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Ofgem

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Dear Kate

Re: 'Licence Lite': Proposed Revisions to the SLCI 1.3 Operating Guidance

Cornwall Energy welcomes the opportunity to respond to Ofgem's consultation '*Licence Lite*': *Proposed Revisions to the SLCI 1.3 Operating Guidance*.

Cornwall Energy is an independent advisor and commentator on energy policy, regulation and markets in the United Kingdom. Our customers include suppliers, generators, public bodies, service providers, financial institutions and law firms.

We welcome the move to update the guidance as a long overdue move that is needed to galvanise the development of local trading and supply. It is good to see the renewed focus being placed on this area by both the government and Ofgem, however, by themselves the minor amendments and clarifications put forward in the consultation will not be enough to fix the markets, particularly if specialised local aggregators do not emerge.

However, as we set out in the attached comment we believe that more fundamental changes to the trading arrangements are needed to truly stimulate the local market. We therefore invite you to invite Elexon to further consider the potential solutions to the current barriers that we detail below and in the attached comment. As a last resort in the event of no progress we believe that further regulatory inventions should be taken in order to secure the development of this promising market segment.

Specific answers to the consultation questions are attached below.



Consultation questions

Question 1: Are further clarifications regarding the functioning of a Licence Lite arrangement required from the regulator, and if so, in what areas?

We welcome the improved clarity on the licence lite arrangements that the updated guidance provides and consider it to be a timely update given the upheaval in the electricity market in the five years since the arrangements were introduced.

However, there are a number of additional actions which we consider the regulator should take which would improve the viability of local supply. Ofgem should produce guidelines on the form of supplier service agreements that would switch off the licence condition, SLC11.2, requiring compliance with the industry codes.

Additionally we believe an information portal should be developed to support to parties interested in local trading and becoming licence lite suppliers. This could be linked to the information remedies being introduced by DECC to support competition in the PPA market, which include guidelines and standard terms for contracts.

Finally we believe that similar to the FiT scheme there should be a supplier threshold above which it would be mandatory to offer terms as a TPLS, and below which interested suppliers could voluntarily offer terms. To align with the other industry thresholds we suggest a preliminary figure of 250,000 electricity meters. This would help to ensure that there are sufficient third party licensed supplier (TPLS) offerings to provide competition and ensure the terms offered are fair.

Question 2: 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?

We agree that the Ofgem's position over the balance of responsibilities and obligations is sufficiently clear and proportionate within the constraints of the licence lite framework.

However, we believe that proposals would be improved if the guidance explicitly required the terms offered by senior suppliers to be reasonable and include the option of regulatory referral in the event of a disagreement. We note that this is in-line with the approach taken under Ofgem's recent wholesale liquidity modifications.

Question 3: Do the Licence Lite arrangements relating to the Smart Energy Code – as set out in this consultation and in paragraphs 1.39-1.41 of the proposed guidance – provide sufficient clarity over roles and compliance obligations between parties?

We consider that the Smart Energy Code (SEC), which has been developed since the licence lite arrangements were first put in place could be burdensome for those participants who do not wish to make use of the smart metering opportunities, especially when junior suppliers are first setting-up or for smaller local offerings. We are therefore concerned that the default position for SEC compliance is that licence lite suppliers are required to comply and must apply for relief from the obligation. While it is encouraging that Ofgem is willing

to consider derogations for all licence lite parties for this area we believe that this creates unnecessary uncertainty for prospective licence lite suppliers and so a clear opt-in/ opt-out set of arrangements adopted.

Question 4: Do the Licence Lite arrangements relating to the Electricity Market Reform – as set out in this consultation and in paragraphs 1.42-1.46 of the proposed guidance – provide sufficient clarity over roles and compliance obligations between parties?

The updated guidance provided seeks to clarify the obligations on licence lite suppliers under the Electricity Market Reform (EMR) programme. This is a logical development and we welcome the improved clarity this provides on where the programmes requirements fall.

However, these clarifications have added an additional layer of complexity to the trading arrangements which must be established for a successful licence lite operation. We are particularly concerned that that Ofgem itself notes that the “*information management and payment model requirements (including collateral arrangements) placed on suppliers require regular oversight, management and implementation necessitating the regular and timely receipt of information and analysis of information from the TPLS.*” This places a reliance on information received from the TPLS on the licence lite supplier for a major compliance area that has severe penalties for non-compliance.

Question 5: Do the Licence Lite arrangements relating to the government’s social and environmental programmes – as set out in this consultation and in paragraphs 1.42-1.46 of the proposed guidance – provide sufficient clarity over roles and compliance obligations between parties?

We welcome the increased clarity the guidance provides over where the social and environmental scheme obligations fall as this has until now been one of the major uncertainties within the arrangements.

Question 6: Does the potential impact of the MPID restriction warrant a modification to the Balancing and Settlement Code?

In order to permit the identification and differentiation of licence lite customers from those of the senior supplier we believe that meters associated with the licence lite offer should be visible within the BSC and MRA. We believe this would be best achieved by the introduction of a unique licence lite identifier within the BSC systems to allow industry parties to easily distinguish between TPLS’s direct customers and those it is handling for a licence lite supplier. This would also have benefits in the event of a Supplier of Last Resort (SoLR) action, please see our answer to question 8 for more detail.

If the introduction of a unique identifier is not taken forward then we consider that the potential impact of the Meter Participant Identifier (MPID) restriction is significant enough to warrant a modification to the BSC. This is because many suppliers, especially the larger suppliers who represent the most promising source of TPLSs, are likely to have used their

full complement of MPIDs. Therefore without a modification to the restriction, industry visibility of licence lite customers will be severely limited.

Question 7: Are there any complications (not identified in the consultation) to uniquely identifying a Licence Lite supplier's customers on central systems?

There are no additional complications of which we are aware.

Question 8: 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?

Cornwall Energy welcomes the improved clarity on the treatment of a licence lite supplier in the event of a SoLR event. We consider the proposed arrangements for use in the event of the failure of the licence lite supplier are logical and correct.

For the proposed arrangements for the treatment of the licence lite customers in the event of the TPLS failure we believe it is unjustifiable for the licence lite's customers to be taken from and given to another supplier under any circumstances. Instead we suggest that when the TPLS's customers are tendered as part of a SoLR event the licence lite customers should be included as a distinct, identifiable, group. Potentially this group could be auctioned to a different SoLR than the TPLS's main customers. This would be made possible by the use of a distinct licence lite identifier as we have proposed above.

Question 9: Is the information required for a Licence Lite application appropriate for all potential applicants?

We consider that the information required for a licence lite application is appropriate for all potential applicants. However, we wish to reiterate that while the licence lite arrangements are designed to simplify market access for distributed energy, they do not address the problems created by the fact that the current trading arrangements assume contractual balance will be achieved at a national level, and are not suitable for truly local, individual community schemes. We have set out the more fundamental changes we believe are necessary to facilitate local supply in the attached comment.

Question 10: Are there any relevant milestones which are omitted from the proposed guidance?

An additional amendment to the licence lite arrangements which we believe would aid licence lite suppliers is to grant all licence lite holders the ability to propose modifications to the industry codes which are 'switched off' for them by SLC I 1.2. While licence lite suppliers are not directly responsible for these codes they are still subject to their impact and restrictions through the pass through from the TLSP and so are entitled to propose modifications to the arrangements. Additionally enabling licence lite parties to directly raise modifications would bring an additional view point into the code modification process and potentially further improve the situation for local supply arrangements by giving them a direct voice.