
Ofgem: Consultation on market coupling and Levy Exempt Certificates and call for evidence on wider impacts

Submission by ENGIE

(I) Background

ENGIE (formerly known as GDF SUEZ) develops its businesses around a model based on responsible growth to take on the major challenges of energy's transition to a low-carbon economy: access to sustainable energy, climate-change mitigation and adaptation, security of supply and the rational use of resources.

In the UK, ENGIE has interests in a number of activities across the energy value chain, from gas exploration and production through to services. In total, ENGIE employs approximately 20,000 people throughout the UK across all of its businesses. In generation, ENGIE is one of the country's largest independent power producers, with interests in 5,025 MW of plant. This comprises a mixed portfolio of generation assets that include coal, gas, CHP, wind and the UK's foremost pumped storage facility. The portfolio includes a retail business supplying electricity and gas to the Industrial and Commercial sector, and the company continues to develop its renewables business in the UK.

We welcome the opportunity to comment on Ofgem's review of Levy Exempt Certificates in light of future market coupling. Our main points are highlighted below and we would be happy to meet with you to discuss these in more detail.

(II) Summary

- **ENGIE recognises the issue that Ofgem have highlighted in relation to future imports of renewable electricity and we would expect Ofgem to conduct a thorough analysis on the potential credible scenarios for future flows as a result of electricity market coupling before proposing any policy decisions.**
- **There is a potential for a significant increase in the flow of imported renewable electricity as a result of observed wholesale market price differentials and other incentives such as the UK CCL value. This potential for increased supplies could increase due to wholesale market coupling and the implications of these on both investment in GB low carbon generation and GB consumers may be detrimental.**
- **Ofgem should consider a range of options available to control the supply of overseas LECs at a level which is appropriate for GB use. It is important to assess the options carefully so that they do not disturb existing routes to market or existing contractual arrangements relating to proof of flow for suppliers.**

(III) Answers to questions

Chapter two: Proof of flow under market coupling.

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?

1. We recognise that with the introduction of electricity market coupling across EU member states it may become more problematic to “prove” consumption in any one market; such as GB, as required by the HMRC guidance. The situation where electricity flows across borders are more implicit (capacity being bundled) rather than being explicit and proved by distinct capacity bookings could complicate matters.
2. It is critical that any potential changes to the rules in this areas are fair and made clear to existing and future market participants well ahead of implementation. Importantly, any potential changes to should not disturb existing routes to market and exiting contractual arrangements. For example, Transporting LECs via the coupled APX/N2EX exchanges is currently an accepted method of evidencing a power flow into GB and we would expect this status to be maintained under any future system. Under an implicit traded system going forwards we see no reason why this should not continue to be accepted valid proof of GB usage.
3. Should it prove necessary to intervene with revised rules on the measurement of imported renewable electricity, a range of options may be available to prove GB usage and these may include:
 - a. Cap the allowed flows at the aggregate physical interconnector capacity;
 - b. Cap the volume of LECs redeemable by each supplier;
 - c. Limit imported renewable electricity to a percentage of GB LEC demand.

All of these options would, to varying degrees, impose more restrictions on the import of renewable electricity than is the case currently however this may prove necessary in order to prevent the over-supply of imported LECs and the unintended consequences this may bring. We discuss the potential implications of uncapped imports as a consequence of implicit trading further in our answer to question three.

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

4. To ensure that any future rules remain credible it is fundamental that the power flow or path must continue to be proved by overseas LEC producers in a transparent manner. Generators should be able to demonstrate that there is a notional power path for renewable electricity from the site of generation to the end user in GB, as per now. This evidence must contain proof that the relevant renewable generator has sold (via a power exchange) into an adjacent

market. Similarly a reciprocal trade (buy) must be evidenced in the receiving market for the renewable electricity, and so on across the relevant borders and into GB.

5. It may also be possible that future trading declarations, could be evidenced by the REMIT trades records to aid both credibility and market efficiency.

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?

6. The current GB system is uncapped on the amount of imported LECs permitted, however it may be advisable to apply a form of capped system in future in order to prevent unintended consequences. It is clear that the LEC market price impacts for investors in GB renewables may be adversely affected should there become an oversupply of imported renewable electricity.
7. Ofgem should conduct thorough analysis on potential future flows in order to assess the impacts ahead of any significant policy decisions. For example, it may be that the currently observed electricity market price differential (GB as compared to adjacent EU member states) would be a key driver to attract imported supplies and this differential may flex in the future. Hence, credible wholesale price scenarios should be modelled in order to properly assess the price elasticity effects on LEC certificate values. A quantifiable approach such as this should better enable Ofgem to weigh up the effects of any outcomes for GB consumers alongside the possible downside for GB renewable investors and GB produced LECs.
8. LEC revenues form an important part of renewable project returns and where renewable investors foresee a decrease in realised future revenues for their projects (as a result of perceived lower LEC values) then there may be either i) fewer renewable projects delivered and/or ii) a call for increased support under either or both of the small scale FIT or, for larger projects the CfD FIT; both of which impact on the Levy Control Framework (LCF).
9. There may well be favourable price effects for some sectors of GB consumers. Non-domestic consumers who are not eligible for an exemption from the Climate Change Levy may see a reduction in their costs (due to an increase in the LEC certificate discount), subject to all other costs remaining equal. These potential benefits will not however help domestic consumers or those large (Energy Intensive) businesses who are exempt from CCL.
10. An increase in the supply of overseas LECs may also culminate in reduced HMRC CCL receipts due to more non-domestic consumers redeeming LECs. Such a situation would effectively transfer UK tax revenues to overseas.

Chapter 3 – Proof of supply in other schemes.

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?

11. The Guarantee of Origin (GoO) identification process enables the tracking of renewable electricity from one country to another and has proved to be a valuable tool by which to prevent double-counting.
12. Otherwise, for both renewable and non-renewable electricity purchases it is clearly possible to purchase explicit Interconnector capacity and to nominate the flow towards GB. See our response to 6.2 below.

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

13. GDF SUEZ Marketing only acquires LECs for CCL purposes currently.

Chapter 4 – Market impacts

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?

14. There is potential for a significant increase in volumes of overseas LECs in the GB market and this oversupply may have detrimental effects as set out in our answer to question three.

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?

15. Proof of supply via explicit interconnector bookings appears to be the most transparent approach and would offer minimal change to the current system applied for proving the delivery of imported renewable electricity to GB. This option would restrict any potential interference from pure speculative or financial trading, leaving space only for physical delivery, and this would satisfy the requirement for a proof of consumption approach. Additionally this approach would be the most transparent and perhaps the simplest option to implement.

We would be happy to discuss this topic in more detail with Ofgem however if you require any clarification or for further information please contact:

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