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By email only

25 February 2022

Dear Patrick

**Subject: Access and Forward-looking Charges Significant Code Review (AFLCR):
Consultation on Updates to Minded to Positions and Response to June 2021 Consultation
Feedback**

Shell welcomes the opportunity to respond to Ofgem's consultation on updates to its minded to position following its June 2021 consultation.

We agree that there is a case for change and that it is necessary to reform existing network access and charging arrangements to ensure that they are fit for purpose to support the energy transition and minimise costs for GB consumers.

We also broadly support the approach that Ofgem has taken, in this step of its AFLCR, to further prioritise and define each element of this planned charging reform. We believe that this will make April 2023 implementation both more achievable and its impact on networks users more predictable, which should ultimately reduce implementation costs.

We appreciate the effort that Ofgem has gone to in this process, reflected in this consultation, to identify and anticipate the key implementation questions that network users have and will arise in the process to implement the proposed reforms. This should simplify the subsequent network code modification process and reduce the need to duplicate effort.

We would encourage Ofgem and network companies to continue to take a proactive and imaginative approach to providing clarity to network users on the impacts. In our previous consultation response, we suggested that Ofgem could, as part of its final decision

document, require network companies to provide early sight of projected charges, or a reasonable range, as soon as possible after Ofgem makes its final decision.

While we understand that DNOs may be reluctant to provide projections, we do believe that these would be useful for network users and do not believe that the onus should be placed on Ofgem to provide such information.

Given the complexity and materiality of network access and charging arrangements, there also needs to be some flexibility in the subsequent code modification process to:

1. efficiently manage significant and unanticipated issues, where these arise; and
2. allow network users with an opportunity to adjust their business models to respond to significant changes.

As noted in our response to Ofgem's consultation on CMP 343 we believe that consumers should be provided the opportunity to adjust their business model to respond to the new charging regime.

Under the approach proposed for CMP 343 a large consumer may be locked into significantly higher network charges, in the region of £1-2 million per year, for having had a consumption level just 1 MWh higher than a specific threshold in only one preceding year.

Where consumers can adjust their behaviour, we do not consider it proportionate or fair that they are then locked into charges that are £1-2 million per year higher based on a level of consumption two years prior to the new charge taking effect.

Our preference would be to adopt a more proportionate fixed charge per unit of capacity, rather than the banding approach proposed under CMP 343. This would better support end users to manage their electricity consumption as best suits their own business needs, fosters positive engagement with economic signals from regulated activity. In other words, it is more customer centric.

If this is not possible, then we believe that the approach for network users on high voltage levels needs to be reconsidered as it is clearly extremely unequitable.

Finally, we understand that Ofgem will delay implementation of a decision to extend TNUoS charging to SDG until it has completed a wider review of TNUoS charging. We consider that this same principle should apply in relation to the proposals outlined in CMP 343. Our preference is that TNUoS charging is reviewed holistically and comprehensively to such an extent that it is fit for purpose for many years to come.

Shallower Distribution Connection Boundary

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Shell supports moving to a shallow connection charge at distribution level as we do not consider that the current set up drives the lowest cost to GB consumers. Moving to a shallow connection charge enables DNOs to take a more holistic and forward looking, rather than incremental and reactive approach to network planning and consider alternative solutions to network reinforcement, which may provide a more cost-effective solution in the longer term.

We also support implementing the proposed change by April 2023 and consider this change should be prioritised to ensure timely and cost-effective implementation. Two of the main barriers that we face to deploying rapid (50kW) and ultra-rapid charging (150kW) EV charging infrastructure are the cost and the time associated with the distribution grid connection.

The proposal to move to a shallow connection charge for demand should significantly reduce costs where deployment currently requires network reinforcement. In our experience projects that have faced potential costs associated with DNO network reinforcement have been uneconomic.

We are concerned that the move to more shallow connection charges will result in increased delays in the time taken to connect to the network – as reducing the obligation on parties to pay for the connection may equally reduce customers influence over the connection process and timing. We are concerned that some DNOs are already stretched to meet all connection requests and in our experience the connection process takes around 18 months for a relatively straight forward project.

We do not support Ofgem's proposal to provide DNOs with a temporary derogation from their license obligations with respect to network access and connection processes. Our preferred measures to address this would include:

1. Requiring network companies to start planning now for a significant increase in connection requests following implementation on the 1 April 2023 and look at enhancing and streamlining existing connection processes and ensure that they are appropriately resourced.
2. Ofgem should consider options to update and reinforce DNO license requirements and performance indicators related to network connections to ensure that the connection process is appropriately efficient and customer centric.

We see significant benefit in DNOs continuing work to develop the processes used to allocate available capacity to ensure that they are more customer centric. In our experience these processes are often more tailored to the demands of the network companies, rather than the challenges faced by network users or customers and sensible investment timescales.

In addition, as set out in our previous response, we believe that supporting policy measures will be needed to support a cost-effective move to shallow connection charges. We expect that some of the supporting measures will be addressed in the planned wider review of forward-looking DUoS charging. This means that we are commenting on an incomplete set of proposals which makes it challenging to respond meaningfully.

As mentioned above we welcome the effort to identify, anticipate and address some of the key implementation questions that will arise following Ofgem's decision. Below we provide brief feedback on some of those elements:

1. **High-Cost Cap (HCC):** we are not opposed to the inclusion of a High-Cost Cap (HCC) to protect GB consumers from excessively expensive connection requests, at least for a temporary period. We would welcome clarity on the level at which the HCC will be set and believe that it should not be below £1000/kVA.

Ofgem should keep both the decision to implement the HCC and its level under review. Depending on the outcome of the forward-looking DUoS charging review, Ofgem may decide to remove the HCC.

2. **Rules for Electricity Storage:** we welcome the proposed clarification of the rules for electricity storage with respect to distribution connection requests. It would be helpful if either Ofgem or DNOs could provide a detailed explanation of the expected impact of this decision on proposed storage connections and costs.

3. **Demarcation of voltage levels:** the additional information and clarity that Ofgem plan to provide on the demarcation of voltage levels and the demarcation point between extension assets and network reinforcement is very welcome and critically important for network users to anticipate the impact of the proposed reforms.

The demarcation between what is considered an extension asset and what is reinforcement works is still unclear to us. For example, whether extension of the 11kV network to a site would be classified as extension or reinforcement works.

Related to that we are also not clear what is meant by "costs associated with three phase connection requests" and how these are considered in relation to the "minimum scheme" in terms of calculating the costs to be borne by the connecting party

Finally, we would like to propose to Ofgem that it should consider introducing an additional option into its thinking whereby, if a customer wishes a connection to be completed faster it could also choose to pay for any network reinforcement necessary to deliver that connection. As far as we can tell this has not been considered by Ofgem in its

thinking so far, but we think such optionality (if possible) could be beneficial for network users, and also for consumers.

Better defined access rights

We agree with Ofgem's proposals to improve the definition and choice of access rights at distribution network level. Better defined access rights, applied in a consistent way at all voltage levels, should enable network users to have greater choice when connecting to the system.

We consider that larger network users should be provided the option to choose between clearly defined interruptible access, time profiled access and financially firm access facilitated by flexibility markets and or the Balancing Mechanism. To be clear, in supporting the adoption of financially firm access for larger users at distribution level we are not promoting the adoption of connect and manage.

As part of its AFLCR decision we consider that Ofgem should require DNOs to phase out and replace current "active network management" areas with the newly defined access rights. The continuation of active network management areas would mean that the full benefits of the proposed reform will not be realised and that active network management areas will continue to hide the true costs associated with network congestion, dull signals for network reinforcement and stunt development of flexibility markets.

To unlock the potential benefits associated with better definition of access rights, it is also important to significantly improve the information available to network users on the capacity available at different voltage levels, as well as the level of unutilized or underutilised capacity that already been allocated and could be given up.

We also welcome and support Ofgem's proposal that any curtailment beyond the level agreed with a network user should be subject to market based remuneration and the intention not to introduce any price caps on these nascent markets and mechanisms to promote their development. We would like to understand better how DNOs costs associated with such market based curtailment are reported and allowed.

Extending TNUOS charging to Small Distributed Generation

In principle Shell supports the extension of TNUOS charging to small distribution connected generation (SDG) as we agree that the ability of some SDG to avoid forward

looking transmission charges is likely to increase overall network costs for all market participants and consumers and result in sub-optimal investment decisions.

We understand Ofgem's reasoning to delay implementation of a decision to extend TNUoS charging to SDG until it has completed a wider review of forward looking TNUoS charges to address the undue uncertainty that the process may create for generators. As explained above, we believe that Ofgem should take the same approach to CMP343 to address the undue uncertainty that the process may create for consumers.

Please contact me if there is any element of our response that you would like to discuss.

Yours sincerely,

Olaf Islei
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