

**'Licence Lite': Consultation workshop on proposed revisions to the SLC 11.3 operating guidance  
07/11/2014**

James Luger, Ofgem

ofgem

Licence Lite consultation: introduction and key changes (10:30-10:45)

Presentations from external speakers (10:45-11:15)

Table discussion (11:15-12:00)

Plenary (12:00-12:30)

Response from Ofgem and external speakers (12:30-12:50)

Summary and next steps from Ofgem (12:50-12:55)

Close and lunch (from 13:00)

## Government support for DE 2007 onwards

### Interest in:

- > Renewable / low carbon sources
- > Reduced system losses
- > Efficiency from CHP
- > Delivery of wider social objectives

## Development barriers identified

- Limited ability to capture full value chain
- Undue, non-scalable impact of Code compliance (if accessing retail market)

## Citiworks outcome

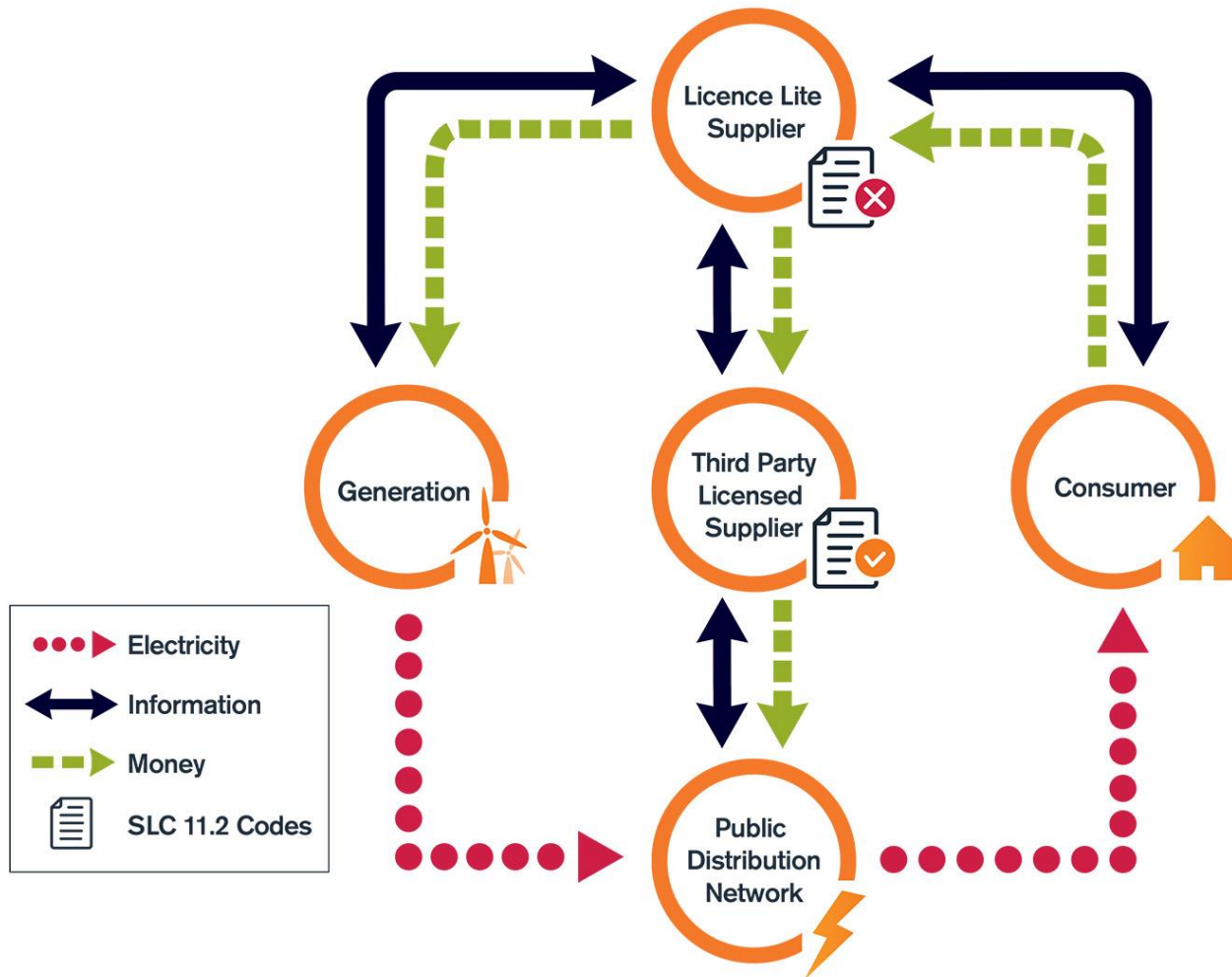
- Judgement that a fully open market must allow all consumers to freely choose their supplier
- DE should be encouraged to grow within the regulatory regime rather than outside the competitive market

# What is Licence Lite?

A licensing option allowing prospective Licence Lite suppliers to apply for an **electricity supply licence and a direction** relieving them of their obligation to be a direct party to certain industry codes (BSC, CUSC, DCUSA, MRA)\*. To issue such a direction, we require **robust alternative arrangements** to be in place for a third party licensed supplier (TPLS) to discharge code compliance in these areas on their behalf.

\* MRA - Master Registration Agreement; DCUSA - Distribution Connection and Use of System Agreement; CUSC - Connection and Use of System Code; BSC - Balancing and Settlement Code

# How does it work?



# Why isn't it lighter?

- A Licence Lite supplier still interacts with wider energy market and has to **comply with its supply licence** (eg access to reliable load, consumer protection)
- The Licence Lite approach benefits the **energy system as a whole**, rather than one particular participant
- It **integrates** DE and other small suppliers
- There are **other options** open to prospective / small suppliers

2009

**ofgem** Promoting choice and value for all gas and electricity customers

**Distributed Energy - Final Proposals and Statutory Notice for Electricity Supply Licence Modification**

Document Type: Decision Document

Ref: 08/09

Date of Publication: 6 February 2009

**Target Audience:** Owners and operators of distributed energy schemes, electricity suppliers, distribution network operators, consumer groups, local authorities, property developers, and manufacturers and any other interested parties.

**Overview:**  
Ofgem is committed to doing what it can to address climate change and facilitate sustainable development in the gas and electricity sectors. Over the past two years, we have worked with Government, distributed energy (DE) developers, licensed suppliers and other stakeholders to identify options to reduce the regulatory barriers to the development of DE. We are proposing to introduce additional licensing options to make it easier for small energy companies including DE schemes to operate as a licensed supplier in the community on the public network. The proposals will allow small suppliers to become licensed suppliers in a way that is proportionate to their size and impact, while protecting consumers' rights to switch energy supplier.

This document sets out our final proposals and a statutory consultation notice to implement a new standard licence condition. It also includes draft guidance on how the regime would work and the Authority's approach to considering applications from licensees. We also invite expressions of interest from stakeholders to participate in a working group to develop good practice for the provision of third party service arrangements, as well as consider and take forward consequential changes needed to support the new commercial arrangements.

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Draft guidance published in 2009

Some areas incomplete, some more recent developments

Consulting on revised guidance October-December 2014

2014

**ofgem** Making a positive difference for energy consumers

**'Licence Lite': proposed updates to the SLC 11.3 operating guidance**

**Consultation**

<b>Publication date:</b> 10/10/2014	<b>Contact:</b> Kate Thompson
<b>Response deadline:</b> 05/12/2014	<b>Team:</b> Sustainable Energy Policy
	<b>Tel:</b> 0203 263 9698
	<b>Email:</b> <a href="mailto:sustainable.energy@ofgem.gov.uk">sustainable.energy@ofgem.gov.uk</a>

**Overview:**  
In 2009 we introduced an option within the electricity supply licence to allow for a conditional derogation from the requirements under Standard Licence Condition (SLC) 11.2 to be a party to the industry codes. This option – which has become known as 'Licence Lite' – was designed to overcome market entry barriers experienced by distributed energy generators, specifically those assessed as presenting the highest cost and highest competency hurdles to accessing the public network and selling electricity to consumers.

We are now proposing changes to the 2009 Licence Lite guidance to reflect policy and regulatory changes and in response to increased levels of stakeholder interest. This consultation does not propose fundamental changes to the original intention of Licence Lite, but does outline a number of proposed additions, updates and clarifications to the main areas of the 2009 guidance.

The 2009 draft guidance applies until the final guidance is published. However, if prospective Licence Lite applicants wish to speak with us to ensure their arrangements will be appropriate under enduring arrangements, they should contact [sustainable.energy@ofgem.gov.uk](mailto:sustainable.energy@ofgem.gov.uk).

This consultation and the associated draft guidance are non-binding. Parties should seek their own legal advice before applying for a Licence Lite direction.

Ofgem/Ofgem E-Serve 9 Millbank, London SW1P 3GE [www.ofgem.gov.uk](http://www.ofgem.gov.uk)

<https://www.ofgem.gov.uk/publications-and-updates/distributed-energy-final-proposals-and-statutory-notice-electricity-supply-licence-modification>

(Appendix 3)

<https://www.ofgem.gov.uk/publications-and-updates/%E2%80%98licence-lite%E2%80%99-proposed-revisions-slc-11.3-operating-guidance>

## Consumer protection & the retail market

- Retail Market Review
- White label developments
- Protection for exempt supplier consumers

## New supplier obligations

- Smart Energy Code
- Social and environmental obligations (eg ECO, RO, FITs)
- Electricity Market Reform

## New market entrants & Licence Lite interest

- Expected TPI proliferation
- Local authorities seeking to engage with energy
- Community Energy interest



## Main industry functions and activities

- Balance of responsibilities
- Smart Energy Code
- Electricity Market Reform
- Social and environmental programmes

## Compliance and enforcement issues

- Market Participant Identifier
- Supplier of Last Resort

## Procedures and criteria

- Application information required
- Process

**Housekeeping  
and  
clarifications**

## Main industry functions and activities

- **Licence Lite supplier is relieved of SLC 11.2 compliance** while commercial agreement remains in place
- **TPLS is responsible for SLC 11.2 compliance** in relation to the Licence Lite supplier's customers

*Do you agree that our position over the balance of responsibilities and regulatory obligations is: a) **sufficiently clear** to allow parties confidence to enter into commercial agreements, and b) a **proportionate** approach?*

## Main industry functions and activities

- Licence Lite suppliers are **required to comply with government programmes** (SEC, EMR, WHD, FITs etc) unless they fall below relevant thresholds
- They will need **access to data held by the TPLS** to enable them to comply with reporting obligations
- They may seek a third party to administer the schemes, but would **retain the regulatory obligation**

*Do the Licence Lite arrangements relating to these obligations provide **sufficient clarity** over roles and compliance obligations between parties?*

## Compliance and enforcement issues

- Licence Lite supplier customers **must be identifiable within the central Meter Point Administration Service** and their TPLS' systems
- One way to achieve this is via a unique **Market Participant Identifier (MPID)**
  - Some prospective TPLSs may not have remaining MPIDs to offer
  - This could be resolved via a BSC modification

*Does the potential impact of the MPID restriction **warrant a modification** to the Balancing and Settlement Code?*

*Are there **any complications** to uniquely identifying a Licence Lite supplier's customers on central systems?*

# Supplier of Last Resort

(question 8)

## Compliance and enforcement issues

- If a Licence Lite supplier were to fail, a **deemed contract arises** between its customers and the TPLS
- If a TPLS were to fail, we would (ultimately) **assign the Licence Lite supplier's customers to a Supplier of Last Resort**
  - The Licence Lite supplier could then attempt to secure a new TPLS and then seek to re-contract with its customers

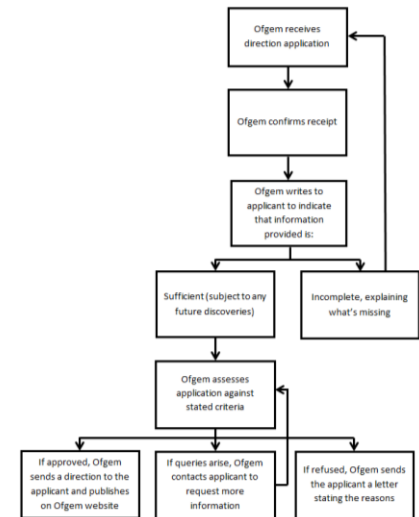
*Are the risks to Licence Lite suppliers inherent in the current operation of supplier of last resort arrangements in the event of TPLS failure sufficient to **justify backstop measures**, and if so, what measures would be appropriate and why?*

# Application information

(questions 9 and 10)

## Procedures and criteria

- **Proposed information required** to submit application:
  - Administrative details
  - A supplier services agreement
  - Industry interaction assurances
- Process of **application assessment**



*Is the information required for a Licence Lite application  
**appropriate** for all potential applicants?*

*Are there any relevant **milestones which are omitted** from the  
proposed guidance?*

## Main industry functions and activities

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- Electricity Market Reform
- Social and environmental programmes

## Compliance and enforcement issues

- Market Participant Identifier
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## Procedures and criteria

- Application information required
- Process

*Are further  
clarifications  
required from  
the regulator?*

**Afsheen Rashid**

*Department of Energy and Climate Change*

**Robert Tudway**

*Greater London Authority*



Workshop follow up

Contact us:  
[sustainable.energy@ofgem.gov.uk](mailto:sustainable.energy@ofgem.gov.uk)

Consultation closes on 5 December  
2014

We will fully consider all responses and  
issue final guidance as soon as possible

