

‘Licence Lite’ : proposed updates to the SLC 11.3 operating guidance

Consultation Response from the Greater London Authority (GLA)

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

No, the clarifications given are adequate. We think it important that Ofgem has recognised that the application of Licence Lite is extending beyond the initial vision of its relevance being only or principally to individual decentralised energy generators wishing to obtain better access to the market. Multiple sources of electricity generation may often be involved (as in the case of the GLA’s business plan) and there may be no direct link between a particular generator and the consumer of the electricity supplied by the Licence Lite supplier.

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?*

The balance is clear from Ofgem’s guidance and the message simple – the Licence Lite licensee is responsible to the same extent as a fully licensed party, save insofar as the Direction from Ofgem relieves the licensee from the obligation to be a party to the relevant codes. We do not believe it helpful to legislate for the balance of responsibilities in any respect in the licence conditions of the fully licensed supplier (TPLS). It introduces a source of confusion to the negotiation process between TPLS and Licence Lite applicant, since the parties would need to conform to the terms of any such condition which would cover the same ground as their commercial negotiations, the results of which are in any event subject to Ofgem scrutiny.

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 the parties?*

Yes, they provide sufficient clarity on the issue. It is clear that a Licence Lite licensee must look to the Smart Energy Code itself for any derogation from Smart Code responsibilities.

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 the parties?*

Yes the message is the same, namely that the Licence Lite licensee has the same responsibilities as any fully licensed supplier in respect of the Electricity Market Reform. However, please note below (Q.5) regarding the prospective cumulative effect of the

growing range of ancillary duties owed by licensed suppliers and how they may impact upon a small scale Licence Lite licensee.

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?*

Yes, the principles explained enable parties to have sufficient clarity over roles and compliance obligations. However, it should be noted that the cumulative effect of the growing list of social and environmental obligations and EMR responsibilities (see above) will increase the staffing requirements of the Licence Lite licensee, if the most economic route is for the Licence Lite licensee to carry out the relevant tasks itself. The result will mean that if and to the extent these obligations grow in extent, the licensee will have to begin operations on a larger scale to absorb the larger fixed costs involved. That is a barrier to entry. Alternatively, the Licence Lite licensee can contract out the performance of the functions (although not the responsibility) to a fully licensed third party supplier, but that may in some cases be a more expensive route. Either way, there is a risk that these responsibilities, particularly if they grow in extent, will in themselves become a barrier to entry for small Licence Lite licensees, since they will tend to cause Licence Lite applicants to have to start operations on a larger scale.

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

Yes, it does warrant a modification to the BSC. MPIDs will be needed for each Licence lite licensee and interested TPLSs will soon run out of MPID availability, causing a severe threat to Licence Lite development.

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

None apparent to us

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 measure, and if so, what measures would be appropriate and why?*

These risks need to be addressed and ultimately if Licence Lite is to flourish, a solution found. In the case of the GLA, the fixed costs in our business model are sufficiently small to cause the financial risk to the GLA of its TPLS becoming insolvent to be minor. That might not be the case with other Licence Lite business models, particularly those involving supply to domestic consumers or a large number of consumers, where the back office function and fixed cost associated with it could be very substantial. In such a case, under current last

resort arrangements, the Licence Lite licensee could be left with a substantial, stranded fixed cost through having to cease to trade instantly on the insolvency of its TPLS counterparty, for reasons entirely outside its control. A solution will need to be found. Alternatively, to mitigate that risk, the Licence Lite licensee may purchase back office capacity in the form of services provided by a third party; but that may be less economic. A further effect of the lack of a supplier of last resort solution, in addition to it presenting a barrier to entry, is that it will favour the use of TPLSs with large scale supply businesses or large conglomerates, in either case with larger balance sheets, thus disadvantaging smaller TPLS players. That is harmful to market development. We cannot currently recommend a solution, but are happy to work with Ofgem to find one.

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

Under Ofgem's original guidance, the information requested was not universally appropriate, because it was based on the assumption that applicants were single electricity generators. It is apparent from your draft guidance that it is Ofgem's current intention to remove the requirement on the part of the licence applicant to give details of generation units and maintenance schedules etc. That is an essential change.

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

None of which we are aware.

Greater London Authority

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