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Dear Bartosz and Kevin,

Subject: Shell response to Ofgem's consultation on Market Arrangements for Multi-Purpose Interconnectors

Shell welcomes the opportunity to respond to Ofgem's consultations on "Market Arrangements for Multi-Purpose Interconnectors" and the charging segment of "Regulatory Framework for Offshore Hybrid Assets".

We support Ofgem's continued work to develop market arrangements for Multi-Purpose Interconnectors (MPIs). MPIs are a key enabler for ensuring we can efficiently use the transmission infrastructure needed to connect offshore wind and connect to our neighbours. This makes MPIs important for our net zero ambitions and also sets important context that the arrangements for MPIs need to enable both the connection of offshore wind and cross-border trade through interconnectors.

In our view you are considering many of the correct issues and it is appropriate to consider the discussions ongoing within the rest of Europe where there has been considerable analysis and debate. Considering whether an MPI should be Home Market (HM) vs Offshore Bidding Zone (OBZ) is one of the most important considerations with wide-ranging impacts. Ofgem has identified many of the relevant considerations on cross-border trade including considering how our trading arrangements with the EU may change.

You have set out that you have a preference on HM vs OBZ for MPIs based on the future cross-border trading arrangements. In our view cross-border trading arrangements are only one relevant element of the HM vs OBZ discussion and it is key to consider other elements of the framework to fully assess the benefits and costs of a HM vs OBZ.

We suggest that Ofgem, with DESNZ, should consider what the overall aim of the market arrangements for an MPI should be. As we've suggested above, at a high level it is to

efficiently fulfil the dual roles of enabling offshore wind and cross-border interconnection. You could then further consider what would be a good outcome for the market arrangements to meet this.

We'd recommend that some of the areas that should be considered include the offshore wind farm's revenue, access, trading products, balancing, and imbalance arrangements. You have already identified and started looking at many of these, but your views in these areas aren't as developed as your views on cross-border trade.

In our experience there is a fine balance between a HM and OBZ. As an example, OBZs usually have benefits when modelled. However, these benefits tend to be marginal compared to the overall costs and benefits and the significant issues and a lack of clarity in many areas presented by an OBZ, eg. balancing, are rarely considered within any cost-benefit analysis. In our view considering these areas will enable a more rounded and robust basis for decision making and may also show that the benefits of the HM approach generally outweigh the drawbacks.

In conclusion, we view that by considering what the objectives of the market arrangements should be, as well as the multiple areas which the HM vs. OBZ has an impact, you will be able to take a more robust and justified view on what should be the appropriate market arrangements. We suggest that it should also be considered with DESNZ considering it crosses into areas that are DESNZ responsibility.

We also suggest that the pros and cons for charging local TNUoS through the interconnector licence need more detailed analysis. We agree that it is technically possible, but we are not sure the evidence suggests it is a better solution. A CUSC-led solution is more likely to ensure consistency and fair treatment for GB based offshore wind farms, even if they do not directly connect to the National Electricity Transmission System. We recommend considering in more detail what would be the advantages and disadvantages of charging based on the interconnector licence vs. the CUSC.

If you have any questions on our response, please feel free to contact me at Aled.Moses@shell.com.

Yours sincerely,

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