



CCL and REGO Policy Development Manager
Ofgem
9 Millbank
London. SW1P 3GE.

CCLandREGO@ofgem.gov.uk

11 March 2016

Consultation on proof of UK consumption of overseas electricity

Dear Sirs,

SmartestEnergy welcomes the opportunity to respond to Ofgem's Consultation on proof of UK consumption of overseas electricity.

SmartestEnergy has been an aggregator of embedded generation since 2001 and a supplier in the electricity retail market serving large corporate and group organisations since 2008. The renewable electricity which we supply comes from a mixture of GB and overseas sources.

Please note that our response is not confidential.

Overview

From April 2016, in the absence of any further changes and provided that there are sufficient eligible GoOs, suppliers would be incentivised to try and maximise their GoO purchases to receive the maximum/proportional exemption available under the FIT and CfD scheme caps. This would effectively result in a disincentive for suppliers to provide UK renewable backed contracts. It would also mean that there would be no limit on the amount of continental power being presented for Fuel Mix Disclosure. Furthermore, it would not be possible to estimate the size of implicit flows into the UK (and the proportion of the exemption that a supplier could expect) and therefore it would not be possible to calculate how much of the benefit could be priced into consumer contracts.

In summary, whilst we have previously taken the view that there should be no caps and that in a single market it is not appropriate to have to provide evidence of the transfer of energy across border, the existence of caps and pro-rating mechanisms within the CfD and FIT schemes now creates an uncertainty which can only be reduced if the number of GoOs entering the UK market were limited.

Below we answer the questions contained in the consultation in the order in which they appear.



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SmartestEnergy Ltd, Dashwood House, 69 Old Broad Street, London EC2M 1QS
www.smartestenergy.com

Registered in England & Wales: No. 3994598



Questions in the consultation document

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?

Ofgem are proposing:

- Evidence of sale / purchase on coupled market:
 - Evidence of implicit sale of renewable on a power exchange within a coupled market country.
 - Evidence of implicit purchase amount of electricity by a supplier on a power exchange in the UK in the same time period.
- Matching GoOs for corresponding amount of renewable electricity cancelled for supply to GB.

Ordinarily we would argue that producing the GoO should be sufficient; it is self-evident that the electricity was sold into the European market and we should be operating in a single market. However, as stated in our "overview" above, limits are now required to reduce the uncertainty created by the capping and pro-rating mechanisms of the CfD and FiT schemes.

We believe that both evidence of sale/purchase on a coupled market and the matching of GoOs are required to show both that the electricity flowed across the interconnector and that it was associated with the relevant supplier. i.e. timeframe matching alone is not sufficient.

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.

Evidence of the following four things should be required: proof of UK consumption of overseas renewable electricity, evidence of trades, evidence of interconnector flows and evidence of contracts with end customers.

Ofgem may also wish to consider an audit requirement to demonstrate that the renewable power has not been sold twice in two different countries. Further, Ofgem may like to consider an auditing requirement ensuring the final supply entity is the same as the power trading entity, i.e. prohibiting the use of third party power flow, even in circumstances where there is a common ultimate holding entity.

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.





Changes to the Ofgem GoO template and submission procedure as detailed in the Webinar on 8th March appear straight forward to implement. Over and above this, and the points we have made earlier in this response we are not 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.

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.

It is a little difficult to understand the applicability of the LEC legislation and all existing processes given that they are in a state of flux: up until August 2015 LECs and GoOs were presented; we currently need to present a list of GoOs to Ofgem; but now Ofgem are mandating an audit process.

There may also be issues with timescales for evidencing a long chain from generator to consumer.

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.

No, notwithstanding our comments under Question 4.

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

Yours sincerely,

Colin Prestwich

smartestenergy

Head of Regulatory Affairs
SmartestEnergy Limited.

T: 01473 234107
M: 07764 949374



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