

Tim Alsop
Small Scale Renewable Team
Department for Business, Energy and Industrial Strategy
3rd Floor Spur
1 Victoria Street
London
SW1H 0E

ofgem

Making a positive difference
for energy consumers

Email: REDevelopment@ofgem.gov.uk

Date: 10 May 2022

Dear Sir,

Ofgem's response to [consultation on the removal of scheme cost exemptions for green imported electricity and the recognition of EU Guarantees of Origin](#)

Ofgem is the GB energy regulator and a UK non-ministerial government department. The administration of UK Government renewable energy schemes is one of the enduring duties that we undertake, in parallel with the regulation of the GB Gas and Electricity market.

We welcome the opportunity to respond to the Department for Business, Energy and Industrial Strategy consultation on the removal of scheme cost exemptions for green imported electricity and the recognition of EU Guarantees of Origin. We have provided responses to the proposals that relate to our administration of both the Feed-in Tariff and REGO schemes, as well as Ofgem's interests more widely.

Ofgem recognises the importance of reviewing both green import exemptions and the recognition of EU Guarantees of Origin following our exit from the European Union and the end of the transition period.

The Office of Gas and Electricity Markets

10 South Colonnade, Canary Wharf, London, E14 4PU Tel 020 7901 7000

www.ofgem.gov.uk

Should you wish to get in touch with us please do so by emailing
REDevelopment@ofgem.gov.uk.

Yours sincerely,

A handwritten signature in black ink that reads "Laura Nell". The signature is written in a cursive, flowing style.

Laura Nell

Deputy Director, Policy and Schemes Development

Changes to the CfD and FIT Scheme

The government welcomes views on the possible and likely impacts, to generators, suppliers and consumers, of the proposed options for any changes to the green import exemptions for the CfD and FIT schemes. Please provide information which supports your views.

Changes to the green import exemptions (GIE) would impact Ofgem's administration of the Feed-in Tariffs (FIT) Scheme. Removing GIE would end the dependency at FIT Annual Levelisation on the outcome of the annual Fuel Mix Disclosure (FMD) cycle which evidences GIE under FIT and would make for a more straightforward administrative process for both Ofgem and electricity suppliers in the long term. In the short term, Ofgem would be required to make a number of changes to the Central Feed-in Tariff Register (CFR) as well as both internal and external documents. Updates will be required to the CFR to remove the options for suppliers to submit GIE data through levelisation and amend the levelisation calculation. . We would also have to update our internal Standard Operating Procedures and templates in line with the removal of this exemption. As well as updating internal documents we would need to update external guidance to remove all GIE elements and we will need to update the levelisation formula to remove GIE. We touch on supplier impacts below but Ofgem will need to issue comprehensive communications to suppliers to make them aware of the changes to ensure a smooth transition. We will look to provide estimates once there is policy certainty on the changes to be implemented, but we expect the change would require significant time, resource, and cost to implement.

As noted in the consultation repealing the exemptions may ensure a more level playing field between all GB suppliers as their contributions should match more closely their share of GB electricity sales. It will, however, impact a small number of suppliers negatively due to the amount of GIE they exempt in the levelisation process, but a larger number of suppliers will benefit slightly as their market shares will proportionately reduce as the levelisation bills will be allocated differently. Suppliers may be locked into longer term electricity trading and certificate purchase arrangements; they will need to review these arrangements following any proposed changes coming into force.

It is up to suppliers to determine how FIT costs are passed on to their customers. As such, the costs passed on to customers may be affected by a reduction or increase in suppliers' contributions.

We do not consider there to be any major impacts on UK based generators, other than that the demand for EU electricity may reduce which could result in increased demand placed upon UK generators.

The government welcomes views and preferences on the proposed timings for the coming into force of any changes. Please provide information which supports your views.

Consideration of timing for removal of GIE is important and alignment of dates is key to ensuring smooth transition. It would be far simpler from a scheme administration perspective for this change to take effect from 1 April, as the FIT scheme operates from 1 April to 31 March and the annual reconciliation takes place in August and September (after the Guarantees of Origin (GoO) recognition exercise under FMD has been completed). The situation would be further complicated if the GoO recognition cycle under FMD is still to run as normal at the same time. This would result in GoOs for the whole year being valid for FMD but only a subset thereof being valid for FIT. This carries risk of error at several stages within the process and would further complicate our administration of the scheme as we would need to ensure that all eligible GoOs have been split up accordingly. This could be a time-consuming process as uncertainty may lead to a number of incorrect submissions. This may also impact suppliers in the same way. **Therefore, Ofgem's strong preference that the coming into force of the proposed changes is 1 April 2023.**

If the proposed changes were to be implemented part way through the year, Ofgem would need to ensure that detailed guidance is given on precisely which GoOs are eligible for FIT and associated generation dates. Changes would be required in terms of how suppliers report GoOs to us and how external auditors' complete verification of these GoOs. It would be important to allow sufficient time to ensure understanding within industry and to ensure appropriate processes and guidance are in place as the complexity increases risk for both Ofgem and suppliers which is why we think the 1st October 2022 would not allow sufficient enough time. We would also be required to make more complex changes to the relevant Registers such as the Central FIT Register.

From FIT Year 7 (2016-17), there has been a cap on the amount of overseas renewable electricity that can be exempted for levelisation. To ensure that the cap is applied effectively, and to ensure that suppliers are not adversely affected, the cap is applied equally across periodic levelisation with 25% of the annual cap assigned to each quarter. We applied a cap of 2,029,314 MWh per quarter for the 2016-2017 year and increased the cap by a factor of 1.1 for subsequent years. These calculations form part of the April - June periodic levelisation which commenced 1 July 2016. The cap is then reconciled annually as

part of the annual levelisation process. If the cap is not breached, all eligible GoOs presented for FMD may be used as evidence of the amount of supply that may be exempted for FIT levelisation. Ofgem applies the cap on GIE on a quarterly basis by dividing the annual cap by 4. As such, we would need to amend the annual cap if the change was to take effect part way through the year.

Recognition of EU GoOs

The government welcomes views on the proposed timings for ceasing recognition of EU GoOs, to minimise negative impact on UK generators, suppliers and consumers. Please provide information which supports your views.

In line with our above response, Ofgem's preference for ceasing recognitions of EU GoOs would be 1 April 2023. This is simpler from a scheme administrative point of view than implementing changes part way through the scheme year. If the change was brought in part way through the year, Ofgem would still need to run the GoO recognition process but with an added layer of complexity and checks to ensure that only GoOs within a certain timeframe of the applicable year are accepted. Additionally, we would have to ensure that we are acting in line with the intended amendments to The Electricity (Guarantees of Origin of Electricity Produced from Renewable Energy Sources) Regulations 2003. Suppliers would have to amend their processes to look more closely at each GoO to see which GoOs are valid depending on the generation period and if suppliers make mistakes in respect of this it will impact FMD figures, FIT figures and possibly lead to a supplier being inadvertently non-compliant with FMD. As advised our strong preference would be for all proposed changes to be brought in at the same time on 1st April 2023 which means that ceasing recognition of EU GoOs must be aligned for the removal of GIE for the FIT & CfD schemes.

We note that as a result of ceasing recognition of GoOs, we may see an increase in applications of REGO generating stations as well increased demand for REGOs following the outcome of this consultation. This will cause additional administrative work and there may need to be a review of the current funding we receive for the REGO scheme.