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Consultation on proof of UK consumption of overseas electricity

I refer to your consultation published on January 12th 2016. This letter gives the views of ECOHZ. ECOHZ is a Norwegian company focusing on trading green values related to electricity from renewable sources. Our head office is in Oslo, Norway.

The main business of ECOHZ is related to administrative services and trading of renewable energy Guarantees of Origin (GoOs) from power plants in various European countries. Last year we delivered our services to electricity producers owning about 200 power plants and electricity suppliers selling green products in 15 different countries. We have also assisted Nordic power producers to establish routines selling GoOs to the UK to obtain LECs.

Based on our experience we will comment and answer the questions in your Consultation on proof of UK consumption of overseas electricity after European national electricity market have been coupled and physical interconnector capacity no longer is available to market participants.

Question 1: Do you agree that the types of evidence we have identified are adequate? Do you foresee any problems with obtaining them, particularly if the power has been exchanged multiple times?

To trade GoOs cost effectively in the European market we favour solutions that reduce administrative costs and remove trade barriers. As long as UK legislation require proof of supply to the UK to recognise foreign GoOs, the best solution would be to transfer the GoO to the UK REGO-registry for cancellation to document the origin and provide a combined documentation of delivery of electricity into the coupled market somewhere outside the UK with a documentation of off-take in the UK. As long as the UK REGO-registry is not linked to the EECS-Hub, GoOs must be cancelled ex-domain with a specification of the UK as consumption country and then be handled by the recognition process of Ofgem.

As we see it, the proposed routine for cancellation and reporting foreign GoOs is the best possible solution today.

When it comes to the documentation of UK supply the proposed routine for implicit trading is fine provided that the trading period for balancing deliveries to and from the coupled market is organised in a cost effective way. The routine should be suitable for all kind of power plants whether they are small or large power plants delivering to the UK for FMD, small power plants accepted for the FIT levelisation or new power plants for the Green Excluded Electricity in CFD.

Guarantees of Origin are normally issued for monthly production periods and Ofgem has in their Guidance from March 1st 2016 on presenting foreign GoOs for use in GB FMD and FIT annual levelisation based the routine on a monthly production period for the imported GoOs.

Since it is not possible to store energy in the form of electricity it could be argued that there will be no supply to the UK if the trading period is not reduced to the smallest possible interval traded in markets. Some countries have established markets for balancing services. In theory it could therefore be possible to operate with trading periods as short as 1 minute.

For all practical purposes most routines and trading solutions in Europe are based on longer trading periods. Power exchanges in Europe today offer trading of physical power divided into intervals of ¼ hour, ½ hour, 1 hour, peak hours, off-peak hours and 24 hours. There are also possibilities to trade even longer periods due to various solutions for how trading is organised during week-ends and holidays. Since there are a lot of solutions for physical trading in Europe and products are not harmonised from one country to another, we recommend that you allow for some flexibility related to the length of the trading period when you open up for implicit trading as a solution for documentation of UK supply.

The explicit trading routine described in the Guidance published on March 1st 2016 (Article 3.10) give the flexibility we recommend: “For explicitly traded electricity, the booking and nomination of interconnector capacity has to be in the same period as generation. GoO certificates/cancellation certificates specify the month of generation, so we would therefore expect the evidence of explicit trading to be within the same month as generation.” It is sufficient that the booked interconnector capacity is within the same month as production and there are no further requirements to the trading and balancing period to secure that electricity is delivered to and from the grid at the exact same time. The selected solution with its flexibility is fine, reduce the administration to an acceptable level and give a cost effective routine.

When introducing implicit trading as an acceptable way to document UK supply, the trading period should give the same flexibility as you accept for explicit trading. Such a flexibility is also recommended in the EE report that you refer to in your decision in January 2016 on implicit trading for LECs documentation.

The EE report (Article 5.1) recommends to document UK supply using implicit trade:

Evidence of sale / buy on coupled market:

- *Evidence of implicit sale of renewable on a power exchange within a coupled market country (reference to footnote 92)*
- *Evidence of implicit buy amount of electricity by a supplier on a power exchange in the UK in the same time period (reference to footnote 93)*

Matching GoOs for corresponding amount of renewable electricity cancelled for consumption in the UK (See Section 2.2) (reference to footnote 94)

Our recommendation for flexibility for the time period is in line with the description in footnote 93: *Footnote 93: Depending on administrative choice, the relevant time period would not necessarily have to be on an hourly basis. Quantities of electricity sold/purchased implicitly could be aggregated daily, weekly, monthly, etc*

With monthly GoO and generation periods, an introduction of a different trade period will for the balancing of implicit trading add a lot of administrative work to the procedure of importing GoOs and auditing the implicit trading. In addition, it could be a challenge to the documentation routine if one part is documented through explicit trading with a monthly balancing/trading period and one part is documented by implicit trading having a different balancing/trading period.

As long as monthly balancing/trading is accepted for explicit trading, we recommend that the same flexibility is allowed for implicit trading in line with the proposal in the EE report that you refer to as acceptable documentation in your LECs decision published on January 12th this year.

Question 2: Are you are aware of other specific types of evidence that they might present for these purposes? If so, what are they? Please be as specific as possible, and explain why you think this specific type of evidence would be adequate.

It could be possible to establish a solution where delivery to the coupled market is documented by the owner of the grid to which the involved power production is delivered and by the owner of the grid from which the involved power is off-taken. As long as there is no harmonised solution for such documentation, we recommend that it will be acceptable to have no alternative to the proposed solution based on power exchange trading.

Question 3: Are you aware of any issues that may preclude applying the decisions of the consultation on LECs and market coupling to proof of GB supply of overseas electricity under FMD, FIT and CFD as well? If so, please provide details on the issues you foresee.

No. It will be a good solution to use the same documentation routine for all schemes.

Question 4: Can you foresee any issues that may arise from maintaining the same process for LECs as per the 2008 CCL guidance? If so, please give details.

We have not been directly involved in LECs trading so we do not have any experience in this area.

Question 5: Can you foresee any issues that may arise from maintaining the same process for GoOs as per the GoO recognition process recently consulted on now implicit trades are permitted? If so, please provide details.

We mean that the documentation of supply in the UK through the new implicit trading routine will remove trading barriers and reduce trading costs. It will harmonise prices in the UK REGO market and the overseas GoO market. For standard products based on traditional technologies like hydro power, we already see a harmonisation based on your proposal to remove trade barriers and therefore we do not expect much international trading for FMD purposes. Reduced trading costs and trade barriers could give UK consumers more products to choose among and also open up the overseas market to UK REGOs. We therefore look forward to your decision to add implicit trading as an accepted routine for documentation of UK supply.

If you do have any questions or want me to explain some of my answers in more detail, please do not hesitate to contact me.

Regards



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