**Offtaker of Last Resort Advisory Group – First Meeting**

**Wednesday 2nd October 2013 11:00 – 13:00**

**Minutes and actions**

**Attendees:**

**DECC attendees:**

Alex Weir (chair)

Tim Warham

Darryl Croft

Matt Coyne

Jessica Henry

**Group members:**

Maria Paz Garcia Alajarin, EDP Renewables

Andrew MacLellan, Energos

Ravi Baga, EDF

Stuart Noble, Scottish Power

Christian Pegrum, Eon

Robert Owens, Smartest Energy

Keith Patterson, Brodies

Phil Broom, GDF Suez

Charlie Garrood, PwC

Konstantin Suplatov, PwC

Martin Bell, Ofgem

Richard Dunkley, Banks Renewables – standing in for David Handley

**Apologies:**

Ben Cosh, Green Company

Simon Proctor, Good Energy

Dima Rifai, Paradigm Change Capital Partners LLP

Nick Gardiner, BNP Paribas

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|  | **Introductions** | |  | | | **Tim Warham** |  |
| The Group introduced themselves to new members.  Tim Warham summarised the objective of the meeting- to seek views on key design aspects of the OLR, focussing in this case on the allocation mechanism and offtaker identity. | | | | | | | |
|  | **Discussion of Allocation Mechanism** | | **Paper 1.01 Allocation**  **Baringa Papers 1A and 1B** | | | **Alex Weir** |  |
| Alex Weir (AW) presented paper 1.01 on the proposed allocation mechanism for the offtaker of last resort.  On Regulatory Allocation, points raised included:   * There may be a wide spread in the costs of acting as a backstop offtaker between suppliers, in particular due to variation in the cost of credit between suppliers. * That the backstop ‘burden’ should be calculated proportionally to suppliers’ market share * It is important not to prohibit suppliers from subcontracting functions under backstop PPAs, * General agreement that it is not worth considering ‘generator choice’ or Ofgem matching generators to the ‘best fit’ suppliers, although it was noted that customer service can be a relevant factor for generators when choosing offtakers. The risk of mandatory offtakers seeking to ‘frustrate’ Backstop PPA contracts (e.g .through making late payments) – there were differing views as to the plausibility of this and the extent of the risk * That without understanding the basis for regulated cost assessment, it is hard to know the potential impact of regulatory allocation on suppliers   On Competitive allocation, points raised included:   * Risk that competitive allocation may a barrier to entry to the PPA market * Concern that competitive allocation could distort the open market for PPAs (AW referred members to the Baringa analytical paper 1A for further consideration of this) * Discussion over the interactions between the backstop PPA market and the open PPA market - how they would differ in times of market stress. * Competitive allocation is more likely to yield benefits to consumers if there is high demand for backstop PPAs; with low / infrequent demand, the costs are likely to outweigh the benefits   On hybrid allocation:   * Broad agreement that this is worth considering further   General discussion:  It was also noted that the timescales in the allocation paper were too generous and could usually be achieved more quickly.  **Action: Members to submit any further comments via email/phone.** | | | | | | | |
|  | **Discussion of Offtaker Identity** | | **Paper 1.02 Offtaker Identity** | | **Jessica Henry** | |  |
| JH ran through a quick summary of the proposals for the offtaker identity.  A discussion followed, with points made including:   * General agreement that ‘market share’ may be a suitable basis for determining mandatory offtakers, whilst acknowledging that this does not remove credit risk (TXU experience was cited). * The Backstop PPA should not seek to remove all risks – it simply needs to match the quality of a long-term PPA with a large utility. * Whether lenders are likely to be satisfied for smaller (less credit worthy) offtakers to utilise the Backstop if collateral is posted and Backstop PPAs are reallocated swiftly upon default. Diverse views were expressed, with some group members agreeing that this could work, whilst others thought lenders would struggle to get comfortable with such an arrangement. Questions were raised over whether costs of collateral would make less credit worthy offtakers uncompetitive even if eligible. * Open market PPAs currently have a ‘trigger’ system – if the supplier does not have an investment grade credit rating, a letter of credit or collateral is automatically required as a next step. The same could be built into Backstop PPA. * Important to guarantee how quickly projects can be transferred to a new PPA if needed. Debate over how the meter is reallocated in the event of offtaker default.   **Action: DECC to confer with lenders about participation by voluntary offtakers** | | | | | | | |
| **5.** | | **Forward Look** | |  | **Alex Weir** | |  |
| AW ran through the schedule for the next few meetings, including a first look at the proposed order of papers.  A couple of questions were raised about future subjects for discussion – on eligibility the interdependency with CfDs was noted.  **Action: DECC to revise meeting schedule to allow time for adequate discussion on pricing & other issues** | | | | | | | |