

Change proposal:	Retail Energy Code (REC) R0160: 'Electricity Supply to Hydrogen Electrolysers'		
Decision:	The Authority ¹ has decided to approve ² this change proposal ³		
Target audience:	REC Board, REC Parties and other interested parties		
Date of publication:	18 June 2024	Implementation date:	28 June 2024

Background

Under the terms of the Hydrogen Production Business Model (HPBM) and the Low Carbon Hydrogen Agreement (LCHA), the Low Carbon Contracts Company (LCCC) has a duty to ensure that electricity used in the production of hydrogen is compliant with the Low Carbon Hydrogen Standard (LCHS).⁴

Currently 125 megawatts (MW) of hydrogen production capacity have been awarded under the first electrolytic Hydrogen Allocation Round (HAR1) and a further 875MW is due to be awarded under HAR2.⁵ The majority of generation above 5MW must pass through a licenced energy Supplier with Low Carbon Hydrogen Producers (LCHP) relying on Suppliers to source LCHS-compliant electricity on their behalf. To demonstrate compliance with the LCHS, electricity must be provided under an Eligible Power Purchase Agreement (PPA) as set out in the LCHS.⁶

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989 and section 38A of the Gas Act 1986.

³ 'Change' and 'modification' are used interchangeably in this document.

⁴ The Hydrogen Production Business Model and Low Carbon Hydrogen Agreement can be found here: <https://www.gov.uk/government/publications/hydrogen-production-business-model#full-publication-update-history>. The Low Carbon Hydrogen Standard can found here: <https://www.gov.uk/government/publications/uk-low-carbon-hydrogen-standard-emissions-reporting-and-sustainability-criteria>.

⁵ The Hydrogen Allocation Rounds allocation revenue support through the HPBM to hydrogen production facilities across the UK: <https://www.gov.uk/government/collections/hydrogen-allocation-rounds>.

⁶ Eligible Power Purchase Agreement is defined in the Low Carbon Hydrogen Standards - [UK Low Carbon Hydrogen Standard: Greenhouse Gas Emissions Methodology and Conditions of Standard Compliance \(publishing.service.gov.uk\)](https://www.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/100000/uk-low-carbon-hydrogen-standard-greenhouse-gas-emissions-methodology-and-conditions-of-standard-compliance.pdf)

The change proposal

REC change proposal R0160 'Electricity Supply to Hydrogen Electrolysers' was raised by Hydrogen UK (the Proposer) on 20 March 2024. This change seeks to ensure that LCCC has the necessary powers to compel Suppliers to disclose the information needed to ensure electricity generated and consumed during the production of hydrogen is compliant with the LCHS.

A new schedule will be created under the REC, named the 'Electricity Supply to Hydrogen Electrolysers Schedule' which will be mandatory for non-domestic Suppliers obligating them to provide the necessary data to LCCC to ensure compliance with the LCHS.

Where an electricity Supplier has provided energy for an LCHP, it will be required to provide to the LCCC, acting as the LCHA Counterparty, information to ensure that the energy contract constitutes an Eligible PPA.

REC Change Panel⁷ recommendation

At the REC Change Panel meeting on 4 June 2024, the REC Change Panel considered that R0160 would better facilitate the REC Objectives and the REC Change Panel therefore recommended its approval.

Our decision

We have considered the issues raised by R0160 and the Final Change Report (FCR) dated 4 June 2024. We have considered and taken into account the response to the industry consultation which is attached to the FCR⁸. We have concluded that:

⁷ The REC Change Panel is established and constituted pursuant to and in accordance with [Standard Condition 11B.8\(a\) of the Electricity Supply Licence](#) and [Standard Condition 11.8\(a\) of the Gas Supply Licence](#).

⁸ REC change proposals, change reports and representations can be viewed on the [REC Portal](#).

- implementation of R0160 will better facilitate the achievement of the applicable Objectives of the REC;⁹ and
- approving the change is consistent with our principal objective and statutory duties.¹⁰

Reasons for our decision

(a) to ensure the REC operates and evolves in a manner that facilitates the achievement of its mission statement¹¹

The Proposer believes that this change will better facilitate relevant Objective (a) as it will ensure that Electricity Suppliers are required to provide the necessary data to ensure that electricity used in innovative projects such as those included in HAR1 and HAR2 meets the LCHS, and that the retail energy market can support these and other innovative projects.

We agree with the Proposer that this change will better facilitate relevant Objective (a) as it will ensure that LCHPs can be compliant with the LCHS through the creation of a new REC schedule which clarifies the roles and responsibilities of relevant stakeholders, and will help to ensure that the retail energy market continues to support innovation, competition and positive consumers outcomes.

(b) to ensure customers interests and data is protected in the operation of the REC

The Proposer believes that this change will better facilitate relevant Objective (b) by ensuring that the projects already approved under HAR1, and those seeking approval under HAR2, can ensure they will be compliant with the LCHS. This will be achieved by ensuring that LCHPs can have the reassurance that the LCHA Counterparty can obtain the necessary data from Suppliers to ensure they are compliant with the LCHS.

⁹ As set out in [Standard Condition 11B.6 of the Electricity Supply Licence](#) and [Standard Condition 11.6 of the Gas Supply Licence](#).

¹⁰ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 and the Gas Act 1986.

¹¹ The REC's mission statement is 'The REC will facilitate the efficient and effective running of the retail energy market, including its systems and processes. It will promote innovation, competition and positive consumer outcomes'.

We note the view of the one consultation respondent who asserted that, in order for LCHPs to have reassurance and be able to finalise their investment in the production of low-cost hydrogen, a mechanism needs to be in place to ensure that they will be able to evidence compliance against the legislation.

We agree with the Proposer that R0160 will better facilitate relevant Objective (b). R0160 will ensure that LCHPs are able to meet their obligations, and that the LCHA Counterparty has the necessary mechanisms in place to obtain the data it requires.

(c) to drive continuous improvements and efficiencies in the operation of the REC and the central systems and communication infrastructure it governs

The Proposer states that this change will better facilitate relevant Objective (c) as it ensures the REC is adapted to engage with the wider retail energy market developments, such as the advance of the use of hydrogen, and can supplement other regulatory methods such as primary legislation.

We agree with the Proposer that R0160 will better facilitate relevant Objective (c) by ensuring the REC is adapted to ongoing changes in the retail energy market as new net-zero technologies are introduced.

Decision notice

In accordance with Standard Condition 11B of the Electricity Supply Licence and Standard Condition 11 of the Gas Supply Licence, the Authority hereby approves REC Change Proposal R0160 'Electricity Supply to Hydrogen Electrolysers'.

Michael Walls

Head of Retail Market Operations and Smart Metering

Signed on behalf of the Authority and authorised for that purpose