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## Response on proposed approach to calculating supplier demand for EMR charging

This circular provides **licensed electricity suppliers** with an update on our consultation on the proposed approach for calculating the supplier demand for EMR charging. The consultation was issued on Thursday 16 October 2014 and communicated via [EMRC20](#).

The response confirms the approach to be taken to calculate the supplier demand for **Contracts for Difference** (CFD) charging. For **Capacity Market** (CM) we are still working on resolving some of the issues that were raised by the consultation. We'll confirm once these issues have been resolved (at which point we will also publish a more detailed response).

### Who does this impact?

This will be of interest to all **licensed electricity suppliers**, as it confirms which BM Units will be used to calculate a supplier's demand for CFD charging. This begins with the calculation of reserve payments for the April-June 2015 obligation period, which we are required to carry out before 1 January 2015.

## THE CONSULTATION RESPONSE

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### What issues were identified in consultation responses?

We'd like to thank the four licensed suppliers who responded to the consultation. We are still considering the issues raised that are relevant only to the CM, and will provide an update on these early in January. Below summarises those areas we identified from the responses that are relevant to CFD.

Two of the responses raised questions on our proposed treatment of electricity imported by power stations for which the Lead Party of the BM Unit(s) holds both supply and generation licences. The approach we consulted on can be summarised as follows:

- Where such a party has registered a BM Unit that records electricity imported to a premise occupied for purposes of operating a **Licensable** power station, we **would not** include the import in the calculation of that supplier's demand, as it would not constitute supply for the purposes of the relevant legislation; but
- Where such a party has registered a BM Unit that records electricity imported to a premise occupied (whether by that party or a third party) for purposes of operating an **Exemptable** power station, we **would** include the import in the calculation of that supplier's demand, as it would constitute supply for the purposes of the relevant primary legislation.

One of the consultation responses challenged this approach, asserting that the terms of a generation licence apply to, and therefore authorise, all of that generator's generation activities, irrespective of the size of the generating plant; and that therefore such a party should not be deemed to 'supply' electricity

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to any premise they occupy for the purpose of generation activities (irrespective of whether the generating station is Licensable or Exemptable).

We have sought clarification on this point from the Low Carbon Contracts Company (LCCC), who have advised us (after considering the relevant legislation and licences) that we should proceed on the basis on which we consulted i.e. include in the calculation of demand any import to Exemptable generating stations.

Another consultation response questioned why we were proposing to apply Transmission Loss Multipliers (TLMs) to CFD metered volumes. The reason BSCCo is adjusting metered volumes for transmission losses is that this is consistent with BSC Configurable Items (NETA IDD Part 2 and SAA URS<sup>1</sup>) that require the BSC Settlement Administration Agent (SAA) to provide the CFD Settlement Services Provider with a report of TLM-adjusted gross demand. These provisions in the BSC Configurable Items were directed by DECC, after consultation with parties, and appropriate changes were made to the SAA system in the June 2014 BSC Systems Release<sup>2</sup>.

We were also contacted by an individual who did not submit a formal consultation response, but who asked us to verify whether BM Unit E\_MANXENR-1 should be treated as chargeable. This BM Unit represents the Distribution Interconnector linking the UK to the Isle of Man. It is not registered as an Interconnector BM Unit, because the BSC Panel has granted a Derogation in accordance with BSC Section K5.2<sup>3</sup>. But it nonetheless represents an Interconnector, and any electricity exported through it is not supplied to premises in Great Britain. We therefore agree with the respondent that this BM Unit should not be included in the calculation of supplier gross or net demand for purposes of EMR.

In summary, having considered the consultation responses received (and sought direction from LCCC where appropriate) we have not identified any issues that would require us to change the overall approach on which we consulted (other than the specific issue on Distribution Interconnectors with Derogations under BSC section K5.2<sup>4</sup>, which we should not be treating as chargeable for CFD purposes). We have however made a few minor corrections to the list of chargeable BM Units (in Appendix 2 to the consultation<sup>5</sup>), and these are listed below.

## UPDATE ON THE LIST OF BM UNITS THAT ARE CHARGEABLE FOR CFD PURPOSES

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### What errors have we corrected in the list of chargeable BM Units?

As part of our preparation for issuing reserve payment notices to suppliers, we have been automating the process of identifying which BM Units to include in the calculation of supplier gross demand. This automation has identified two errors in the list of BM Units we included in our consultation document<sup>6</sup>:

- The consultation document identified BM Units T\_RRWW-1 and T\_RREW-1 as licensable generation. In fact they are Exemptable generation, and therefore the consultation document should have categorised them as 'CFD' (meaning that any station load will be included in the calculation of gross demand for CFD charging purposes), rather than 'LICENSED GEN'.

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<sup>1</sup> <http://www.elexon.co.uk/bsc-related-documents/related-documents/interface-definition-documents/>

<sup>2</sup> <http://www.elexon.co.uk/ord/ord005-electricity-market-reform/>

<sup>3</sup> [http://www.elexon.co.uk/wp-content/uploads/2014/09/Section\\_K\\_v36.0.pdf](http://www.elexon.co.uk/wp-content/uploads/2014/09/Section_K_v36.0.pdf)

<sup>4</sup> [http://www.elexon.co.uk/wp-content/uploads/2014/09/Section\\_K\\_v36.0.pdf](http://www.elexon.co.uk/wp-content/uploads/2014/09/Section_K_v36.0.pdf)

<sup>5</sup> <http://emrsettlement.co.uk/documents/2014/10/consultation-proposed-approach-calculating-supplier-demand-emr-charging.pdf>

<sup>6</sup> <http://emrsettlement.co.uk/documents/2014/10/consultation-proposed-approach-calculating-supplier-demand-emr-charging.pdf>

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- The consultation document identified BM Unit T\_WILCT-1 as chargeable, but in fact the Lead Party of this BM Unit is not a Licensed Supplier, and therefore demand at this BM Unit cannot be included in the calculation of payments under the Supplier Obligation. The consultation document should have categorised this BM Unit as 'NON-SUPPLIER' rather than 'CFD + CM'.

## Have changes happened to registration data that impact the BM Unit list?

The list of BM Units we consulted on was based on BM Unit registration data at 1 October 2014, and clearly as registration data changes this may affect which BM Units can be taken into account for purposes of the EMR Supplier Obligations. For example, registration data indicates BM Unit T\_BOWLW-1 ('Barrow Offshore Wind') changed its Lead Party from British Gas Trading Ltd ('BRITGAS') to Barrow Offshore Wind Limited ('DONG009') with effect from 18 November 2014. Barrow Offshore Wind Limited is not a licensed Supplier, and therefore this BM Unit will be treated as non-chargeable for EMR purposes with effect from 18 November 2014. However, electricity imported by this BM Unit prior to 18 November will still be taken into account when calculating reserve payments, to the extent that the thirty-day reference period includes such days.

## Updated list of chargeable BM Units

An updated list of CVA BM Units that are chargeable for CFD purposes is available [here](#)<sup>7</sup>. As explained above, this list differs from that we consulted on in the following respects:

- BM Units E\_MANXENR-1, T\_WILCT-1 and T\_BOWLW-1 have been removed; and
- BM Units T\_RRWW-1 and T\_RREW-1 have been added.

This list is a snapshot (as of 1 December 2014), and will continue to change as registration data changes. When we calculate suppliers' reserve payments we will take into account any such subsequent changes to registration data (to the extent that they affect the 30-day reference period used in the calculation).

## HOW WILL SUPPLIERS' DEMAND BE CALCULATED FOR CFD CHARGING?

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As described above, our approach to charging remains unchanged from that we consulted on. For reference, this section of the Circular summarises the approach.

The fundamental requirement underlying our approach is that it must correctly implement the **Contracts for Difference (Electricity Supplier Obligations) Regulations 2014**<sup>8</sup>, which require that suppliers' CFD charges and credit cover requirements should be determined based on the amount they have supplied to premises in Great Britain.

### Supplier BM Units

This is straightforward for supplier BM Units, because 'Active Import' is separated from 'Active Export' in SVA with separate Metering System IDs (MSIDs) and Consumption Component Classes. The Supplier Volume Allocation Agent (SVAA) system has been amended to sum the Active Import data and report it as BM Unit gross demand for use in CFD Settlement.

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<sup>7</sup> <http://emrsettlement.co.uk/documents/2014/12/revised-chargeable-cfd-bm-unit-list.pdf>

<sup>8</sup> [http://www.legislation.gov.uk/ukxi/2014/2014/pdfs/ukxi\\_20142014\\_en.pdf](http://www.legislation.gov.uk/ukxi/2014/2014/pdfs/ukxi_20142014_en.pdf)

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## Other BM Units

For other BM Units, we'll calculate the BM Unit gross demand from the BM Unit Metered Volume ( $QM_{ij}$ ). BM Unit Metered Volumes will be included in BM Unit gross demand (and hence treated as chargeable for CFD purposes) if:

- BM Unit Metered Volume is negative (in that Settlement Period);
- Lead Party for the BM Unit holds a supply licence;
- It is not an Interconnector BM Unit (or Distribution Interconnector with a derogation from the requirement to register Interconnector BM Units); and
- The premises are not being occupied for the purposes of operating a Licensable Generating Plant.

The relevant Transmission Loss Multiplier will be applied to gross demand in BSC systems.

## What is the approach for how sites are treated for CFD Charging?

The following table summarises whether and how different types of site will be treated for purpose of the CFD charging.

| Type of Premise  | CMRS/SMRS | Treatment for CFD Charging   |
|--|-----------|--|
| Licensable Power Station                                     | CMRS      | Outside of scope - BM Units registered at a Licensable Power Station relate to the party's Generation Licence rather than their Supply Licence.                      |
| Transmission-connected premise with Exemptable Power Station | CMRS      | Where the BM Unit Metered Volume is negative (i.e. $QM_{ij} < 0$ ) it will be included in CFD chargeable demand (after adjustment for Transmission Loss Multiplier). |
| Transmission-connected premise with no generation            | CMRS      |  |
| Distribution-connected premise with Exemptable Power Station | CMRS      |  |
| Distribution-connected premise with no generation            | CMRS      |  |
| Distribution-connected premise with Exemptable Power Station | SMRS      | Active Import (adjusted by GSP Group Correction Factor, Line Loss Factor and Transmission Loss Multiplier) will be included in supplier's chargeable demand.         |
| Distribution-connected premise with no generation            | SMRS      |  |

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Note that this only applies where the party registering the Metering Systems (and BM Unit) is a Licensed Supplier (non-suppliers are not subject the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014.

## What will happen next?

The following steps include:

- Resolve the issues raised relevant to supplier charging under the CM
- Publish a more detailed response to all issued raised by the consultation
- Publish a guidance document, using content from this circular, which explains how supplier demand is derived for the purposes of EMR charging.

## Where can I get more information?

Find out more about our role in EMR on the [EMR Settlement website](#). If you have any further questions about this Circular, please email [contact@emrsettlement.co.uk](mailto:contact@emrsettlement.co.uk).