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

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

EDF Energy believes that the current method for evidencing supply from overseas is the most robust method. The need for a Levy Exemption Certificate (LEC) to be evidenced alongside any EU Guarantee of Origin (GoO) from overseas provides certainty for a number of reasons. Unchecked implicit flows exceeding physical capacity would result in the market being saturated with LECs. This would have the potential to drive down the value of LECs themselves to the detriment of UK renewable generators, the level of receipts into HMRC through Climate Change Levy (CCL), and the Levelisation of the Feed in Tariff (FIT) scheme. Equally important in our view, this approach also strengthens the Fuel Mix Disclosure (FMD) process to ensure it matches global best practice as set out by the World Resources Institute (WRI).

For the issuance of overseas LECs, a robust audit trail that demonstrates UK consumption is therefore critical.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Siobhan Hyland on 07875 110850, or myself.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Paul Delamare'.

**Paul Delamare**  
**Head of Downstream Policy and Regulation**

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## Attachment

### EDF Energy's response to your questions

#### Part A: Consultation on market coupling and Levy Exemption Certificates

**Q1. 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.**

EDF Energy believes that the current method, which relies on explicitly purchased capacity and nominated flows, for evidencing supply from overseas is the most robust method. If LECs are to be allocated to implicit flows, it will be important to establish an equally robust audit trail, which would need to be a specific requirement for all interconnector flows.

This audit trail needs to ensure that overseas LECs are not issued in excess of the power that flowed into the UK under market coupling. We believe that this can be done, but in a limited number of ways. As an example, one of the interconnectors to the UK (BritNed) currently assigns implicit flows retroactively through what we consider to be a robust method.

The need for a LEC to be evidenced alongside any EU GoO provides certainty for the purposes of CCL that supply has been consumed in the UK market and therefore is eligible for levy exemption. Without the use of UK LECs, supported by a robust audit trail, to evidence supply, both HMRC and Ofgem would be unable to accurately measure of the amount of electricity traded into the UK as a commodity against the physical amount flowing into the region through interconnectors.

**Q2. 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?**

As noted above, EDF Energy believes that the current method, which relies on explicitly purchased capacity and nominated flows, for evidencing supply from overseas is the most robust method. If LECs are to be allocated to implicit flows, it will be important to establish an equally robust audit trail, which would need to be a specific requirement for all interconnector flows.

This audit trail would need to ensure that overseas LECs are not issued in excess of the power that flowed into the UK under market coupling. We believe that this can be done, but in a limited number of ways. As an example, one of the interconnectors to the UK (BritNed) currently assigns implicit flows retroactively through what we consider to be a robust method. This evidence needs to be supplemented with evidence of relevant exchange activity.

However, we do not believe that evidence of activity in the coupled day ahead market alone is sufficient to ensure that overseas LECs are not issued in excess of imports. For practical reasons, it is only possible to apply this principle on the UK borders. That is, it is

unlikely TSOs across Europe will develop e.g. retroactive implicit flow assignment services that could be used. Our view is that applying a conservative requirement for evidence on the UK borders alone would still meet the objective and ensure that overseas LECs are not assigned in excess of actual imports.

**Q3. 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.**

We believe that it is essential to establish a robust audit trail that ensures UK consumption of overseas electricity. It is clear that this can be done when cross border capacity has been purchased and nominated, separate to exchange activity. It is more difficult to establish a reliable audit trail under market coupling. However, we do believe that there are ways of assigning implicit flows that – combined with relevant exchange activity – do provide a robust audit trail. On this basis, we would not prescriptively rule out the assignment of overseas LECs to implicit flows, but we would caution against assigning overseas LECs solely based on exchange activity in the coupled day ahead market.

Without the use of LECs to evidence supply, both HMRC and Ofgem would be unable to accurately measure the amount of electricity traded into the UK as a commodity against the physical amount flowing into the region through interconnectors. For industrial support schemes such as those aimed at the UK energy intensive sectors that allow exemption of their electricity supply from the costs of for example the small-scale FITs and potentially from Contracts for Difference (CfDs) mechanisms we can see no robust method for ensuring the supply has been consumed in the UK and is therefore eligible for exemption. The accuracy and fairness of the levelisation process for both schemes would therefore be in doubt.

Unchecked implicit flows exceeding physical capacity would result in market being saturated with LECs. This would have the potential to drive down the value of LECs to the detriment of UK renewable generators, as well as CCL receipts to HMRC. In turn this increased volume of LECs and GoOs coming into the UK and the resulting fall in LEC value would see a greater potential for suppliers to make use of the FIT cost exemption. This would result in a disproportionate rise in the FIT Levelisation cost and ultimately a further increase in the cost of energy to the consumer.

Equally, this approach strengthens the FMD process to ensure it matches global best practice. The World Resource Institute (WRI) recent publication of amendments to the GHG Protocol Scope 2 guidance for reporting greenhouse gas (GHG) emissions states that the market-based method for accounting requires that a reporting entity:

- Criteria 1: Conveys the direct GHG emission rate associated with the unit of electricity produced; and,
- Criteria 5: Is sourced from the same market in which the reporting entity's electricity-consuming operations are located and to which the instrument is applied.

Source: [http://ghgprotocol.org/scope\\_2\\_guidance](http://ghgprotocol.org/scope_2_guidance)

The tandem use of both, the overseas GoO and the LEC are in our opinion the only feasible way at present of meeting these two criteria and therefore maintaining the integrity of both the CCL exemption scheme and GHG reporting for FMD purposes. Our view is that the UK is extremely well prepared to comply with this new guidance, in large part because we have such an evolved FMD process – capable of supporting UK organisations as they seek to disclose the emissions associated with their supply.

As with our response to Q1, it is worth noting that the WRI has praised the UK's current FMD process for GHG reporting administered by Ofgem as a case study exemplifying best practice ([http://ghgprotocol.org/scope\\_2\\_guidance](http://ghgprotocol.org/scope_2_guidance) - box 6.3 – Page 56). It would seem counter-productive for all organisations adhering to the WRI guidance to move away from this best practice. We believe that 2015 will be an important year for the FMD initiative, as the GHG Protocol drives organisation to demand this information from their suppliers.

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

**Q4. 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?**

EDF Energy believes that the current method for evidencing supply from overseas is still fit for purpose. We are not aware of any form of evidence that would provide the same certainty. A GoO on its own would not provide evidence of the physical flow.

**Q5. Do stakeholders currently acquire LECs purely for non-CCL purposes?**

Increasingly the use of LECs alongside GoOs provides organisations real faith in the provenance of their power. As a result, we would expect the FMD and suppliers' fuel labels to become more widely used by UK stakeholders as this global best practice starts to bed-in across the UK.

**Q6. 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?**

The impact depends on the arrangements around issuance. As noted in our response to Q3, there could be detrimental impacts to the market if overseas LECs are issued in excess of what is actually imported.

**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?**

As outlined in our responses above, EDF Energy believes that the current method for evidencing supply from overseas is the most robust. The only form of equally robust

evidence for implicit flows that we are aware of is the retrospective assignment of flows that BritNed carries out.

**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**

**EDF Energy**  
**June 2015**