

ELEXON

09 November 2021

Dear Renewables Obligation Team,

Re: Consultation on addressing supplier payment default under the Renewables Obligation

Thank you for the opportunity to respond to your consultation on addressing supplier payment default under the Renewables Obligation.

Elxon is the Code Manager for the Balancing and Settlement Code (BSC), which facilitates the effective operation of the electricity market. We are responsible for managing and delivering the end-to-end services set out in the BSC and accompanying systems that support the BSC. This includes responsibility for the delivery of balancing and imbalance settlement and the provision of assurance services to the BSC Panel and BSC Parties (energy Suppliers, generators and network companies). We manage not just the assessment, but also the development, implementation and operation of changes to central systems and processes. In addition, our expertise is available to support the industry, government and Ofgem in considering future changes and innovation against the existing industry rules, for the benefit of the consumer.

Elxon is a not-for-profit company, set up as an arms-length subsidiary of National Grid ESO (Electricity System Operator).

In addition, through our subsidiary, EMR Settlement Ltd, we calculate, collect and distribute payments to Contract for Difference (CfD) generators and Capacity Market (CM) providers, on behalf of the Low Carbon Contracts Company (LCCC). These services are provided to LCCC through a contract and on a not-for-profit basis.

We have only provided answers to questions where there is an impact on Elxon or our operation of the BSC. For areas where we felt others are better suited to answer, we did not respond. If you would like to discuss any areas of our response, please contact Chris Wood, Strategy and External Affairs Advisor at Chris.Wood@elxon.co.uk

Yours sincerely,

Angela Love
Director of Future Markets and Engagement

Elxon's Consultation Response

Questions on options 1a, 1b and 1c.

1. How, and to what extent, would a requirement for more frequent (and therefore earlier) settlement impact any commercial arrangements you have in place for the supply/receipt of ROCs?

Elxon is not effected by the flow of ROCs however, we believe that more frequent Settlement would reduce the risk of Supplier failure. This will reduce the risk of us having to initiate Settlement Mutualisation following SoLR process initiated by Ofgem.

2. Do you foresee any difficulties in how suppliers might comply with the quarterly deadlines as set out in the Option 1a – 1c proposals and if so, can you suggest how these might be mitigated (e.g. through scheme design or by change in supplier practice)?

Submitting quarterly data could be resource intensive unless automated. We believe there needs to be a way for a supplier to nominate a third party to submit data for them. For example, Elxon already has a lot of the data used in the RO verification process, and already supply Ofgem with Quarterly Supply volumes for FITs Levelisation. We would welcome discussion on how we could supply data on behalf of Suppliers should they wish to nominate Elxon to do so, and if such a route is brought into existence through the changes in RO legislation.

3. How, and to what extent, might more frequent/earlier settlement impact the operating costs of your business?

Supplying data for quarterly ROC verification is most likely to have negligible impact on our operating costs as we already provide significant amount of data to Ofgem. Anything more frequent may have an impact and would need to be assessed depending on frequency.

4. How, and to what extent, might more frequent/earlier settlement impact competition in the supply sector?

Supplying data for quarterly ROC verification is most likely to have negligible impact on our operating costs as we already provide significant amount of data to Ofgem. Anything more frequent may have an impact and would need to be assessed depending on frequency.

5. How, and to what extent, would the abolition of late payments impact your business?

There is no direct impact on our ability to deliver the BSC but, there is a risk that abolition of late payments could impact Supplier cash flow and as such, increase risk of SOLR, which would mean us having to react to SOLR events more frequently e.g. removing Parties from the BSC.

6. This consultation only considers quarterly settlement – should consideration be given to monthly settlement to further reduce sums at risk?

Quarterly vs monthly settlement needs to be considered on the balance of benefits to Suppliers and costs involved in delivering a more frequent settlement, for both the RO administrator and Suppliers. Should the decision be taken to reduce the RO settlement frequency, Elxon can share its best practices on processes and systems based on conducting daily Settlement.

7. Are there any alternative settlement models that should be considered as a way of addressing supplier payment default? Please provide details.

No comment.

8. Under the Option 1c proposal, suppliers would be given the option of settling their Q1 – Q3 quarterly obligations with a standby letter of credit (LoC), conditional on them substituting it with ROCs or buy-out payments ahead of the Q4 settlement deadline. Is a LoC the most appropriate alternative to exchangeable buy-out payments, or should other measures be considered? Does a LoC offer any benefits over exchangeable buy-out payments?

No comment.

9. Do you agree with our assessment that a contract for the supply of ROCs does not offer sufficient assurance that a supplier's accrued obligation will be met in the event it exits the market?.

No comment.

10. Do you agree with our assessment that the introduction of sub-100% compliance at the quarterly deadlines to accommodate shortages in the availability of ROCs would be an inappropriate course of action?

No comment.

11. If one of the Option 1 proposals were to be introduced, how much notice should be given to participants ahead of its introduction?

No comment.

Questions on option 2

12. Should supplier payment default under the RO be addressed via the legislation, the electricity supply licence, or neither? Please explain your answer.

Each option needs to be considered against the ease of implementation and the lead time required to introduce changes to the existing legislation, supplier licence etc.

13. How, and to what extent, might a new requirement for suppliers to protect sums at risk of mutualisation impact competition in the supply sector?

No comment.

14. Do you have a preference for a forward-looking or backward-looking approach to protecting sums at risk of mutualisation? Please explain your answer.

Each option needs to be considered against the ease of implementation and the lead time required to introduce changes to the existing legislation, supplier licence etc.

15. How, and to what extent, might a new requirement for suppliers to protect sums at risk of mutualisation impact the way in which your company complies with the RO?

Elaxon does not have an obligation under the RO, but we are mindful of potential overlap between Credit lodged for the BSC and the RO and would be happy to discuss this further.

16. Are there any other methods of demonstrating compliance with a requirement to protect sums at risk of mutualisation that should be included within the 'menu' of protections?

No comment.

17. How, and to what extent, might a new requirement to protect sums at risk of mutualisation impact your company's operating costs? For this question, assume that the requirement would be for an amount equivalent to 100% of a supplier's obligation to be

protected, on a quarterly basis, one month after the quarter in question and remain in place until the RO settlement deadline has elapsed?

There will be no impact on Elexon's costs.

18. Can you foresee any additional issues or challenges with the Option 2 proposal, in particular the menu of options that need to be considered?

Nothing further to add but, happy to discuss further.

19. If one of the Option 2 proposals were to be introduced, how much notice should be given to participants ahead of introduction?

No comment.

Questions on option 3

20. Do you agree or disagree that supplier payment default under the RO is a matter that warrants action beyond the recent steps that have been taken to increase the mutualisation threshold, and Ofgem's supply licence reforms? Please explain your reasoning.

No comment.

21. What would be the costs and benefits associated with further action aimed at addressing supplier payment default under the RO?

No comment.

Questions on impacts

22. How, and to what extent, might the Option 1 and 2 proposals, if implemented, increase RO compliance administration costs for your business?

No comment.

23. How might quarterly settlement impact the income of generators who receive ROCs on an annual basis? Please explain your reasoning and explain when and how annual ROCs are traded.

No comment.

24. The territorial extent of this consultation is England and Wales (i.e. it relates to matters contained within the RO only). What impacts do you foresee on participants in the interlinked Scotland and Northern Ireland schemes (i.e. the ROS and NIRO) if any of the Option 1 or Option 2 proposals were to be implemented through the RO only?

No comment.

Question on fixed price certificates

25. What are your initial views on the introduction of the fixed price certificate based scheme that was envisaged in 2011 in terms of addressing supplier payment default?

No comment.