



Renewable Electricity
Ofgem,
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Sent by e-mail to: CCLandREGO@ofgem.gov.uk

11 March 2016

CCL and REGO Team

Consultation on proof of UK consumption of overseas electricity - ADDENDUM

Gazprom Marketing and Trading Limited ("GM&T") welcomes the opportunity to comment on Ofgem's consultation on proof of UK consumption of overseas electricity. GM&T is a UK registered wholly-owned subsidiary of the Gazprom Group ("Gazprom") active in the marketing and trading of energy commodities worldwide including power, gas, oil, LNG and carbon allowances.

In the UK, GM&T is present in both the wholesale and the retail power markets and it has therefore an active interest on the specific requirements for providing consumption in the UK for the purposes of Fuel Mix Disclosure (FMD), and the other associated schemes such as Feed in Tariffs (FiT) and Contracts for Difference (CfD).

Following the clarifications and the discussions held at the workshops and webinars organised by Ofgem e-serve, we would like to provide further views in addition to our response sent on the 25 February. For easiness of reading we provide below the response combined. The additional considerations are clearly highlighted after the word 'ADDENDUM'.

Please do not hesitate to contact us on 020 7756 9428, at regulatoryaffairs@gazprom-mt.com in the first instance should you have any questions.

Yours sincerely,

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Unsigned as sent by e-mail.

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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?

Yes, we agree. However, it is worth noting that among the three proposed types of evidence in the EE report, the option with regards to ACER reports on trade submitted by power exchanges as a part of the REMIT requirements might face concerns of timeframe. Given that the ACER data collection began on 7th October 2015, ACER might not be able to provide a report for market participants with the intention of submitting historical LECs for renewable energy generated before this date and the underlying contracts have naturally terminated. Although we recognize that it will be a transitional issue, we believe that this implementation concern should be addressed in order to preclude additional losses for market participants having historical LECs.

As for any possible issues with obtaining the proposed type of evidence when power has been exchanged multiple times, we do not foresee any problem. We believe that the evidence required would be the same as per bilateral contract between a renewable generator and a supplier.

ADDENDUM - We are actively engaged with the power exchanges N2EX and APX in the GB market in order to receive a report (in a format of a spreadsheet) with the amount of electricity bought and sold as a basis for the proof of implicit flows.

However, we anticipate a problem if there is a requirement to match implicit sales/buys on an hourly/half-hourly basis because the shape of the offers and the bids do not necessarily coincide when GoOs are transacted between different parties. Also, the administrative burden and the amount of data needed will increase exponentially to gather this information on such granular level and to match it with GoO suppliers. This will create a bureaucratic barrier at disadvantage of smaller suppliers which we do not see proportionate.

GoO's are typically traded in the market on a monthly granularity and therefore we believe that is more reasonable to match on the same monthly granularity for the implicit electricity buy and sell flows.

The compliance burden would be more proportionate and also easier to verify and equally easy to document as a warranty in the GoO contract and to be accepted by GoO suppliers, especially if they are located overseas.

We also would like to note that most of the contracts for the provision of GoOs have been concluded before the outcome of the consultation for the current year to meet the 1 July deadline and the type of evidence required was not clear yet. Therefore, we believe that the specific evidential requirements of proof of flow under implicit trading should be proportionate to avoid any market disruption.

Once the GoO has been imported into GB we believe it should be treated as a REGO and therefore does not require a corresponding electricity path.

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

No, we are not aware of any other specific type of evidence that could be provided in this context.

ADDENDUM – However, as per guidance, warranties and clauses in GoO purchase contracts can be used as proof of implicit flows which we support. However, from our experience typically an overseas renewable producer (seller of GoOs) warrant that the associated renewable electricity has been sold directly or indirectly onto an exchange in a market coupled. As mentioned above, the GoOs are typically sold with monthly granularity, hence the such clause of warranty follows the same level of granularity.

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, we are not. We are supportive of the Ofgem understanding that its decision regarding the evidence of both explicit and implicit trading may be used to prove UK consumption of overseas renewable electricity should be equally applicable to LECs and GoOs for other schemes such as FMD, FIT and CFD.

LECS have been historically used for several purposes not related to CCL to prove UK supply of overseas renewable electricity including FiTs, FMD and CfDs. Therefore, we believe that the outcome of the Ofgem’s consultation on LECs and market coupling should be naturally extrapolated to the above-mentioned schemes as it is still relevant to the question of proof of UK consumption under market coupling.

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

No, we cannot foresee any particular issue.

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

We would welcome Ofgem confirming the new type of evidences as soon as practicable. Given the new audit arrangements required as a part of the new GoOs recognition process, there will be a relatively short period for both obtaining this type of evidence and putting in place new audit arrangements with



an appropriate auditor. In effect an earlier deadline for GoOs than 1 July will be in place so that the audit can take place and be submitted, along with the evidence of UK consumption, by the 1 July.

ADDENDUM – We are of the view that audit requirements should be pragmatic as most of the contracts for the provision of GoOs have been concluded before the outcome of the consultation for the current year to meet the 1 July deadline and a reasonable level of granularity to match buyer/sellers volumes should be required to avoid overcomplicated and potentially disruptive effects.