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CCL and REGO Team

Consultation on proof of UK consumption of overseas electricity

SSE welcomes the opportunity to respond to Ofgem's consultation on the proof of UK consumption of implicitly traded overseas energy, and its applicability to the FIT, FMD and CfD schemes.

Given that there are several points Ofgem is consulting on and that these relate to decisions from two separate consultations, we thought it would be useful to summarise our position on the three decisions Ofgem intends to make following this consultation.

1. The specific evidence that may be presented

We consider the types of evidence proposed in the consultation are adequate and obtainable. Please see our detailed comments in response to Question 1 and 2 below.

2. The applicability of the CCL conclusions to other schemes

Based on the rationale behind Ofgem's decision to recognise implicitly traded electricity for the purposes of the CCL, we see no statutory rationale for Ofgem to not also recognise implicit trading for the FIT, FMD and CfD schemes. Please see our detailed comments in response to Question 3 below.

3. The applicability of existing process to this type of evidence

We believe it would be appropriate to maintain a consistent approach to recognising GoOs, irrespective of whether the electricity has been traded explicitly or implicitly.



Please see our detailed responses in the annex below.

Given that the changes which are being consulted on relate to legislation which is currently in effect and those changes will have a significant impact on the decisions made by the industry during the 2015/16 scheme year, we urge Ofgem to make a timely and consistent decision on the applicability of these GoOs to the FIT and FMD schemes and the related evidence requirements. We would welcome any clarity on this decision within the next two weeks.

Yours sincerely

Lois Wares
Regulation

Annex – 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?

Based on the analysis which has already been undertaken by Europe Economics we consider that the evidence requirements set out by Ofgem in the consultation are adequate however further clarity on the details of these evidence requirements would be welcome.

At this late stage we would urge Ofgem to not make any significant changes to the types of evidence it will require suppliers to present for their 2015/16 submissions. Suppliers will already be reliant on the information outlined by Ofgem in the current consultation and the Europe Economic report as their only source of guidance.

'Time period' for sale/purchase

During Ofgem's 7th march stakeholder event it was suggested that Ofgem may use a half hour time period for measuring the sale and purchase of electricity on a coupled market as evidence of implicit trading. We note that this proposal is not included in the original consultation. We also note that a half hourly resolution was not proposed in the Energy Economics report which the current consultation is based on.. See page 38, footnote 93:

"Depending on administrative choice, the relevant time period would not necessarily have to be on an hourly basis. Quantities of electricity sold/purchased implicitly could be aggregated daily, weekly, monthly, etc."

We are concerned that the proposal expressed at the stakeholder event does not form part of the original consultation and will be difficult or impossible for stakeholders to deliver on, in particular where contracts for GoOs have been already entered into. Additionally, a requirement to provide evidence at a half hourly or even hourly resolution is particularly administratively burdensome, for both the supplier and potential auditor. Another risk arises where the relevant Exchange does not record information on a half hourly basis, making it impossible to provide this granularity of data. We consider that a monthly resolution is more practical and corresponds with the monthly resolution applied to the issue date of the GoO and is in line with Ofgem's decision to accept evidence of explicit trading within the same month of generation.

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.

We believe the types of evidence which have been proposed by Ofgem in the consultation are consistent with the proposals made by Europe Economics. We are not aware of other

specific types of evidence that could be presented. If, in response to this consultation, Ofgem considers that there are other types of evidence that can be presented then this should be in addition to the proposals in this consultation.

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.

The decision on market coupling and Levy Exemption Certificates announced by Ofgem on 12th January recognised implicitly traded electricity for the purposes of the CCL. This decision was based on the assessment that implicit trading was consistent with the requirements of the CCL legislation, namely that it represents the evidence of “electricity consumed, or to be consumed, in the UK”. As per Ofgem’s decision, the CCL legislation does not specify what types of electricity trading may, or may not, be used as evidence of electricity (to be) consumed and therefore there is no statutory rationale for not recognising implicit trading across coupled markets. Bearing this assessment in mind, and with the legislative requirements for the FIT, CfD and FMD being largely identical to the CCL, we believe there is no statutory rationale for Ofgem to not recognise implicit trading for these schemes.

We note from the Europe Economics report and through industry engagement, the concern that smaller suppliers who do not have direct access to the international day-ahead/intra-day markets may not be able to benefit from implicitly traded electricity to offset the FIT. Whilst it should be recognised that this risk exists, we note from Ofgem’s recently published guidance on the new GoO recognition process that the GB market participant who is trading the electricity (‘importing’ it into GB) need not be the supplier presenting the GoO recognition request. Therefore, suppliers who do not have direct access to the market have an opportunity to purchase GoOs along with the supporting evidence of supply in order to use them to offset their FIT. This is similar to the previously existing process where suppliers with no EU generation would purchase GoOs with the corresponding LEC in order to offset the levies of various schemes. We recognise that implicit trading increases the routes for market participants to import renewable electricity into GB and that this may have an impact on the levies paid by various suppliers.

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.

We see no issues with maintaining the same process.

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 how implicit trades are permitted? If so, please provide details.



We see no issue with maintaining the same process and believe it would be appropriate to maintain a consistent approach to recognising GoOs.