

CIRCULAR

TYPE & NUMBER EMR Circular 201

Date 5 March 2020

Purpose For information

New Strike Price Adjustment calculation to manage Allocation Round 3 contracts

EMRS, on behalf of [Low Carbon Contracts Company](#) (LCCC) would like to inform **CFD Generators** that the EMRS systems and processes have been updated to reflect the new Strike Price Adjustment (SPA) calculation for all Allocation Round 3 (AR3) contracts only. The AR3 SPA calculation has been implemented as per [conditions 14.4 and 20.4 of the Standard Terms and Conditions of the Contract for Difference for AR3](#).

SPA calculation remains unchanged for Allocation Round 1, Allocation Round 2 and Investment Contracts. This circular provides further details on the new SPA calculation for AR3.

What is different about the New Strike Price Adjustment calculation for AR3?

The new AR3 SPA calculation differs from the original as it now separates the two parameters from the adjustment calculation:

- Balancing System Charge Strike Price Adjustments.
- Average Transmission Loss Multiplier Charge (TLM(D)) Strike Price Adjustments.

These parameters are already identified in the existing process for the current SPA calculation, are used in the sum of the SPA part of the calculation and are first deflated before being inflated. For AR3 contracts only, these parameters are now removed from the sum of SPA (pursuant to Condition 46 (Balancing System Charge) or Condition 47 (TLM(D) Charges) and calculated separately and added on for the contracts where these are applicable.

The AR1, AR2 and Investment Contract calculations will run in parallel to the new AR3 calculation. The current invoicing processes that are in place for AR1, AR2 and Investment Contracts will not change and will be used for the AR3 calculations.

The full calculation is detailed in [condition 14.4 and 20.4 of the standard terms and conditions of the Contract For Difference for AR3](#).

Will any changes occur to the Strike Price Adjustments spreadsheet?

The new SPA calculation for AR3 does make changes to the SPA spreadsheet. The below table confirms the new columns titles and description of these.

New Column Title	Description
Sum of Balancing System Charge Strike Price Adjustments	Includes all prior year Balancing System Charge Strike Price Adjustments and the Balancing System Charge Strike Price Adjustment set out in that year's Balancing System Charge Report. This takes effect from CFD EfD Year 1.
Sum of all Balancing System Charge Adjustments from year "base" to "y-1"	Includes the previous year for any and all CFDs with an AR3 contract. This takes effect from CFD EfD Year +1.

CIRCULAR

New Column Title	Description
Sum of Transmission Loss (TLM(D))Strike Price Adjustments	Includes all prior year TLM(D) Strike Price Adjustments and the TLM(D) Strike Price Adjustment set out in that year's Transmission Loss Charges Report. This takes effect from CFD EFD Year 1.
Sum of all TLM(D) Adjustments from year "base" to "y-1"	Includes the previous year for any and all CFDs with an AR3 contract. This takes effect from CFD EFD Year +1.
Sum of one-off Strike Price Adjustments in base terms	Includes the one-off Strike Price Adjustments prior to any inflation adjustment.

Any CFDs which do not follow the AR3 SPA Calculation methodology will not have a value in these columns.

Why is the Strike Price adjusted?

Each year the Strike Price Adjustments are calculated for the CFD contracts, which then apply from the relevant Indexation Anniversary. The purpose of these adjustments is to keep the Strike Prices aligned with movements in CPI inflation and electricity market charges (if applicable in the CFD contract).

Where can you locate the Strike Price Adjustments spreadsheet?

CFD Generators can locate the Strike Price Adjustments spreadsheet on the EMRS website in the [Settlement Data section for CFD Generators](#).

The CFD Register also confirms the individual Strike Price for each CFD Generator. These are updated upon the publication of the Strike Price Adjustments spreadsheet in early April 2020. The [CFD Register](#) is available on the LCCC website.

Further information

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