



Andrew MacFaul
Ofgem
9 Millbank
London
SW1P 3GE

18 June 2015

Dear Andrew

Axpo UK Limited and Axpo Nordic AS welcome the opportunity to contribute to Ofgem's consultation on market coupling and Levy Exemption certificates.

Our views are discussed in our answers to the consultation questions below:

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.

- An implicit auction is simply a methodology for the allocation of finite quantities of interconnector capacity to market participants.

Implicit auctions cannot mean infinite flows of electricity: these will always be restricted by physical limitations on interconnections.

- Associating implicit flows with individual market participants is indeed not directly possible.

Our view, however, is that similar difficulties apply when attempting to trace flows of electricity in general. This is often overcome by considering that complete and exclusive contractual paths (among other requirements) are acceptable for tracing flows and evidencing their consumption.

- In line with the above, we believe that implicit auctions should be deemed acceptable for the transportation of Renewable Source Electricity (RSE), but only when subject to the following:
 - A contractual path, exclusive to the relevant participant, can be associated with the flows
 - Such a contractual path includes a contract with the entity owning the implicit flows, properly confirming their exclusivity (no double counting)



- The total implicit flows used to evidence RSE consumption in the UK are capped: aggregated across all participants, these flows should not exceed the total electricity deemed transported through the implicit auction.
- Such caps are applied pragmatically, and therefore only for implicit auctions across the UK borders.

It will prove a challenge to apply them across every European border and every TSO and exchange, and will increase the bureaucracy needed to transact and import RSE into the UK.

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?

In line with 1 above, we believe that a contract with the owner of the implicit flows (possibly the interconnector company, or the exchanges) confirming their exclusivity to a specific market participant is necessary.

This will have to be in addition to the normal proofs of buys and sells on exchanges.

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.

No.

We do not see a reason for this and believe that allocating implicit flows in line with 1 and 2 above would be consistent with the current practice around explicit flows.



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?

We believe that LECs are an appropriate way to demonstrate proof of GB supplies and are not aware of alternative ways.

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

N/A

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?

- i. When capped in line with our answers in Part A, we do not expect the market impact to be significant.

This will simply take the total capacity available for the transportation RSE into the UK back to the levels that were available prior to the introduction of the implicit auctions across the UK borders.

- ii. Non-capped, we believe it will damage the LEC market: RSE deemed imported will immediately exceed actual electricity imports into the UK. This will completely, and artificially, distort the supply/demand balance in the market.

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?

This will be an artificial reduction of the capacity actually available for the transportation of RSE in the UK.

Sincerely

On behalf of Axpo UK Limited and Axpo Nordic AS