Calouste Limited
Chute Forest Farmhouse
Chute Forest
Andover
Hampshire SP11 9DQ

Telephone : 01264 730615
E-Mail: alex@calouste.co.uk

11th May 2015

Consultation on market coupling and Levy Exemption Certificates

Dear Sir

I am writing in response to the consultation in relation to Levy Exemption Certificates which was published on 24th March 2015.

My company is an energy trading advisory firm which also undertakes direct energy market trading activity and we are specifically involved in the movement of LECs which have been generated at accredited power stations located in continental Europe, to the UK.

I would be grateful if you would consider our responses to your questions as part of your review:

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?

This question implies that when one is trading electricity that one is trading a series of discrete electrons. This is not the case; rather one is trading an entitlement to an amount of electrons (not specific electrons).

Therefore when "electricity is traded implicitly across coupled markets" one can be certain that an amount of electricity has been sent from the exporting market to the UK but one cannot be certain about the specific source at which the electricity was generated nor the specific destination at which it was consumed.

One can say with certainty however that the amount of electricity was generated in the export country and was consumed (including losses which should also be considered as consumption) in the UK.

This flow should be evidenced by meter readings by considering the total flows across a meter and subtracting any flows which are measured to have taken place as a result of explicit nominations of flow (if any).

So, "yes" it is possible to evidence that this amount of energy is consumed in the UK (by measurement) but "no" it is not possible to measure which specific electricity has been consumed (or where it has been consumed).

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

We believe the following approach would work best:

1. Is it possible for the power which was generated together with the overseas LEC to flow to the UK market – if not then a notional physical path does not exist and the power cannot be consumed in the UK?
2. Do contractual arrangements exist which could allow the power which was generated with the overseas LECs to flow to the UK market - if not then there is no contractual path by which the power can flow to the UK and thus the power cannot be consumed in the UK.

The above methodology alone may however lead to an over-allocation of implicit flows which are derived from the market coupling process – highlighted by example below:

Assume that the market A is connected to market B solely by interconnector I.
Assume 3 companies (X, Y, and Z) use implicit flows across the interconnector to move LECs from market A to market B. In order to do this they must show:

a) The have bought power from an accredited station together with LECs
b) The power they have bought was located in market B or has been moved to market B either by use of explicit flow or implicit flow.
c) They have sold an equivalent amount of power in market C

Time Block	Interconnector Flow	Used by Company X	Used by Company Y	Used by Company Z	Over allocation
1	500MWh	500MWh	0	0	0
2	325MWH	250MWh	200MWh	100MWh	150MWh
3	400MWh	500MWh	300MWh	200MWh	600MWh

In time frame 1 we find that all available implicit flows have been utilized by company X and there has been no over allocation.

In time frame 2 we find that al market participants in combination are attempting to use more implicit capacity that existed.

In time frame 3 we find that all market participants in combination are attempting to use more implicit capacity that existed. In addition company X is also attempting to use more implicit capacity than existed for this time frame.

The companies must meet the test that it has a contractual and physical path down which it may use to transport the LECs. The companies can show this path on a stand-alone basis other than in the case of company X in time frame 3.

However in time frames 2 and 3 it is clear that the same implicit flow is being used by more than one participant in at least some circumstances.

If Ofgem wish to avoid such a situation then we believe a simple rationing approach would work well, whereby each player's allocation of implicit capacity is calculated once the actual implicit flow rate is known by reference to the amount of eligible LECs which such a player attempted to flow during that period.

For a LEC to be eligible in such circumstances each participant must demonstrates that there is a notional physical and contractual path down which the power associated with the LEC may flow down. In Time Block 3 company X would only be deemed to have nominated 400MWh of eligible LECs even if though their initial nomination shows 500MWh as a notional path could only exist with respect to a maximum of 400HWh of power in this Time Block.

For Time Block 3 the allocation would therefore become:

Company X = 400 * (400+300+200) * 400 = =178 MWh
Company Y = 300 * (400+300+200) * 400 = 133 MWh
Company Z = 200 * (400+300+200) * 400 = 89 MWh

In such cases the LECs which the companies had initially allocated as being transported from market A to market B should be compulsorily retired.

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 see answer to question 2 above. If a process put in place to ration the use of implicit capacity such that an amount of LECs which are validly transported to the UK using implicit flows cannot be greater than the total amount of those flows in any period then there does not appear to be any justification for limiting the issue of LECs in this way.

Question 4: Are stakeholders aware of alternative ways of demonstrating proof of GB supply of overseas electricity that do no involved LECs, and, if so, what are they?

We are not aware of a simple manner in which this can be achieved.

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

We do not.

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 is has been implicitly traded, and LECs are issued for this accordingly?

There is a possible over allocation of the implicit flows as described in our response to question 2.

We do not foresee other issues.

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 would limit the attractiveness power generated by accredited renewable stations and would likely lead to an increase in generation from more carbon intensive generators.

I would be very interested to hear the views of other respondents to you consultation and I would also be grateful if you could keep me updated with your progress.

Please do not hesitate to contact me if you would like further information from me.

Yours faithfully

Alex Thistlethwayte

Managing Director