

BEIS consultation on Feed-in Tariffs and Contracts for Difference schemes and Guarantees of Origin
Consultation on the removal of scheme cost exemptions for green imported electricity and the recognition of EU Guarantees of Origin



EFET consultation response - 10 May 2022

The European Federation of Energy Traders (EFET) appreciates the opportunity to comment on the BEIS consultation on the proposed removal of the exemptions for green imported electricity from the Feed-in Tariff (FiT) and Contracts for Difference (CfD) schemes and termination of the recognition of EU Guarantees of Origin (GoOs) in the UK. In our response, we shall focus on the second aspect of the consultation – the date on which the UK intends to stop recognising GoOs issued in EU Member States.

Mutual recognition of GoOs between the UK and the EU remains the most efficient option as it would contribute to meeting the decarbonisation targets and reducing the costs of the energy transition both in the UK and the EU. EFET expects that the benefit of mutual recognition of GoOs will increase as the UK develops further cross-border interconnection with neighbouring countries (France, Ireland, Belgium, Netherlands, Norway, Denmark, Germany) and with the deployment of hybrid interconnector offshore wind projects.

- Mutual recognition would allow both UK and EU parties to support the cheapest form of renewable energy, thereby bringing down the costs of the energy transition on both sides of the Channel. If EU GoOs are cheaper than UK GoOs, buying EU GoOs would reduce the cost to UK consumers of compliance with renewable energy obligations. At the same time, electricity trading over the interconnectors between the UK and the EU would ensure that electricity volumes equivalent to the amount of EU GoOs surrendered for compliance purposes are actually imported into the UK, meaning that electricity from renewable energy sources would be contributing to the UK energy mix. If the opposite is the case – UK GoOs are cheaper than EU GoOs, then EU parties will have the chance to support the production of cheaper UK renewable electricity and import it into the EU via the interconnectors.
- GoOs are also indispensable to renewable Power Purchase Agreements (PPAs). Renewable PPAs will be playing an increasingly important role in ensuring the growth of renewable energy in the context of decreasing public financial support. GoOs are the part of PPAs which carries the information about the renewable origin of the produced electricity. On the basis of this information (proof of renewable origin), renewable PPA buyers can make sustainability claims – one of the main reasons for signing a renewable PPA in the first place. Mutual recognition of GoOs between the

UK and the EU would facilitate the conclusion of cross-border renewable PPAs, contributing to the growth of least-cost renewable energy in the most favourable locations.

- the UK Hydrogen Strategy envisages a considerable growth in hydrogen production in the coming years. The ambition of the UK in relation to hydrogen development can be supported only by a considerable growth in renewable electricity production. Importing renewable electricity certified through GoOs through the interconnectors when that offers cost savings can support the growth of hydrogen production at a lower cost. Tapping into an expanded spectrum of GoOs would facilitate the prompt and cost-effective deployment of green hydrogen, in line with the UK Hydrogen Strategy.
- Finally, aside from the market benefit, there is also the important role that GoOs play as an accounting mechanism to understand the source (with respect to country and generation technology) of electricity imported into the UK. As the level of interconnection increases to 15% of UK electricity demand, we see a strong benefit of being able to account for the origin of that electricity.

We do understand, however, that the UK is currently unilaterally recognising EU GoOs and that this amounts to an asymmetric relation. In these circumstances – and while we do encourage both parties to start discussions on mutual recognition as early as politically feasible – we would recommend having at least a full compliance period (1 April – 31 March) between a decision to stop the recognition of EU GoOs and its implementation. This means ceasing the recognition of EU GoOs no earlier than 1 April 2024. In this way, market participants would have sufficient time to make the necessary adjustments to their portfolios and there will be minimal disruptions to the annual compliance cycle and the GoOs market. We stress that market participants have already contracts in place for the whole 2023 supply (if not longer). Therefore, with reference to commercial arrangements already agreed upon on the market, 1st April 2024 would be a more reasonable proposal for ending the recognition of EU GoOs.

If, nevertheless, this is not possible, 1 April 2023 would be the less disruptive option, given the choice between 1 April 2023 and 1 October 2022. The option of 1 October 2022 would leave too short a notice for market participants to make the necessary adjustments and would create unnecessary disruption and costs. As the current compliance period has already started, market participants have started to implement their buying and selling strategies. Any changes within that compliance period would require adjustments to market participants' portfolios, which may create unnecessary costs and volatility that would translate into higher costs to consumers.