By email to sustainable.energy@ofgem.gov.uk

Kate Thompson
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Dear Kate,

We welcome the opportunity to respond to this consultation on an important component in promoting competition and developing the framework for local energy initiatives. In keeping with our mission to deliver the BSC arrangements efficiently, effectively and economically, ELEXON is continuing to support other initiatives in this area such as the Smart Grid Forum and the Local Supply Working Group.

Given the relatively low interest in the Licence Lite solution to date it is possible that this will remain a relatively niche approach. Therefore, ELEXON will continue to examine options to promote participation in the market through arrangements such as 'local netting'. Solutions that we are reviewing include changes to the Balancing and Settlement Code (BSC) to facilitate Local Balancing Mechanism (BM) Units or Local Trading Units and alternative aggregation models such as the Balancing Group concept employed in continental Europe. Local Trading Units might allow consumer demand volumes to be packaged with local distributed generation, storage or Demand Side Management projects to allow Local Energy projects to negotiate more favourable commercial terms with Suppliers or to minimise charging under central industry processes such as the BSC or DCUSA. The Balancing Group concept used in continental Europe could allow the balancing responsibility of a number of small industry parties to be aggregated thus reducing exposure to industry incentive mechanisms.

We have only answered those questions in the consultation which impact on, or have parallels with, our experiences of managing the BSC or Electricity Market Reform (EMR) Settlements. Our answers therefore centre on the management of metering and registration and the lessons we have learned in doing so.

I look forward to discussing our response during our meeting on Thursday. If you would like to discuss any areas of our response prior to that, please contact me on 020 7380 4321, or by email at james.priestley@elexon.co.uk.

Yours sincerely,

James Priestley
Customer Operations Manager

‘Licence Lite’: proposed updates to the SLC 11.3 operating guidance
Changes to main industry functions and activities
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?
No. The ongoing costs of EMR, or more particularly the Capacity Market and the Contract for Difference (CfD) mechanism, will be borne by suppliers in proportion to their market shares as determined by the EMR Settlements Company. Based on our current understanding of the Licence Lite proposals and the role of the Third Party Licensed Supplier (TPLS), if no further changes were made, this would result in the TPLS being billed for the Licence Lite Supplier’s Supplier Obligation. Two options for addressing this issue are: • To require that the TPLS should subsequently pass on the Licence Lite Supplier’s share of the EMR Supplier Obligation as part of the commercial arrangements under the Supplier Service Agreement; or • To revise the billing arrangements of the EMR Settlements Company to identify Licence Lite Supplier volumes and bill Licence Lite Suppliers directly. If the latter is required, it may be necessary to consider adopting a standard format for the Licence Lite Supplier MPID e.g. LLXX, to allow easier identification of Licence Lite Supplier volumes. If Licence Lite Suppliers are charged directly for the Capacity Market and CfD mechanisms, then this might further complicate arrangements because their metered volumes will have to be identified for the purposes of billing and payments. For example, it might be necessary for the Licence Lite Supplier to establish separate BM Units for this purpose. In this regard, we highlight the current DECC consultation ‘Electricity Intensive Industries exemption for CfD costs: Amendments to the Balancing and Settlement Code’, which considers ways of identifying meters for specific supplier’s customers. In this consultation, Option B, HHDA flagging might be a model to allow for Licence Lite Supplier participation in the Capacity Market or CfD mechanism. However, our understanding of the Licence Lite concept is one of reduced engagement with the wholesale markets. As such adopting such complexity may be at odds with the Licence Lite concept.
Changes to compliance and enforcement issues
Question 6 Does the potential impact of the MPID restriction warrant a modification to the Balancing and Settlement Code?
Yes, if we expect there to be numerous applications to become a Licence Lite Supplier.

We can confirm the existence of a restriction on the total number of "original" MPIDs assigned to a Supplier although, at this stage, we cannot say whether this restriction will affect the commercial approach of any prospective TPLS. However, any BSC Party would be free to propose a modification under the Modification Procedures. We've identified that a change removing the MPID restriction should be a relatively low cost and straightforward modification. However, should this lead to several hundred new MPIDs there may be an impact on ELEXON's reporting and monitoring systems.

As an alternative, it would be possible to uniquely identify a Licence Lite Supplier's customers via the registration of an Additional Supplier BM Unit (ABMU). The existing wording of the BSC would allow this with the following limitations:

- All the Licence Lite Supplier's customers would need to be subject to half hourly metering and not just their local generation; or

- Non half hourly meters could be redirected to the Additional Supplier BM Unit by using a Licence Lite specific Standard Settlement Configuration (SSC).

The BSC has allowed NHH meters to be separated into Additional BM Units since Go Live in 2001. However, the splitting options; by Profile Class and SSC are relatively crude; how and when DSR could/would be applied for a wider GB market was not well understood when the BSC was developed. We do not believe that the existing options would be sufficient to allow a TPLS to distinguish between its own meters and those of the Licence Lite Supplier. Our initial assessment of the options for more sophisticated separation of Supplier BM Units suggests that this could be a substantial and expensive change to Supplier Volume Allocation (SVA) registration processes. As an example of further work, examining the restrictions that the BSC currently places on Supplier BM Unit separation might deliver further benefits to Local Energy projects. We have published a number of insights on this which can be found here under 'smart grids'.

Pursuing both options for uniquely identifying a Licence Lite Supplier's customers and their related supply volumes could create significant complexity and complicate billing arrangements for EMR Settlements.

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

Yes, the main complications that we foresee relate to regional granularity and volume.

The additional MPID solution only delivers uniquely identifiable aggregation at the regional (i.e. GSP Group) level. If a TPLS were to support more than one Licence Lite Supplier per region, it will need further MPIDs. We believe that it will not be sufficient for a TPLS to simply have a single additional MPID for all Licence Lite Supplier support work.

It isn't clear to us at this stage what volume of applications to expect. For example if the Licence Lite approach is used by individual community energy projects then, in time, this could yield a significant number of Licence Lite Suppliers.

This uncertainty in the number of Licence Lite Suppliers and concerns over granularity make it difficult to predict the long term impact on settlement at this stage. The long term effects of the two most obvious options for uniquely identifying the customers of Licence Lite Suppliers (see our response to Q6); additional MPIDS or Additional Supplier BM Units, are highly volume dependent.

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?

We have no comment to make on potential backstop arrangements. However, we can confirm from our previous experience of supplier failure and Supplier of Last Resort events that the Alternative MPID solution would provide us with the ability to rapidly transfer registrations to another supplier either in the event of TPLS or Licence Lite Supplier failure. Re-registering MPIDs was the route used in previous supplier failure events.

The existing wording of Section K of the BSC requires that a SoLR direction could be made on a per BM Unit basis and in this regard we believe it would be possible to effect such a direction or a trade sale if the Additional BM Unit approach to uniquely identifying the customers of a Licence Lite Supplier was adopted.

Changes to procedures and criteria

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

From our experience of managing BSC accession, the interaction between the application processes for various industry mechanisms; licences, BSC, MRA and other agreements causes many parties significant concerns.

If it is possible to update the milestones to show the interaction with other significant events such as BSC accession, or in the Licence Lite Scenario alternative MPID creation, then we feel participants would find that helpful.

In order to support Licence Lite Suppliers ELEXON will implement additional measures to support participants (without detracting from the lead role that Ofgem has in the licensing of Licence Lite Suppliers). These include producing a Licence Lite Guidance Note and training on any new processes for our Market Entry analysts and Operational Support Managers.