RETAIL ENERGY CODE

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

# CHANGE REPORT

## R0160 – ELECTRICITY SUPPLY TO HYDROGEN ELECTROLYSERS

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| CHANGE REPORT | PRELIMINARY |
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|---|---|---|---|
| RESPONSIBLE COMMITTEE | CHANGE PANEL | CHANGE PATH | AUTHORITY |
| PRIORITY STATUS | HIGH | URGENCY | URGENT |

| | |
|---|---|
| DEADLINE FOR ALTERNATIVE CHANGE PROPOSALS | 26/04/2024 |


**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:<br>N/A |
| | Medium Impact:<br>N/A |
| | Low Impact:<br>Electricity Suppliers (Industrial & Commercial) |

### CODE MANAGER'S RECOMMENDATION

The Code Manager recommends Change Proposal R0160 is **APPROVED** for implementation on **28 June 2024**.

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# BACKGROUND

## 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. |

# PROPOSAL

## 4 PROPOSED SOLUTION

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.

To do so, a fully formed solution has been provided as part of the Change Proposal. This includes a new REC Schedule, titled 'Electricity Supply to Hydrogen Electrolysers Schedule," that would set out the obligations on Electricity Suppliers in respect of their electricity suppliers to Low Carbon Hydrogen Producers. The purpose of these obligations would be to ensure that the Low Carbon Hydrogen Agreements Counterparty (referred to as the LCHA Counterparty) has access to the data it needs to perform its role as such in relation to Low Carbon Hydrogen Agreements.

The proposed solution would also add definitions for LCHA Counterparty, Low Carbon Hydrogen Agreement, Low Carbon Hydrogen Producer, and Low Carbon Hydrogen Standard, into Schedule 1 – Interpretation and Definitions Schedule.

This is a legal text solution only and requires no technical or system changes, other than the standard legal text changes via EMAR/digital navigator.

### 4.1 MARKET WIDE HALF-HOURLY SETTLEMENT

| DESIGN | DATA SPECIFICATION | DRAFTING |
|---|---|---|
| No impact on MHHS design | No Data Specification impact. | Indirect impact – additions to Schedule 1 (Interpretations and Definitions Schedule) |

## 5 DRAFT LEGAL TEXT

The legal text changes to deliver the proposed solution to R0160 can be found here.

The draft legal text changes, including the introduction of a new REC Schedule, would provide the appropriate regulatory requirements that are required for Suppliers, and by the LCCC, regarding electricity supply to hydrogen electrolysers that are currently not found in primary legislation.

The Legal text produced by the proposer has been reviewed by Department for Energy Security and Net Zero (DESNZ) and LCCC and has included relevant engagement with the stakeholders.

## 6 DELIVERY AGAINST CHANGE PROPOSAL PLAN

To date, all activity has been completed within the planned timescales.

Please note that due to the urgency of this change, the Code Manager is working to complete the necessary stages of this change earlier, where possible

The Change Proposal Plan can be found here.

## 7 KEY RISKS, ASSUMPTIONS, ISSUES AND DEPENDENCIES

### 7.1 RISKS AND ISSUES

No risks or issues have been identified.

### 7.2 DEPENDENCIES

| No. | DEPENDENCY | NOTES | STATUS |
|---|---|---|---|
| R0160.PCR.D001 | Authority Approval | The proposed implementation date of 28 June 2024 is dependent upon receiving Authority Determination prior to this date. The Code Manager has engaged with the Authority to ensure they have full visibility and awareness of this change to ensure authority determination can be provided as soon as possible. | Ongoing |

## 8 PROPOSED IMPLEMENTATION DATE AND APPROACH

| PROPOSED IMPLEMENTATION DATE | 28/06/2024 | PROPOSED IMPLEMENTATION APPROACH | BIG BANG |
|---|---|---|---|

This is an urgent change that requires implementation as soon as possible.

The Code Manager plans to include this change in the next REC Release, which is set for June 28, 2024. This, however, will depend on the change obtaining Authority Approval in advance of the release date.

## 9 BUSINESS CASE ASSESSMENT

### 9.1 COSTS

No costs have been identified to deliver the solution for this Change Proposal.

### 9.2 BENEFITS

| INTANGIBLE BENEFITS | BENEFITS DESCRIPTION |
|---|---|
| INTANGIBLE BENEFITS | • Projects with contract offers in the Government's first electrolytic hydrogen application round (HAR1) seeking to source electricity through a licensed Supplier will be able to sign the contracts and will provide a solution to ensure there are no issues around information disclosure.<br>• This change will ensure that regulatory obligations are provided for Electricity Suppliers who supply energy to Low Carbon Hydrogen producers, which are fully understandable and allows the stakeholders to efficiently conduct their business projects.<br>• The LCCC will be able to acquire evidence and documentation to ensure that hydrogen supplied by Electricity Suppliers to Low Carbon Hydrogen producers is LCHS compliant via efficient and robust procedures that ensure appropriate quality and safety.<br>• This Change will support the HAR1 and HAR2 projects, which will support DESNZ commitment to producing 10GW of hydrogen by 2030 and will also support the wider retail energy market in achieving Net Zero.<br>• This Change supports the Code Roadmap theme of Net Zero, where significant benefit could be gained for all REC stakeholders, including consumers, within the long-term energy retail landscape. |

### 9.3 COST BENEFIT ANALYIS SUMMARY

Since the solution for this change is a legal text change only, and as there are no costs associated with the implementation of this change, the cost benefit analysis relies on the intangible benefits that this change facilitates.

## 10 CASE FOR CHANGE

### 10.1 AUTHORITY DETERMINATION

The Code Manager believes that R0160 better facilitates the following REC Objectives:

| OBJECTIVE | IMPACT TYPE | DESCRIPTION AND JUSTIFICATION |
|---|---|---|
| To ensure the REC operates and evolves in a manner that facilitates the achievement of its mission statement[1] | Positive | This change facilitates the efficient and effective running of electricity supplied to hydrogen electrolysers. As per the mission statement, RECCo's mission is to "facilitate the efficient and effective running of the retail energy market", and this change will ensure Electricity Suppliers can supply Low Carbon Standard Hydrogen to hydrogen producers efficiently and effectively and ensures that retail energy market can participate in innovative projects, such as those included in HAR1 and HAR2. |
| To ensure customers interests and data is protected in the operation of the REC | Positive | Currently, there are no regulatory requirements in place that provide the LCCC with the powers needed to compel licensed Suppliers to disclose the information needed by the LCCC to perform its duties with regards to Hydrogen Production Business Model (HPBM) and LCHA to prove that the electricity is compliant with the LCHS. This change will overcome this issue around information disclosure, and will provide customers involved in hydrogen projects, or being supplied, that their electricity is compliant with the LCHS, and that any related data can be appropriately closed to the appropriate parties. |
| To drive continuous improvements and efficiencies in the operation of the REC and the central systems and communication infrastructures it governs | Positive | The introduction of a new REC Schedule setting out obligations on Electricity Suppliers in respect of their electricity supplies to Low Carbon Hydrogen Producers aligns with the Code Roadmap theme of Net Zero, that supports driving continuous improvements to the REC. This change also drives continuous improvements by providing obligations that have not been included in other regulatory methods (such as primary legislation), and ensures the REC is adapted for wider improvements and developments in the retail energy market, such as the advance of the use of hydrogen. |

[1] REC Mission Statement

well as facilitating the REC objectives explained above, the Code Manager believes this change to be Authority led due to the introduction of new regulatory requirements on Electricity Suppliers.

The Code Manager wrote to the Authority (Ofgem) on 22 April 2024 to seek confirmation that this change should be Authority approved and are awaiting a response.

## 11 CODE MANAGER'S RECOMMENDATION

Based upon the information set out in Sections 9 and 10 of this Preliminary Change Report, the Code Manager recommends that the Change Panel recommends that the Authority:

- **APPROVE** the proposed change solution.
- **APPROVE** the proposed implementation approach; and
- **APPROVE** the proposed implementation date of **28 June 2024**

## 12 CONSULTATION PLAN AND NEXT STEPS

The consultation on this Preliminary Change Report for R0160 has been published on the REC Portal on 25 April 2024 and closes on 20 May 2024**.**

Following consultation, the Code Manager will produce an updated version of this Preliminary Change Report (referred to as the Final Change Report). This will include the outcome of the consultation, setting out a summary of the consultation submissions and the Code Manager's response.

The Final Change Report will be then issued to the Change Panel to make its recommendation for the Authority.

## 13 APPENDIX

| | |
|---|---|
| **CHANGE PROPOSAL** | Link |
| **LEGAL DRAFTING** | Link |

## 14 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. |