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Dear CCL and REGO Manager

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**Consultation on market coupling and Levy Exemption
Certificates (LECs) and call for evidence on wider impacts**

Our ref. Ofgem LECS

DONG Energy welcomes the opportunity to respond to the Ofgem consultation on market coupling and Levy Exemption Certificate (LECs). We have found this consultation to be extremely helpful in stimulating wider discussion concerning the use of LECs and REGOs in the market.

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DONG Energy supports the use of explicitly booked capacity as the basis for the imports of LECs to UK as this secures a clear link between the transporter of LECs and the renewable power and ensures that the integrity of the renewable energy schemes and the value of the LEC is maintained. In addition, explicit auctions ensure that any imported LECs are in line with the legal requirements and interconnectors are used to maximum capacity as any unused explicit capacity can be used in a subsequent implicit auction.

Our concerns regarding the use of implicit auctions

We believe that the use of implicit trading, is likely to lead to an unlimited flow of LECs to the UK which could have a consequential on the support for UK renewable projects. It is not straightforward, if it is possible at all, to provide proof of UK consumption of overseas electricity via LECs as it relies on the implicit allocation of cross-border connection capacity by the power exchanges based on price differential, as opposed to market participants explicitly booking and nominating interconnector capacity.

In fact, we do not believe that it is possible for a single company to claim the ownership right to transported power which results from implicit price coupling, as the power transported is the result of numerous sales and purchases in the two connecting price areas. Consequently, we do not believe that, currently, there is sufficient evidence - or a paper trail - that demonstrates an overseas LEC has been implicitly traded across a coupled market for consumption in the UK, or vice versa. We are also not aware of alternative ways of demonstrating proof of GB supply of overseas electricity that does not involve LECs.

Finally, DONG Energy considers that post re-labelling of the power flow as belonging to a single company can be considered a grey area which is incompatible with EU legal intention and should be avoided in order to maintain the reputation and environmental integrity of the continental-LEC.

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Our concerns regarding the use of implicit auctions for imports of LECs

The higher levels of renewable energy generated outside the UK has led to LECs being considerable cheaper than in the UK. Currently, the use of explicit auctions ensures that when LECs are imported they are allocated to a specific transporter. In our view, the volume price and distributional impact of implicitly traded LECs could lead to unlimited import of GoOs (Guarantee of Origin) and LECs on the electricity market. This could cause the price to drop in the UK with consequential impact on industry taxation, development of interconnector projects, renewable generators and the CfD strike price:

- *Development of interconnector projects:* an influx of continental LECs is likely to cause IFA and Britnet revenue to drop and it may be more difficult to finance new interconnector projects, which in the longer term will be to the detriment of the UK consumer, and
- *Renewable generation consideration:* UK renewable projects may be unable to sell UK LECs at the projected price, potentially making current renewable generation projects uneconomic.

Given the above issues, we would encourage a wider assessment with relevant government departments of the impact of a revision to the policy relating to the import of LECs and the consequential impact of UK consumer money being exported to foreign renewable energy projects. Experience from the Dutch market shows that a lack of supply or purchase obligation relating to tradable green certificates led to a highly uncertain market environment for potential investors¹.

A possible way forward to maintain the integrity of the UK market

We believe that explicit auctions ensures the correct economic signals for UK renewable schemes and there would not be a cashflow impact on foreign renewable schemes. In our view, the use of a 'use it or lose it' explicit capacity would secure the EU market model as the level of the LEC and GoO imports would depend on the level of the explicit auction capacity.

In the event that it is not possible to retain explicit auctions, due to FCA regulations, a possible solution may be that Ofgem, or the Interconnector, auctions the import right to the highest bidder on LEC transport to the UK in the same way as today's capacity auctions. This could then limit the auctioned LEC

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http://www.worldfuturecouncil.org/fileadmin/user_upload/Miguel/Grn.En.Mkt.Devt.pdf

to a physical import. In addition, we suggest a limit on LEC imports if there are curtailments on the interconnectors.

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Finally, we draw attention to the recent auction by Britned on the 12 May 2015 where the Interconnector auctioned the right to import LECs to the highest bidder for historic implicit power flows to UK taking place in the period from April 2014 to March 2015. We would welcome clarity whether Ofgem has given its approval for the recent auction and what would be viewed as an acceptable form of evidence for audit purposes.

Given the potential impact on the UK market and consumers if there is a significant influx of continental LECs, we would encourage Ofgem to prepare an impact assessment to ensure that the final position does not have unintended consequences on associated government policy. We would welcome the opportunity to discuss this consultation response in more detail as part of an industry workshop or on a one-to-one basis.

Yours sincerely
DONG Energy

Jane Cooper
Regulatory Affairs Advisor