



Shell Energy Europe Limited
80 Strand
London, WC2R 0ZA
United Kingdom
Tel + 44 20 7546 5117
Fax + 44 20 7546 5253
Email : olaf.islei@shell.com
Internet: <http://www.shell.com>

FAO – Jon Parker
Ofgem
9 Millbank
SW1P 3GE

By email only

18 September 2018

Shell Energy Europe response to the consultation on the reform of GB network access and forward-looking charging arrangements

Dear Jon

Shell welcomes the opportunity to respond to Ofgem's consultation on the proposed scope of its review and potential reform of network access and forward-looking charging arrangements.

We agree that there is a case for change and support the process initiated by Ofgem. It is important to ensure that access and forward looking charging arrangements are fit for purpose to support the energy transition.

Ensuring continued efficient investment and business decisions

Our primary concern with the process is that the potentially wide-ranging scope of the review, together with other ongoing changes to charging, creates significant uncertainty over the level of network charging for both the end customer and producers in the next few years. Network charges represent one of the biggest costs that GB generators face and a quarter of households' electricity bill.

The two main drivers of uncertainty are the review itself, which will mean that level of GB charging for generation and demand at different voltage levels will be inherently uncertain from now until the process has concluded, in either 2022 or 2023; and, the anticipated treatment of other important elements of transmission charging, related to maintaining a level playing field between generators connected to the GB transmission network and generators in neighboring countries.

On the second point, the anticipated increase in cross-border interconnection means that it will be increasingly important for GB to maintain a level playing field, to ensure an efficient level of investment in generation. The European Commission notice on the withdrawal of the United Kingdom and the Internal Energy Market¹, states that system use fees will be levied all scheduled imports and exports of electricity from all third countries which have not adopted an agreement to apply Union

¹ https://ec.europa.eu/info/sites/info/files/notice_to_stakeholders_brexit_energy_market_final.pdf

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Registered office: Shell Centre, London SE1 7NA, United Kingdom
VAT reg number GB 235 7632 55

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Law. Such level playing field questions represent one of the biggest uncertainties over the anticipated level of transmission charging.

Ofgem must maintain a level playing field between GB generators and those connected in neighbouring countries. To achieve this, we consider that Ofgem should (i) maintain (or even lower) the current €2.50/MWh cap on annual average transmission charges for generators; (ii) include Offshore Transmission Operator's (OFTO) local TNUoS charges within the calculation of the cap – to ensure that all GB generators are treated equally; and (iii) consider whether the forward looking locational element of transmission charges should also apply cross-border.

With respect to the uncertainty created by the review itself, the process should not prevent the industry from continuing to invest in new technologies, make medium or long term commercial commitments and test new business models over the next five years to achieve the energy transition. As network costs are so significant, they often form a critical element of any new business model, commercial commitments or in business planning to develop and deploy new generation or demand side management technologies.

Suppliers also face uncertainty: directly, as the process may impact the method to calculate charges recovered from demand, as well as the mechanism used to recover those charges; and, indirectly as it will become more challenging for suppliers to forecast the level of cost pass through associated with (for example) the capacity market as the likely auction clearing price will be more challenging to forecast. This will make it significantly more challenging for supplier to set fixed tariffs at a cost-efficient level. The challenge associated with accurately forecasting costs for fixed tariffs will be exacerbated with the introduction of planned cap on default tariffs.

We therefore encourage the Regulator and Government to explore mitigations to the possible negative impact of uncertainty in tariffs on market players during the period of the review and reform process. Ofgem should consider the following options to mitigate the anticipated uncertainty:

1. Actions that Ofgem can take in the review process:

- a. Provide a clear plan and process to take forward each element of the review, we suggest that more complex policy issues are progressed at a slower pace. Two of the more complex areas that we have identified are the proposed comprehensive review of forward looking DUoS charges and changes to the definition of access rights for households and small businesses.
- b. Develop a common evidence base which can be used by both industry and Ofgem to assess the case for change and the efficiency of alternative solutions. For example, the extent to which allocated but unused capacity at the distribution level creates contractual congestion is not clear.
- c. Where a solution may result in a significant re-distribution of costs among network users, Ofgem should allow sufficient time for the changes to be implemented so that parties are able to make necessary changes to their business models.



2. Address the outstanding level playing field questions for GB transmission charging

The questions raised above on ensuring a level playing field between transmission connected generation in GB and neighbouring interconnected markets are not currently addressed in any of

the charging review processes. We urge Ofgem to address these policy questions as a matter of priority as they have a big impact on the level of transmission charges that generation and demand will face in the future.

3. Investigate other options to address investor uncertainty together with the Government.

Currently the route to market for new investment is provided by the Capacity Market and the Contract for Difference (CfD) where parties bid competitively for the level of long-term support considered necessary to achieve an economic return. If the charging regime is subsequently amended, such that the level of support awarded is no longer economic, then the costs fall entirely on the investor.

We note that the CfD already insulates investors from changes in balancing charges. Given the scope of the proposed review, we consider that the Regulator and Government should explore options to insulate investors from changes in network charges over which they have limited or no control. This would be in line with Ofgem's proposed principle that risks should be allocated to those parties that are best able to manage them.

Feedback on proposed priorities

We welcome the work that Ofgem has done, together with industry through the Charging Futures Forum, to identify the proposed priority topics for review. Of the priorities identified by Ofgem our main comments are summarized as follows:

1. We expect that the main benefits will flow from the redefinition of access rights for larger users and from network users developing platforms where access rights can be bought and sold by network users. [See response to questions 2 & 3]
2. There is also considerable scope to improve both the level of information available to network users on capacity availability at different voltage levels and to streamline the processes used by network operators to grant access. Improving these areas will be key to unlocking the potential benefits associated with better definition of access rights for large or small users. [see response to questions 3 & 4]
3. This process should build on the work that industry has already done to extend the balancing mechanism to distributed generation and demand. We see significant benefits of extending balancing mechanism as an additional tool manage network congestion at distribution level. [See response to question 3]



4. The review should also consider how to reward network users where they facilitate a wider reduction in network costs. For example, where a generator reduces the need to reinforce the network, that asset should be able to capture part of that benefit, to ensure that the market is able to deliver an efficient level of investment. [See response to question 6].
5. There is scope to further simplify the process for suppliers to pass through costs associated with network costs, or social obligations to their customers. As explained above it is not always possible to accurately forecast these costs and errors in forecasting can represent a significant cost for suppliers. [See response to question 10]
6. A review of BSUoS charges, even if ESO lead, should not be included within the scope of this review. We consider that the BSUoS charging regime is broadly fit for purpose and is not a priority area to review at this time. [See response to question 10]
7. We are concerned that reviewing the extension of forward looking TNUoS charges to distribution generation, at the same time undertaking a comprehensive review of DUoS risks overcomplicating the issue; and suggest this is considered within the DUoS review, as opposed to separately. [See response to question 8]

For the next stage of the review, we expect that Ofgem's focus will be on working with industry to establish a common evidence base on the need for change and options for economic and efficient solutions for each of the priority areas identified.

Implementation beyond industry codes

Not all necessary changes can (or should) be delivered through industry code processes. Some changes will require the development of new platforms, new contractual structures, and new industry processes to implement the code requirements. The deployment of these systems will be critical to support the continued decentralisation and digitisation of the power sector. For example, we see considerable scope to improve both the level of information available to network users on capacity availability at different voltage levels and to streamline the existing processes to grant access. Smart solutions in this space could provide much needed transparency and reduce costs for all parties.

Network operators may not be best placed to develop and deliver efficient and effective digital or decentralised solutions, necessary to minimise network costs. It is in delivering these system changes that we see the potential to deliver significant system wide benefits from this process.

We suggest that the review should support a process to develop and consider alternative platform, contractual and process solutions to the challenges identified. We would welcome Ofgem's thoughts on how this issue could be best addressed within their process.

Feedback on proposed principles and governance

In relation to the principles identified by Ofgem we consider that predictability and simplicity are the principles that will deliver the greatest benefit to consumers. The regulator should encourage network operators to simplify existing arrangements by, for example, requiring all network operators to adopt the same solutions for all network users, unless there is a strong economic reason not to.



Ofgem should lead on all elements of the review. The only element that we consider could be led by network operators would be developing options for better queue management and reviewing the distribution network connection charging boundary.

Yours sincerely

Olaf Islei
Power Commercial Regulatory Affairs Manager
Shell Energy Europe Limited



Annex 1: Response to specific consultation questions

Question 1: Do you agree with the case for change as set out in chapter 2? Please give reasons for your response and include evidence to support this where possible.

We agree that there is a case for change, and from that perspective, support the process initiated by Ofgem to review and potentially reform GB access and forward looking charging arrangements. It is important to ensure that network access and charging arrangements are fit for purpose to support the energy transition.

Question 2: Do you agree with our proposal that access rights should be reviewed, with the aim to improve their definition and choice? Please provide reasons for your response and, where possible, evidence to support your views.

Question 3: Specifically, do you have views on whether options should be developed in the following areas as part of a review? Please give reasons for your response, and where possible, please provide evidence to support your views:

- a. Establishing a clear access limit for small users, with greater choice of options (as considered under b) and c) below) above a core threshold – do you agree with our proposal in paragraphs 3.5-3.10 that this should be considered? Do you have views on how a core threshold could be set?
- b. Firm/non-firm and time-profiled access – do you agree with our proposal outlined in paragraphs 3.15-3.21 that these options should be developed?
- c. Duration and depth of access, discussed in paragraph 3.25-3.32 - would these options be feasible and beneficial? d) At transmission or distribution in particular, or are both equally important – as discussed in this chapter?

We agree with Ofgem's proposal to review access rights with the aim to improve definition and choice. 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. The definition of access rights should also allow generators or large customers to buy or sell access rights from one another.

We do not consider that Ofgem should focus on requirements such as use-it-or-lose it or use-it-or-sell-it at this stage, as the main barriers are more related to the lack of well-defined access rights, and the lack of rules and systems necessary to facilitate buying or selling of discrete blocks of access rights, as opposed to concerns regarding capacity hoarding or market power.

If access rights were appropriately defined and platforms provided where discrete blocks of access rights could be purchased or sold by network users, then this would represent significant progress in



ensuring more optimal use of the network and provide a signal to the market and network operators on the level of network congestion.

To unlock the potential benefits associated with better definition of access rights, it would be 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 are more cautious about changes to the definition of access rights for households and small businesses connected to the network. We suggest that Ofgem, together with industry, takes the time necessary to establish a detailed and common evidence base, as the basis for the development of any new rules. The common evidence base should enable industry to evaluate the extent there is a problem at lower voltage levels, and the development of effective solutions. This is particularly important given the political sensitivity and number of other significant industry change processes aimed at domestic level. In any case, we would expect this element of the review to progress more slowly than other elements.

In relation to the firmness of access rights, we consider that Ofgem should explore whether it is possible to extend the balancing mechanism to lower voltage levels. Balancing mechanism arrangements are already well established and ensures that any action taken is reflected in a party's imbalance position and, to the extent that it is used for energy balancing, in setting the imbalance price.

Good progress has already been made by industry in extending the balancing mechanism, and we consider that Ofgem should use this process to build on that. Extending the balancing mechanism would also reduce the need to develop several different types of contractual structures for solving what is effectively the same (congestion) issue at different points on the network.

Larger network users would then have the option between interruptible access, financially firm access facilitated by the balancing mechanism, or time profiled blocks of access. While enabling network users to buy and sell access rights would provide both users and network operators with valuable information on network conditions.

Question 5: Do you agree with our proposal that targeted areas of allocation of access should be reviewed? Please give any specific views on the areas below, together with reasons for your response. Where possible, please provide evidence to support your views:

- a. Improved queue management as the priority area for improving initial allocation of access, as outlined in paragraphs 3.41-3.44?**
- b. Not to consider the potential role of auctions for initial allocation of access as part of a review at this time, as discussed in paragraph 3.44?**
- c. To review the areas outlined in paragraphs 3.45-3.48 to support re-allocation of access?**



As explained in our response to questions (2) and (3), we consider that better definition of access rights for larger users and providing platforms where users or their suppliers could buy or sell discrete blocks of access, then this would facilitate the potential re-allocation of access rights and provide market parties and network operators with additional valuable information.

Network operators could lead on reviewing in detail and developing options for better management of connection queues. However, we see even greater benefit in network operators developing 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 operators, rather than the challenges faced by network users and sensible investment timescales.

We suggest that if an efficient approach to better queue management is identified, that all network operators implement the same approach at different voltage levels of the distribution network.

Question 6: Do you agree that a comprehensive review of forward-looking DUoS charging methodologies, as outlined in paragraphs 4.3-4.7, should be undertaken? Please provide reasons for your response and, where possible, evidence to support your position.

Our main concern regarding the proposed comprehensive view of forward-looking DUoS charging is that we have not seen a common evidence base that enables industry to form a clear and detailed view on the scale of the challenges identified by Ofgem and Baringa or to develop targeted and effective solutions to those challenges. In the absence of a detailed understanding of the existing level of congestion on distribution networks, and how this is likely to evolve going forward, we do not yet have a clear view on whether any changes to forward-looking DUoS charging could drive a significant reduction in network costs.

We consider that this is an area that should proceed slower than other parts of the review due to the need to establish that evidence base.

In developing solutions, it would also be important that DNOs apply the same approach to charging. It is not clear why DNOs maintain two different charging methodologies. A reduction in the number of charging methodologies may help to improve the consistency of treatment of network users at different voltage levels and the level of complexity that market participants need to contend with.

Within the scope of the review we think that Ofgem should consider how network users can be rewarded for providing network services within the existing regulatory and market framework. For example, if a network user is seeking to develop an asset which results in lower network reinforcement costs, it would be important for the developer to be able to capture some of that benefit, to ensure that arrangements deliver a cost-efficient level of investment.

Question 7: Do you agree that the distribution connection charging boundary should be reviewed, but not the transmission connection boundary? Please provide reasons for your response and, where possible, evidence to support your position.



We agree with Ofgem's proposal to review the distribution connection charging boundary and not the transmission connection charging boundary. While we acknowledge the links between the different policy areas, we do not consider that changes to the distribution connection charging boundary should be made contingent on other developments.

Question 8: Do you agree that the basis of forward-looking TNUoS charging should be reviewed in targeted areas? If you have views on whether we should review the following specific areas, please also provide these:

- a. Do you agree that forward-looking TNUoS charges for small distributed generation (DG) should be reviewed, as outlined in paragraphs 4.19-4.23?
- b. Do you consider that forward-looking TNUoS charges for demand should be reviewed, as outlined in paragraphs 4.24-4.27? Please provide reasons for your response and, where possible, evidence to support your position.

We consider that the scope of this part of the review should focus on forward-looking TNUoS charges for demand. There is merit in considering alternatives to the current triad approach to measuring demand for the purpose of TNUoS charging.

We are not convinced that the review should look at forward-looking TNUoS charges for small distributed generation at this stage, as this might overcomplicate other elements of the review. In any case, we would expect that consistency between TNUoS and DUoS forward-looking charges would be considered in the planned comprehensive review of forward-looking DUoS charging methodologies.

We have a preference that this element could be considered as a sub-point of the comprehensive review of forward-looking DUoS charging methodologies to ensure a consistent approach is developed.

Question 9: Do you agree that a broader review of forward-looking TNUoS charges, or the socialisation of Connect and Manage costs through BSUoS at this time, should not be prioritised for review? Please provide reasons for your response and, where possible, evidence to support your position.

We agree that the review should not consider whether it makes sense to extend connect and manage to the distribution at this stage, and that DNOs should focus on improving the definition of access rights and exploring options to improve queue management. We also agree that the approach to BSUoS charging is broadly fit for purpose and would not support including a review of BSUoS charging within the scope of this process.

However, we would like to see this process support the extension of the balancing mechanism to the distribution levels, as an additional mechanism to manage constraints at lower voltage levels. We see many advantages with extending the existing balancing mechanism, as opposed to developing alternative or fragmented mechanisms to deal with the same challenge.



Question 10: Do you agree that there would be value in further work in assessing options to make BSUoS more cost-reflective, and if so, that an ESO-led industry taskforce would be the best way to take this forward?

We do not see merit in including BSUoS charging within the scope of the review as we believe that the current approach to BSUoS charging is broadly fit for purpose and is not a priority topic.

One point that would be helpful to review, is to consider whether there is scope to further simplify the process for suppliers to pass through costs associated with network costs, or social obligations to their customers. It is not always possible to accurately forecast these costs and errors in forecasting can represent a significant cost for suppliers, particularly smaller suppliers who have less customers on standard variable tariffs.

For example, in Germany the DNOs provide detailed invoices per meter point for most (including network and some environmental) costs that must be passed through to customers. We see significant potential benefits from exploring practical options to simplify arrangements for cost pass through further – which have now become quite complex and resource intensive.

Question 11: What are your views on whether Ofgem or the industry should lead the review of different areas? Please specify which of SCR scope options A-C you favour, or describe your alternative proposal if applicable. Please give reasons for your view.

We prefer Ofgem to lead the review in all areas identified. There are two areas where we consider that the network operators could take a leading role:

1. **exploring options for better queue management** – the network operators should provide detailed information on existing connection queues and options for approaches that they could adopt to improve queue management.
2. **Reviewing the distribution network connection charging boundary** – as long as this is underpinned by a clear and unambiguous license requirement the network operators must implement the same approach at different voltage levels.

Question 12: Do you agree with our proposal to launch an 'Option 1' SCR for areas of review that we lead on? Please give reasons for your view.

We consider that the appropriate approach to raise modification proposals will be dependent on the outcome of the detailed review and the nature of the solution. One important point is that successful implementation does not depend solely on changes to network codes. We consider that it is equally important to ensure that appropriate systems, platforms, contracts and processes are developed to support the continued digitization and decentralization of the sector.



Question 13: Do you agree with the introduction of a licence condition on the basis described in paragraphs 5.11 and 5.12 and Appendix 5? Why or why not? Do you have any comments on the key elements set out in table 7 of Appendix 5a, or consider there are any other key elements which should be included? Please give reasons for your view.

Question 14: Do you have any comments on the draft wording of the outline licence condition included at Appendix 5b? Please give reasons for your view.

Question 15: What are your views on our indicative timelines? Do you foresee any potential challenges to, or implications of, the proposed timelines and how could these be mitigated?

We consider that the proposed reviews of access rights for domestic customers and smaller businesses, and of forward looking DUoS charges should proceed at a slower pace than the other parts of the review.

Question 16: What are your views on our proposals for coordinating and engaging stakeholders in this work?

We consider that Ofgem and network operators have put in place good processes to engage with stakeholders.