



OVO Energy
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www.ovenergy.com

Dear Sir or Madam,

In response to consultation questions on proof of UK consumption of overseas electricity

<https://www.ofgem.gov.uk/publications-and-updates/consultation-proof-uk-consumption-overseas-electricity>

We are grateful for the opportunity to comment on the proposed changes for providing proof of UK consumption of overseas electricity. We have responded specifically to Ofgem's 5 questions as detailed in the consultation document.

Background

OVO are a relatively small business in the UK energy supply market. We are focused on minimising our costs and risks to ensure we can provide the best possible deals for our customers. We have therefore entered into contracts to import EU and Non EU GoOs to provide OVO with cost certainty in relation to the FIT Levelisation charge. We are concerned about the risk posed by a potential material increase in the FIT levelisation charge for 2015/16 compliance year as a result of a significant increase in the volume of exempt supplies and are therefore seeking to minimise our exposure to the charge.

For clarity, we have used the following definitions which we would recommend Ofgem to adopt going forward to reduce confusion:

- **GoO Generator** - The non-GB renewable generator that was issued the GoO
- **GoO Offtaker** - A non-GB Trading Party that bought the output from the GoO Generator
- **GoO Exporter** - A non-GB Trading Party with sell trade volume in a non-GB coupled market
- **GoO Importer** - A GB Trading Party with buy trade volume in GB coupled market
- **End Supplier** - The Supplier that delivered energy to the end consumer and that will present GoOs to Ofgem for FIT exemption

It should be noted that the same party could carry out more than one of these roles (i.e. GoO Offtaker could also be the GoO Exporter and the GoO Importer). There could also be multiple parties (Third Parties) that sit in between those major parties identified.

Responses to questions

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?

OVO finds that the evidence suggested in both examples implies that there must be wholesale power trades that link the End Supplier to the GoO Importer. This is contrary to previous advice received from Ofgem which stated that there is no requirement for the End Supplier to have traded the wholesale power with any counterparty in the chain. The requirement is to provide evidence that the power was supplied into the GB Market and this could have been done by a counterparty that is not the end supplier (i.e. the GoO Importer). Once the GoO is delivered to the GB market, OVO find that it should be treated as a REGO/ROC and hence not require an associated flow of power. The End Supplier should always be able to demonstrate evidence of the interconnector flow, both on an implicit and explicit basis.

Question 2: Are you 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.

OVO finds that it is confusing to use the terminology "supplier" when stating the required evidence due to;

- a) the likely involvement of Third Parties, and
- b) there is no requirement for the End Supplier to be linked in the power flow chain.

OVO believe that the evidence requirements should relate solely to the cross border trades. The evidence should demonstrate that the GoO Exporter and the GoO Importer have matching sell and buy volumes respectively on the auction on an hourly granularity basis. There should be no requirement to link the GoO Importer to the End Supplier because the GoO Importer has already proved Supply to GB as per the above.

Hourly granularity is proposed as this is the basis on which the coupled auction clears. OVO proposes that the GoO Cancellation Statement should then match the same month as the power flow.

As per OVO's answer to question 1, based on previous guidance from Ofgem, OVO propose the following evidential requirements to prove implicit supply to GB without reference to the End Supplier:

- Evidence of sale of electricity in the Day Ahead Auction within a coupled market country outside of GB by the GoO Exporter.
- Evidence of purchase of equal/greater amount of electricity in the Day Ahead Auction in GB, matching in the same hour, from the GoO Importer.

- GoOs for corresponding amount of electricity cancelled for supply to GB, matching in the same calendar Month as both flows above

The above chain will prove that power was flown implicitly to, and has been supplied into the GB Market.

OVO would propose that the specific evidence required for both flows would be a log of trades stored in the back-office websites of the two Coupled Day Ahead Auction power exchanges.

Ovo does not see any requirement for evidence of wholesale trades that link the purchase of electricity in the Day Ahead Auction in GB by the GoO Importer to the End Supplier. If this evidence were required it would create a significant barrier for smaller suppliers that are not direct members of the coupled GB power exchanges (i.e. the day ahead auction) and do not have large trade volumes with multiple external counterparties against which to prove a path to the DA auction. We do not trade directly in the DA Auction and trade physical UK Power Forward contracts exclusively with a single Wholesale Counterparty due to the high costs of setting up and maintaining multiple trading relationships. We would be extremely disappointed if the rules on evidencing UK consumption of overseas electricity for historic settlement periods discriminated against smaller market participants.

OVO would greatly appreciate if Ofgem can confirm this point as soon as is possible to and make it clear how parties should demonstrate implicit flow and supply to GB.

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.

OVO are not aware of any legal restrictions to applying the decisions of the consultation on LECs and market coupling to proof of GB supply overseas under FMD, FIT and CfD.

OVO are concerned that having an uncapped volume of exempt demand being submitted for FIT via implicit capacity could lead to a significant spike in the FIT rate for non-exempt demand for 2015/16 compliance year. This could result in a significant unexpected cost for suppliers that either were not able or elected not to source exempt supplies. Under the extreme scenario whereby 100% of demand is exempt for FIT levelisation purposes, it is worth considering who would pay for the costs of the FIT scheme.

On the basis of our understand of the current rules and guidance provided by Ofgem, to ensure OVO manages our exposure to potential increases in the cost of supplying electricity to UK customers, OVO are contracting for imported GoOs through a combination of explicit and implicit capacity. OVO are confident that there will not be

rule changes applied retrospectively that would punish small suppliers that have taken a prudent approach to risk management in this way.

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.

OVO request that Ofgem provide clarification around the time period over which the evidence of the Non-GB Sell Trade, the GB Buy Trade and the Renewable Generation must match. OVO would propose that this should be on an hourly basis for power (Buy/Sell) and a Calendar Month basis for the GoO as this is the lowest level of granularity provided on GoO Cancellation Statements.

OVO does not foresee any further issues.

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.

As previously stated to Ofgem, in order for an auditor to be able to provide a report approving the recognition of GoOs, the basis on which they can be approved must be clear. OVO request Ofgem confirm that GoOs and buy/sell flows should match on a Calendar Month basis as this is the lowest level of granularity provided on GoO Cancellation Statements.

We would be happy to discuss any of these points in more detail. Please contact Robert Ogden (01179 30 31 32 or Trading@ovoenergy.com) should you wish to discuss further.

Yours faithfully,



Robert Ogden
Trading Manager