
TYPE & NUMBER EMR Circular 125

Date 22 June 2017

To EMR Circular List

From EMR Settlement Limited

Purpose For information

Reminder: Regulations change to the CFD Supplier Obligation

EMRS, on behalf of the [Low Carbon Contracts Company](#) (LCCC) would like to remind **Suppliers** that from the **1 July 2017**, the [Electricity Supplier Payments \(Amendment\) Regulation 2017](#) brings in changes to the CFD Supplier Obligation.

These changes are:

- the payment terms for the Quarterly Supplier Reconciliation Invoice reduce from 90 calendar days to five working days (WDs);
- LCCC can reduce the Total Reserve Amount (TRA) under certain conditions if it considers the amount is too high; and
- the period over which the TRA is calculated is offset such that it aligns with the period over which ILR payments are received.

These changes were consulted upon through the [Contracts for Difference Supplier Obligation: Improving efficiency and transparency consultation](#) and the outcomes were published in January 2016.

To support the first two changes, EMRS has successfully deployed the necessary changes to the EMR Settlement System and operational processes.

Who does this impact?

Suppliers will be positively impacted by these changes. Reducing the payment terms will help Suppliers' cash-flow, as LCCC will only be holding Reserve Payment in respect of a single quarter. Further, LCCC can reduce the TRA, thus not over collecting monies from Suppliers. Time restrictions apply to when the TRA can be reduced.

What changes occur with the reduced payment terms?

Currently, the Quarterly Supplier Reconciliation Invoice includes the next Reserve Payment, and given that the payment has a 90-day payment term, Suppliers have sufficient time to manage their cash-flow. However, as the payment term reduces to five WDs, Suppliers will no longer get advanced warning from the invoice.

To give Suppliers a full quarter's warning of their next Supplier Reserve Payment a new notice has been created. This notice will be sent out by the eighth WD of the quarter (together with the Quarterly Supplier Reconciliation Invoice) and will specify the Reserve Payment that the Supplier will need to pay for the following quarter.

The Quarterly Supplier Reconciliation Invoice is also used for refunding the Reserve Payment for the previous quarter, and for paying the current quarter's Reserve Payment. Reducing the payment term will help Suppliers' cash-flow, as LCCC will only be holding Reserve Payment in respect of a single quarter.

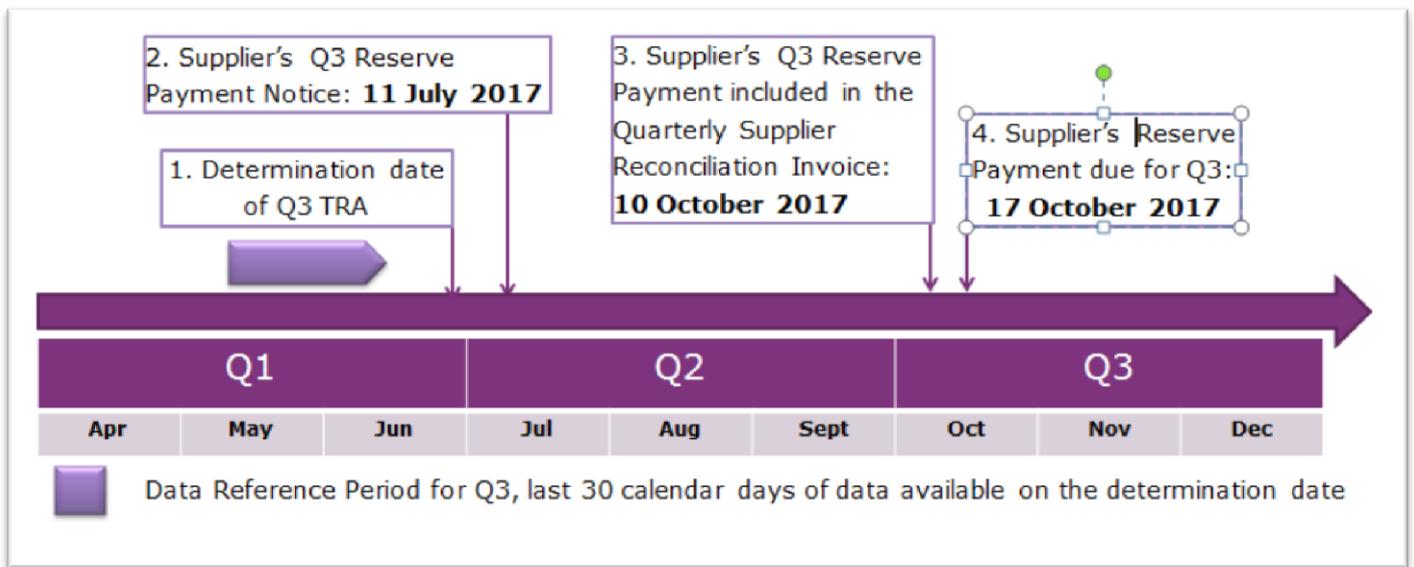
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Suppliers will pay their Reserve Payment for the current quarter within five WDs, and similarly LCCC will need to pay back Suppliers their Reserve Payment for the previous quarter within the same timeframe. The monies will be netted off with any other amounts included in the Quarterly Supplier Reconciliation Invoice.

The Quarterly Supplier Reconciliation Invoice will still be issued by the eighth WD of each quarter (together with the new notice), and both payments will therefore be due on the 13th WD.

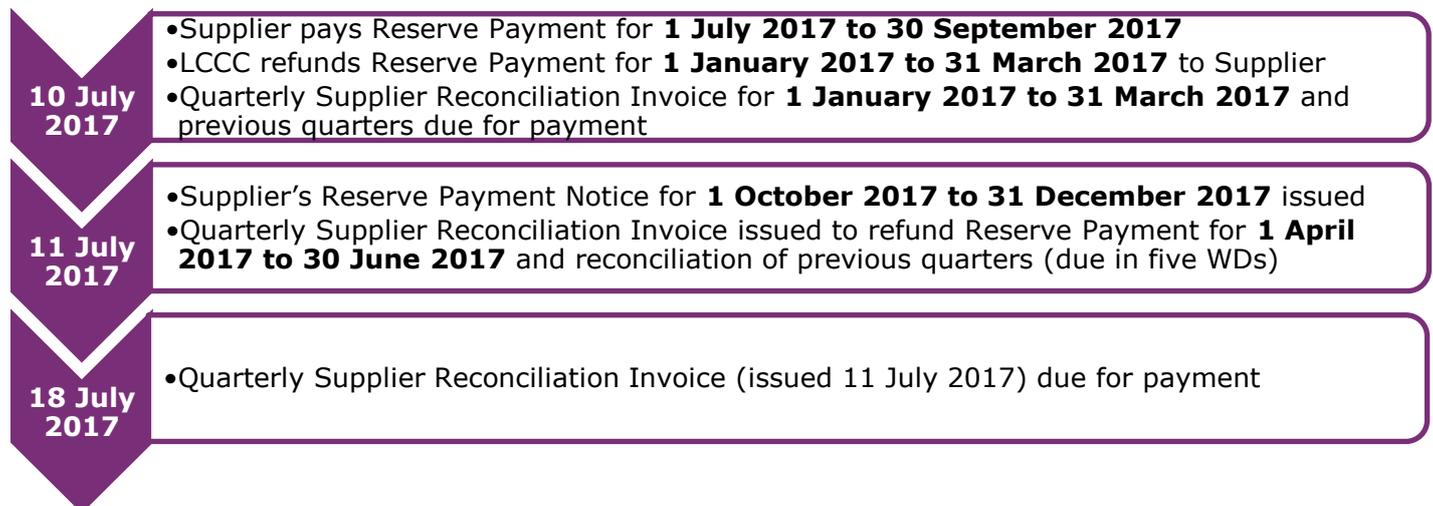
When will the Reserve Payment be notified, invoiced and payment due?

For the **1 October 2017 to 31 December 2017** Quarterly Obligation Period, the below diagram illustrates when a Supplier will be notified, invoiced and when the payment is due.



How do we transition to the shorter payment timescales?

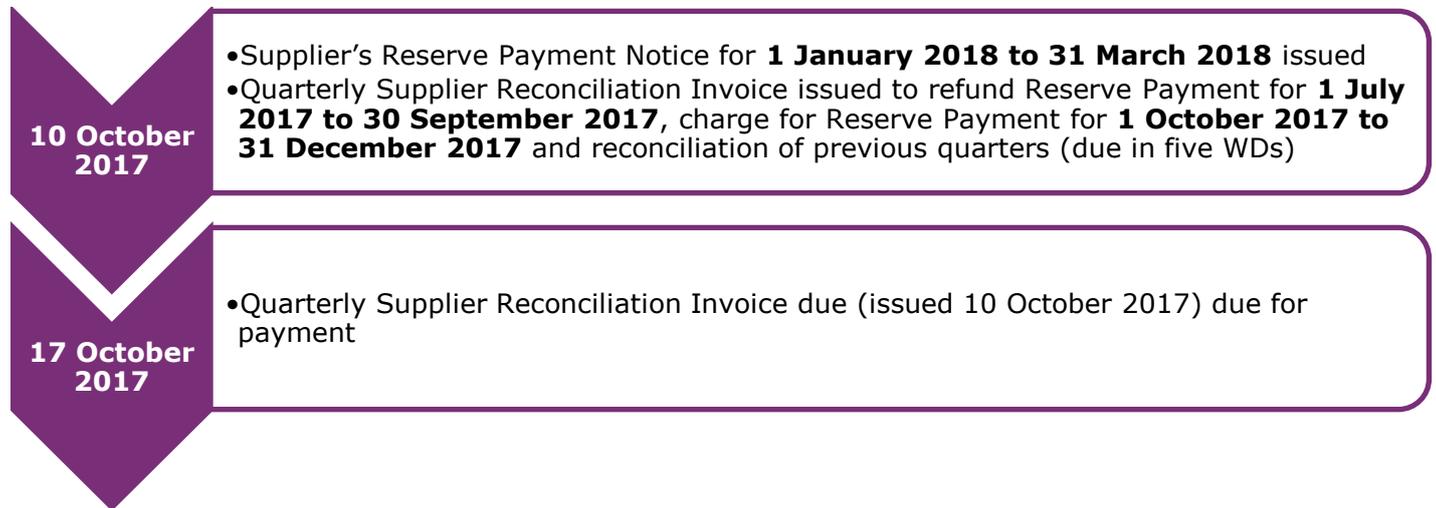
For the **1 July 2017 to 30 September 2017** Quarterly Obligation Period the below illustrates the activities to transition to the shorter payment timescales.



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The shorter payment terms for the Quarterly Supplier Reconciliation Invoice and the new notice confirming the Supplier Reserve Payment will apply.

For the **1 October 2017 to 31 December 2017** Quarterly Obligation Period the below illustrates the activities to transition to the shorter payment timescales.



This now aligns all the payment dates as the change proposed.

What will happen if LCCC reduces the TRA?

The reduction can only be made after the Reserve Payment notice has been issued to Suppliers (by the eighth WD of the prior quarter), and up until the point the subsequent invoice (by the eighth WD of the relevant quarter) is issued. Note that the Reserve Payment is included in the Quarterly Supplier Reconciliation Invoice.

When calculating each Supplier's share of the reduced TRA, the same data that was used for the original calculation is re-used. This will use the same 30-day reference period using the same metered data (Initial (SF) Volume Allocation Run).

A new notice will be issued to Suppliers, and this will supersede any earlier notice. The notice will refer explicitly to the fact that the TRA has been reduced, and it will state the new total TRA, as well as the lower Reserve Payment for the Supplier.

What is the period the TRA is calculated over changing to?

LCCC will now calculate the TRA such that it aligns with the period in which ILR payments are received; this change shifts the TRA period 12 WDs with respect to the relevant Quarterly Obligation Period. The change reduces the amount of TRA required to provide cash-flow protection to LCCC.

TRA is calculated for a given quarter to provide sufficient revenue to be able to pay CFD Generators in 19 out of 20 scenarios within that quarter. However, because of the different lags between ILR received (+12 WDs) and CFD Generators paid (+28 Calendar Days), a significant proportion of the TRA is required solely to manage cash-flow. By aligning the TRA to the ILR payments received this amount is significantly reduced.

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What documents will be updated and when will these be published?

The following documents will be updated to reflect these changes:

- WP1 – Overview of EMR Settlement
- G3 – CFD Reserve Payment
- G16 – Supplier CFD Payments
- G41 – Late Payment Procedure
- EMR Settlement Calendar

These documents will be published on **1 July 2017** for when these changes come into effect.

Where can I get more information?

If you have any questions about this circular, please email contact@emrsettlement.co.uk or call us on 020 7380 4333.