

OFGEM

Aalborg, 07 March 2016

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Consultation on proof of UK consumption of overseas electricity

Dear Sir or Madam,

Neas Energy A/S welcomes the possibility to participate in the abovementioned consultation. Ofgem's decisions on market coupling and Levy Exemption Certificates are highly appreciated. They were necessary to establish equal treatment of UK based and non-UK based market participants in line with the requirements from EU law.

Our answers to Ofgem's questions are as follows:

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?

We consider the types of evidence presented by Ofgem to be generally adequate and in line with our comments in earlier consultations. However, we would like to point out some facts, which might contribute to a wider understanding of the mechanism behind GOOs and substantially limit the burden of evidence needed.

As Ofgem correctly highlights in the consultation documents, there is no specific flow of electricity across an interconnector linking the continent to GB that can be matched with a particular transaction between market participants. This is less of a problem, since most of the evidence needed is actually provided by the GOO itself:

A GOO works like a product description on a label. Each GOO certificate is a unique electronic document, which is evidence that 1 MWh of (renewable) electricity was

1. produced and
2. exported onto the DSO/TSO administered grid
3. by a specific power generator
4. within a specific country / grid
5. at a specific time period

Points 1. and 2. above are preconditions to get a GOO issued. The issue of a GOO is based on an officially approved and verified metered output of the power plant in question (so it is questionable whether the level of detail Ofgem is proposing for the GOO audit process is necessary – many similar checks have already been carried out as part of the GOO issue process.

So, a GOO is, in and of itself, sufficient evidence that the holder of the GOO can claim that a certain amount of the overall electricity pool within the market-coupling area consists of renewable energy from one specific power plant. As the GOO is uncoupled from the electricity it was issued for, it may be traded separately from the underlying flow of electricity at any time. This has always been the intention behind the GOO scheme, as it makes free trading of GOOs across national borders in the EU possible.

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It is not relevant whether or not the generator and offtaker in question have entered into a power trade, which is the basis of flows of electricity between certain market participants or areas. Obviously, in practice, generators would need to enter into a PPA with an offtaker providing a route to market, and the electricity would probably be traded several times - eventually OTC or on a power exchange.

However, the mere fact that a GOO is issued and existing is sufficient proof that the renewable electricity in question had a route to market (otherwise it would not have been issued) and was made available to market participants within the market coupling area, where it may be consumed by any electricity consumer connected to the same market-coupled area. Therefore, it does not matter whether the electricity in question was traded several times before consumption and who was part of the trading chain.

Ofgem's *Guidance for Organisations on presenting Guarantees of Origin for use in GB Fuel Mix Disclosure and Feed-in Tariff annual levelisation* and Electricity Supply Standard License Condition 21.12 do not take account of this basic aspect of GOOs. This has led to substantial market disturbance and is a breach of EU-law (a similar point applied to the old guidelines for LECs).

Under this guidance and SLC 21.12, unlike GOOs issued inside the UK, GOOs issued outside the UK are subject to the administrative burden that they need to be associated with an actual electricity flow **imported** to the UK. This burden limits the tradability of GOOs produced outside the UK on the UK market. It also has a negative impact on the actual pricing of non-UK GOOs, as the costs for electrical flows need to be taken into consideration when trading non-UK GOOs on the UK market.

The connection between a GOO and a flow of electricity only becomes necessary **when the energy is actually consumed**. This is because the evidence implicit in a GOO (e.g. "green energy was produced and fed into the grid") has to be matched with an amount of electricity that is actually consumed.

So, any participant who (1) holds GOOs or cancellation statements and (2) is being able to show consumption of a matching number of MWh (e.g. by presenting end consumer contracts in connection with import meter data connected to this contracts within a certain period of time) is able to show that the consumed amount of MWh accurately represents a corresponding amount of electricity produced by the applicable power generators mentioned in the GOOs.

As GOOs are devalued within a year after issue if they are not used, the system of tracking amounts of energy is consistent and cannot be overrun by GOOs older than

one year. This also fits quite well with the yearly fuel mix disclosure procedure. In order to serve the intentions behind the GOO scheme in the best possible way, GOOs should be allowed to match specific amount of consumed electricity during the GOO's lifecycle, which is one year: As an example it should be possible to match a GOO issued for the production of January 2016 with a corresponding amount of consumption between January 2016 and January 2017.

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The evidence trail is relatively simple and straightforward, since the first steps (route to market, trading OTC or on an exchange) are covered by the sole fact that a GOO came into existence. Moreover, this approach ensures equal treatment and market access of UK based and non-UK based market participants, as the evidence consists of the GOO or REGO (as applicable) and evidence of the actual consumption figures of UK suppliers.

Legislation and guidelines on the UK market must however be aligned and compliant with the above-mentioned mechanism, and must of course be in line with EU-law.

Question 2: Are you aware of other specific types of evidence that they might present for these purposes?

A GOO is the sole and sufficient tracking mechanism for renewable electricity, which means the GOO itself represents adequate evidence in combination with evidence of matching consumption in the UK.

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?

No. However, UK legislation and guidance will need to respect EU laws to avoid unequal treatment.

Question 4 & 5:

Yes, we foresee issues, as the process for LECs and GOOs needs to be set up independently of electricity flows (see arguments above). The purpose of GOOs is to uncouple electricity flows from the "quality" (green/clean renewable energy) of these flows.

As GOOs are only a tracking system for amounts of renewable electricity, GOOs must be coupled with electricity flows only on the last bit of the road (consumption contracts and import metering data).

The timing issue mentioned in 4.3 and 4.7 of the consultation between trading and production period is in reality based on a misunderstanding, as no link is necessary between trading arrangements and production time (see arguments above).

Linking trading arrangements and flows other than those related to the actual consumption with any given GOO would again be in breach of EU law, as non-UK based generators would be treated differently from UK based generators. However,

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the consumption period of the electricity in question must match the validity period of the GOOs used for providing evidence of the origin of the consumed electricity.

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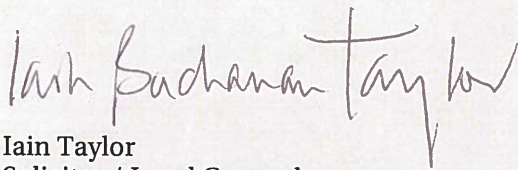
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If you have any queries on any of the answers above or we can help you to develop and assess a new approach on these issues, please do not hesitate to contact us.

Yours sincerely,


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