Consultation on market coupling and Levy Exemption Certificates and call for evidence on wider impacts

Part A: Consultation on market coupling and Levy Exemption Certificates

Question 1: Where renewable electricity is traded implicitly across coupled markets, is it possible to evidence the electricity is consumed (or to be consumed) in the UK? Please explain your answer.

Question 2: What evidence might generators use to demonstrate that an overseas LEC represents electricity that is, or is to be, consumed in the UK when that electricity has been traded implicitly across coupled markets?

Question 3: Are stakeholders aware of any reasons for limiting the issue of overseas LECs to electricity that has been or is to be explicitly traded? Please explain your answer.

1) Where renewable electricity is traded implicitly across coupled markets, it is impossible to "track" the physical flow. Nevertheless it's possible to split the "evidence" that the electricity is consumed (or to be consumed) in the UK in two parts:
   - as regards the part of capacity allocated through long term capacity rights, the ownership of Physical Transmission Rights (PTR) or Financial Transmission Rights (FTR) is sufficient as "evidence" of energy delivery, considering that nomination is no more required with market coupling;
   - as regards the daily capacity implicitly allocated by means of market coupling – and exceeding the LTR and FTR - the existence of bilateral contract for LECs is an "evidence". In case the bilateral contracts exceed the capacity implicitly allocated, the "evidence" will be recognized on a share of the contractual quantity calculated on a "pro-quota" principle.

2) When electricity is implicitly traded across coupled markets, generators can use energy bilateral contracts to demonstrate that an overseas LEC represents electricity that is, or is to be, consumed in the UK. Despite implicit auctions, bilateral contracts remain the only instrument which permits to link a generator (to whom the LECs are issued) to a supplier in Great Britain.

3) There are no reasons for limiting the issue of overseas LECs to electricity explicitly traded because explicitly booked long term capacity, together with bilateral contracts, is a piece of evidence that electricity is consumed (or to be consumed) in the UK. If contractual flow exceeds the cross-border interconnector capacity the energy can be splitted proportionally into booked capacity.

Part B: Call for evidence on the use of LECs in renewable electricity schemes and on wider impacts

Question 4: Are stakeholders aware of alternative ways of demonstrating proof of GB supply of overseas electricity that do not involve LECs, and, if so, what are they?

Question 5: Do stakeholders currently acquire LECs purely for non-CCL purposes?

Question 6: What do stakeholders foresee as potential impacts if:

6.1 Overseas renewable electricity can be demonstrated as consumed (or to be consumed) in the UK where it has been implicitly traded, and LECs are issued for this accordingly?

6.2 Overseas renewable electricity was only accepted as consumed (or to be consumed) in the UK (and LECs issued accordingly) where there is explicit booking and nomination of interconnector capacity?

It would be helpful to have responses to this question cover what the impacts would be on:

- The electricity markets (volume, price, distributional issues)
- CCL and UK Renewable Electricity schemes, including FMD, FIT, CFD, and SLC 21D

4) We are not aware of alternative ways of demonstrating proof of GB supply of overseas electricity that do not involve LECs.

5) We do not acquire LECs purely for non-CCL purposes.

6.1) We do not see any major impact. Ideally this could have been the situation before MC was put in place, as UK is a net energy importer and potentially all the imported energy could have been associated to renewable generation.

6.2) In this case we think the quantity of LECs will be limited only to the Long Term Capacity **allocated and nominated**, bringing a potential shortage of LECs.