

# LICENCE LITE

A new route to market for small scale electricity generation and supply

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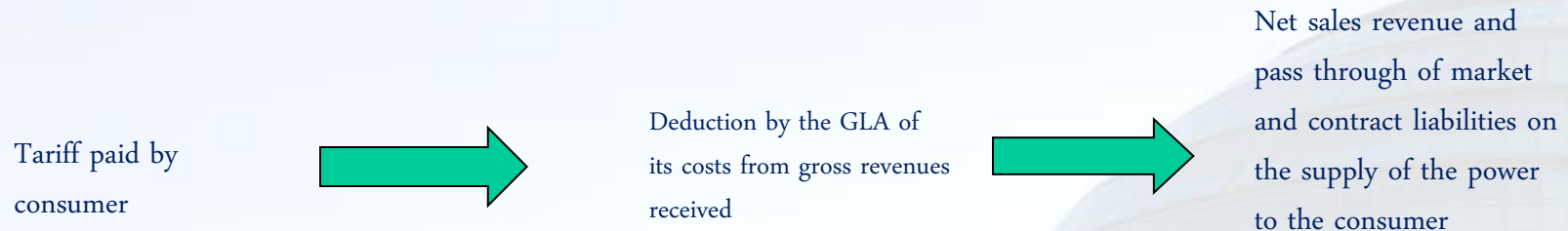
Energy Markets and Regulation

Greater London Authority

# Why is the Mayor of London interested in licence lite?

- The Mayor is committed to substantial expansion of decentralised energy in London involving both heat and power
- These objectives are supported by Government policy and the potential for DE [‘The future of heating –meeting the challenge’ chapter 2]
- Licence lite allows for the recovery of value often lost if small packets of power are sold to suppliers wholesale in the market
- Much of London’s DE is and will be CHP district heating, the economics of which can be substantially increased if a more favourable value of the output of smaller scale electricity generation can be realised after deduction of costs, through local supply to specific consumers with compatible consumption profiles.

# The business model



How does the GLA business model support small scale electricity generation?

- the underlying principle of the GLA model is to match generation and consumption profiles so as to enhance the value of the generation output for the benefit of both the generators and the consumers
- the GLA can aggregate the generation output and the total consumption to enable a deal to be reached with a third party licensed electricity supplier on the GLA's exposure to the market



# How does licence lite work?

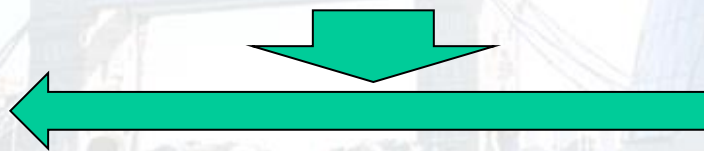
Licence lite enables a supplier to be licensed, like any other supplier, by relieving the licensee of costs risks and complexities of the electricity market which it is impractical for a small generator /supplier to handle.

See Condition 11 standard licence conditions for electricity supply

But that is subject to a requirement that the licence lite licensee procure the necessary market services from a fully licensed supplier, enabling the licence lite licensee's supplies to be handled by the market systems

Electricity  
consumer

Fully licensed supplier / provider of market  
interface services



Licence lite  
supplier (GLA)

generator export

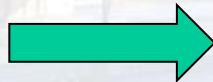
The value of the licence lite regulatory arrangement is that the junior licensee's exposure to the costs risks and complexities of the electricity market is a matter of negotiation between the GLA and the third party licensed supplier, since the GLA is not a party to the relevant industry codes.

# Will the economics work?

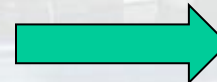
- The GLA's draft detailed financial model shows the economics work, subject to keeping costs proportionate
- A simple business model – initially no domestic consumers / limited numbers of sources of generation and consumers

The GLA business model is designed around simplicity and the pass through of costs and liabilities to the generators who benefit from the licence lite operation

Limited number of  
commercial consumers –  
financial modelling used  
TfL's costs and consumption



Back office/billing costs reflective of  
small commercial customer base



Add more consumers and  
private sector sources of  
generation as financial  
performance and GLA policy  
permit

# How does the GLA's licence lite model differ from larger scale electricity supply models ?

1. The GLA licence lite model is local, matching specific sources of low and zero carbon generation with specific consumers
2. It matches the length of the supply arrangements and liabilities 'back to back' as between consumer and generator
3. As a result the GLA as supplier has a role with likenesses to that of a broker rather than a supplier making margins through dealing in a large wholesale market
4. Domestic consumers and a multiplicity of consumers are avoided until and unless the initial model and its sensitivity to adding new dimensions has been tested, but the objective is to grow
5. The GLA has no direct exposure to the relevant industry codes, its exposure being the extent to which the risks and costs are passed to it under the agreement it negotiates with its fully licensed counterparty

# Alternative business models

The GLA has chosen a business model which is as simple as possible for the purpose for which it is immediately wanted.

It is not the only model – for example community energy arrangements may want a different one involving domestic consumers.

However, once any model is up and running, it will have provided a route which can be adapted for differing objectives by a wide range of industry interests.

# Interface with the market – some issues

## Supplier services Agreement

- balancing and settlement functions
- Master Registration Agreement (metering)
- data transfer/ aggregation /meter operation

## Netting Off Agreement (and other services )

- wheeling of power
- top up and standby services and tariffs

## Over-arching issue

- LL wants to retain ownership of customers and electricity traded at all times, but how?

## TPLS acts as trustee to LL



# Timing and progress

The timing is still speculative because there are limits in predicting the issues arising and the time to resolve them

March 2013

GLA made licence lite application to Ofgem and began work on the structure and principles of the business model

November 2014

Third Party Licensed supplier to be appointed

November 2014 to April 2015

Construction of operational arrangements with TPLS / satisfying Ofgem on 11.3 conditions / PPAs with generators / supply agreements with consumers

February 2015

Approval of final version of business and financial model and operational matters / liabilities subject to Mayoral Decision

May 2015

Operations to commence