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11 Mar 2016

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■ Consultation on proof of UK consumption of overseas electricity: RWE Supplementary Response

Dear Sir or Madam,

RWE understands that further discussion on the consultation on proof of UK consumption of overseas electricity has taken place and that the deadline for responses has been extended to 11 March 2016. This letter represents a supplementary response (in addition to our previously submitted letter on this issue). While we would like to maintain our unequivocal support for the initiative, as demonstrated in our response below, it appears that there may well be differing lines of communication highlighting differing evidential requirements to various stakeholders, thereby introducing a degree of uncertainty in this process and an inability to respond on a balanced basis. That different evidential requirements are being considered is of course reasonable given that the process is still under consideration. However in this light we would expect a chance to comment on any final proposals.

As with Levy Exemption Certificates, we believe that specific evidence can be presented to provide proof under implicit trading demonstrating that electricity generated on the continent could be deemed to be consumed in Great Britain. As always, any changes to previous guidance would need to be applied on a prospective basis.

Our supplementary response to question 1 of the consultation in the context of recent discussions is included in Annex 1 to this document.

If you have any comments or wish to discuss the contents of this letter then please do not hesitate to contact me.

Yours faithfully

By email

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Annex 1: RWE Response to the Consultation 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?

The evidence identified in the consultation response includes:

- ***Evidence of sale/purchase on coupled market:***
 - ***Evidence of implicit sale of renewable electricity on a power exchange within a coupled 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***

From subsequent workshops “in the same time period” has been clarified as meaning, for example, hourly trades should match with hourly trades i.e. sales and purchases must match in an equivalent timeframe.

In terms of what constitutes evidence of a sale or a purchase we understand the suggestion is that there must be “a unique transaction involving a buyer and a seller” and that “a report from a power exchange would suffice”.

Based on the above, although collecting the data could be challenging we believe it could be done.

We understand from a market participant that there may have been discussions regarding whether only net company purchases on exchanges should count towards implicit usage, although this may be a misunderstanding, particularly since this suggestion was not raised in the Ofgem workshop held on 7 March. For completeness, it is our view that there is no logic for adopting this narrow interpretation for the following reasons:

- Exchanges allow for different orders to be placed through different accounts. This allows for efficient operational processes (e.g. an interconnector trading desk could buy while generator sells or vice versa).
- Orders arising from each such transaction are matched, booked and invoiced independently from each other. As such they fulfil the criteria set out above.
- Whether those orders are submitted from within the same company or from two different companies makes no difference either to the amount of energy which flows, either physically or contractually.
- Even in circumstances where there are multiple buy and sell orders with an exchange resulting in a perceived “net” reduced position, it does not correspond that such net position is the relevant criterion for the UK consumption test for GoOs. There is no basis to attribute that any particular purchase of electricity from the exchange corresponds to a sale of the same parcel of electricity which originates from a different source. Rather, because of the inherent impossibility of tracking any parcel of electricity (physically or contractually) and in light of the UK consumption requirement, it is clear that any power

- purchased from a coupled exchange in the UK could be allocated for UK use with volumes sold to the exchange originating from other sources
- A feature of market coupling is that *contractually* power can flow in unlimited amounts arising through multiple exchange orders. It was our understanding that this was the basis for Ofgem's proposal that unlimited levels of market coupling should be able to be used for the purposes of demonstrating GB consumption. We presented considerable evidence on this point in our original response to the consultation on Market Coupling for LECs. The same arguments apply in this situation.