



LOW CARBON CONTRACTS COMPANY

Guidance on 'Green Excluded Electricity'

Date issued: 27 March 2015

Introduction

1. This guidance is published by the Low Carbon Contracts Company Ltd. ("**LCCC**") in its capacity as the designated CFD Counterparty pursuant to the Contract for Difference (Counterparty Designation) Order 2014¹.
2. The guidance sets out how LCCC will administer applications from electricity suppliers seeking a determination that an amount of electricity they have supplied in Great Britain (GB) is 'green excluded electricity', pursuant to regulation 3 of the Electricity Supplier Obligations (Amendment & Excluded Electricity) Regulations 2015² ("the **Regulations**").
3. The Regulations are available at the following address:
<http://www.legislation.gov.uk/ukxi/2015/721/contents/made>
4. In summary, where an amount of electricity is determined as green excluded electricity that amount will be exempt from a supplier's CFD period contribution³ (though not the operational cost levy). The exemption will be implemented by adjusting electricity suppliers' market shares in the quarterly reconciliation process for any eligible imported renewable electricity supplied during that quarter.
5. The guidance does not supersede or replace the provisions of the Contract for Difference (CFD) or associated regulations and does not constitute legal or investment advice and should not be relied upon as being so.
6. Those with a particular interest in this guidance include licensed electricity suppliers ("**Suppliers**") in GB.
7. LCCC reserves the right to publish updates to this guidance.

¹ <http://www.legislation.gov.uk/ukxi/2014/1709/contents/made>

² <http://www.legislation.gov.uk/ukxi/2015/721/contents/made>

³ A supplier's CFD period contribution in respect of a quarterly obligation period is the sum of: (a) CFD daily contributions for each day on which that supplier supplies electricity in that period calculated in accordance with regulation 4 of the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 ("the **ESO Regulations**"); and (b) a CFD quarterly contribution for that period calculated in accordance with regulation 5 of the ESO Regulations.



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Background

8. The European Commission granted State Aid approval for the CFD for renewables on 23 July 2014. As a condition of approval, the Government agreed to exempt eligible imported renewable electricity from contributing to the costs of CFDs, specifically a supplier's CFD period contribution. On 25 September 2014, DECC published, *EMR: Changes to the CFD supplier obligation*. The consultation document set out the Government's proposals for implementing this exemption.
9. The Government responded⁴ to the consultation on 19 January 2015. The Government response set out the Government's final decisions on the matters covered by the consultation. This guidance does not seek to replicate the Government response. Supplementary information is, however, included where it is considered relevant and useful to Suppliers.

Guidance

Applying for a determination

10. A Supplier may, in accordance with regulation 3(1) of the Regulations, apply to the CFD counterparty for a determination that an amount of electricity supplied by that supplier in GB is green excluded electricity. Applications must, in accordance with regulation 3(7), be made in writing.
11. If a Supplier applies for a determination the application must be sent, via email, to EMR Settlement Limited⁵ ("**EMRS**"), which will be acting on behalf of LCCC in processing applications. The email address is: contact@emrsettlement.co.uk. The email to EMRS must include relevant contact details, which LCCC or EMRS will use in the event it needs to contact the supplier. LCCC in its role as CFD counterparty, will, utilising the assistance of EMRS, make a determination in accordance with regulation 3(3) of the Regulations.

Evidence and content of application

12. A Supplier's application under regulation 3(1) must be made within six months of the conclusion of the quarterly obligation period in which the electricity was supplied in GB⁶. For example, an application with respect to electricity supplied

⁴ <https://www.gov.uk/government/consultations/emr-changes-to-the-cfd-supplier-obligation>

⁵ EMR Settlement Ltd (EMRS) - EMRS is a wholly owned subsidiary of ELEXON Ltd and is the EMR Settlement Services Provider. EMRS delivers settlement services on behalf of LCCC for the Contract for Difference and on behalf of the Electricity Settlements Company Limited for the Capacity Market. For more information see: <https://emrsettlement.co.uk/>

⁶ In accordance with regulation 2(2) of the Regulations, all references to a supply of electricity in the Regulations is a reference to its supply in Great Britain. Pursuant to section 4(4) of the Electricity Act



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during the quarterly obligation period, 1 April to 30 June, must be received by EMRS between 1 July and midnight on 31 December. Please be advised that applications received after the end of the six month period following the conclusion of the quarterly obligation period in which the electricity was supplied in GB will not be accepted.

13. In accordance with regulation 3(2) of the Regulations:

an application under paragraph (1) must be made within six months of the conclusion of the quarterly obligation period in which the electricity was supplied and must contain evidence of-

- a) that supply;*
- b) the country where the electricity was generated;*
- c) the name of the generating station which generated the electricity;*
- d) the date on which that generating station first became operational;*
- e) the quarterly obligation period in which the electricity was supplied;*
- f) the energy source from which the electricity was produced; and*
- g) the proportion of that electricity which constitutes energy from renewable sources.*

14. Ofgem published guidance, for consultation, on its new Fuel Mix Disclosure (“FMD”) process.⁷ Following discussions with Ofgem, LCCC will base its process for green excluded electricity applications on that to be used by Ofgem for FMD, in order to minimise the administrative burden on those Suppliers making applications.

15. Ofgem has developed an Excel spreadsheet within which Suppliers will be required to input data relevant to FMD. In addition to capturing relevant information for FMD, the spreadsheet enables green excluded electricity applicants to input relevant data to evidence those items listed in regulation 3(2) of the Regulations, also listed in paragraph 13, above. The spreadsheet will form part of the Supplier’s application. Applicants must therefore ensure the spreadsheet includes all of those items listed in regulation 3(2).

16. The requirements for green excluded electricity are the same as those for recognising EU Guarantees of Origin (GoOs) Certificates under FMD, except applications with respect to green excluded electricity have the additional requirement that the electricity must have been generated by a station that

1989, “supply”, in relation to electricity, means supply of electricity conveyed by a distribution system to premises other than premises occupied by a licence holder for the purpose of carrying on the activities which he is authorised by his licence to carry on.

⁷ Available on the Ofgem website at: <https://www.ofgem.gov.uk/publications-and-updates/consultation-proposed-changes-recognition-process-eu-guarantees-origin-goos-gb-fuel-mix-disclosure-fmd>



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commissioned after 31 March 2015. The FMD spreadsheet includes station commissioning date as one of its data fields. Suppliers can therefore input the relevant station commissioning date into the relevant field.

17. Applications for a determination relating to green excluded electricity will not be accepted if any of the required evidence listed in regulation 3(2) (also listed in paragraph 13, above) is not included within a Supplier's application.
18. Suppliers seeking to make an application under regulation 3(1) must also send EMRS the following documents as evidence within an application:
 - a) EU GoO (Guarantees of Origin) cancellation certificates matching the volumes of electricity included within an application;
 - b) Information pertaining to the corresponding Levy Exemption Certificates ("LECs") held by the Supplier (Ofgem register names for the generating station and country of generation, number of LECs received, and LEC status, which should be 'redeemed' or 'retired'), matching the volumes of electricity included within an application.
19. LECs provide proof of electricity supply within GB, and GoO exemption certificates ensure no double-counting of renewable electricity across EU Member States. Both LECs and GoO exemption certificates form part of Ofgem's FMD process, with which Suppliers will be familiar.
20. The matching GoO and LEC information should be provided using the same Excel spreadsheet template used by Ofgem for GoO recognition for FMD.
21. LCCC is aware, however, that a risk exists whereby accreditation by Ofgem of a new generating station may not align with the timetable set out in this guidance at paragraph 40, leading to the inability of the applicant to make a timely application including all required evidence, specifically proof of electricity supply in GB in the form of LECs. The LCCC is mindful of this risk and urges those who may be affected to work closely with Ofgem throughout the accreditation process. Ofgem will continue to endeavour to accredit new eligible generating plant in a timely manner.
22. Specific guidance on how to fill in the spreadsheet will be available on Ofgem's website once it is finalised following the Ofgem consultation on its FMD process. More information on this can be obtained by contacting Ofgem's CCL and REGO team: CCLandREGO@ofgem.gov.uk.



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Initial validation

23. On receipt of a Supplier's application, and ahead of the LCCC making its determination, EMRS will undertake an initial validation exercise. This will include EMRS matching GoO cancellation certificates with the information included in the aforementioned spreadsheet, both of which will be included within an application. The purpose of this initial validation is to ensure applications are in the correct format and include all the required evidence for the purpose of LCCC making a determination.
24. EMRS may, on behalf of LCCC, engage with Suppliers and Ofgem, as appropriate and where necessary in conducting an initial validation of an application, e.g. in the instance where EMRS has identified inconsistencies within an application or requires further information. The email to EMRS which includes a supplier's application for green excluded electricity must therefore include relevant contact details, which EMRS will use in the event it needs to contact the Supplier.
25. In order for EMRS and Ofgem to carry out the necessary checks, the spreadsheet template will need to be updated regularly (for instance, to include an up-to-date list of eligible generating stations). Suppliers can request an up-to-date spreadsheet template from Ofgem's CCL and REGO team: CCLandREGO@ofgem.gov.uk.

Determination of green excluded electricity

26. Having undertaken an initial validation exercise, EMRS shall advise LCCC as to whether an amount of electricity which is the subject of an application is green excluded electricity where:
- a) *the electricity is energy produced from renewable sources;*
 - b) *the electricity is generated in a member State other than the UK; and*
 - c) *the date on which the generating station which generated the electricity first became operational⁸ was after 31 March 2015.*
27. If one of the criterion is not met with respect to an amount of electricity supplied in GB, that amount of electricity shall not be determined by LCCC as green excluded electricity, in accordance with regulation 3(3) of the Regulations.
28. LCCC will make its determination as soon as reasonably practicable, using the evidence listed in regulation 3(2) of the Regulations (which is also listed in paragraph 13, above).

⁸'Operational' has the same meaning as 'commissioned' with respect to the determination of green excluded electricity.



Comprehensive validation exercise

29. Further to the initial validation exercise and subsequent LCCC determination, a further comprehensive validation exercise will be undertaken by EMRS, working in conjunction with Ofgem and using Ofgem's final spreadsheet of GoOs recognised for FMD. This validation exercise will take place annually, in October, covering applications submitted in the previous financial year (1 April to 31 March). For example, applications submitted between 1 April 2015 and midnight on 31 March 2016 will be subject to a comprehensive validation in October 2016.
30. LCCC recognises that applications made in respect of electricity supplied in Quarter 4 (Q4) of the Financial Year (1 January to 31 March) will be submitted to EMRS between 1 April and midnight on 30 September, and that Ofgem's final spreadsheet for GoO recognition for FMD is required to be completed by 1 July each year. This means that there may be some applications to the LCCC in respect of Q4 that EMRS may not be able to cross-match with Ofgem's final spreadsheet for the comprehensive validation in October.
31. LCCC, working with EMRS and Ofgem, will ensure that any applications that fall within this category will be suitably validated. This will not therefore prevent the LCCC in carrying out a determination in a timely manner.
32. Should the comprehensive validation exercise identify that an amount of electricity originally determined as green excluded electricity does not meet any of the criterion in regulation 3(3)(a) to (c), that electricity shall not, in accordance with regulation 3(4), constitute green excluded electricity for the purpose of any subsequent calculation of CFD period contributions under the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 ("the **ESO Regulations**").⁹ This means that a supplier's CFD period contribution shall be recalculated (in accordance with regulation 3(4) of the Regulations) and that the relevant amount will not be included as green excluded electricity in LCCC's calculation of a supplier's CFD contributions for the corresponding quarter.

Capping of green excluded electricity

33. The Government agreed with the European Commission that the total level of imported renewable electricity which would be eligible for the green excluded electricity exemption will be capped. The cap is designed to limit any potential for competitive distortion being caused by the exemption.¹⁰
34. For the financial year beginning on 1 April 2015, the annual cap will be 7,379,321 MWh. This is calculated as a 10% increase on the number of EU GoO certificates

⁹ <http://www.legislation.gov.uk/ukxi/2014/2014/contents/made>

¹⁰ <https://www.gov.uk/government/consultations/emr-changes-to-the-cfd-supplier-obligation>



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relating to electricity supplied to GB consumers that was generated from renewable sources in other EU Member States, (as recognised by Ofgem) for the financial year 2013/14. The annual cap will increase by 10% on the 1st April 2016 and each year thereafter. In each quarterly obligation period the maximum amount of exempt imported electricity will be 25% of the annual cap. For 2015, the cap for each quarterly obligation period is therefore 1,844,830 MWh (as stated at regulation 4(3)(a) of the Regulations).

Application of the Cap

35. Once LCCC has determined the total amount of green excluded electricity within all applications it shall determine whether the total amount of green excluded electricity exceeds the amount of the cap for the quarterly obligation period relating to those applications (in accordance with regulation 4 of the Regulations).
36. Where the amount of the cap is exceeded, LCCC shall apply the formula in regulation 4(1)(b) of the Regulations. Where the formula is applied, suppliers will receive only a proportion of the amount of electricity which is green excluded electricity, relative to the total amount of green excluded electricity which all suppliers made applications in respect of.

Notices

37. Where LCCC makes a determination, including any re-determination as a result of any validation exercise, it shall, via EMRS, give a notice to the Supplier who supplied that electricity as soon as reasonably practicable, (in accordance with Regulation 3 (5) and 4 (4) of the Regulations).
38. LCCC will also, in accordance with regulation 3(6), as soon as reasonably practicable after six months have passed since the end of a quarterly obligation period, give a notice to every Supplier. The notice will be sent via EMRS on behalf of LCCC and will set out the total volume of electricity which was the subject of applications under regulation 3(1) in that quarterly obligation period.
39. The purpose of this notice is to provide, as soon as reasonably practicable, visibility to all Suppliers over the total amount of electricity which was the subject of applications for a quarterly obligation period. This provides Suppliers with an indication over the volume of green excluded electricity for the same period.

Overview of Timings: from application to exemption

40. A Supplier's application under regulation 3(1) of the Regulations must be made within six months of the conclusion of the quarterly obligation period in which the electricity was supplied in GB. Please be advised that applications received after midnight on the last day of the six month period following the conclusion of the



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quarterly obligation period in which the electricity was supplied in GB will not be accepted.

41. The validation and determination with respect to an application will only take place after the end of the six month period following the conclusion of the quarterly obligation period in which the electricity was supplied in GB.
42. LCCC will seek to make a determination, and/or re-determination (in the event that the cap amount has been exceeded), and give a notice to each respective Supplier, as soon as reasonably practicable and within one month of the end of the six month period following the conclusion of the quarterly obligation period in which the electricity was supplied.
43. LCCC will, as soon as reasonably practicable after six months have passed since the end of a quarterly obligation period, give a notice to every Supplier. The notice shall set out the total volume of electricity which was the subject of applications under regulation 3(1) of the Regulations in that quarterly obligation period.
44. If LCCC determines that an amount of electricity is green excluded electricity, that green excluded electricity is excluded from the calculation of CFD daily and quarterly contributions under regulations 4 and 5 of the ESO Regulations. This means that that the exemption will only take effect through reconciliation of a supplier's CFD period contribution (see paragraph 47 below for more information on the calculation of CFD daily and quarterly contributions).
45. Reconciliation will take place three months after the month in which the determination is made, with the exemption applying three months later. An example is provided below of the green excluded electricity timeline, which is further illustrated in Figure 1. in Annex 1.

Worked example

- a. If, for example, an electricity supplier wishes to make an application under regulation 3(1) of the Regulations for electricity supplied during the period 1 April to 30 June 2015, it must apply to LCCC between 1 July and midnight on 31 December 2015 for a determination. Please be advised that late applications will not be accepted.
- b. As soon as reasonably practicable after the end of the six-month application period, i.e. 31 December, and by the end of January 2016, LCCC, working with EMRS, will:
 - i. validate applications;
 - ii. make a determination;



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- iii. determine whether the cap amount has been exceeded;
 - iv. make a re-determination, in the event the cap amount has been exceeded; and
 - v. give a notice to the applicant with respect to the determination.
- c. EMRS, on behalf of LCCC, will also, around this time, send out a notice to every Supplier setting out the total amount of electricity included in applications with respect to the period 1 April to 30 June 2015.
- d. Reconciliation of a Supplier's CFD period contribution with respect to applications for the quarterly obligation period 1 April to 30 June 2015 will be undertaken in April 2016.
- e. The exemption will apply in July 2016, i.e. reconciliation payments due in July 2016 will include any adjustments for green excluded electricity supplied in the period April to June 2015.

46. Note that there may be further adjustments to reconciliation payments as an outcome of the comprehensive validation exercise outlined in paragraph 29, above.

Calculating an electricity supplier's CFD period contribution

47. A Supplier's CFD period contribution in respect of a quarterly obligation period is the sum of: (a) CFD daily contributions for each day on which that Supplier supplies electricity in that period calculated in accordance with regulation 4 of the ESO Regulations; and (b) a CFD quarterly contribution for that period calculated in accordance with regulation 5 of the ESO Regulations.

48. Regulations 4 and 5 of the ESO Regulations have been amended, respectively, by regulations 16 and 17 of the Regulations, to amend the formulas used to calculate Suppliers' underlying liabilities with respect to their CFD period contribution to take account of green excluded electricity (and EII excluded electricity).

49. Electricity determined by LCCC as green excluded electricity will consequently be excluded from the calculation of a Supplier's CFD period contribution. For CFD daily contributions, the total amount of eligible exempt electricity supplied by a supplier during a quarter will be divided across all the days in the quarter, and this daily amount of eligible exempt electricity will be deducted from the Supplier's total electricity supply for that day. For CFD quarterly contributions, the total amount of eligible exempt electricity supplied during the quarter will be deducted from the total supplied by the Supplier in the quarter.



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50. Furthermore, note that all Suppliers' liabilities with respect to their CFD period contribution will be adjusted in the event that LCCC determines (or re-determines) an amount of electricity is or is not green excluded electricity. Where the LCCC has determined an amount of electricity is green excluded electricity, the respective applicant's or Suppliers' liabilities will reduce which has a corresponding increase on other Suppliers' liabilities. If LCCC later determines that an amount of electricity should not have been classified as green excluded electricity, there will be a reconciliation of electricity suppliers' liabilities to reflect this.

Forecasting green excluded electricity

51. Please note that LCCC does not intend to forecast green excluded electricity (nor include such a forecast within the LCCC's 'transparency tool') as Suppliers have better information about the future availability of eligible generation which could be imported under this scheme.

Next steps

52. The first quarterly obligation period to which the Regulations apply is the quarterly obligation period commencing 1 April 2015. Suppliers considering making an application with respect to this period and beyond should familiarise themselves with this guidance, the Regulations, the ESO Regulations and Ofgem's spreadsheet for Fuel Mix Disclosure.

53. Any queries in relation to this guidance should be sent to:
cfddpreparations@lowcarboncontracts.uk

- ENDS -



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Annex 1

Figure 1. Example of Green Excluded Electricity timeline.

| | 2015 | | | | | | | | | | 2016 | | | | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|-----|-------|-----|-----|-------|-----|-----|-----|-----|-----|--|
| | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | |
| Quarterly obligation period | Green | Green | Green | | | | | | | | | | | | | | | | | | | |
| 6-month application window | | | | Green | Green | Green | Green | Green | Green | | | | | | | | | | | | | |
| Validation, Determination and Notification | | | | | | | | | | Green | | | | | | | | | | | | |
| Relevant reconciliation run | | | | | | | | | | | | | Green | | | | | | | | | |
| Exemption applies | | | | | | | | | | | | | | | | Green | | | | | | |