

G16 – Supplier Contracts for Difference Payments

EMRS Guidance

Public

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Change Amendment Record

Version	Date	Description
V1.0	07 September 2016	Go Live Version
V2.0	07 March 2017	Updates to accommodate change in payment terms from 3 to 5 Working Days
V3.0	01 July 2017	Updates to reduce payment terms from 90 to 5 WD and include that LCCC can reduce the TRA (Sections 8, 9 & 11)
V4.0	15 August 2017	Document transfer to new template
V5.0	01 March 2018	Capacity Market Supplier Charging using Gross Demand data

1. Introduction

All Suppliers are required to fund the Contracts for Difference (CFD) arrangements through the Supplier Obligation. The CFD scheme is designed to incentivise investment in low carbon generation by offering difference payments to generators¹.

The Supplier Obligation comprises of Daily and Quarterly Contributions which together are known as the Period Contribution. Daily Contributions fund the difference payments made to generators and are apportioned to Suppliers based on their market share on the day the difference payments were made. Quarterly Contributions fund any other payment(s) made to generators over the quarter which are not for generation and are allocated to Suppliers based on their market share over the quarter in which the payment(s) were made.

The Daily Contributions are initially based on an estimate of expected payments to generators so it is therefore necessary for the CFD Counterparty to reconcile (true up) the actual underlying amount owed by each Supplier at the end of each quarter based on the actual payments made to the CFD generators via a quarterly reconciliation process. There is also a daily reconciliation process which takes place as settlement data is adjusted within the quarter. This process hands off to the quarterly reconciliation process once the last Settlement Day within a quarter is invoiced (Seven Working Days after the Settlement Day).

Suppliers are also required to make Reserve Payments at the start of each quarter to ensure that the CFD Counterparty has sufficient funds to make payments to generators and to manage the unpredictability, volatility and cash flow timings associated with making difference payments.

The administrative costs of the scheme are funded by Suppliers via the Operational Cost Levy, which is collected alongside the Supplier Obligation on a daily basis but is spread over the Financial Year to mirror the timings of the administrative budget of the CFD Counterparty which is set over the Financial Year.

Please refer to the Settlement Calendar on the EMR Settlement Ltd (EMRS) website² for more information on this year's schedule of when payments will be invoiced, when they are due, and if applicable, the Settlement Date and the Settlement Code used in determining the payment.

2. Purpose

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

- What payments are required to fund the CFD arrangement?
- How are Operational Cost Payments calculated?
- How are Interim Rate Payments calculated?
- How are Reserve Payments calculated?
- Are CFD Supplier Payments reconciled?
- What happens if I don't pay?
- What invoices/credit notes should I expect in respect of Supplier CFD Payments?
- If I am new to the market when can I expect to receive my first invoices for CFD payments?
- What are the key differences when compared to Capacity Market (CM) Payments?

This document does not cover Supplier's CFD Credit Cover requirements, as these are not considered payments. More information on Credit Cover can be found in WP42 – Supplier CFD Credit Cover and G5 – Supplier CFD Credit Cover³.

¹ for more details see the EMRS website - <https://www.emrsettlement.co.uk/about-emr/contracts-for-difference/>

² for more details see the EMRS website - <https://www.emrsettlement.co.uk/publications/settlement-data/>

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

3. Who is this document for?

This guidance is relevant for all Suppliers.

4. Associated documents

This document should be read in conjunction with:

- EMRS Guidance Document G2 – Calculation of Supplier Demand for Charging
- EMRS Guidance Document G3 - CFD Reserve Payment
- EMRS Guidance Document G5 – Supplier CFD Credit Cover
- EMRS Working Practice WP1- Overview of EMR Settlement
- EMRS Working Practice WP41 – Late Payment Procedure
- EMRS Working Practice WP42 – Supplier CFD Credit Cover

5. What payments are required to fund the CFD arrangement?

Suppliers are required to fund the CFD arrangements through the Operational Costs Levy, the Interim Rate Payments, and Reserve Payments. A brief description of each of these is provided in Diagram 1.

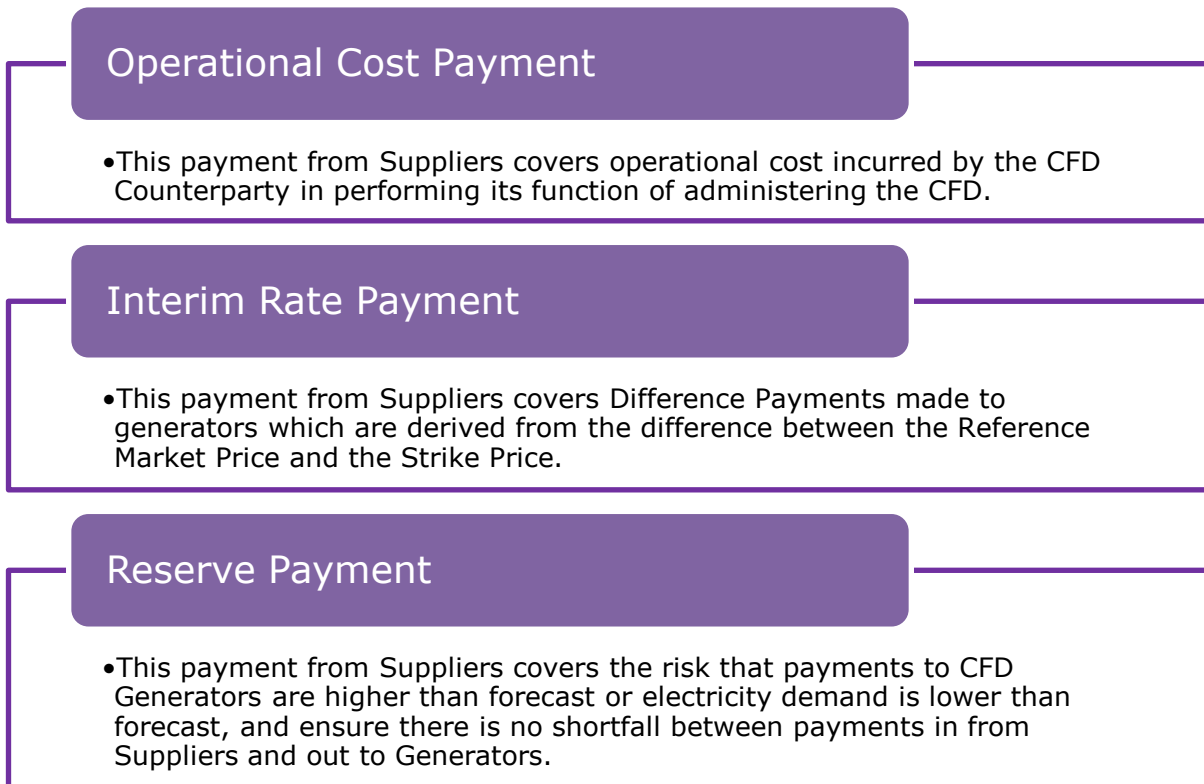


Figure 1: CDF Payment Summaries

For more information on the relevant figures relating to these payments please refer to EMRS Settlement Data page on the EMRS website⁴ where you will find Key Figures for Supplier Payments (sets out the key rates and amounts used in the calculation of Supplier payments under the Contracts for Difference) and the EMRS Settlement Calendar (which provides a schedule of when payments will be invoiced, when payment is due, and if applicable, the Settlement Date and the Settlement Code).

6. How are Operational Cost Payments calculated?

The Operational Costs Levy funds the annual agreed budget of the CFD Counterparty for a Financial Year. The Operational Costs Levy is recovered via the Operational Costs Levy Rate, which is a pound per megawatt hour (£/MWh) amount charged to Suppliers based on Daily Gross Demand.

The Levy Rate is calculated using CFD Counterparty's agreed annual budget divided by total estimated electricity supply in the same year. Government consults on the Levy Rate and costs for the financial year ahead and via this consultation process Suppliers and interested stakeholders are provided with an indication of the expected Levy Rate before it is due to come into effect at the start of the Financial Year on the 1 April. The Operational Cost Payments are calculated on a daily basis for each Supplier based on Initial Settlement Data (SF) using the calculation in Diagram 2. Operational Cost Payments do not undergo reconciliation.



Figure 2: Methodology to Calculate a Supplier's Operational Cost Payment

For example:

- Operational Costs Levy Rate 2016/17: **£0.0509/MWh**
- Supplier's Daily Gross Demand: **15,500 MWh**

Calculation: $0.0509 \times 15,500 = \text{£}788.95$

The Operational Cost Payment is invoiced 18 Working Days after the relevant Settlement Day, to allow for data collection and calculations based on Initial Settlement (SF) Run, and the charge is shown as a line on the Daily Supplier Invoice, which must be paid within five Working Days.

As the Levy Rate is based on estimates of the CFD Counterparty's costs and overall electricity supply, the amount that is collected during a Levy Period may not match the actual expenditure incurred. If it is forecasted to be insufficient to cover the CFD Counterparties costs, Government may increase the Levy in-year (this would only follow a consultation). Alternatively, if there was a surplus at the end of the year this would be refunded to Suppliers based on their overall market share over the Financial Year. It is typically refunded in June or July.

⁴ <https://www.emrsettlement.co.uk/publications/settlement-data/>

7. How are Interim Rate Payments calculated?

The Interim Rate Payments cover expected payments to CFD Generators in a quarter and is recovered via the Interim Rate Levy which is a pound per megawatt (£/MWh) amount charged to Suppliers based on Daily Gross Demand. These financial quarters are referred to as Quarterly Obligation Periods.

This Interim Levy Rate is based on the CFD Counterparty's estimate of expected payments to CFD Generators, expected payments from Generators if applicable (e.g. if the CFD Counterparty forecasts that the strike price will be below the reference price for some generators), and expected electricity supply for the quarter.

Suppliers are notified of the Interim Levy Rate three months in advance of the Quarterly Obligation Period. In addition to this, the CFD Counterparty also provides Suppliers with a forecast of the expected Interim Levy Rate for at least an additional three quarters, which is accessible via the CFD Supplier Obligation Transparency Tool⁵. The CFD Counterparty does have the ability to adjust the Interim Levy Rate or ask for additional Reserve Payments during a Quarterly Obligation Period if it determines that there is a high degree of likelihood that it will not have sufficient funds to make all future CFD Payments in the Quarterly Obligation Period. Where the CFD Counterparty determines an adjustment is necessary it will publish a notice to all Suppliers setting out the adjusted rate and when it will be applied.

The Interim Rate Payment is calculated on a daily basis for each supplier using the Interim Information Volume Allocation (II) run, SF and R1), using the calculation outlined in Diagram 3.

i – Quarterly Obligation Periods mirror fiscal quarters i.e. April-June, July-September, October-December, and January-March

⁵ Transparency tool link: <https://sofm.lowcarboncontracts.uk/>



Figure 3: Methodology to calculate a Supplier's Daily Interim rate Payment

For example:

- Interim Levy Rate July-Sept 2016: **£0.005/MWh**
- Supplier's Daily Gross Demand: **15,500 MWh**

Calculation: $0.005 \times 15,500 = \text{£}77.50$

The invoice for the Interim Rate Payment is generated two Working Days after the relevant BSC Settlement Run (seven Working Days for II, 18 Working Days for SF, and 36 to 40 Working Days for R1), to allow for data collection and calculations to be performed. The charge is shown as a line on the Daily Supplier Invoice, which must be paid within five Working Days (please see Table 1 for more information about Invoices).

Suppliers are required to have adequate Credit Cover in place, on a daily basis, to cover Interim Rate Payments⁶. For more information please refer to EMRS Guidance Document G5 – Supplier CFD Credit Cover⁷.

⁶ The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 (19)
<http://www.legislation.gov.uk/ukxi/2014/2014/contents/made>

⁷ <https://www.emrsettlement.co.uk/publications/working-practices/>

i – Total Reserve Amount is set at a level that would give a 95 per cent probability that all payments to CFD Generators can be made during the quarter.

8. How are Reserve Payments calculated?

Reserve Payments cover the risk that payments to CFD Generators are higher than forecast or electricity demand is lower than forecast, and ensure there is no shortfall between payments in from Suppliers and out to Generators.

Suppliers will be notified of the Total Reserve Amount, or the total amount needed in Reserve Payments, three months in advance of the Quarterly Obligation Period during which the Reserve Payments are needed.

EMRS then apportions the Total Reserve Amount to each Supplier based on its market share during a 30 day Reference Period. Gross Demand metered data from the Initial Volume Allocation Run (SF) and the First Reconciliation Volume Allocation Run (R1) are used to calculate each Supplier's Reserve Payment using the calculation in Diagram 4.

The 30 calendar day Reference Period is derived from the Total Reserve Amount determination date. This is the date that the LCCC decides what the Total Reserve Amount is. The 30 calendar day reference period starts on the most recent Settlement Day before the determination date for which SF data is available. The Reference Period metered data uses data from the most recent Runs available starting at SF (excluding Interim Information Data). If a Supplier has demand during the Reference Period, the Supplier will be required to pay the Reserve Payment for the Quarterly Obligation Period to which the Reference Period relates.

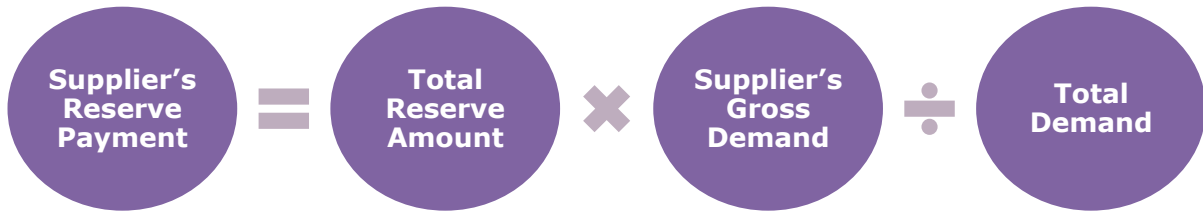
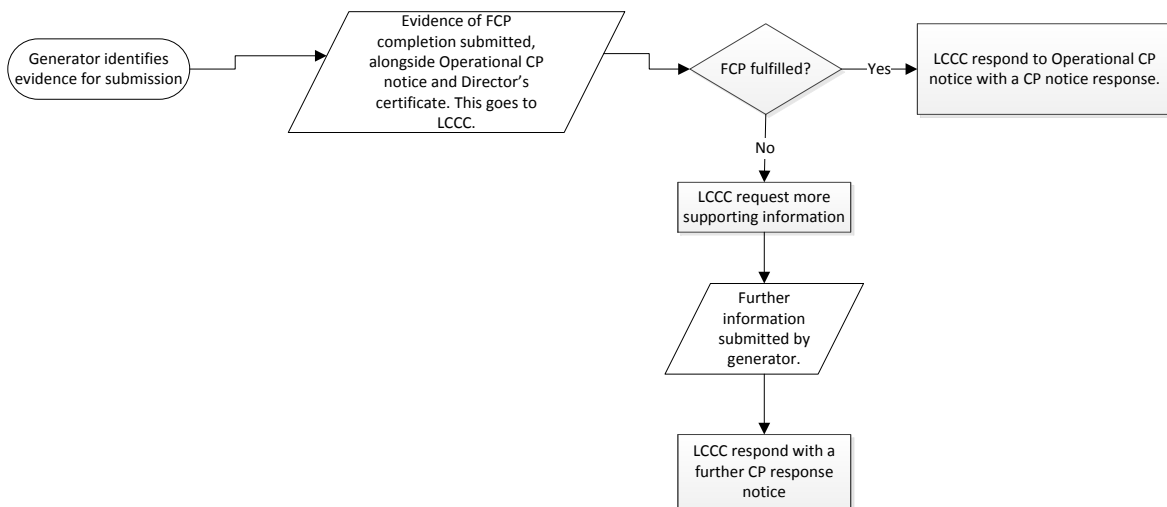


Figure 4: Methodology to Calculate Supplier's Reserve Payment

- Total Reserve Amount for July-September 2016: **£135,457.37**
- **Determination date: 18 March 2016**



Reference Period: 23 February 2016 to 25 January 2016

- Supplier's Gross Demand (over 30 day Reference Period): **465,000 MWh**
- Total Demand (over 30 day reference period) : **23,250,000MWh**

Calculation: $135,457.37 \times (465,000/23,250,000) = \mathbf{£2709.15}$

Once the CFD Counterparty has determined the Total Reserve Amount and EMRS has apportioned this to each Supplier that had demand during the Reference Period, a Notice is sent out to all Suppliers to inform them of the Total Reserve Amount and also their individual share by the 8th Working Day of the quarter prior to the quarter the Reserve Amount relates to (this gives the Suppliers over 90 calendar days warning of their TRA contribution for the relevant quarter). Following this, approximately 90 calendar days later, an invoice for the Reserve Payment is generated and sent by the 8th Working Day of the quarter to which the payment relates. The Reserve Payment is included on the Quarterly Supplier Reconciliation invoice which must be paid within 5 Working Days.

9. Are Supplier CFD Payments reconciled?

Operational Costs Levy

The Operational Cost Payment does not go through a process of reconciliation; as only SF Run data is used to apportion it to Suppliers.

Daily Interim Rate Payment

Data reconciliation of Suppliers' Interim Rate Payments occurs on a daily basis throughout the quarter as settlement data for the period is adjusted using Interim Information Volume Allocation (II) run, SF and R1.

Quarterly Reconciliation Payments

The Interim Rate Payment and the Reserve Payments are reconciled at the end of a quarter as generator payments have been made by the CFD Counterparty by this time and more accurate metered data is available. The reconciliation payment and the latest Reserve Fund amount will both be included in the Quarterly Supplier Reconciliation Invoice, which is due 5 Working Days from invoice date.

For more detailed information on this process please refer to EMRS Guidance Document G3 - CFD Reserve Payment⁸

10. What happens if I don't pay?

Initially payments past the due date are considered Late Payments. Subsequently they are considered overdue if they exceed a two day 'cure period' and may be considered in default and a Payment Default Notice issued.

Following the 'cure period' the Supplier's Credit Cover can be drawn down to cover the overdue payment. Credit Cover will not be drawn upon for Late Payment Interest or the Operational Costs Levy.

If the Supplier's collateral is exhausted, or if it is determined that the collateral is likely to be exhausted within the next five Working Days, the CFD Counterparty can decide to mutualise the default(s) across all non-defaulting Suppliers. In this situation the non-defaulting Suppliers will be invoiced for their individual Mutualisation Payments based on their market share.

Where Mutualisation Payments are later recovered or partly recovered, they will be returned to the Suppliers that participated in the Mutualisation.

• Calculating Mutualisation Payment

The calculation in Diagram 5 is used to determine a Supplier's Mutualisation Payment. In the calculation the Default Amount relates to the amount which the defaulting Supplier is in default by. The Reference Period used in the calculation would be the most recent 30 day period for which Initial Volume Allocation Run (SF) data is available.

i – Ofgem will be formally notified if a Supplier's collateral is exhausted or is likely to be exhausted within the next five Working Days

⁸ <https://www.emrsettlement.co.uk/publications/working-practices/>

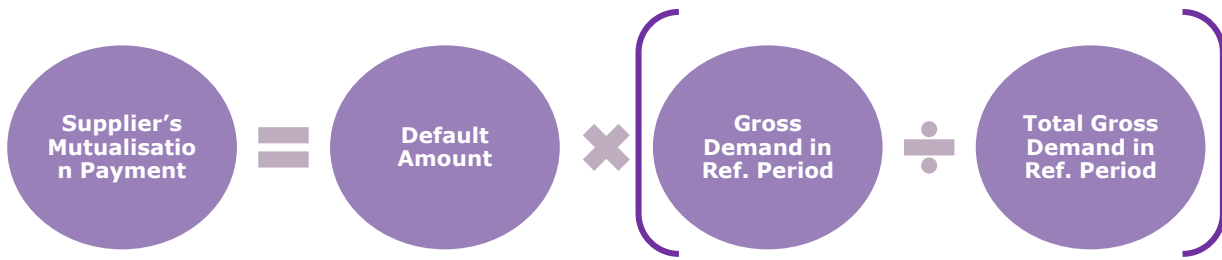


Figure 5: Mutualisation Payment Calculation

- Default Amount: **£200,000**
- Supplier's Gross Demand: **465,000 MWh**
- Total Gross Demand: **23,250,000MWh**

Calculation: $200,000 \times (465,000/23,250,000) = \mathbf{£4,000}$

- **Calculating Mutualisation Repayment**

The Calculation in Diagram 6 is used to determine repayment of recovered Mutualisation Payments. A non-defaulting supplier would receive payment of monies recovered from a defaulting Supplier by five Working Days after the day on which CFD Counterparty recovers the relevant amount from the defaulting Supplier.

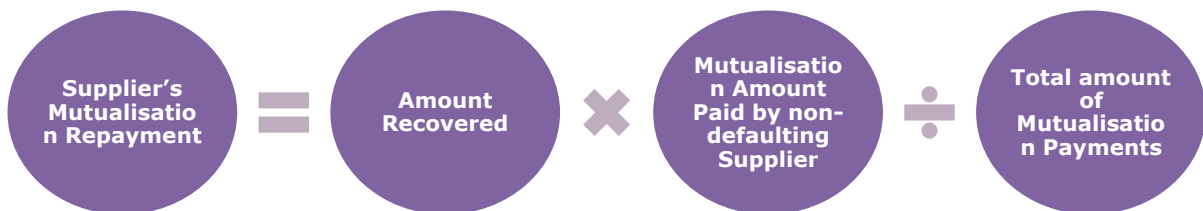


Figure 6: Recovered Mutualisation Repayment Calculation

- Amount Recovered: **£200,000**
- Mutualisation Amount paid by non-defaulting Supplier: **£4,000**
- Total Amount of Mutualisation Payments: **£200,000**

Calculation: $200,000 \times (4,000/200,000) = \mathbf{£4,000}$

The charges, frequency and payment terms associated with the Mutualisation Invoice are summarised in Table 1.

For more information on Late Payments please refer to EMRS Working Practice WP41- Late Payment Procedure⁹.

⁹ <https://www.emrsettlement.co.uk/publications/working-practices/>

11. What invoices/credit notes should I expect in respect of Supplier CFD Payments?

The charges, frequency and payment terms associated with CFD Supplier invoice types and credit notes are summarised in Table 1 below.

Table 1: CFD Payments included on Invoices

Version	Date	Description	Payment terms
Daily Supplier Invoice	Operational Cost payment Interim Rate Payment	Daily	5 Working Days
Quarterly Supplier Reconciliation Invoice	Reserve Payment Charges Reconciliation Payments for previous quarters	Once per quarter (when II data for the last day of the previous quarter becomes available)	5 Working Days
Mutualisation Invoice	Mutualisation charges to non-defaulting Suppliers when a Supplier participating in the Scheme defaults Mutualisation Payments when/if money is recovered from defaulting suppliers and redistributed to participating non-defaulting Suppliers	Ad-hoc basis – If a Supplier’s collateral is exhausted, or if it is determined that the collateral is likely to be exhausted within the next five working days the default will be mutualised between non-defaulting Suppliers	5 Working Days
Additional Reserve Payment Invoice	Additional Reserve Payment	Ad-hoc basis – if the CFD Counterparty determines it needs additional funding to make any CFD Payments it has failed to make or to ensure a 19 in 20 probability of it being able to make all CFD payments	5 Working Days
Operational Costs Levy Refund Credit Note	Repayment of excess operational cost	Ad hoc basis - if there was a surplus at the end of the Financial Year this would be refunded to Suppliers	n/a
Mutualisation Repayment Credit Note	Mutualisation Repayment	Ad-hoc – if any payments are recovered from defaulting Suppliers these are refunded to non-defaulting Suppliers that contributed to the Mutualisation	n/a

12. If I am new to the market when can I expect to receive my first invoices for CFD payments?

Daily Supplier Invoice

A new Supplier should expect to receive their first Daily Supplier Invoice seven Working Days following their first supply. The initial invoices will only contain the Interim Rate (II) Payment charges because the Operational Cost Payment will not show on the Daily Supplier Invoice until 18 Working Days following first demand once Initial Settlement Data (SF) is available.

Quarterly Supplier Reconciliation Invoice

A new Supplier who has demand during a Reference Period will receive their first Quarterly Supplier Reconciliation Invoice at the beginning of the following quarter which will cover Reserve Payments for the subsequent quarter after that.

13. What are the key differences and similarities when compared to Capacity Market (CM) Payments?

Table 2 highlights the key differences and similarities between and Supplier CFD Payments and Supplier CM Payments.

Table 2 – Key Differences and similarities between Supplier Payments for CFD and CM

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

14. Need more information?

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

15. Acronyms and Definitions

A list of acronyms and definitions can be found in the 'Acronyms and Definition' document on our website.¹⁰

¹⁰ <https://emrsettlement.co.uk/publications/>

Appendix 1 – Table showing main CFD Supplier Payment Types

Table 3 shows whether Supplier CFD Payments are reconciled, can be paid by Credit Cover, attract Late Payment Interest and can be mutualised.

Table 3 – Supplier CFD Payments

Payment Type	Reconciled	Can be paid by Credit Cover	Attracts Late Payment Interest	Mutualised
Operational Cost Payment	X	X	✓	X
Interim Levy Rate	✓	✓	✓	✓
Reserve Payment	✓	✓	✓	✓

