

Offtaker of Last Resort Advisory Group
01/05/2014

Advisory Group Attendees

Dima Rifai, Paradigm Change Capital Partners
LLP
María Paz García Alajarin, EDP Renewables

Christian Milhan, Ofgem
Phil Broom, GDF Suez

Wragge and Co Attendees

Derek Goodban, Wragge & Co

Ravi Randhawa, Wragge & Co

DECC Attendees

Tim Warham, DECC
Matt Coyne, DECC
Helena Crow, DECC

Adam Harper, DECC (chair)
Darryl Croft, DECC
Michelle Toussaint-Bourne, DECC

Apologies

David Handley, RES
Nick Gardiner, BNP Paribas
Graham Meeks, Green Investment Bank
Charlie Garrod, PwC
Keith Patterson, Brodies LLP

OLR Licence and Code Modifications
<p>Adam Harper presented an overview of the licence modifications and led the Group through the policy background leading to the current drafting. Detailed comments on the drafting were welcomed.</p>
<p>Generator Eligibility</p> <ul style="list-style-type: none">• The License Modifications set out which generators are eligible to participate in the OLR, detailing what conditions lead to a generator being eligible or ineligible for a Backstop PPA (BPPA).• The group questioned the information in the Annex (p10) of the licence modifications. DECC clarified that the OLR closure date will be in the Annex to the licence modifications (the current version for illustrative purposes only), with eligible technologies mirroring the CfD technologies, with nuclear and CCS currently ineligible.
<p>Information for suppliers to price bids (paras 6-7)</p> <ul style="list-style-type: none">• The group had no further comment on the information requirements to be placed on suppliers.
<p>Information to suppliers (paras 8-10)</p> <ul style="list-style-type: none">• The group questioned whether additional requirements are to be placed on non-mandated offtakers when placing bids. DECC clarified that there are no restrictions on non-mandated offtakers that would prevent them from bidding. However, offtakers need to be registered in the relevant GSP (for embedded generators) in order to meet the five working day meter transfer timings in the OLR allocation timeline. Offtakers wishing to bid but not registered in the relevant GSP would not be

ineligible to place a bid in the OLR, but this may prevent the acceptance of their bid.

- DECC clarified that all generators need to provide standardised information as set out in Paragraph 6 of the licence modifications. However, if additional information is required, generators and suppliers are encouraged to communicate with each other during the allocation process. Generator and supplier contact information will be available.
- The group agreed with this option.

Submitting an OLR Bid (paras 11-16)

- DECC clarified that suppliers will be required to provide a signed BPPA contract when submitting a bid.
- They group agreed with this approach to submitting bids.
- The group asked for more information on the allocation timeline for the Backstop PPA. DECC confirmed that this will be available in the draft Regulations, to be consulted on this summer.

Reserve Bidders (para 11-13)

- The group questioned whether a reserve bidder would have to honour the information provided in their bids. DECC clarified that reserve bidders would need to honour the price submitted in their bid.
- DECC asked the group whether they would be content with their initial bid being in the reserve bid process. The group confirmed that bids would be comprehensive and could be utilised if used as a reserve bid.
- DECC clarified that the reserve bids would remain live for a month.
- The group were in agreement with these options.

Once in a BPPA (paras 17-24)

- DECC clarified that any Ofgem action will be informed by and made after a court has made a judgement on the circumstances leading to the termination of a BPPA contract.
- The group questioned whether there were additional requirements if a supplier's credit rating was downgraded. DECC confirmed that if this occurs, the contract would require offtakers to provide a Letter of Credit within five working days. In the unlikely event that a supplier's credit rating is downgraded between their bid being submitted and the Backstop PPA being allocated then a Letter of Credit would still be required, so it would be up to offtakers whether they want to factor the potential cost of this into their bids.

Determining mandatory licensees (paras 25-26)

- The group questioned how mandatory offtakers are to be determined. DECC confirmed that the OLR threshold would capture the large offtakers in the GB electricity market, mandating offtakers such as the Big 6. This would not restrict voluntary bids from other large non-mandated suppliers.
- DECC confirmed that the threshold would be set between 5-8% volume of electricity supplied to GB customers, averaged over a given period, as set out in the consultation. DECC are currently working to finalise the detail on this option, which will be included in this summer's consultation on the policy detail.

Questions put to the group

- Is this the correct level of detail for the license modifications to deliver the OLR?
- Is anything further required within the OLR license modifications to deliver the OLR?
- We do not judge that any Code modifications, in addition to those being made to facilitate the CfD, are required. Do you agree?

The group agreed with the content of the licence modifications and were satisfied with the detail and clarity of the policy relayed in the drafting.

Provisions for Code amendments are being considered but will be implemented through the CfD code modifications. The group was encouraged to raise any amendments to codes.

Next Steps

Next steps - DECC is working towards a Summer consultation on the policy detail. The OLR team encourages any further comment on the licence and code modification to be sent by email **by Thursday 08/05/14**.

DECC will communicate information about another OLRAG meeting to discuss the detail and issues arising from the drafting of the OLR Regulations.