

# Consultation on proof of UK consumption of overseas electricity

## Consultation

**Publication date:** 12 January 2016

**Response deadline:** 8 March 2016

**Team:** Renewable Electricity

**Email:** [CCLandREGO@ofgem.gov.uk](mailto:CCLandREGO@ofgem.gov.uk)

### Overview:

We held a consultation from March to June 2015 on market coupling and Levy Exemption Certificates (LECs). Having considered the responses, we defined and analysed several options, and decided that both unconstrained implicit and explicit trading may be used to produce proof of UK consumption/supply of overseas renewable electricity. Our rationale is in our "*Decision on market coupling and Levy Exemption Certificates, and applicability to other schemes*"<sup>1</sup>. As part of the analysis underpinning this decision, we identified several areas we would like further stakeholder input on: specific evidence, the applicability of these CCL conclusions to other schemes and some process points.

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/decision-market-coupling-and-levy-exemption-certificates-and-applicability-other-schemes>

## Context

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Providing proof of UK consumption of overseas electricity is not straightforward under market coupling. It relies on the power exchanges implicitly allocating cross-border interconnector capacity based on price differentials, rather than market participants explicitly booking and nominating interconnector capacity.

Given the nature and complexity of this issue, we held an open consultation from March to June 2015 to seek stakeholder views on the use of LECs to prove UK consumption of overseas electricity for the Climate Change Levy Exemption for Renewables (CCL) under market coupling, and in particular, the evidence required in this case.

Alongside this consultation document, we are also publishing our decision document on the consultation on market coupling and Levy Exemption Certificates (LECs). The analysis underpinning our decision raised several questions that we would like stakeholder input on. In particular, we are looking to understand stakeholders' views on the specific evidence requirements for proving consumption in the UK for the purposes of Fuel Mix Disclosure (FMD) and other associated schemes such as Feed in Tariffs (FIT) and Contracts for Difference (CfD).

## Associated documents

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The Electricity (Fuel Mix Disclosure) Regulations 2005

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/82782/fuel\\_mix\\_disclosure\\_regs\\_2005.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/82782/fuel_mix_disclosure_regs_2005.pdf)

Consultation on market coupling and Levy Exemption Certificates – Decision document

<https://www.ofgem.gov.uk/publications-and-updates/decision-market-coupling-and-levy-exemption-certificates-and-applicability-other-schemes>

Consultation on market coupling and Levy Exemption Certificates

<https://www.ofgem.gov.uk/publications-and-updates/consultation-market-coupling-and-levy-exemption-certificates-lecs>

Open letter on proposed changes to the process for presenting GoOs to Ofgem after the removal of CCL exemption for renewables from 1 August 2015

<https://www.ofgem.gov.uk/publications-and-updates/open-letter-proposed-changes-process-presenting-goos-ofgem-after-removal-ccl-exemption-renewables-1-august-2015>

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# 1. Introduction

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## Initial consultation

- 1.1. From March to June 2015, we held an open consultation to seek stakeholder views on how to provide evidence as proof of UK consumption of overseas renewable electricity for the CCL exemption under market coupling, and on the use of LECs to prove UK supply of overseas electricity in other schemes.
- 1.2. Following the consultation, we commissioned Europe Economics (EE) to help us review the consultation responses, define options for recognising implicit flows of renewable power under market coupling, and analyse the options against administrative burden, volume impacts and risk.
- 1.3. Based on the consultation responses and further research, the EE report also provided examples of evidence that might be presented by market participants for this.
- 1.4. This analysis helped inform our decision<sup>2</sup> relating to implicit trading across coupled markets as a means of importing overseas renewable electricity for the CCL exemption.
- 1.5. The Decision document contains further relevant background information.

## Decision

- 1.6. Informed by the consultation responses received and the EE analysis, **we decided to recognise that evidence of both explicit and unconstrained implicit trading may be used** to prove that a unit of overseas renewable electricity is consumed or to be consumed in the UK for the purposes of the CCL exemption for renewables, and hence for LEC issue.
- 1.7. In addition to this, it is our understanding that **the outcomes of this decision on LECs are equally applicable to recognising Guarantees of Origin (GoOs) for FMD (and then FIT)**. We also intend to advise the Low Carbon Contracts Company (LCCC) to apply this decision in its determinations of Green Excluded Electricity under CFD. On these points, we recognise a need for further consultation and we are therefore using this opportunity to seek stakeholder views.

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<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/decision-market-coupling-and-levy-exemption-certificates-and-applicability-other-schemes>

- 1.8. The rationale behind the decisions is presented in our *Decision on market coupling and Levy Exemption Certificates, and applicability to other schemes*<sup>3</sup>.

## Further consultation

- 1.9. Following this decision, there are several points of detail that require further consultation. Specifically, we would like to seek stakeholder views on:
- **The specific evidence that may be presented:** We want to find out whether you think the types of evidence we are aware of (as presented in the EE report) are adequate and obtainable, as well as whether we should acknowledge other specific types of evidence as being adequate and obtainable for these purposes
  - **The applicability of CCL conclusions to other schemes:** Our consultation on market coupling and LECs and call for evidence on wider impacts specifically looked at the question of proof of UK consumption of overseas electricity in the context of the CCL Regulations. Our understanding is that this decision is applicable to recognising GoOs under FMD, and can also be carried through into FIT and CFD. We would like to understand your views on this.
  - **The applicability of existing processes to this type of evidence:** Existing processes for presenting and verifying evidence of UK consumption of overseas electricity for LECs<sup>4</sup> and GoOs<sup>5</sup> can be used irrespective of whether the electricity has been traded explicitly or implicitly across the interconnectors. We would welcome your views on this, especially if you are aware of any reasons why this may not be the case.

## Recent developments


- 1.10. In the summer 2015 Budget, the closure of the CCL exemption for renewables was announced, meaning that no LECs can be issued for generation after 31 July 2015. This issue is therefore, much less relevant for LECs than it was at

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<sup>3</sup> <https://www.ofgem.gov.uk/publications-and-updates/decision-market-coupling-and-levy-exemption-certificates-and-applicability-other-schemes>

<sup>4</sup> Climate Change Levy: Renewables Exemption Guidance for Suppliers and Generators <https://www.ofgem.gov.uk/publications-and-updates/climate-change-levy-renewables-exemption-guidance-suppliers-and-generators>

<sup>5</sup> Open letter on proposed changes to the process for presenting GoOs to Ofgem after the removal of CCL exemption for renewables from 1 August 2015 <https://www.ofgem.gov.uk/publications-and-updates/open-letter-proposed-changes-process-presenting-goos-ofgem-after-removal-ccl-exemption-renewables-1-august-2015>



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the time of our consultation. However, it remains relevant in other schemes, particularly recognising GoOs for FMD, which then feeds into FITs and CFD.

- 1.11. Our guidance on GoO recognition<sup>6</sup> for FMD does not currently address market coupling or the implicit trading of electricity. Many stakeholders have been keen to understand more about what evidence could be used to demonstrate the GB supply of overseas renewable electricity under this type of trading.
- 1.12. With the removal of the CCL exemption for renewables, it is clear that we are no longer able to use LECs for proof of GB supply in other schemes. For this reason, we reviewed our process for recognising GoOs for FMD, to remove the LEC dependency. This feeds into other schemes, including FIT and CFD. We recently published a consultation<sup>7</sup> on this new process, which closed on 8 January 2016.

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<sup>6</sup> Open letter on proposed changes to the process for presenting GoOs to Ofgem after the removal of CCL exemption for renewables from 1 August 2015  
<https://www.ofgem.gov.uk/publications-and-updates/open-letter-proposed-changes-process-presenting-goos-ofgem-after-removal-ccl-exemption-renewables-1-august-2015>

<sup>7</sup> <https://www.ofgem.gov.uk/publications-and-updates/open-letter-proposed-changes-process-presenting-goos-ofgem-after-removal-ccl-exemption-renewables-1-august-2015>

## 2. Specific evidential requirements of proof of flow under implicit trading

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- 2.1. Under market coupling, cross-border interconnector capacity is allocated implicitly by the power exchanges based on price differentials between the coupled markets. As such, market participants do not explicitly book or nominate the interconnector capacity required for a particular cross-border trade. Therefore, there is no specific flow of electricity across an interconnector linking the continent to GB that can be uniquely matched with a particular transaction between market participants.
- 2.2. We are seeking stakeholder views on what evidence we should require as proof of GB supply of overseas renewable electricity for GoO recognition for FMD under market coupling.
- 2.3. On the basis of the EE report, we have identified several types of evidence that may be used to prove GB supply or consumption of overseas electricity under implicit trading:
  - 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.

More specifically, examples for the first point above could be:

- Notification of trades sent by market participants to the GB settlement party (and confirmed in return by the settlement party) for balancing.
  - Log of trades stored in the back-office websites of the two power exchanges.
- 2.4. It is possible that a supplier / renewable generator may need to evidence more than one sale and purchase if a third party, e.g. a power trading company was involved. The evidence required would be the same as for a straightforward trade between a renewable generator and a supplier but market participants would need to provide a contractual chain, i.e. matching the amount of sale from the renewable generator, purchase from the trader,



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sale from the trader and final purchase from GB supplier. In theory there may be more than one third party involved so the contractual chain could be further extended.

**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?**

**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.**



## 3. Use of the market coupling consultation decision in other schemes

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- 3.1. Since LECs can no longer be used for proof of GB supply of overseas electricity in these schemes, we have reviewed our process for recognising GoOs for FMD, to remove the LEC dependency. This process then feeds into other schemes, including FMD, FITs and CFD. The provisions in the legislation governing these schemes are in Appendix 3.
- 3.2. Following on from our consultation on market coupling and LECs, we also need to consider market coupling and implicit trades in the context of these other schemes.
- 3.3. We are minded to apply our decision to allow unconstrained implicit trading across coupled markets for LECs under the CCL scheme to GoO recognition under the FMD scheme, feeding into similar determinations under the FIT scheme.
- 3.4. We recognise that our decision to allow unconstrained implicit trading of electricity to import overseas LECs into UK was made following a consultation on proof of UK consumption of overseas electricity under the CCL. Since we propose to apply this decision to proof of GB supply of overseas electricity under FMD and FIT, we would like to know whether you think this approach is valid.

**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.**

## 4. Process for GoOs and LECs

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### LECs

- 4.1. For providing evidence of proof of consumption under the CCL scheme, the process will remain as per the 2008 CCL guidance<sup>8</sup>. This means that as part of the accreditation process, generators will provide information of the nominal flow to the UK and then the underlying evidence will be checked when a generator is audited.
- 4.2. As part of a CCL generating station audit, we will get assurance that electricity notified to us for gaining LECs represents electricity consumed or to be consumed in the UK. We would expect the operator of the station to offer contractual evidence to demonstrate this. The evidence to demonstrate proof of consumption under implicit trading would be as listed in section 2 of this consultation document. This list may be altered and/or added to following the outcome of this consultation.
- 4.3. For LECs, evidence of a buy/sell trade has to be in the same trading period, but this trading period does not have to be the same time period as generation as the legislation specifies "consumed or to be consumed in the UK".

### GoOs

- 4.4. In the past, GB electricity supply licensees have presented LECs alongside guarantees of origin (GoOs) as evidence of GB supply of overseas electricity under a number of GB renewable schemes. In light of the absence of LECs for output from 1 August 2015, we consulted on a new process for presenting GoOs to Ofgem without LECs.
- 4.5. For evidencing proof of supply for recognising GoOs for FMD and the FIT exemption, we are minded that the process will remain as per the GoO recognition process consultation that has just closed. This means an independent validation by an auditor of evidence underpinning GoOs held/presented by suppliers.
- 4.6. As part of GoO recognition, suppliers will be obliged to provide us with an independent audit report alongside their GoO spreadsheet and declaration. The auditor should check a sample of the GoOs presented and the underlying

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<sup>8</sup> <https://www.ofgem.gov.uk/publications-and-updates/climate-change-levy-renewables-exemption-guidance-suppliers-and-generators>

evidence. The evidence required to demonstrate proof of supply under implicit trading would be as listed in section 2 of this consultation document.

- 4.7. For GoOs, evidence of buy/sell trade has to be in the same trading period, and must also be in the same time period as generation.

**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.**

**Question 5: Can you foresee any issues that may arise from maintaining the same process for GoOs as per the GoO recognition process recently consulted on now implicit trades are permitted? If so, please provide details.**

## Appendix 1 - Consultation response and questions

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1.1. We would like to hear your views on any of the questions in this document.

1.2. Please send us your responses by 8 March 2016 to:

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

[CCLandREGO@ofgem.gov.uk](mailto:CCLandREGO@ofgem.gov.uk)

1.3. Unless marked confidential, all responses will be published in our library and on our website, [www.ofgem.gov.uk](http://www.ofgem.gov.uk). You can ask for your response to be kept confidential, and we will respect this, (subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004).

1.4. If you want your response to be kept confidential, please clearly mark the document(s) to that effect and include your reasons for requesting confidentiality. It would be helpful if you could submit your responses electronically and in writing. Please put any confidential material in the appendices to your responses.

1.5. Next steps:

- Having considered the responses to this consultation, we intend to publish a decision document and update our guidance in line with this.

1.6. Please direct any questions or requests for clarification about this consultation to the address given in paragraph 1.2.

## 1.7. 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?

Question 2: Are you are 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.

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.

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.

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.

## Appendix 2 - Feedback questionnaire

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1.1. We believe that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about how we conducted this consultation. We are keen to get your views on these questions:

1. Do you have any comments about the overall process adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand? Or could it have been better written?
4. Please add any further comments.

1.2. Please send your comments to:

**Andrew MacFaul**  
Consultation Co-ordinator  
Ofgem  
9 Millbank  
London  
SW1P 3GE

[andrew.macfaul@ofgem.gov.uk](mailto:andrew.macfaul@ofgem.gov.uk)

## Appendix 3 – Scheme Legislation

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### *Fuel Mix Disclosure (FMD)*

4.8. The Fuel Mix Disclosure (FMD) licence condition (SLC 21) derives from Article 3(6) of Directive 2003/54/EC.

4.9. In GB, the Electricity (Fuel Mix Disclosure) Regulations 2005 set the requirements for FMD for inclusion in electricity supply licences:

*"The licensee shall only rely on a guarantee of origin issued outside Great Britain or a generator declaration from a generator outside Great Britain where:*

*(a) it holds **evidence of supply in Great Britain of the electricity referred to in the guarantee of origin** or generator declaration, and*

*(b) the guarantee of origin or generator declaration has not been used as evidence of fuel mix outside Great Britain."*

4.10. These provisions carry through into Electricity Supply Standard Licence Condition 30A(9) (now SLC 21.12).

### *Renewable Energy Guarantees of Origin (REGO/GoO)*

4.11. SLC 21 refers to GoOs, which stems from Directive 2009/28/EC.

4.12. GoOs/REGOs were introduced into GB law via the Electricity (Guarantees of Origin of Electricity Produced from Renewable Energy Sources) Regulations 2003, No. 2562, as amended (REGO Regulations).

4.13. The REGO Regulations (Reg. 9) gave a function to the Authority to "recognise" GoOs.

### *Feed-in Tariff (FIT)*

4.14. The Feed-in Tariffs Order 2012, 27(6), relating to the calculation of FIT contributions:

*"the relevant amount of electricity supplied by A" means*

*(a) For all FIT years up to and including FIT year 6, the amount of electricity supplied by A to customers in Great Britain, less the amount of any electricity so supplied that is sourced from renewable sources and generated outside the United Kingdom; and*

- (b) *For FIT year 7 and each subsequent FIT year, the amount of electricity supplied by A to customers in Great Britain, less A's capped amount of qualifying renewable electricity for that FIT year;".*

*Contracts for Difference (CFD)*

- 4.15. The Electricity Supplier Obligations (Amendment & Excluded Electricity) Regulations 2015, relating to the calculation of supplier contributions to CFD costs:

2(2):

*"Any reference in these Regulations to a supply of electricity is **a reference to its supply in Great Britain**, and "supply" is to be construed in accordance with section 4(4) of the Electricity Act 1989(b)."*

4(3):

*"(3) The CFD counterparty must determine, in accordance with regulation 5, that an amount ("the relevant amount") of electricity which is the subject of an application under paragraph (1) is green excluded electricity where— (a) the electricity is energy produced from renewable sources; (b) **the electricity is generated in a Member State other than the United Kingdom**; and (c) the date on which the generating station which generated the electricity first became operational was after 31st March 2015."*