

G3 – CFD Reserve

Payment

EMRS Guidance

Public

Version: 6.0
Date: 25 July 2017



Table of Contents

1. Change Amendment Record	3
2. Introduction	4
3. Purpose	4
4. Who is this document for?	4
5. Associated documents	4
6. What are Reserve Payments? Why are they needed?	4
7. How much is the total Reserve Amount?	4
8. How will my Reserve Payment be calculated?	5
9. When are Reserve Payments due?	5
10. What happens if a Supplier enters or exits the market?	6
11. What are additional Reserve Payments? When are they due?	6
12. How are Reserve Payments reconciled	7
13. Need more information?	7
14. Acronyms and Definitions	7
15. Appendix 1 – Key Dates for Reserve Payments	8
16. Appendix 2 – Market Entry and Exit	9
17. Appendix 3 – Additional Reserve Payment Example	11
18. Appendix 4 – Reserve Payment Reconciliation	12

1. Change Amendment Record

Version	Date	Description
1.0	16 December 2014	Go Live Version
2.0	18 December 2014	Housekeeping
3.0	2 March 2015	Housekeeping
4.0	12 October 2015	Housekeeping – updated to include Guidance number
5.0	1 July 2017	Updates due to 2016 Amendment regulations
6.0	25 July 2017	Transfer to new template

2. Introduction

All Suppliers are required to fund the Contracts for Difference (CFD) arrangements through the Operational Costs Levy, the Interim Rate Payments, and Reserve Payments. This guidance note will give Suppliers information on how these Reserve Payments are calculated and reconciled.

3. Purpose

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

- What are Reserve Payments? Why are they needed?
- How much is the Total Reserve Amount?
- How will my Reserve Payment be calculated?
- When are Reserve Payments due?
- What happens if a supplier enters or exits the market?
- What are additional Reserve Payments? When are they due?
- How are Reserve Payments reconciled?

4. Who is this document for?

This document is for all electricity suppliers and provides information on Contracts for Difference Reserve Payments.

5. Associated documents

This document should be read in conjunction with:

- G2 – Calculation of Supplier Demand for EMR Charging;
- G16 – Supplier CFD Payments; and
- WP1 – Overview of EMR Settlement.

6. What are Reserve Payments? Why are they needed?

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. Reserve payments are paid by Suppliers and needed to manage any unpredictability, volatility and cash flow timing mismatches that may arise.

The Low Carbon Contracts Company (LCCC) sets the Total Reserve Amount, or the total amount needed in reserve payments, three months in advance of the financial quarter during which the reserve payments are needed. These financial quarters are referred to as Quarterly Obligation Periods. The EMR Settlement Ltd (EMRS) splits the Total Reserve Amount between each Supplier based on its market share to determine its individual reserve payment.

7. How much is the total Reserve Amount?

The LCCC will determine and publish the Total Reserve Amount using the Supplier Obligation Forecasting Model (SOFM). More details can be found on the LCCC's website¹.

¹<https://lowcarboncontracts.uk/>

A notice is for informational purposes whereas an invoice is a Supplier's liability to make a payment.

8. How will my Reserve Payment be calculated?

EMRS will apportion the Total Reserve Amount amongst Suppliers according to each supplier's market share. Supplier market share is determined using the Supplier's demand measured in metered volumes during a Reference Period². A Supplier's demand will be calculated using metered data provided by the Balancing and Settlement Code Company (BSCCo).

The Reference Period is the 30 calendar days for which there is metered data (excluding Interim Information data) prior to the date on which the Total Reserve Amount is determined by the LCCC.

For any given 30 calendar day period this would mean using BSCCo metered data from the Initial Volume Allocation Run (SF) and the First Reconciliation Volume Allocation Run (R1).

Supplier's metered volumes which make up their "gross demand" are considered "chargeable" in the CFD arrangements. Gross demand means, for:

- Central Meter Registration Service (CMRS), where the BM Unit Metered Volume is negative it will be included in CFD chargeable demand (after adjustment for Transmission Loss Multiplier)
- Supplier Meter Registration Service (SMRS), Active Import (adjusted by GSP Group Correction Factor, Line Loss Factor and Transmission Loss Multiplier) will be included in Supplier's chargeable demand.

9. When are Reserve Payments due?

Once EMRS is notified of the Total Reserve Amount by the LCCC, we can then calculate the reserve payments owed by Suppliers.

Following the provision of the Total Reserve Amount and the determination date, EMRS will notify Suppliers of their reserve payment amount at least three months in advance of the payment due date. The Total Reserve Amount is included in the Quarterly Reconciliation Invoice which has a **five Working Days payment term**.

For example, for the Quarterly Obligation Period, commencing the 1 of April 2018, Suppliers will be notified of their reserve payment amount before the 12 of January 2018³ and this payment will be due on the 20 of April 2018⁴ **Appendix 1 gives key dates for reserve payments** for the Quarterly Obligation Periods commencing on 1 April 2018 through to 1 April 2019.

² The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 Regulation 11(4) (as amended 2015 and 2016)

³ The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 Regulation 10(4) (as amended 2016)

⁴ The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 Regulation 11(1)

10. What happens if a Supplier enters or exits the market?

If a Supplier has demand during the Reference Period, the Supplier will be required to pay the reserve payment for the quarter to which the Reference Period relates. Similarly a Supplier would not be required to make a payment when the BSCCo does not record any metered volumes within the Reference Period. The Reference Period is the 30 calendar days for which there is metered data (excluding Interim Information data) prior to the date on which the Total Reserve Amount is determined by the LCCC.

Appendix 2 gives an example of market entry and exit and shows which payments the Supplier would be liable to pay.

11. What are additional Reserve Payments? When are they due?

Suppliers may also be required to make an additional reserve payment when the LCCC determines and notifies Suppliers that an additional reserve amount is required⁵. We will apportion the additional reserve amount using the same method described above for the apportioning of the Total Reserve Amount. Should too much reserve amount be collected, it will be returned via the quarterly reconciliation process.

Additional reserve payments have different payment terms than the Total Reserve Amount. Suppliers will be required to make additional reserve payments by the latest of:

- The date by which a reserve payment is due in respect of that period (see Appendix 3 for payment due dates);
- 30 Calendar days after the LCCC has published the additional Total Reserve Amount; or;
- Any later date which the LCCC specifies.⁶

Appendix 3 includes a worked example illustrating the timescales of an additional reserve payment.

LCCC (the CFD counterparty) may determine that the Total Reserve Amount is set significantly higher than what is required in respect to a specific Quarterly Obligation Period and can trigger a process to produce a Reduced Total Reserve Amount⁷. This guidance does not cover this process any further.

⁵ The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 Regulation 14(3) (as amended 2016)

⁶ The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 Regulation 14(7)

⁷ The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 Regulation 14A (as amended 2017)

12. How are Reserve Payments reconciled

Reserve payments are reconciled after the end of each Quarterly Obligation Period. EMRS will send a notice of reconciliation payment to each Supplier and this invoice will be due five Working Days later. At a high level, this compares what a Supplier paid to what they should have paid over the quarter and takes into account past and future reserve payments.

This notice will also contain additional details such as:

- Net Generator Payments – payments made to generators less payments received from generators over the quarter
- Chargeable Demand– Supplier’s metered volumes on each Settlement Day during the quarter

To calculate what a Supplier should have actually paid over the quarter, or their CFD Period Contribution, we will aggregate the CFD Daily Contribution and the CFD Quarterly Contribution⁸.

To calculate the CFD Daily Contribution⁹ for each Supplier we will multiply Net Generator Payments by their Supplier’s daily market share. Market share will be based on a Supplier’s daily metered volumes. This is done for each day within a quarter.

While Net Generator Payments are the primary form of payments to generators, there is a possibility that generators could be paid lump sum amounts¹⁰. These lump sum amounts will be aggregated and apportioned amongst Suppliers according to their metered volumes over the quarter. As this is done on a quarterly basis, these payments are called CFD Quarterly Contribution¹¹.

Once the CFD Period Contribution is calculated we will compare the CFD Period Contribution, what a Supplier should have paid, to the payments made under the Interim Rate Levy, or what a Supplier did pay. The difference between the two is then compared against the quarterly reserve payment to give the Supplier’s reconciliation payment. Reconciliation payments for previous Quarterly Obligation Periods will be taken into account if more accurate metered data is available.

The reconciliation payment will then be compared to the most recently notified reserve payment. If there is a deficit in respect of what the Supplier needs to contribute towards the new reserve payment, then this will be the amount due on the reconciliation payment due date.

Appendix 4 includes a worked example of how the first reserve payment reconciliation will be calculated.

13. Need more information?

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

14. Acronyms and Definitions

A list of acronyms and definitions can be found in the ‘Acronyms and Definitions’ document here¹².

⁸ The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 Regulation 3(2)

⁹ The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 Regulation 4

¹⁰ These may include curtailment compensation, generation tax compensation, change in law compensation and termination fees.

¹¹ The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 Regulation 5 (as amended 2015)

¹² <https://www.emrsettlement.co.uk/documents/2015/08/acronyms-definitions.pdf>

15. Appendix 1 – Key Dates for Reserve Payments

The table below gives the dates when Suppliers will receive their notice of reserve payment amount, their invoice of reserve payment and the reserve payment due date for the quarterly obligation periods commencing on 1 October 2017 through to 31 December 2018.

Quarterly Obligation Period ¹³	Notice of Reserve Payment ¹⁴	Invoice of Reserve Payment ¹⁵	Reserve Payment Due ¹⁶	Invoice of Reconciliation Payment ¹⁷
1 – Oct to Dec 2017	Before 13 July 2017	11 Oct 2017	18 Oct 2017	11 Jan 2018
1 – Jan to Mar 2018	Before 12 Oct 2017	11 Jan 2018	18 Jan 2018	12 Apr 2018
1 – Apr to Jun 2018	Before 12 Jan 2018	13 Apr 2018	20 Apr 2018	12 Jul 2018
2 – Jul to Sept 2018	Before 13 Apr 2018	12 Jul 2018	19 Jul 2018	10 Oct 2018
3 – Oct to Dec 2018	Before 13 Jul 2018	10 Oct 2018	17 Oct 2018	11 Jan 2019

Reconciliation Invoices and Notices are subject to the BSC Settlement Calendar and will be issued as soon as data is available for each day of the previous quarter. These dates will remain indicative until the BSC Settlement Calendar is published. Until then the indicative dates included in the table have been derived by adding two Working Days to the II run of that quarter which makes the invoice date seven Working Days after the end of the quarter (the regulatory requirement is the 8th Working Day or earlier).

¹³ In the D0362 CFD Supplier Invoice Backing Data the Quarterly Obligation Periods will be named as follows YYYYMM. The month will be the first month of the Quarterly Obligation Period. For example, the first Quarterly Obligation period will be 201504.

¹⁴ The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 Regulation 10(4) (as amended 2016)

¹⁵ The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 Regulation 16

¹⁶ The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 regulation 11(1) (as amended 2017).

¹⁷ Date of Notice/Invoice of reconciliation payment is subject to the BSC Settlement Calendar.

16. Appendix 2 – Market Entry and Exit

If a Supplier has demand during the Reference Period, the Supplier will be required to pay the reserve payment for the quarter to which the Reference Period relates.

In the example below, the Supplier is liable for all payments relating to the fifth Quarterly Obligation Period (Q5) as they entered the market during the Q5 Reference Period. The new Supplier's market share of reserve payments will depend on their demand from entry date till the end of the reference period.

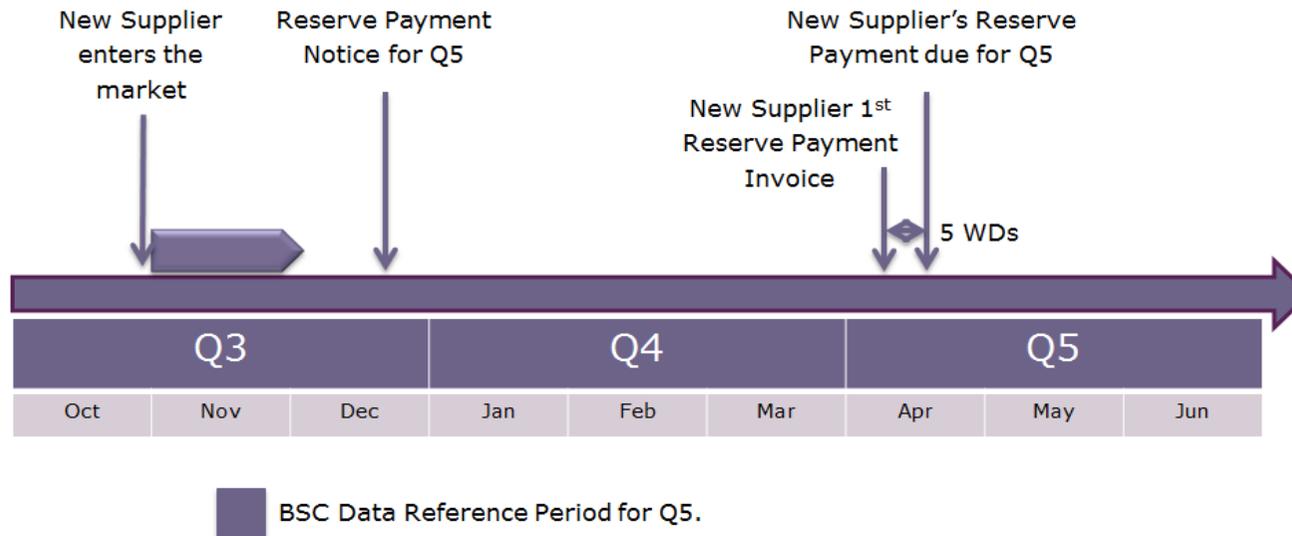


Diagram 1: Example of market entry

Similarly a Supplier would not be required to make a payment when the BSCCo does not record any metered volumes within the reference period. A Supplier who leaves the market during the reference period will still be liable to make a reserve payment based on its demand in the reference period.

In the example below, the Supplier is liable for all payments relating to the first through to the fourth Quarterly Obligation Periods (Q1 to Q4) as they exited during the Reference Period for the fourth Quarterly Obligation Period (Q4). They will receive the Reconciliation Invoice for Q4 on the 13th Working Day of April and will receive a refund 5+ Working Days later. They would not receive a Reserve Payment Notice for the fifth Quarterly Obligation Period (Q5) as they would not have any volume in the reference period. Please see the notable stages in bold in Diagram 2. Please note that the Supplier would still be subject to reconciliation of Settlement Calculations (i.e. when revised or additional data becomes available).

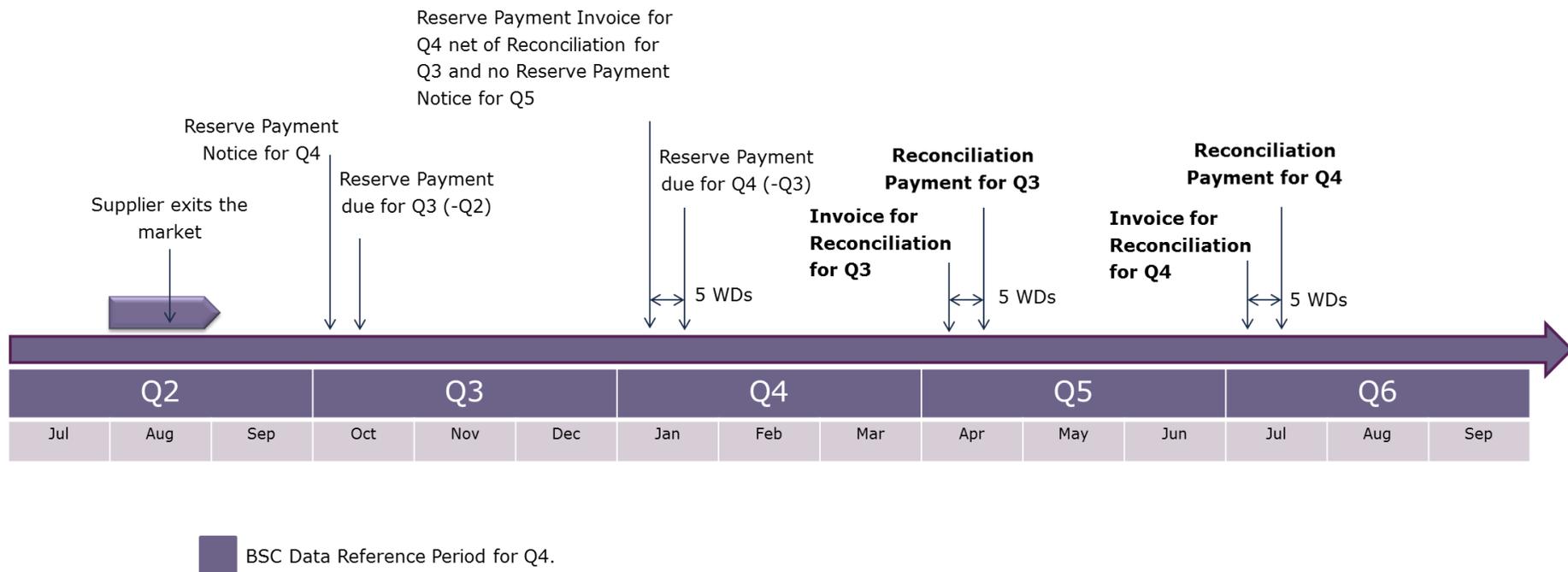


Diagram 2: Example of market exit

17. Appendix 3 – Additional Reserve Payment Example

Suppliers may also be required to make an additional reserve payment when the LCCC determines and notifies Suppliers that an additional reserve amount is required.

The example below illustrates timescales of a hypothetical additional reserve payment for the fourth Quarterly Obligation Period (Q4).

Additional reserve payments have different payment terms than the Total Reserve Amount. Suppliers will be required to make an additional reserve payment by either¹⁸:

- The date by which a reserve payment is due in respect of that period (see Appendix 1 for payment due dates);
- 30 Calendar days after the LCCC has published the additional Total Reserve Amount; or;
- Any later date which LCCC specifies.

In the example below the reserve payment has already been paid for Q4 on the 13th Working day of Jan 2018 and the LCCC has not specified different payment terms thus the additional reserve payment will be due 30 calendar days after the LCCC has published the additional Adjusted Reserve Amount. The timetable for Reserve Payments and Reconciliation Invoices is not disturbed after the additional payment.

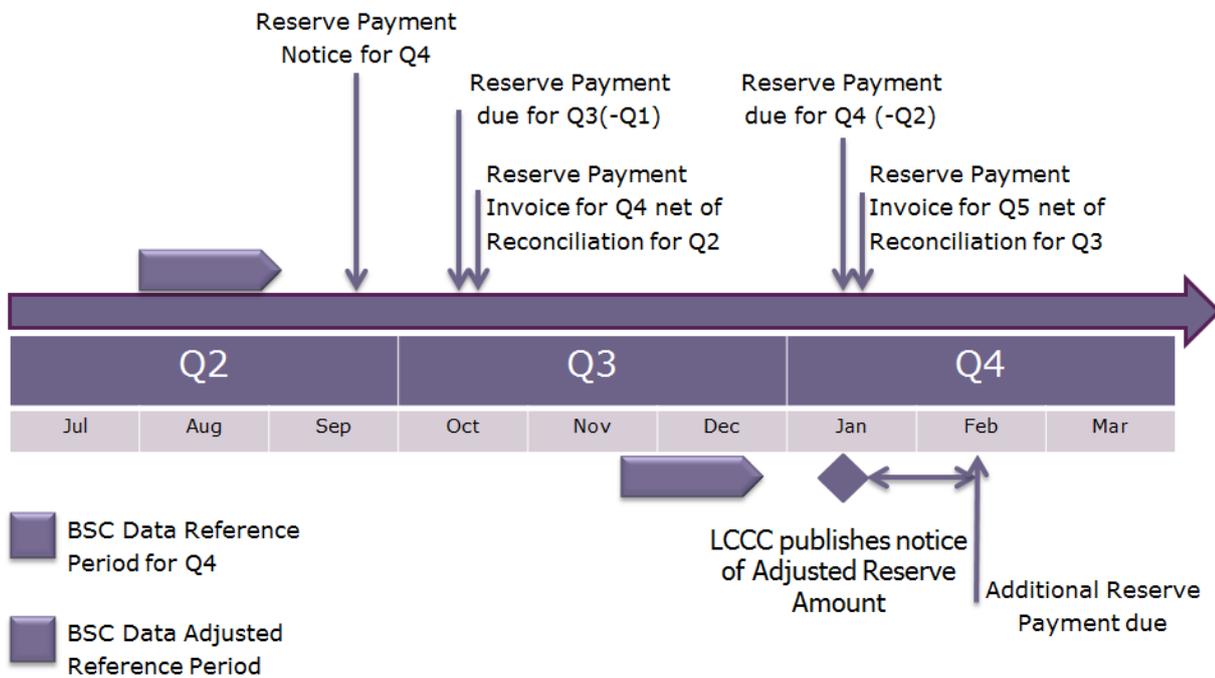


Diagram 3: Example of timescales of an Additional Reserve Payment

¹⁸ The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 Regulation 14 (7)

18. Appendix 4 – Reserve Payment Reconciliation

Reserve payment reconciliation for the first Quarterly Obligation Period (Q1) comprises of four steps. These four steps are shown in the diagram below. The example assumes a market comprised of two Suppliers each with 50% market share.

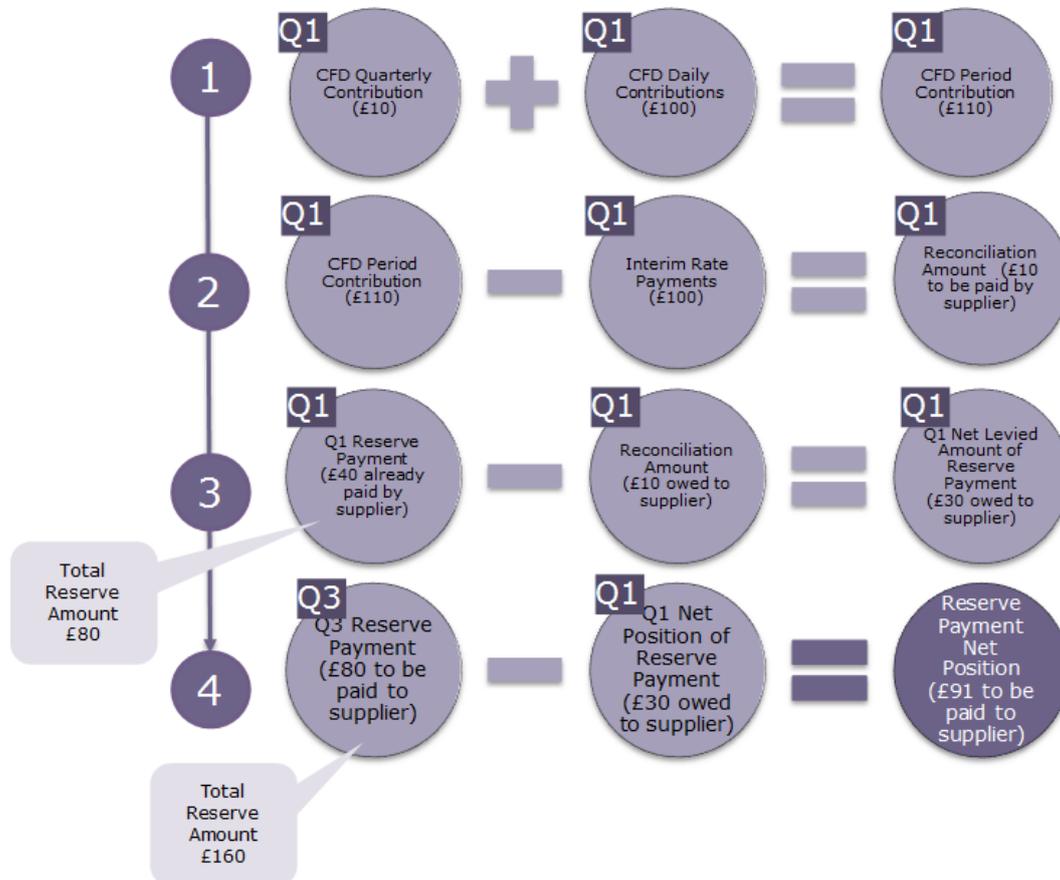


Diagram 4: Reserve Payment Reconciliation Worked Example

In Step 1 we calculate what a Supplier should have actually paid over the quarter, or their CFD Period Contribution, by aggregating the CFD Daily Contribution and the CFD Quarterly Contribution.

We will compare the CFD Period Contribution, what a Supplier should have paid, to the payments made under the Interim Levy Rate (what a Supplier did pay). The difference between the two is the Interim Levy shortfall or excess depending on whether a Supplier has paid too much or too little. This is shown as Step 2.

The Interim Levy shortfall or excess for previous Quarterly Obligation Periods will be also be taken into account if more accurate metered data is available. However, for this example there wasn't a previous Quarterly Obligation Period.

In Step 3 the Interim Levy shortfall or excess will be netted off against the previous reserve payments. The outcome of the calculation in Step 3 is called the reconciliation payment. In this example the previous reserve payment was from Q1.

In Step 4 the reconciliation payment will be compared to the most recently notified reserve payment. In this example the most recently notified reserve payment is for the third Quarterly Obligation Period (Q3). If there is a deficit in respect of what the Supplier needs to contribute towards the new reserve payment, as there is in this example, then this will be the amount due on the Q1 reconciliation payment due date.

For when metered data is scheduled to be available please refer to the BSC Settlement calendar on the [ELEXON Portal](#).

As more accurate data becomes available, any adjustments to the outcome of Step 2 will be reflected in subsequent quarterly reconciliations. These adjustments will be taken into account at the next quarterly reconciliation following the availability of that data.

The diagram below illustrates the timescales for the Q1 reconciliation payment. For Q1 the reserve payment will be due 13 Working Days into April. The reconciliation notice will be sent on or around the 8th Working Day of July. The exact date the notice will be sent is dependent on the BSC Settlement Calendar. Notices of reconciliation payments will be sent once metered data is available for the quarter. The reconciliation payment will be due 5 Working Days from receipt of the reconciliation invoice.

As per Step 4 in the worked example, this notice of reconciliation payment will include the comparison of the Q3 reserve payment to be paid by the Supplier compared to the sum of the Q1 reserve payment, already paid by the Supplier, and any reconciliation payments.

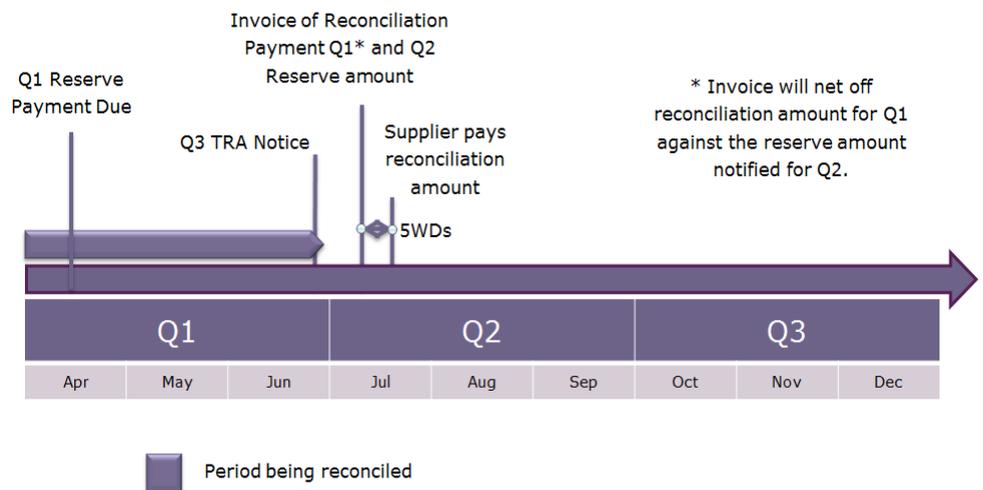


Diagram 5: Reserve Payment Reconciliation Timescale Example

