

OVO Energy response to the 'Licence Lite: proposed updates to the SLC 11.3 operating guidance' consultation

Introduction

1. OVO Energy ('OVO') entered the UK energy retail market in 2009 with the intention of offering a fairer, simpler and more competitively priced service to customers. OVO is now one of the UK's fastest growing independent suppliers, with more than 400,000 customers and 500 staff.
2. In May 2014, OVO launched the OVO Communities offering. Most existing community energy schemes are based on local generation. OVO Communities takes a more holistic approach. The offering, an evolution of a traditional white label, allows Local Authorities, Housing Associations and Community Groups the ability to set local tariffs, influence local marketing decisions and integrate local energy generation into the supply mix for their customers.
3. We introduced OVO Communities in order to encourage more customers to engage with their energy use and tariffs (including some of the 'stickiest' customers), to drive greater competition in the electricity supply market and to support the decentralisation of electricity generation.
4. OVO is extending the OVO Communities solution to include the provision of TPLS services under the Licence Lite (LL) regime. To date, OVO has engaged closely with the regulatory developments in the space and is keen to support Ofgem in further developing its guidance to potential LL suppliers.

Key Points

5. The potential impact of the Market Participant ID (MPID) restriction warrants a modification to the BSC. We argue that managing a LL suppliers' electricity volumes through a separate Market Participant ID is the best approach. This change would help ensure:
 - a. the clear separation of the LL suppliers' volumes from the TPLS's in the balancing system,
 - b. the clear identification of the LL suppliers' volumes for the purpose of social obligation reporting, the transfer of accounts in the event of a SOLR event and for allocating invoices for balancing costs, grid fees, metering charges and credit cover, and
 - c. the LL suppliers have the ability to appoint their preferred metering agents. We suggest that the potential impact of the existing restriction of MPIDs on a suppliers' ability to bid for TPLS contracts warrants a modification to the BSC.

Responses to the 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?

6. We welcome the proposed additions to the table summarising Licence Lite supplier and TPLS roles. It will be important to clarify which entity is responsible for compliance with the Smart Energy Code, the Energy Companies Obligation, the Renewables Obligation, the Climate Change Levy, the Warm Home Discount, the Feed-in-Tariff scheme, the Government Electricity Rebate, the Electricity Market Reform and the Green Deal.
7. It will also be important to revise this guidance as new regulation or codes are introduced to the UK supply and generation markets.
8. We suggest that further clarification is added regarding which of the above mentioned regulation and codes apply to the supply of electricity to business customers as opposed to the supply of electricity to domestic customers as both supply models may be chosen by the LL 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?

9. We agree that a TPLS licence modification is disproportionate and note that the balance of responsibilities as far as SLC 11.2 is concerned is well understood by us.
10. In managing the LL suppliers' compliance with the CUSC, BSA and DCUSA, the TPLS must place credit cover with Elexon, the National Grid and Distribution Network Operators. The commercial agreement between the junior licensee and the TPLS must clearly set out the responsibilities for funding these credit cover requirements and the mechanism for transferring any funds between the two parties. We recommend that the revised operating guidance document includes the above as a contractual matter which needs to be addressed by LL suppliers in their discussion with TPLSs.

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?

11. We are comfortable with the guidance in that it clarifies that the LL supplier must manage its compliance with the SEC as is currently set out in the supply licence.
12. In practice, the TPLS will manage the relationship with all metering agents under the MRA on behalf of the LL supplier. This includes, amongst other obligations, the management of data flows to and from metering agents and facilitating meter installations and maintenance. As the SEC also addresses metering issues, we suggest that Ofgem consider the close links between SEC compliance and MRA compliance and give guidance to prospective LL suppliers on how this should be managed.

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?

13. We agree that the proposed guidance provides sufficient clarity.

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?

14. We agree that the proposed guidance provides sufficient clarity.

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

15. We argue that managing a LL suppliers' electricity volumes through a separate Market Participant ID is the best approach. This change would help ensure:
 - a. the clear separation of the LL suppliers' volumes from the TPLS's in the balancing system,
 - b. the clear identification of the LL suppliers' volumes for the purpose of social obligation reporting, the transfer of accounts in the event of a SOLR event and for allocating invoices for balancing costs, grid fees, metering charges and credit cover, and
 - c. the LL suppliers have the ability to appoint their preferred metering agents. We suggest that the potential impact of the existing restriction of MPIDs on a suppliers' ability to bid for TPLS contracts warrants a modification to the BSC.
16. Over and above LL, we also consider a BSC modification to allow for more MPIDs per supplier important for the development of white label solutions (or any other solution that involves a fully licenced supplier offering supply services to third parties) as this allows the clear identification of third party customers.

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

17. We have not identified any further complications.

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?

18. We agree that it is disproportionate at this stage to consider creating a TPLS of last resort mechanism but would suggest that this concept is revisited once the LL mechanism is more established. In the first instance, commercial mechanisms should be sought by the LL supplier to ensure protection against TPLS default. The existing SOLR guidance should consider allowing LL customers who have been moved to a SOLR after a TPLS default to be "returned" to another TPLS instead of merged with the SOLR's supply base.

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

19. Yes. We would suggest including evidence of trading arrangements – planned or existing – either to cover the difference between generation and supply portfolios (if such a setup is chosen) or more generally where a pure supply relationship with customers is sought.

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

20. No answer.