages the implementation of CMP361 WACM 1 to mitigate this cost burden with twelve months' notice of BSUoS costs for a three-month fixed period.

13. Do you consider the consumer and system benefits identified in our consultants' modelling to represent a reasonable view of the potential effects of this modification?

Shell: Please see our response to Question 11.

14. Do you consider that Ofgem has duly considered all relevant consumer and system benefits? Are there any areas which could benefit from further analysis?

Shell: Please see our response to Question 11.

15. Our modelling assumes that CfD adjustment payments designed to compensate contract holders for the BSUoS charges they face will no longer be paid in the event generation is not liable for BSUoS charges. Do you agree with this assumption, and do you have views on our assessment of the risks associated with existing CfD contracts?

Shell: Shell acknowledges and supports BEIS' signalled intention to amend the standard terms of the CfD contracts to remove BSUoS protection from the existing adjustment formula for any CfD contracts awarded in round AR4, in the event CMP308 is approved. Shell also supports Ofgem's minded-to position that generators with future and existing CfD contracts do not receive BSUoS protection if they are not subject to the charge themselves.

Shell does not consider it reasonable for final demand consumers to facilitate windfall gains, albeit time-limited, by CfD generators from the date of implementation of CMP308.

16. Do you have views on the impacts of this proposal on end consumers, including large users and vulnerable users?

Shell: We are mindful that large (C&I) users who optimise consumption during off-peak hours but do not have behind the meter generation will fare worse than consumers with more typical daylight working hours profiles. This combined with proposed banding for the TDR element of TNUoS charging should be noted as additional pressure on the B2B sector of energy consumers. We encourage Ofgem to work with industry to ensure large users' energy cost-recovery charges do not become unviable, rendering those businesses commercially uncompetitive.

Shell agrees that this change proposal in of itself does not appear to have significant impacts on vulnerable customers, particularly given the market turmoil over the last four months.

17. Do you agree with our assessment that reduced costs to generators are likely to feed through into lower wholesale prices?

Shell: Shell considers the wholesale price for electricity will be more reflective of generation cost and responsiveness by type if CMP308 is implemented. However, current wholesale market volatility makes it challenging to assume that zero BSUoS charges on generation will directly correlate with lower prices post-April 2023.

18. Do you agree with our assessment that this policy will not have any significant material impacts on vulnerable users?

Shell: Shell agrees with the assessment.

19. Do you agree with our assessment that this modification is unlikely to lead to any significant impacts on essential services or supply chains?

Shell: We consider that significant impacts on essential services or supply chains can only be mitigated if timely decisions on CMP308 and CMP361 are reached, providing optimal notice to suppliers and consumers of changes on 1st April 2023.

20. We would note that increases in demand costs will need to be incorporated into the Price Cap methodology. Do you have any views on this area?

Shell: Shell disagrees that the Price Cap methodology doesn't have to change. We believe this should be consulted upon, after the latest price cap methodology consultations are concluded.

21. Do you agree with our proposed implementation date of 1 April 2023? Please provide your reasoning.

Shell: Shell supports the implementation date of 1st April 2023 for CMP308. Our support of this date is conditional on CMP361 being implemented with or before CMP308.

22. Do you have any other information which is relevant to this consultation?

Shell: Shell asks that Ofgem consider other modifications affecting transmission charges that are pending a decision to ensure a holistic review of network cost recovery and sufficient notice for suppliers to adjust their tariffs where applicable. It is noted in particular that CMP343 (Transmission Demand Residual) is awaiting an outcome from the July 2021 consultation on Ofgem's minded-to decision.