

Response to BEIS consultation on the removal of scheme cost exemptions for green imported electricity and the recognition of EU Guarantees of Origin

Provided by the RECS REGO market stakeholder group



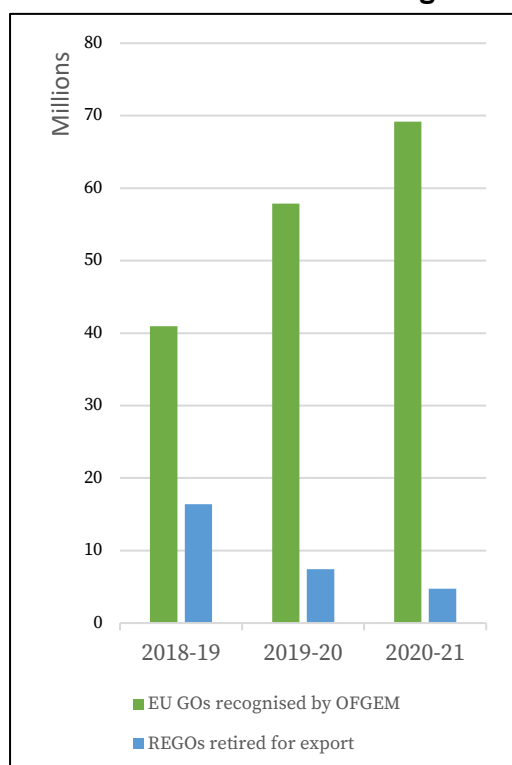
Background

RECS is the leading energy industry association representing the users of energy attribute certificates (EACs) such as guarantees of origin issued in EU Member States (EU GOs) and the UK's renewable energy guarantees of origin (REGOs). RECS's membership includes major European and global producers, consumers and traders of renewable energy and its related attributes. RECS maintains a REGO market stakeholder group, which has supported the development of this response to BEIS' consultation on the removal of scheme cost exemptions for green imported electricity and the recognition of EU Guarantees of Origin. This response builds upon evidence RECS already provided to BEIS officials.

Issues under consultation – Changes to the CfD and FiT Scheme

The government's proposed changes to the CfD and FiT scheme are broadly acceptable since they are unlikely to have a significant impact on the UK's renewable energy market. The RECS REGO market user group accepts the UK government's case for the removal of scheme cost exemptions for green imported electricity. However, we also recommend only removing these exemptions at the later date of 01.04.2023 to allow the market to prepare for this change and to facilitate the efficient and effective execution of related processes by aligning them with the year-end.

Issues under consultation – recognition of EU GoOs



It is the firmly held view of the RECS REGO market user group that the government's proposal to cease recognition of EU GoOs will significantly impact the UK's renewable energy market in general, and UK consumers in particular.

OFGEM data shows that significantly more EU GOs are recognised by OFGEM each year than REGOs are retired for export.

NB: Some EU GOs recognised by OFGEM may not be imported to the UK. Market Information service Greenfact states that in 2018-19 30.4 TWh of GOs were imported, compared to 47.2 TWh in 2019-20. (a TWh = 1 million MWhs for comparison with the graph opposite). UK regulations on whether power imports related to EU GO imports have to be implicitly or explicitly demonstrated also have a direct impact on the volumes of EU GOs entering the UK.

This greater market interest in importing EU GOs to the UK than in exporting REGOs to the EU is in part due to two UK Government policies that incentivised the importation of EU

GOs. Electricity which suppliers sourced from the EU could be exempted from UK FiT supplier obligations provided it was covered by the corresponding EU GO. Similarly, it was possible for suppliers to UK consumers to use EU GOs to identify renewable electricity that could then be excluded from supply volumes, reducing suppliers' payment obligations under the UK CfD scheme.

This data suggests three main impacts of the UK government ceasing recognition of EU GoOs: 1. A shortfall in the renewable energy available to UK consumers; 2. Higher prices for the renewable energy that is available to UK consumers; 3. The UK only being able to import 'grey' energy from the EU.

1. Supply shortfall

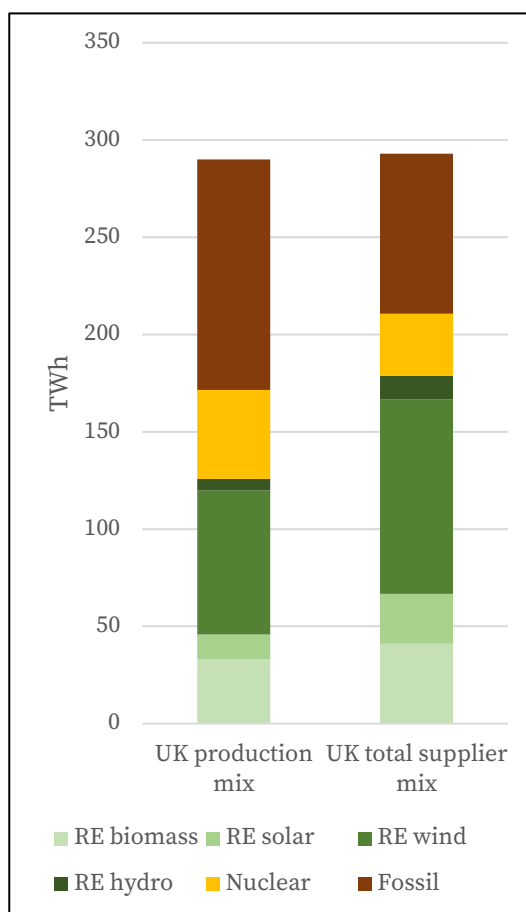
It is clear that UK electricity suppliers, and their consumers, value being able to import EU GOs. The UK's production mix (the electricity produced in the UK from diverse sources without imports or exports) is significantly less renewable than the UK's total supplier mix (the electricity supplied to UK consumers, as proven using REGOs or EU GOs). [AIB figures](#) show that for 2020 the UK's power production was 43% renewable, 16% nuclear, and 41% fossil-based. However, the same data shows that UK consumers were supplied power in 2020 that was 61% renewable, 11% nuclear, and 28% fossil generated. This data has UK energy users consuming around 180TWh of renewable electricity, while UK domestic production only generated around 125TWh of renewable electricity – a shortfall of 55TWh which broadly matches the volume of EU GOs historically imported to the UK each year.

2. Price pressure

Uncertainty as to whether, or for how long, the UK government will continue to allow the EU GO imports that cover the UK's renewable electricity production-consumption shortfall seems to already be impacting the market. Awareness of a severe supply crunch has contributed to recent REGOs price spikes, with market movements that outstrip already significant price increases in EU GO markets in 2021. If and when EU GO imports to the UK are blocked, these price spikes would likely consolidate into significantly higher REGO prices than those seen for EU GOs. While this could provide increased income for UK renewables producers, it would add to the burden on UK consumers at a time when the cost of living is rising across the board. Such changes to the supply-demand dynamic and prices for energy attribute certificates in the UK could result in fewer UK consumers choosing renewables or being able to purchase renewable energy even if they were willing to pay higher prices. They could also lead to increased price pressures on suppliers that could exacerbate the recent spate of supplier failures caused by rising power prices. Should the REGO price spike further, contributing to further supplier failures, this would further negatively impact energy consumers.

3. Flawed flows

The EU - UK Trade and Cooperation Agreement provides for the ongoing import and export of electricity between the EU and the UK. This means that UK energy users will continue to consume electricity generated in the EU. If the import of EU GOs ends, then UK consumers will only be receiving 'grey' power – i.e., generation whose source is not proven with a corresponding GO. This would leave UK energy users paying for European power without being able to actively choose what



type of power they are consuming. Of the 816 companies who have set themselves a net-zero emissions goal under the Science Based Targets Initiative, more than a quarter (214) are UK-based. It should be a source of considerable pride that so many companies focused on rapid, deep emissions cuts are operating in the UK. However, the Net-Zero Standard covers a company's entire value chain emissions, including purchased electricity and heat (scope 2). Without access to zero-carbon electricity, these companies may face an additional undue burden in achieving their climate goals. UK exporters of cement, iron, steel, aluminium and fertilisers could also face additional costs under the EU's [Carbon Border Adjustment Mechanism](#) (CBAM) if they are unable to show that renewable or carbon-free electricity was used in the manufacturing of their product.

It is for these reasons above that RECS does not support the UK government's proposal to cease recognition of EU GoOs. However, if the UK government is determined to follow this course of action it should do so at the latest possible moment to minimise the inevitable negative impact on the UK renewable energy market in general, and UK energy consumers in particular. To further minimise the impact of the government's proposal it should 1. Accelerate efforts to secure mutual recognition of EU GoOs and REGOs; 2. Extend, to the greatest extent possible, the UK's unilateral recognition of EU GoOs; 3. Consider overseas OFGEM issuance

1. An agreement under RED II, Art. 19.11

It remains uncertain how mutual recognition, based upon and foreseen under RED II, Art. 19.11, could be achieved as criteria for it have not been clarified by the European Commission. In the Swiss case, Commission officials informally stated that mutual recognition of EU-Swiss GOs would only be discussed after ratification (outstanding on the Swiss side) of the EU-CH inter-institutional framework agreement, which is a political issue and not a technical one (Switzerland is a longstanding AIB member whose GO scheme complies with the EECS standard).

This could indicate that in the EU-UK case EU-exit negotiations would have to be completed before EU-UK mutual recognition could be addressed. Stopping imports to the UK of EU GOs for the time needed to finalise the UK-EU trade relationship would have a significant impact on UK renewable energy consumers. However, the EU and UK may be able to reach an agreement in line with RED II Art. 19.11 and based on the existing technical specifications of EU GOs and REGOs. Such an agreement may be reached more quickly were the UK to join the AIB and implement the EECS standard (the UK is a longstanding AIB observer). The likelihood of reaching such an agreement should be clarified by all stakeholders as soon as possible.

2. Extend recognition

The UK Government should pursue the mutual recognition of REGOs and EU GOs. No country wants to be in a position of importing a product that it is not allowed to export. However, given the time achieving mutual recognition is likely to take and the importance to the UK energy market of imported EU GOs, especially in the short to medium term as new renewables capacity is added in the UK, the UK government should protect UK renewable energy consumers by continuing to allow EU GOs to be imported into the UK. This is the pragmatic decision that the Swiss government took having been put in the same situation by article 19.11 of the RED-2.

Ending such imports would have a significant impact which could not be easily mitigated, especially in the short to medium term and should therefore only take place after a reasonable early warning for market participants of at least 3 years. In addition, to provide further clarity and predictability to the market, the UK Government should propose specific criteria for when EU GO imports can be ended, for example only when UK renewable energy generation reaches a given percentage of total UK energy generation.

3. Overseas OFGEM issuance

The UK Government could investigate whether OFGEM could become an EAC issuing body in EU Member States. Such an arrangement could allow UK consumers to buy EACs from EU-based

renewable energy generation issued directly as REGOs – thus avoiding the need to import EU GOs. However, this is clearly a third-best solution as it faces significant, potentially insurmountable, obstacles. Almost all EU Member States and EEA countries are members of the [Association of Issuing Bodies](#) (AIB), and follow its [European Energy Certificate System \(EECS\) rules](#), which state:

E5.3 Exclusivity

E5.3.1 Save as provided by Section E5.3.2, a Member's Domain in relation to an EECS Product shall not include any part of any other Authorised Issuing Body's Domain in respect of the same EECS Product.

E5.3.2 Section E5.3 shall not apply where each Authorised Issuing Body whose Domains coincide with that of another Authorised Issuing Body in relation to the same EECS Product have, in conjunction with each other, established arrangements that will secure to the satisfaction of the AIB:

- (a) that (by reason of their utilisation of a common database, or otherwise) no more than one EECS Certificate corresponding to the same EECS Product will be Issued in respect of the same Output of a Production Device; and*
- (b) that the AIB shall have full access to the records of each such Authorised Issuing Body in relation to the ongoing performance and maintenance of such arrangements.*

This provision would seem to require OFGEM to:

- become a member of the AIB
- become an Authorised Issuing Body under the EECS rules
- negotiate with existing Authorised Issuing Bodies to be able to issue certificates
- satisfy the AIB as regards section E5.3 of the EECS rules (above)
- register production devices with the new EECS-OFGEM scheme
- Issue a sufficient volume of such EECS-REGOs to cover the shortfall set out above

These processes would each include technical, political, social, and economic challenges and would take a significant amount of time to complete.