

G15 – Capacity Market Supplier Payments

EMRS Guidance

Public

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Change Amendment Record

Version	Date	Description
1.0	07 March 2017	Go Live Version
2.0	28 September 2017	Invoices for reconciled Settlement Cost Levy and Supplier Charge to cover the difference between the new and original amount Cosmetic changes to document
3.0	01 March 2018	Capacity Market Supplier Charging using Gross Demand data

1. Introduction

All Suppliers are required to fund the Capacity Market (CM) arrangements through the Settlement Costs Levy and the Capacity Market Supplier Charge. Suppliers may also receive monies in certain circumstances, such as, reconciliation payments or after Capacity Providers have paid Penalty Charges. This guidance note will give Suppliers information on what the Capacity Market payments are for, how they are calculated and when to expect the associated invoices or credit notes.

2. Purpose

The purpose of this document is to answer the following questions:

- What Supplier payments are required for the Capacity Market? Why are they needed?
- How are Settlement Costs Levy Payments calculated?
- How are Capacity Market Supplier Charge Payments calculated?
- How is the Residual Supplier Amount calculated and distributed?
- If I am new to the market when can I expect to make my first payment?
- What happens if I don't pay?
- What are the key differences when compared to Contracts for Difference Payments?

3. Who is this document for?

This guidance is relevant for all Suppliers.

4. Associated documents

This document should be read in conjunction with the following Working Practices¹ and Guidance² documents:

- WP1- Overview of EMR Settlement
- WP5 – Supplier Capacity Market Demand Forecast
- WP41- Late Payment Procedure
- WP45 – CM Credit Cover
- G2 – Calculation of Supplier Demand for Charging
- G12 – Supplier Capacity Market Demand Forecast
- G14 – Capacity Market Supplier Credit Cover

¹ <https://www.emrsettlement.co.uk/publications/working-practices/>

² <https://www.emrsettlement.co.uk/publications/guidance/>

5. What Supplier payments are required for the Capacity Market? What are they for?

i – For all CM Calculations a Supplier’s market share is based on Gross Demand between 4pm and 7pm on Working Days from the start of November to the end of February (Peak Period).

An overview of the Capacity Market payments for Suppliers, including brief descriptions, is given in Figure 1: Capacity Market Supplier Payments.

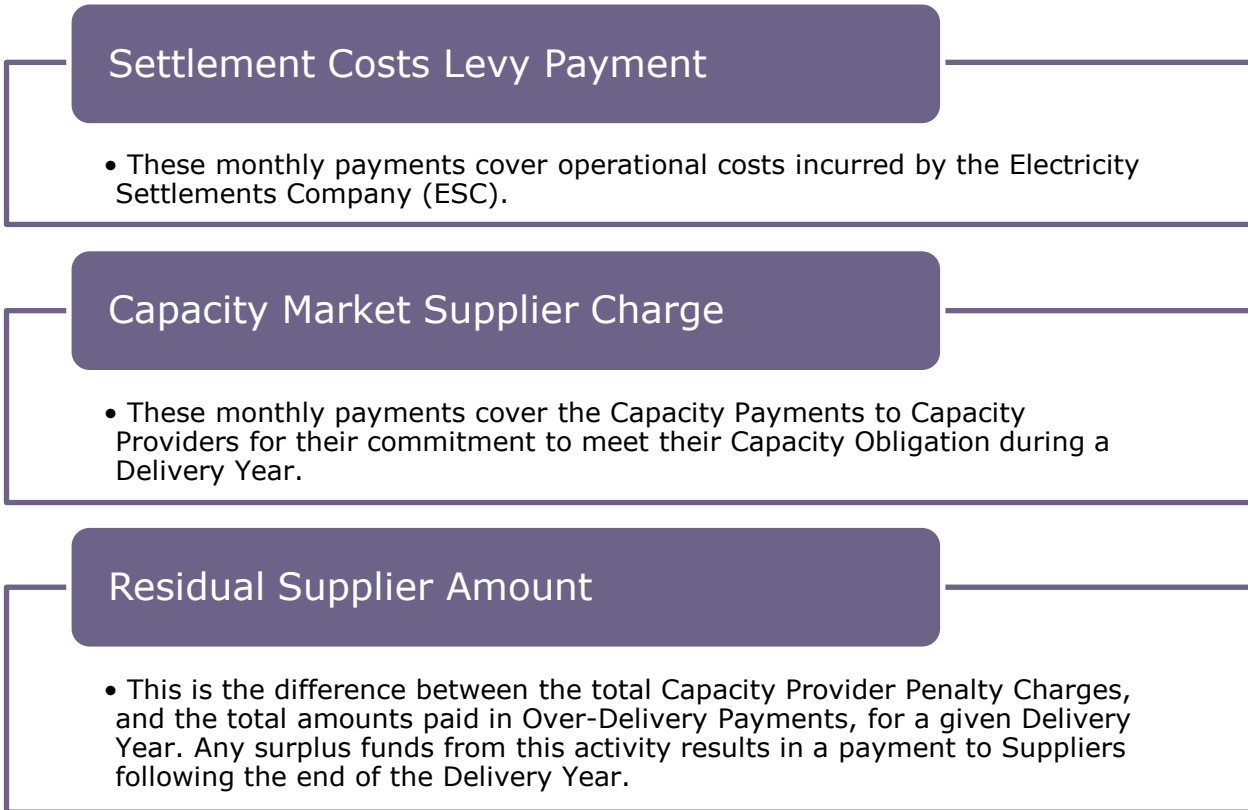


Figure 1 - Capacity Market Supplier Payments

Capacity Provider Payments and Charges

There are also a number of payments and charges applicable to Capacity Providers which are linked to Supplier Payments. These are described in detail in EMRS Guidance Document G17 Capacity Provider Payments³ but for information purposes are outlined below:

- **Capacity Payments** - These are made to Capacity Providers for their commitment to meet their Capacity Obligations during the Delivery Year and are funded by Suppliers via the Capacity Market Charge described in Diagram 1.
- **Capacity Provider Penalty Charges and Over-Delivery Payments** - If a System Stress Event occurs, Capacity Providers that fail to meet their obligations under their Capacity Agreement will be subject to financial penalties (Penalty Charges) and alternatively, if they over deliver they will receive additional payments Over-delivery Payments. The penalties collected are used to fund the Over-Delivery Payments. If there is any surplus remaining once all Over-Delivery Payments have been made following the end of the Delivery Year this is distributed between Suppliers via the Residual Supplier Amount described in Figure 1.

³ <https://www.emrsettlement.co.uk/publications/guidance/>

6. How are Settlement Costs Levy Payments calculated?

Note: Market Share was previously based on Net Demand for the Periods of High Demand, 4pm - 7pm working days from November to February. For the Financial Year beginning **1 April 2018**, Market Share will be based on Gross Demand for the Periods of High Demand, 4pm – 7pm, working days, November to February. Previous Financial Years will remain using Net Demand.

The ESC produces a Financial Year forecast of the operational costs it (and its subcontractors, including EMR Settlement Ltd (EMRS)) will incur in advance of each Financial Year. This forecast forms the basis of the Settlement Costs Levy which is charged to Suppliers over the Financial Year based on their market share.

Government consults in autumn each year for the following year’s Total Settlement Costs Amount e.g. October/November 2015 for the 2016/17 amount. The final agreed figure is published in amended regulations three months before it starts to be collected from 1st April.

A Supplier’s monthly Settlement Costs Levy payments are initially determined using the Supplier’s market share from the previous Financial Year. Only the SF Run data is used. The Suppliers monthly contributions are determined using the calculation outlined in Figure 2: Methodology to Calculate a Supplier’s Settlement Costs Levy Payments.



Figure 2 - Methodology to Calculate a Supplier’s Settlement Costs Levy Payments

For example:

- Total SCL: **£6,241,000**
- Suppliers Gross Demand for a Delivery Year: **218,747MWh**
- All Suppliers Gross Demand for a Delivery Year: 10.937×10^6 **MWh**

Calculation: $(6,241,000 \times (218,747 \div 10,937,000)) \div 12 = \mathbf{£10,402.00 \text{ per month}}$

Suppliers are sent a schedule of their monthly Settlement Costs Levy payments prior to the start of the Financial Year, typically in the preceding March. Suppliers will be invoiced for these amounts on the first Working Day of each month during the Financial Year and have five Working Days to make payment. This Monthly Supplier Invoice also includes the Capacity Market Supplier Charge, as well as any Mutualisation Payments or Late Payment Interest if applicable. For more information on the CM Supplier Invoices please refer to Appendix 3 –CM Invoices/Credit Notes and CM Payments.

Settlement Costs Levy Revision

At the end of the Financial Year the Settlement Costs Levy is recalculated once Gross Demand data for the SF Run is available for all Periods of High Demand within the Financial Year (i.e. once SF Run data for the last day of February is available). It may be that the recalculated Settlement Cost Levy differs from the original calculation. In this case, the difference between what was originally invoiced and the revised amount will either be invoiced or returned to the Supplier via a Credit Note. Credit Notes are issued to applicable Suppliers, following the end of the Financial Year, after the Settlement Costs Levy Revision Invoice payment due date. This allows for the credit due to be recalculated in the case that not all invoice payments are received in full. This is in accordance with Regulation 9(7) of The Electricity Capacity (Supplier Payment etc.) Regulations 2014 (as amended)⁴.

⁴ <http://www.legislation.gov.uk/ukxi/2014/3354/regulation/9/made>

7. How are Capacity Market Supplier Charge Payments calculated?

Note: Market Share was previously based on Net Demand for the Periods of High Demand, 4pm - 7pm working days from November to February. For the Delivery Year beginning **1 October 2018** Market Share will be based on **Gross Demand** for the Periods of High Demand, 4pm – 7pm, working days, November to February. Previous Delivery Years will remain using Net Demand.

The Capacity Market Supplier Charge is used to pay Capacity Payments to Capacity Providers over the Delivery Year.

The Supplier Charge Payments are apportioned between each Supplier based on its market share of Gross Demand for the Periods of High Demand (Peak Period). A monthly weighting factor is applied for each month to reflect the varying amount of Capacity Provider Payments being made over the Delivery Year e.g. the highest payments are paid where demand is highest during the year and the lowest where demand is lowest. The weighting factors used can be found on the EMRS website in the Settlement Data Section⁵. The weighting factors are calculated using the methodology outlined in Schedule 1 of The Electricity Capacity Regulations 2014 as amended⁶. The Suppliers monthly contributions are determined using the calculation outlined in Figure 3: Methodology to Calculate the Capacity Market Supplier Charge Payment.



Figure 3 - Methodology to Calculate the Capacity Market Supplier Charge Payment

For example:

- Total Annual Capacity Provider Payments: **£22,026,939**
- Monthly Weighting Factor: **8.4%**
- Suppliers Gross Demand for a Delivery Year: **868,805.24 MWh**
- All Suppliers Gross Demand for a Delivery Year: **11,268,404 MWh**

Calculation: $22,026,939 \times 0.084 \times (868,805.24 / 11,268,404) = \mathbf{£142,657.12}$ for the month

This calculation is initially based on forecasts of Gross Demand⁷ during the Periods of High Demand provided by the Supplier no later than the 1st June preceding the start of the Delivery Year. Suppliers receive a Notice of the monthly payment amounts two months before the start of the Delivery Year at the same time that they receive the Credit Cover schedule for the Delivery Year ahead i.e. in July.

Suppliers' Supplier Charges are subsequently revised once actual data is available for the Periods of High Demand over the Delivery Year. The revised charges are applied from May to September and a notice of the revised payments, using actual data, is sent to Suppliers in March.

Similar to the Settlement Costs Levy payments, the Capacity Market Supplier Charge is invoiced on the first Working Day of each month of the Delivery Year, and has to be paid within five Working Days. This charge appears on the Monthly Supplier Invoice which also includes the Settlement Cost Levy Charge as well as any Mutualisation or Late Payment Charges if applicable. For more information on the CM Supplier Invoices please refer to Appendix 3 –CM Invoices/Credit Notes and CM Payments.

⁵ <https://www.emrsettlement.co.uk/publications/settlement-data/>

⁶ <http://www.legislation.gov.uk/ukxi/2014/2043/contents/made>

⁷ For further information on the Demand Forecast please see G12 – Supplier Capacity Market Demand Forecast <https://www.emrsettlement.co.uk/publications/guidance/>

Reconciliation

Regular reconciliations are conducted to take into account, improved data and changes to total Capacity Provider Payments⁸. These reconciliation runs are carried out up to three times for each month of a Delivery Year and consist of monthly and annual reconciliations. They are carried out no later than 90, 160 and 295 Working Days following the last day of the relevant month or Delivery Year⁹.

Separate Invoices and Credit Notes for the difference between what was originally invoiced and the new amount based on more recent data are generated for the reconciliation process. A full reconciliation timetable is available in the EMR Settlement Calendar on the settlement data page of the website¹⁰.


The link between the Supplier Charge and Credit Cover

Suppliers are required to lodge credit cover with the ESC, on a monthly basis, so that they are in a position to cover their Capacity Market Supplier Charge for the month in the event of the Supplier defaulting.

Suppliers are expected to lodge sufficient credit cover by no later than 12 Working Days before the commencement of each month during the Delivery Year¹¹.

Whilst the scheme allows Suppliers the flexibility to manage their Credit Cover position on a monthly basis, Suppliers may find it more convenient to simply lodge their maximum Credit Cover requirement for longer periods. This amount can be derived from the schedule of payments (and the revised version) issued by EMRS.

For more information please refer to EMRS Guidance Note G14 Supplier CM Credit Cover¹².

 – A Supplier is required to lodge Credit Cover, equivalent to 110% of its Monthly Supplier Charge, to cover payments in case of default.

8. How is the Residual Supplier Amount calculated and distributed?

If Capacity Providers under-deliver on their obligation during a stress event they will be penalised. If they over-deliver they will receive an Over-Delivery Payment. The Over-Delivery Payments are funded by the Penalty Payments received. If the amounts of Over-Delivery Payments are greater than the penalties then the Over-Delivery Payments will be scaled back proportionally for each Capacity Provider.

If the Over-Delivery Payments are less than the Penalties received then any Residual Penalty Amounts are distributed to Suppliers. If the amount of Over-Delivery Payments is equal to the penalties received then there would not be any Penalty Residual Amount to pay back to the Suppliers.

The Residual Supplier Amount is divided between Suppliers based on their payment share of Capacity Market Supplier Charges paid in the Delivery Year. The calculation used is outlined in Figure 4: Methodology to Calculate the Residual Supplier Amount.

⁸ For further information on reconciliation please see the replay of the Supplier Charges for the Capacity Market [Webinar](#) or the [slides](#).

⁹ The Electricity Capacity (Supplier Payment etc.) Regulations 2014 18
<http://www.legislation.gov.uk/uksi/2014/3354/contents/made>

¹⁰ <https://www.emrsettlement.co.uk/publications/settlement-data/>

¹¹ The Electricity Capacity (Supplier Payment etc.) Regulations 2014 (28)
<http://www.legislation.gov.uk/uksi/2014/3354/note/made>

¹² <https://www.emrsettlement.co.uk/publications/guidance/>

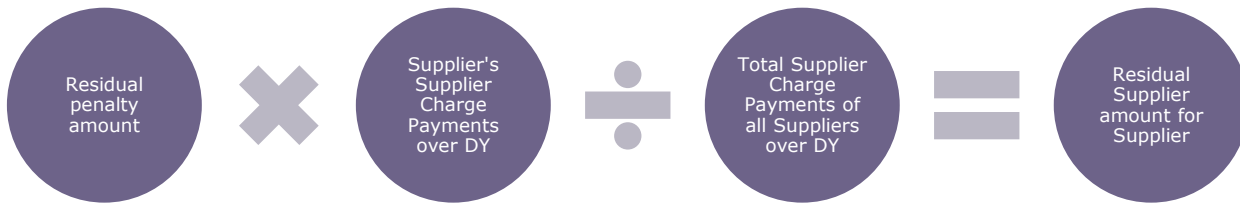


Figure 4 - Methodology to Calculate the Residual Supplier Amount

For example:

- Residual Penalty Amount: **£40,000**
- Supplier’s Supplier Charge Payments over for a Delivery Year: **£430,539**
- All Suppliers’ Supplier Charge Payments over for a Delivery Year: **£22,026,939**

Calculation: $(40000 \times (430,539 / 22,026,939)) = \mathbf{£781.84}$

The Residual Supplier Amount will be returned to Suppliers within 28 Working Days following the end of the Delivery Year, after the last of the penalty payments are due from Capacity Providers.

9. If I am new to the market when can I expect to make my first payment?

A Supplier’s first payment depends on when they first made a supply during the year. The timing of the first payment is different for Settlement Costs Levy Payment and Capacity Market Supplier Charge. Figure 5 outlines when a Supplier will need to make their first payment for each payment type.

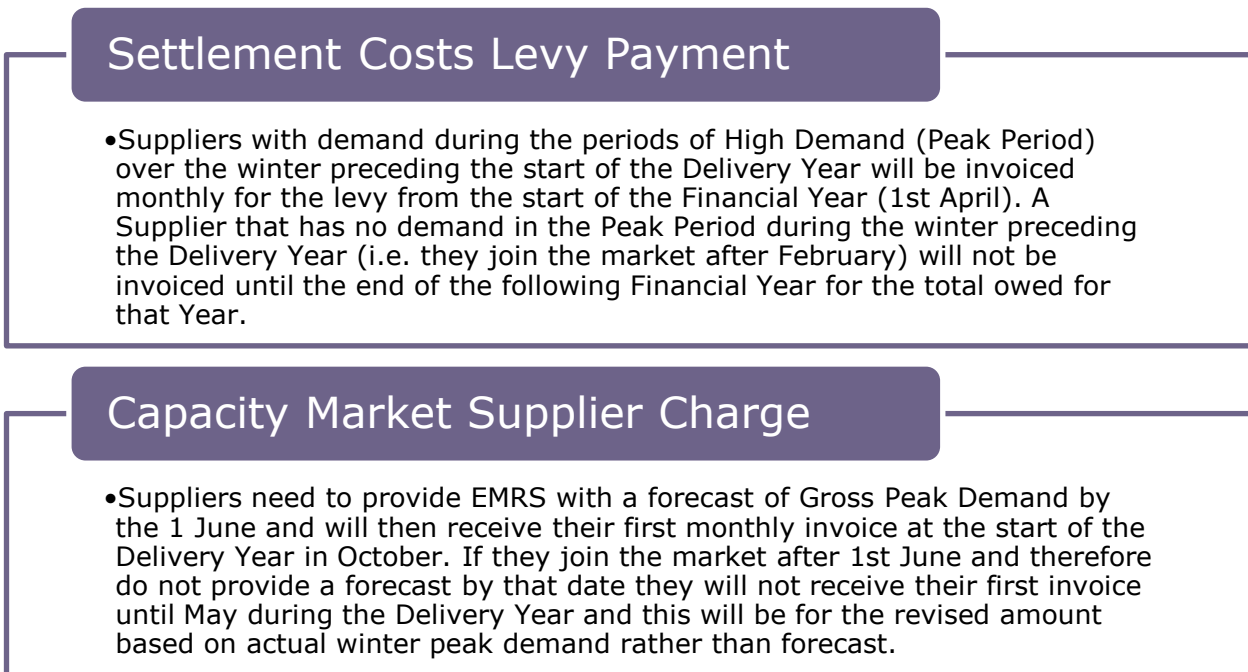


Figure 5 - Suppliers First Capacity Market Payments

10. What happens if I don't pay?

A Supplier's CM invoice payment term is five Working Days for all payments. Settlement Costs Levy and Supplier Charge amounts are invoiced on the first Working Day of each month. Where no payment has been received by the seventh Working Day a Credit Default notice is issued informing the Supplier that its Credit Cover will be drawn down to cover the outstanding amount, where on the ninth Working Day of the month it remains outstanding.

Credit Cover will only be drawn upon to cover the outstanding Capacity Market Supplier Charge amounts and not Settlement Costs Levy amounts.

Mutualisation

Suppliers must ensure that they have approved Credit Cover in place no later than 12 Working Days prior to the start of each month of the Delivery Year. If it is not in place nine Working Days prior to the start of the month the Supplier enters Stage One Credit Default. They are then given a further five Working Days to provide sufficient Credit Cover. Should they fail to do so the Supplier passes into Stage two Credit Default. At this point their outstanding charges are mutualised between the non-defaulting Suppliers¹³. A visualisation of this timeline can be found in Appendix 1 Timeline of CM Supplier Credit Cover Requirements.

The mutualised amount is shared between the non-defaulting Suppliers based on market share, which is based on either the forecasted or actual Gross Demand for the Periods of High Demand (Peak Period), depending where in the year the mutualisation occurs. The charge appears as a line on the Monthly Supplier Invoice which also contains the Settlement Cost Levy and the Capacity Market Supplier Charge as well as any Late Payment Interest.

Mutualisation continues until the Supplier pays all charges due, plus accrued interest, and meets the Credit Cover requirements; or the end of the Delivery Year. Should the supplier make good on its previous unpaid charges those Suppliers who took part in mutualisation will be returned the money during the reconciliation process.

11. What are the key differences and similarities when compared to Contracts for Difference Payments?

Table 1 highlights the key differences and similarities between Supplier Capacity Market Payments and Supplier Contract for Difference Payments.

Table 1 - Key Differences and similarities between Supplier Payments for CFD and CM

	Capacity Market	Contracts For Difference
How Frequent are the invoices?	Monthly & Annual	Daily and Quarterly
Demand Data Used	Gross Demand	Gross Demand
Credit Cover Requirements	Monthly Requirement	Daily Requirement

12. Need more information?

For more information, please visit our website www.emrsettlement.co.uk or email us at contact@emrsettlement.co.uk.

¹³ For further information on late payments please see WP41- Late Payment Procedure <https://www.emrsettlement.co.uk/publications/working-practices/>

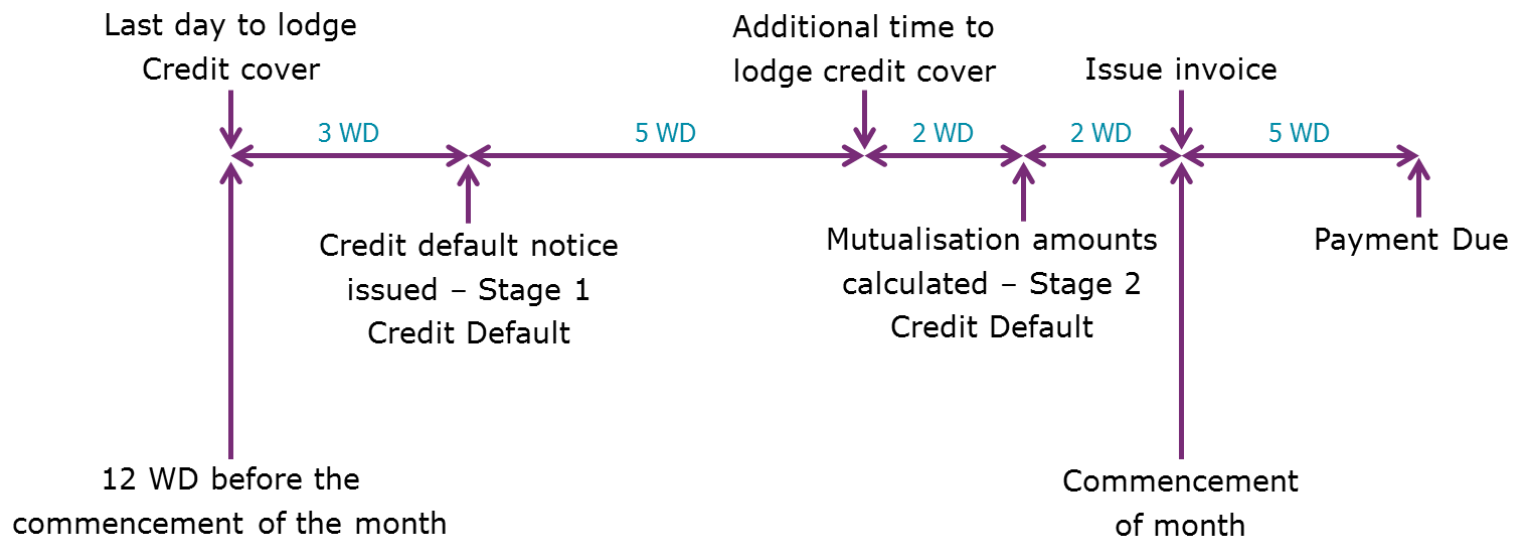
13. Acronyms and Definitions

A list of acronyms and definitions can be found in the 'Acronyms and Definition' document on our website¹⁴.

¹⁴ <https://emrsettlement.co.uk/publications/>

14. Appendix 1 - Timeline of CM Supplier Credit Cover Requirements

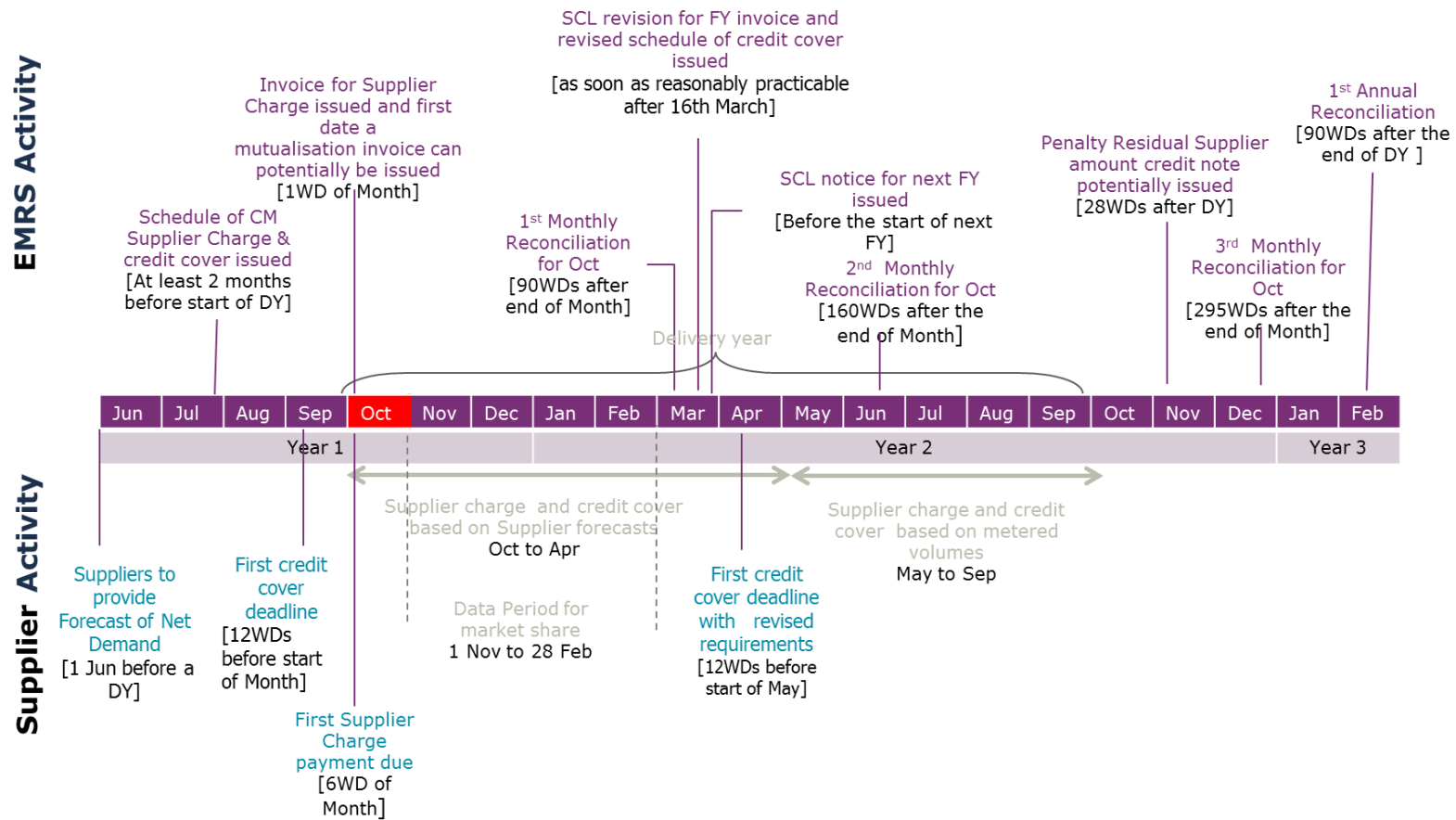
Suppliers must ensure that they have sufficient Credit Cover in place prior to the start of each month of the Delivery Year. Suppliers with insufficient Credit Cover lodged will be passed into Credit Cover Default and their outstanding charges will be mutualised between non-defaulting Suppliers. The timeline of events is outlined below.



For more information on CM Credit Cover requirements please refer to EMRS Guidance Document G14 - Capacity Market Supplier Credit Cover.

15. Appendix 2 - Key dates for CM Suppliers

This diagram shows the key dates associated with the Capacity Market for Suppliers.



16. Appendix 3 – CM Invoices/Credit Notes and CM Payments

Invoice/Credit Note	Issued	Frequency	Payments	Data Runs	Payment Terms
Monthly Supplier Invoice	First Working Day of the month	Monthly	Settlement Costs Levy	SF for Periods of High Demand preceding the Financial Year	five Working Day's
			Capacity Market Supplier Charge	Forecast or actual data for period of High Demand in the Delivery Year	
			Mutualisation Payment	Payment Share	
			Late Payment Interest	n/a	
Settlement Costs Levy Revision Invoice/Credit Note	March	Yearly	Revised Settlement Costs Levy	Actual data (SF) for period of High Demand in the Financial Year	
Monthly Supplier Charge Reconciliation Invoice/Credit Note	No later than 90, 160 and 295 Working Days following the relevant month or Delivery Year	Monthly	Reconciled Monthly Supplier Charge	Metered data from most recent Settlement Run	
			Mutualisation Credit	Payment Share	
Annual Supplier Charge Reconciliation Invoice		Yearly	Reconciled Annual Supplier Charge	Metered data from most recent Settlement Run	
			Reconciled Penalty Residual Supplier Amount		
			Mutualisation Credit	Payment Share	



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