

CMA ENERGY MARKET INVESTIGATION

SHELL COMMENTS ON PROVISIONAL FINDINGS

Shell does not intend to make detailed substantive comments on the Provisional Findings, although does have some observations in relation to the CMA's conclusions regarding liquidity in the UK wholesale electricity markets and the contract for difference (CfD) allocation process

Liquidity: Wholesale Energy

Whilst it may be correct that the Six Large Energy Firms generally conduct their hedging strategies using products that are available and traded - and so those strategies could, in principle, be replicated by independents – Shell does not consider that the CMA has fully captured or considered the point that, in the case of the independents, it is often trading intermediaries such as Shell who are warehousing the risk. It is Shell's experience that poor liquidity of products further ahead of delivery limits Shell's ability to hedge its position at a reasonable cost – and we refer to the statements at paragraph 95 of Annex A to Appendix 10.3 highlighting features of the North American energy market, which in comparison to the UK wholesale electricity market, provides far greater opportunity for Shell to hedge at a reasonable cost.

Shell considers that the ability of trading intermediaries to effectively hedge their position – and at a competitive price – is an important consideration, particularly given the emphasis placed on the role of such intermediaries in the CMA's profitability analysis and in enabling independents to achieve scale. The scalability of Shell's offering of relative long-dated shape power hedges, in particular, would be enhanced with increased liquidity in the wholesale electricity market for long-dated shape power products, which would improve Shell's offering to its customers and Shell's ability to manage its own risk.

Shell encourages the CMA to consider the above and to reflect this in their analysis and final conclusions.

Contract for difference

In the CMA's recommendations for the wholesale electricity market, greater transparency, consultation and publication of impact assessments for CfDs that are allocated outside of the renewable allocation auction process are also recommended. Whilst Shell welcomes competitive allocation and transparency in subsidy schemes for low carbon technologies, it should be recognised that in some cases this may currently be a challenge because there is not a level playing field on which to compete. The CMA acknowledges this important point in Para 5.211, where bespoke negotiations may be required in some cases due to the nature of some projects. The reason for this is likely to be due to specific technology characteristics such as cost structures (for example, large up-front capital requirements) and stage of technology development/maturity. Although there are some mechanisms where intra-technology competition can work, in general, technologies at different stages of maturity are unlikely to be able to compete effectively on a level playing field against one another, particularly within mechanisms such as auctions. There should also be recognition for cases where bespoke CfD negotiations have been entered into on a competitive basis, even outside the renewable auction, for example DECC's CCS Commercialisation Programme, which is currently underway. This involved a

competitive tendering process and rigorous selection procedure to be able to enter into a CfD negotiation with the Government.

Shell therefore encourages the CMA to revisit their recommendation in light of the above features to reflect the need for some flexibility in the allocation mechanism to be maintained on a transitory basis, to reflect these specific cases and to reflect the early stages of technology development when low carbon technologies are unable to fairly compete on an even basis. This will ensure any final recommendation does not unintentionally cause undue delay to securing investment in low carbon projects where bilateral negotiations are currently the only viable option for securing such investment.

Other

Finally, we note the CMA's proposals to review Ofgem's statutory objectives and duties and to consider improvements to the current system of code governance. We trust that the industry will be given sufficient opportunity to comment on this process and any concrete proposals as and when they are developed