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By email only to Luke.McCartney@ofgem.gov.uk

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Dear Luke

Subject: Response to OFGEM's Statutory Consultation on Inflexible Offers Licence Condition (IOLC)

Shell welcomes the opportunity to provide input into OFGEM's proposed change to enhance the efficient operation of the Balancing Mechanism (BM). We have experience of participating in the BM for several years and have engaged in all reviews of the BM.

As noted in our previous responses, we support the proposed licence condition in response to the very specific market behaviour of changing PNs to zero. We welcome the decision to apply the licence condition to 'within the operational day', as this should minimise unintended consequences and still allow flexible assets to respond to changing market conditions.

As previously flagged, we don't believe the IOLC will address the key issues in the BM, which we see as lack of competition and automation. The NGESO Open Balancing Programme (OBP) is a key initiative to deliver system enhancements to their Balancing capability. We previously suggested that OFGEM work closely to monitor the delivery of the OBP and welcome the feedback that OFGEM will monitor performance through the RII02 Incentives Framework. It would be useful if the measurements and performance can be messaged to market participants and included as part of the quarterly OBP meetings. OFGEM may also wish to consider a form of pulse check with industry to ensure alignment.

We note that OFGEM has provided an updated Guidance document and decided to provide high level definitions rather than specific guidance and case studies to assist with interpretation of 'excessive benefit' and 'reasonable profit', which was our preference. When comparing to other units it will be necessary to cross reference key characteristics, including unit efficiency. This is because a unit which produces more power, due to a higher efficiency, should be able to charge a premium to a lower efficient plant.

We note that the Guidance does reference that it is possible to charge a scarcity premium in a tight system. We believe this will be necessary for peaking plant which may not run as often. If such assets were unable to reflect scarcity prices, then they would likely seek a higher price in the capacity market or look for bilateral contracts with NG such as those seen for some coal units last winter. This would risk consumers being exposed to higher prices from via another product.

We note that OFGEM proposes that the licence condition applies even if an asset only 'seeks to win' a BM contract but does not secure one, as set out in section 2.2 of the Guidance. Whilst we suggested that this may cause issues if an asset includes a high Offer price to signal unavailability, we welcome the guidance that if this were the case that an asset would need to provide evidence to this effect, if requested. We also note the preference is to signal unavailability via dynamic parameters such as MEL.

If you have any questions regarding our response or would like to discuss further then please let us know.

Yours sincerely,

Melanie Ellis
Regulatory Affairs Manager