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Proposed changes to the process for presenting GoOs to Ofgem after the removal of CCL exemption for renewables from 1 August 2015

Dear Sirs,

SmartestEnergy welcomes the opportunity to respond to Ofgem's open letter on proposed changes to the process for presenting Guarantees of Origin (GoOs) to Ofgem after the removal of Levy Exemption Certificates for GB renewables from 1st August 2015.

SmartestEnergy is an aggregator of embedded generation and a supplier in the electricity retail market serving large corporate and group organisations.

Please note that our response is not confidential.

Overview

It would lead to more consistency and be cheaper for the industry as a whole for Ofgem to submit a central auditing process to competitive tender. Industry could share the costs of the winning tender, according to market share, enabling a consistent standard across all audits. There could be further efficiencies made if it were also to be combined with the Ofgem Fit audit.

Further comments

Under the proposed changes for presenting GoOs to Ofgem, the open letter proposes the need for an independent auditor's report to be presented alongside GoO requests. Whilst this does go some way to reducing an administrative burden, as there is only the need for one submission of evidence for various subsidy schemes, this is still an inefficient and ultimately flawed process for evidencing electricity supply using GoOs. Given that each supplier will have to source their own independent auditor, this will lead to differing standards of reporting and different evidencing standards. Auditors with a lack of knowledge of the industry may err on the side of caution when defining suitable evidencing of GoOs. This could lead to the erroneous and inconsistent rejection of a supplier's GoOs from cost exemptions, because of the new assurance rating system.



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Not defining the documentation required for evidencing GoOs not only exacerbates the aforementioned issues, but also undermines the auditing process. Given that Ofgem are able to ask for more evidence if deemed appropriate, surely Ofgem must have in mind some form of documentation which may be acceptable. If there is no overarching form of documentation which provides sufficient evidence in all cases, it would be more helpful if the regulator could detail some possible scenarios. This would enable suppliers to evidence their GoOs simply.

It may be argued that a contractual route could be evidenced by the supplier. However, such an arrangement would favour the Big 6 companies, some of which are largely owned by European corporations. For example, at the moment SmartestEnergy's contracts place an obligation on the generators selling electricity to us, to prove that they have booked the capacity on the interconnectors. If, however, we were in a world where an audit trail had to be produced and we wished to purchase renewable power from a German generator and a contractual route had to be demonstrated; we would have to prove that the German generator had sold it to a French or Dutch party who in turn contracted with us. Large European owned suppliers therefore have an advantage over independent UK suppliers.

Beyond the practical use of auditors, there are issues regarding costs. Given that Levy Exemption Certificates have been removed (incurring substantial costs to suppliers) it seems unfair to again ask suppliers to pick up the costs of changes to the scheme without considering a more efficient and centralised process.

Furthermore, having to find and pay auditors to carry out such work, would place yet more cost burdens on suppliers- which would in turn be paid for by consumers as industry looks to recover its costs. In a market where regulatory certainty is under such scrutiny, this can only serve to create more barriers to entry into the market; something which the Competition Markets Authority is working hard to remove.

Whilst the idea of a single submission and a standardised template for evidencing supply using GoOs seems efficient, the reality of bringing in external parties adds unnecessary layers of cost, inconsistency and bureaucracy. During a period of code governance review, CMA investigation and a consultation on how to cut red tape, onus should be on making processes as simple as possible.

Should you require further clarification on this matter, please do not hesitate to contact me.

Yours sincerely,

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