# Offtaker of last resort Advisory Group – Meeting 2nd October 2013

### Summary paper

This meeting considers two topics: the mechanism for allocating generators to backstop offtakers, and who should perform the backstop offtaker service. Two papers are attached for your consideration.

Each paper describes options for how these elements of the offtaker of last resort mechanism could be designed, and highlights a number of questions where we would welcome feedback from the advisory group and on which we will focus discussion in the meeting.

The general themes of each paper are as follows:

1. **Allocation mechanism**

This paper considers the pros and cons of two options for allocating generators to backstop offtakers: ‘regulatory’ and ‘competitive’ allocation. Under regulatory allocation, Ofgem would assign generators to backstop offtakers according to pre-specified rules, and would conduct a ‘regulated cost assessment’ to estimate the costs / benefits accruing to offtakers that should be socialised across the supply market. Under competitive allocation, potential backstop offtakers would bid the ‘management fee’ (probably in £/MWh) that they would require to enter into a backstop PPA with a specified generator for a specified length of time (e.g. 1 year).

Key issues that the advisory group are invited to consider include:

* The likely impact of the mechanisms on suppliers’ credit ratings
* The impact of each mechanism on cost to consumers
* The potential for distortion of the open market for PPAs
* The relative ‘bankability’ of each mechanism
* Whether there is merit in exploring a ‘hybrid’ mechanism to capture the benefits of both approaches whilst avoiding the risks

1. **Offtaker identity**

This paper considers who the backstop offtakers should be. Under the Bill as currently drafted, only licensed suppliers will be able to be backstop offtakers. The paper considers the question of whether there should be mandatory and voluntary offtakers, and what criteria should be used to determine the identity of these offtakers.

Key questions that the advisory group are invited to consider include:

* Will non-suppliers wish to participate in the scheme, and would it be possible for them to obtain supply licences to do so?
* Would non-mandated suppliers wish to participate under regulatory allocation?
* Is it necessary to mandate supplier participation under competitive allocation to ensure bankability?
* Is market share an appropriate metric to determine the threshold for mandatory participation?
* Are the proposed eligibility criteria for voluntary offtakers sufficient to ensure bankability of the arrangements?