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01	Initial Assessment Report
02	Preliminary Change Report
03	Final Change Report

INITIAL ASSESSMENT REPORT

R0160 – ELECTRICITY SUPPLY TO HYDROGEN ELECTROLYSERS

DOCUMENT VERSION	V1.0
DATE ISSUED	18/04/2024
DOCUMENT APPROVAL STATUS	APPROVED

RESPONSIBLE COMMITTEE	CHANGE PANEL	CHANGE PATH	AUTHORITY
PRIORITY STATUS	HIGH	URGENCY	URGENT

DEADLINE FOR ALTERNATIVE CHANGE PROPOSALS	02/05/2024

LEAD CHANGE ANALYST



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CHANGE OVERVIEW

This Change Proposal is seeking to facilitate efficient and robust procedures between licensed Suppliers and Low Carbon Contracts Company (LCCC) as part of the regulatory solution to prove that electricity supplied to the hydrogen producer is Low Carbon Hydrogen Standard (LCHS) compliant.

	High Impact: N/A
	Medium Impact: N/A
	Low Impact: Electricity Suppliers (Industrial & Commercial)

1 BACKGROUND

Primary legislation for hydrogen production does not mention the role of licensed Suppliers. Consequently, the Low Carbon Contracts Company (LCCC) does not have the power needed to compel licensed Suppliers to disclose the information needed by the LCCC to carry out its duties with regards the Hydrogen Production Business Model (HPBM) and Low Carbon Hydrogen Agreement (LCHA) to prove that the electricity is compliant with the Low Carbon Hydrogen Standard (LCHS).

The proposer believes this to be an unintended oversight since nearly all generation above 5MW must pass through a licenced Supplier. There are a number of projects with contract offers in the Government's first electrolytic Hydrogen Allocation Round (HAR1) seeking to source electricity through a licensed Supplier, however they may not be able to sign the contracts while the information disclosure issue remains.

HAR1 projects total 125MW of hydrogen production capacity. The application window for HAR2 is currently open and is seeking to award up to 875MW of hydrogen production capacity. While the issue of information disclosure is already impacting the HAR1 projects, it is only going to become even more of an issue for HAR2 where more numerous and larger capacity projects will be relying on licensed Suppliers to source their LCHS-compliant electricity.

This change to the REC is proposing to facilitate efficient and robust procedures between licensed Suppliers and LCCC as part of the regulatory solution to prove that electricity supplied to the hydrogen producer is LCHS (Low Carbon Hydrogen Standard) compliant.

The legal text for the proposed solution has been provided already and the proposer has also actively engaged the relevant stakeholders at the Department for Energy Security and Net Zero (DESNZ) and LCCC.

2 PROBLEM STATEMENT

Primary legislation for hydrogen production does not mention the role of licensed Suppliers. Consequently, the LCCC does not have the power needed to compel licensed Suppliers to disclose the information needed by the LCCC to carry out its duties with regards the Hydrogen Production Business Model (HPBM) and Low Carbon Hydrogen Agreement (LCHA) to prove that the electricity is compliant with the Low Carbon Hydrogen Standard (LCHS).

3 USER STORIES

REF.	USER STORIES
MARKET PARTICIPANT USER STORIES	
M1	As an Electricity Supplier, I want to ensure that I can fully understand, and meet my regulatory obligations, and provide the appropriate documentation to conduct my business projects.
M2	As an Electricity Supplier supplying energy to Low Carbon Hydrogen producers, I want to be able to prove that the hydrogen we are supplying is LCHS compliant.
M3	As a hydrogen Market Participant, I want to ensure there are efficient and robust procedures between the licensed Suppliers and the Low Carbon Contracts Company.

4 IMPACTS

CONSUMERS	REC PARTIES AND SERVICE USERS	REC DOCUMENTS /PRODUCTS
Industrial & Commercial	Electricity Suppliers	Schedule 1 – Interpretations and Definition Schedule

This change should only impact Electricity Suppliers providing electricity to low carbon hydrogen producers in possession of a LCHA contract. Projects currently are, in some circumstances, unable to sign contracts to partake in HAR1 or HAR2 projects as they are unable to confirm they have sourced LCHS compliant electricity.

The new schedule will impact the obligations Electricity Suppliers have to low carbon hydrogen producers. The purpose of these obligations is to ensure that the LCHA Counterparty has access to the data it needs to perform its role as such in relation to the LCHA.

Schedule 1 – Interpretations and Definition Schedule will be impacted as new definitions will be added to align with the Low Carbon Hydrogen Agreement (LCHA), Low Carbon Hydrogen Standard (LCHS) and Low Carbon Contracts Company (LCCC). A new Schedule is also proposed that will address the specifics of electricity supply to hydrogen electrolysers.

5 CROSS CODE IMPACTS

No cross-code impacts have been identified.

6 CHANGE PATH AND RESPONSIBLE COMMITTEE

CHANGE PATH	Authority	RESPONSIBLE COMMITTEE	Change Panel

The Change Proposal is introducing a new regulatory requirement, and therefore this change will be Authority Determined. The level of commercial impact, if this change were not to proceed, has also resulted in this Change Proposal being classed as urgent.

The Responsible Committee will be the Change Panel because the change will introduce a new schedule into the REC and add new definitions to Schedule 1, both of which fall under the responsibility of the Change Panel.

7 PRIORITY STATUS AND URGENCY

Category	Significance / Resource impacts / Urgency	Further selection / breakdown	Score (0-3)	Weighting	Weighted Score
Impacts	Consumer Impact	Indirect	1	25	25
	Retail Markets Impact	Innovation and Market Arrangements	2	15	30
	RECCo / REC Party / REC Service Provider Impact	Operational Effectiveness and Efficiencies	2	5	10
		Legal and Regulatory Compliance	3	13	38
Resource	Complexity / Effort / Duration		1	8	8
Strategic Alignment	Contribution to/ Alignment with the objectives of the REC		2	15	15
	Contribution to/ Alignment with RECCo's Forward Work Plan		0		0
Urgency *(The need to progress a change to meet a targeted date)*		Other Planned Activity (High Priority activity)	2	20	40
				Overall Priority Score (rounded)	165

Priority Status	HIGH
Change Proposal Type	URGENT

The Priority Status of this Change Proposal is High based on a priority score of 165, driven by Urgency and Legal and Regulatory Compliance.

In line with Ofgem criteria, this change is deemed as urgent, due to the level of commercial impact on hydrogen suppliers, and their inability to sign HAR1 or HAR2 contracts, whilst the information disclosure issue remains. Therefore, the change is required quickly to stop the identified issue from escalating, and the detrimental impact, if no change is made.

Innovation and Market Arrangements – A score of 2 to reflect the introduction of the market arrangements to facilitate efficient and robust procedures between licensed Suppliers and LCCC.

Operational Effectiveness and Efficiencies – A score of 2 was provided as this change seeks to address the current information disclosure issues and overcomes legislative oversight that is preventing electricity providers in signing the contracts to provide electricity to low carbon hydrogen producers.

Legal and Regulatory Compliance – A score of 3 has been provided due to the introduction of legal and regulatory requirements into the REC and the retail market due to the current oversight in primary legislation for hydrogen production does not mention the role of licensed Suppliers. This change will require hydrogen producing electricity suppliers to comply with the LCCC to prove that the electricity is compliant with the LCHS.

Contribution to/Alignment with the Objectives of REC – A score of 2 to reflect how hydrogen supply, and the HAR1 and HAR2 projects, will support the retail energy market achieve Net-Zero.

Urgency - An urgency score of 2 was given as this change is targeting a release as soon as possible (current target is the REC August 2024 extraordinary release as discussed with the proposer), and due to the commercial detriment whilst the information disclosure issues remain.

8 SUMMARY OF CHANGE PROPOSAL PLAN

As this Change Proposal already has a fully formed solution, the Change Proposal will proceed directly to Preliminary Change Report by 02 May 2024 alongside a 15 Working Day Consultation.

The Final Change Report will be issued by 07 June 2024, in preparation for the Responsible Committee Decision by 18 June 2024, and a request for Authority Determination by 19 June 2024.

	FROM	TO
PRELIMINARY CHANGE REPORT AND CONSULTATION ISSUED	02/05/2024	02/05/2024
CONSULTATION	02/05/2024	24/05/2024
FINAL CHANGE REPORT ISSUED	07/06/2024	07/06/2024
RESPONSIBLE COMMITTEE DECISION	18/06/2024	18/06/2024
AUTHORITY DETERMINATION REQUESTED	19/06/2024	19/06/2024

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9 GLOSSARY

TERM	DEFINITION
Electricity Supplier	means a person holding an Electricity Supply Licence.
Hydrogen Allocation Rounds (HAR)	means the government funding mechanism to support low carbon hydrogen production across the UK.
LCHA Counterparty	means a hydrogen production counterparty designated as such by the Secretary of State under the Energy Act 2023.
Low Carbon Contracts Company (LCCC)	means the private company owned by DESNZ, who are the counterparty to the contracts awarded in the hydrogen allocation rounds, and who issue the contracts and manage them during the construction and delivery phases.
Low Carbon Hydrogen Agreement (LCHA)	means a hydrogen production revenue support contract entered into pursuant to the Energy Act 2023.
Low Carbon Hydrogen Producer	means the hydrogen producer under a Low Carbon Hydrogen Agreement.
Low Carbon Hydrogen Standard (LCHS)	means the UK Low Carbon Hydrogen Standard published by the Secretary of State. Unless otherwise specified, this shall be taken to include each and every official version published by the Secretary of State.
Net-Zero	means any emissions would be balanced by schemes to offset an equivalent amount of greenhouse gases from the atmosphere.