



Shell ENERGY

By email to: futurechargingandaccess@ofgem.gov.uk

For the attention of: lishan Low

6th December 2021

Dear lishan,

Re: SEUK Response to Ofgem's Consultation to descope the wide-ranging review of Distribution Use of System (DUoS) charges from the current Electricity Network Access and Forward Looking Charges Significant Code Review (SCR) and take it forward under a dedicated SCR with a revised timescale

Shell Energy UK (SEUK) welcomes the opportunity to respond to this consultation. SEUK is a non-domestic energy supplier operating in the UK. Our current portfolio is made up of a combination of Microbusiness, Small to Medium Enterprises (SMEs) and Commercial & Industrial (C&I) customers.

As set out in its consultation response on the Access and Forward Looking Charges Significant Code Review (Access SCR) in August, Shell supports holistic and proportionate change to ensure that GB charging arrangements remain fit for purpose, support the energy transition to a more decentralised and low carbon electricity system and continue to ensure a fair allocation of costs between different groups of consumers. To this end, we broadly support a separate SCR to take forward DUoS reforms.

However, we are concerned that the proposals in this consultation have a notably ambitious timeline despite that the decisions for CMP308 (BSUoS), CMP343 (TDR) and Access SCR are still pending. Full Chain Flexibility is also cited in this consultation as informing Ofgem's ongoing work on DUoS, so it would be helpful have clarity on when industry can expect determinations on these important pieces of work.

We would welcome the opportunity to discuss our concerns, and the other matters raised in this response, with Ofgem in more detail in a bilateral meeting.

Our responses to the individual consultation questions are set out below.

Your sincerely,

A handwritten signature in black ink, appearing to read "Dan Parry".

Dan Parry
Head of Regulation
SEUK

Question 1: Do you agree with our proposal to descope DUoS from the Access SCR and take it forward under a dedicated SCR with revised timescales?

SEUK supports the proposal to descope DUoS from the Access SCR as a pragmatic step, but we ask that revised timescales are realistic and cognisant of the impact charging reform has on industry participants. This is vital as the industry needs certainty and sufficient time to implement changes in forecasting and reflect these in product offerings.

Previous SCRs have demonstrated that overly ambitious timescales result in a piecemeal roll-out of reforms. SEUK agrees with Ofgem's assessment in this consultation that:

"DUoS is a complex area of policy with links to many initiatives and policy work that is ongoing at the same time – including the call for evidence on TNUoS. Charging decisions cannot be taken absent of an understanding of the impacts on wider policy objectives."

To this end, we ask that energy industry participants are afforded clarity of the scope of Phases 1 and 2 of the proposed SCR, and sufficient time to implement any determined changes to network charges.

Question 2: What are your views on timescales for implementation of DUoS reform? How does this interact with wider market developments and what do we need to take into account?

SEUK considers that any proposed timescales are fit for purpose and realistic for all industry participants. Specifically, as a supplier to business customers, we view the timescale between decision and implementation of DUoS reform as being of critical importance. We consider that the proposed 2025 implementation for Phase 2 seems ambitious when considering all the steps required, particularly as DNOs must provide fifteen months' notice to industry of any reformed charges.

We would like to highlight that non-domestic energy suppliers regularly offer products of three to five years duration to customers (often on a pass-through basis). These are often agreed more than a year in advance of the contract start date. As such, suppliers need sufficient advance notice of tariffs in order to accurately reflect costs within customer prices. The lack of certainty relating to industry costs can add additional risk premia which is costly to customers. The other option is to reopen long term contracts to reflect these costs. This has the result of passing the uncertainty to customers and creates distrust of the industry.

As network charges make up a notable proportion of all end-users' bills, we would ask that timescales are clear, transparent and predictable. We encourage Ofgem to seriously consider the lead time from its decision to implementation of DUoS reform with business customers in mind. We suggest that a four-year notice period is a reasonable and prudent timescale.

Interaction with wider market developments is difficult to quantify currently. There are a number of significant pending decisions outstanding. This includes Ofgem's decisions on modifications including CMP308 (BSUoS) and CMP343 (TDR) and on the Access SCR. We encourage these decisions to be made before further uncertainty is introduced into the market.

Question 3: What areas of interactions of DUoS with wider developments in policy/industry do we need to consider in our review?

Please see SEUK's responses to Questions 1 and 2.

Question 4: Have we considered all the impacts of a phased approach to delivering the original scope Access SCR?

SEUK considers a phased approach to DUoS reform is prudent, but notes that there have been missed opportunities within the Access SCR that have led to a fragmented roll-out of reforms that impact all industry participants. This in turn has resulted in uncertainty and decision making regarding potential investment in this sector. Timescales of any phased approach must be realistic, reliable and meaningful.

Question 5: Do you have any views on our proposal to retain the scope and governance arrangements of the original Access SCR?

SEUK supports the proposal to retain the scope and governance to expedite the process.

Question 6: Do you have any other information relevant to the subject matter of this consultation that we should consider?

In addition to our responses above, SEUK asks that Ofgem remains mindful of the unprecedented market and social conditions to which all industry participants, particularly consumers, are currently subject. Recent months have seen the market undergo rapid change resulting in the acceleration of market consolidation and costs, which will be ultimately passed to customers.

Changes to distribution and transmission network charges should be approached holistically to foster confidence in the sector as the UK moves to a Net Zero energy system. As such, it is important that the proposed phased approach to DUoS reform, in conjunction with the Smart Systems and Flexibility Plan, delivers a credible plan for flexibility and storage that keeps network costs low and builds relationships between network operators and flexibility market participants.