Case Study – CFD payment arrangements

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CFD arrangement

- Payments made to Contracts for Difference (CFD) Generators under CFDs are funded by a statutory levy on all licensed electricity Suppliers in GB
- Payments are charged to Suppliers based on gross demand
- Suppliers have to make pre-payments against the Electricity Supplier Obligations – these are the:
  - **Interim Levy Rate (ILR)** - an interim rate payment, charged at a fixed £/MWh rate on a daily basis across each levy quarter, and
  - **Total Reserve Amount (TRA)** - a lump sum ‘reserve’ payment at the start of each levy period (every quarter)
- The rates for these are set by LCCC on a quarterly basis, before the beginning of the preceding quarter
- There is also an Operational Costs Levy which funds the operational costs of LCCC
- This Operational Costs Levy is also charged to Suppliers under the Supplier Obligation Regulations
- There is also a process for additional reserve payments in extraordinary circumstances (a final piece of risk mitigation following TRA)

Different Levies

ILR

- Relies on three estimated quantities
- Takes difference between estimated costs and income within a quarter
- Divided by estimated supply so ILR is a volumetric charge
- Charged on a daily basis across each levy quarter

How do we determine the Interim Levy Rate?

$$\frac{EOC - EOI}{EOS}$$

- EOC is the estimated quarterly obligation period payment cost
- EOI is the estimated quarterly obligation period income
- EOS is the estimated quarterly obligation period electricity supply

TRA

- Designed so that there is a 95% chance that LCCC will be able to make CFD payments in time using only ILR and TRA
- Acts as risk mitigation to account for the levy rate being set too low (i.e. actual costs are above the estimate)
- TRA is shared among suppliers based on their recent market share, to form individual Supplier Reserve Amounts
- Taken as MWh supplied against the total MWh demand within a set reference period
- The Reference Period is the 30 calendar days for which there is metered data, prior to the date on which the Total Reserve Amount is determined by the LCCC.
- Charged at the start of each quarter
- There is a reconciliation each quarter so that when funds are not forecast to be needed they are returned to suppliers

Operational Costs Levy

- From 1 August 2014, the operational costs of LCCC are funded by suppliers through the Operational Costs Levy
- This is invoiced daily based on a supplier’s gross demand multiplied by the Operational Costs Levy rate set out as a daily per MWh rate in the Supplier Obligation Regulations.

If we introduced a buffer fund to BSUoS, could a similar approach to TRA be used?

Regulatory documents and responsible parties

- The **Energy Act 2013** sets out the legislative framework for delivering secure, affordable and low carbon energy. This includes provisions for to establish a Contracts for Difference (CFD) scheme.
- The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 establish a mechanism to allow the CFD Counterparty to raise funds from all licensed electricity suppliers in Great Britain to pay for the liabilities that it has to make for payments to electricity generators under the Contracts for Difference scheme, and to return money to suppliers where appropriate.
- Electricity Supplier Obligations (Amendment & Excluded Electricity) Regulations 2015 introduce exemptions for electricity intensive industries and renewable imported electricity from supplier obligation costs; set the operational costs levy for the period from 1st April 2015 to 31st March 2016; and make minor and technical amendments to the supplier obligation regulations.
- BSC Amendments (draft) set out the arrangements that will enable the CFD Counterparty (LCCC) to identify electricity supplied to eligible EIIs to apply the EII exemption.

- The Low Carbon Contracts Company (the LCCC) is a company owned by the Secretary of State for Energy and Climate Change that has been designated as the CFD Counterparty. The LCCC will sign and manage CFDs, set the supplier obligation interim rate and reserve amount, and oversee the Settlement Services Provider.
- The EMR Settlement Services Provider will deliver settlement for the Contract for Difference (CFD) and the Capacity Market (CM) on behalf of the Low Carbon Contracts Company and the Electricity Settlements Company (the CM Settlement Body).
- Department for Business Innovation and Skills (BIS) are responsible for developing and administering the policy for exempting energy intensive industries from CfD costs, and other schemes for compensating energy intensive industries for the cost of renewable and low carbon support policies.