

Contracts for Difference – Invoicing & Payments

3rd October 2013

1. Introduction

Introduction – Ronan O’Regan

- Collaborative Development process recap – the process will provide all stakeholders with an understanding of how EMR processes can be implemented.
- We will be focusing on the key roles and interfaces throughout each detailed process map.
- PwC will capture issues and questions raised during workshops which will be answered either by follow up sessions or via key documents/publications.
- Comments made during the workshop will be non-attributable to individuals
- The end product as a result of workshops and following consultations will be a detailed operating model and implementation plan for each stakeholder, detailing what is expected of them.

2. Data Reconciliation and Invoicing – Alice Douglas

Overview

- Meter data from BSC where BSC data is available
- BSC data begins as profile, replaced by meter readings over 14/28 months – final supply/generation data not available until then
- Invoices are sent to generators/suppliers 7 working days after the Billing Period
- Generators: as updated BSC data arrives, CfD payments are recalculated and reconciled through next available Billing Statement
- Suppliers: BSC data received before the end of April (post the financial year) then it goes into the regular calculation of Supplier Obligation payments, and if received after then it goes into the Reserve fund calculation.

Process Map Summary

- This process map takes the reader from the point at which the Settlement Agent receives metered information through to whether or not suppliers/generators agree with the invoice that they have received.
- Updated collateral requirements for suppliers are taken from the initial calculated payments and notified to suppliers, and invoices issued based on calculations also.
- When suppliers/generators receive invoices, they decide whether or not they agree with them. If they do agree, then they pay. If they do not agree, then they move to the appropriate disputes process.

Process Map Details (numbers refer to individual points on process maps)

1. Checking suppliers/generators are adequately set up in terms of finance, bank details etc. However, industry noted that more detail relating to this set-up phase may be required.
5. Settlement Agent will have contracted with price providers to receive/calculate reference price data.
6. This box refers to non-BSC generators, and they must provide data separately to the Settlement Agent.
 - Renewable qualifier multiplier relates to generators using renewable energy with variable feedstock.
 - Multiplier calculated by counterparty based on data provided by the generator (process takes 3 months). Until that 3 month process is complete, it will be provisional and will need reconciliation when the final RQM is calculated.
10. Calculations are carried out at this point. For generators, CfD based on difference between strike price

and reference price, and for suppliers it is based on metered supply multiplied by fixed rate agreed in supplier obligation.

11. Sub-process of collateral management begins here. Every time Elexon create a new supplier obligation bill, they can update the collateral level. How much collateral has been posted will be on the regular invoices which are received. **Some industry participants found this to be useful, and it certainly would do no harm as a sense check.**
12. There was discussion around holding collateral dynamically. Level of collateral will be known by suppliers before they are asked for it given it is based on 21 days historical data.
 - It was suggested that collateral again what you actually owe against the variable rate may be more useful for industry and more robust, as opposed to what is owed against the fixed rate. However, this is the purposes of the reserve fund. The reserve fund (which is mutualised) will take account of any shocks, but the reserve fund will need to be large. As an alternative, stakeholders holding the collateral to be called upon may be more viable. The reserve fund is there to smooth the pain, and if this was done by collateral then there would be an exposure to more volatility.
13. Settlement Agent generates the invoices and sends them electronically 7 working days after each settlement day. There is currently no prescribed format for invoices, but there was enthusiasm in the room for emails with human-readable and machine-readable PDFs attached. This would need to comply with all system formats to ensure the relevant data can be fed in. Detailed data files would also be available to allow suppliers to verify invoices.
14. This is the trigger to begin the Payments & Receipts process map.
17. Supplier receives invoice, and if they believe the BSC data is wrong, then this is taken to the BSC dispute process (but the invoice still needs to be paid).
 - If they see a simple error, then they can raise it as an informal query with the Settlement Agent, and if it is resolved immediately then adjustment invoice will be raised, which will then need to be paid. If not resolved immediately, then dispute is to be raised with the counterparty.
22. Generator receives invoice and the process is as outlined in point 17.

Questions/Issues

- Regarding metered data in step 3, is there going to be enough granularity in the data to accurately proportion works power between units? CfD requires there to be metering for each units, but where there is different generators on site, there needs to be BSC metering for each asset which is the subject of a CfD.
 - o Metering sub-group expert group is the appropriate forum for discussing issues such as this but concern that metering issues are sorted out quickly.
 - o The relevant contact details will be shared for this sub-group will be shared by DECC.
- Every day, there won't be new data on all previous days, only where there is a relevant BSC reconciliation run.
- DECC opened up the issue of whether significant changes would have to be made to systems for suppliers in order to carry out data reconciliation? Suppliers explained that significant changes would have to be made. Exactly what changes need to be made will be known once there is more clarity and detail beyond what is available from process maps.
 - o Worked example from the 1st payment, through to BSC reconciliations for a typical day and the beginning and end of financial year could be useful.
- "Private-wire" is defined as anything that isn't BSC connected (either directly or through a supplier), and a "non-BSC" process is being formulated currently. The relevant customer journey for "non-BSC" will also be formulated. Summary of proposals will be published in the next 4-6 weeks.
- For the Supplier Obligation Levy, provisions are being discussed on how the EII amount is calculated.

Supplier Obligation will be paid based on non-exempt electricity. This is also being looked into by the metering sub-group.

- Reserve fund estimate will be covered in the impact assessment alongside the consultation document.
- What is the process at the end of the consultation? Expect it to be closing around Christmas. Regulations laid in March / April 14.

3. Handle Payments & Receipts – Alice Douglas, Louis du Plessis

Overview

- Suppliers/generators make payments to Counterparty within 5 working days of receipt of Billing Statement
- Payments from Counterparty 28 days after generation if Counterparty owe generators - working capital means a small reserve fund required i.e. lower cost to consumer
- All payments will be electronic.
- All funds will be held in the Government banking service.
- In instances where supplier is to make a payment, and they do not do so on time, 2 working days will be allowed to resolve any issues before drawing down on collateral/insolvency reserve (should collateral not be sufficient).

Process Map

- This process map takes us from the point at which the invoice has been issued, through to the point at which payment is made.
- Supplier/generator can decide whether they want to query the invoice, and following this, they pay or move to the non-payment process.

Detail – Payment Process

1. Invoice has been issued by the Settlement Agent.
2. Generator receives credit note and payment in instance where they are due a payment from the Counterparty, and then determines whether a query should be made or not.
8. Generator/supplier receives invoice where they need to make a payment (to be paid electronically to Counterparty).
 - Settlement Agent monitors payments being received.
10. If payment is queried, it is discussed with Settlement Agent. If resolved immediately, then payment is then made (either based upon original invoice or adjusted invoice).
11. Adjustment invoice prepared if mistake not made on behalf of Generator.

Detail – Non Payment Process (point 13 onwards - this is a Supplier only process)

Background - Insolvency Reserve fund

- Insolvency Reserve Fund exists to bridge the gap between insufficient collateral being possessed by a supplier, and an enduring solution for supplier.
- Covers any short-term funding gap between the exhaustion of collateral and an enduring solution.
- Sized to cover payment default of multiple smaller suppliers for 38 days (this factors in seasonality and the size of the Insolvency Reserve Fund).
- Fully funded when the scheme starts.
- Funded by either cash or Letters of Credit (from an A minus rated bank).

Process Map detail

13. Payment is chased by Settlement Agent if not received in 5 working days.
 - In addition, Ofgem will be notified at this stage of the non-payment, so that they are aware that the supplier may be in financial trouble.
 - After the 2 working days pass, Settlement Agent notifies the Counterparty (block 13 to 22).
23. Counterparty then notify Ofgem of non-payment following the additional 2 days. Ofgem will then begin their own formal investigation.
14. Settlement Agent will draw down upon that supplier's collateral.
15. If collateral is sufficient, then we move to block 12 and Settlement Agent receives payment.
16. If collateral has been exhausted, the utilisation of the Insolvency Reserve Fund is estimated by the Settlement Agent.
17. Once Settlement Agent has notified suppliers that the Insolvency Reserve Fund will be utilised, the non-defaulting suppliers must convert any letters of credit used to fund the Insolvency Reserve Fund into cash (24 hours), so that their credit rating is unaffected. This is a mechanism to protect the suppliers. However, it was noted that 24 hours was unlikely to be long enough to perform this (as a second option suppliers could just swap the letter of credit for cash).

Issues

- 2 working days (implied by 3 day payment process – i.e. BACS) to approve invoices before moving to non-payment process is an issue for some industry participants.
 - o Having a different timeframe for suppliers and generators (for example 5 working days for late payments to be resolved for suppliers, but 10 working days for generators) was discussed, as payment expectations for suppliers and generators are different and generators don't post collateral as frequently
 - o Is there scope to introduce an element of pre-payment for small suppliers / generators? As this would bring quicker and more efficient payments in some cases.
 - o Industry identified that there may be a scenario arising whereby suppliers are being chased for nominal amounts, due to the small timescales.
 - o Moving to monthly settlements (for example), would mean that the collateral requirement would need to increase – therefore there is a trade-off between higher collateral costs and additional transaction costs for industry.
 - o Another suggestion would be being told how much money you are owed, but there are periodic triggers which are timed from a more reasonable perspective where payments must be made.
 - o Separate reconciliation invoice for CfD / RQM would be easier. Not easy to separate out metered volume and RQM reconciliations - they interact - likely to result in a lot of small payments. DECC will take this issue away to think about.
- Industry questioned whether, in practice, the 2 working days for rectification may be used as extra time to pay. The 2 working days period exists to account for administrative errors on the part of the suppliers. Interest will be added onto late payments (to be added to process map), which should detract from any gaming of the system.
- Worth noting that BSC would have to call on each suppliers letter of credit at the same time. Potentially a bit admin burden to call on LCs at the same time
- There was a question raised around the creation of a de minimis level for when the Insolvency Reserve Fund is to be mutualised across non-defaulting suppliers.

- If the default level was below a certain amount, might it be more effective to not kick start this process? However, the alternative would be to roll the late payment over to the next period.
- The warning system within the process is quite advanced in order to make the process as clear a picture as possible for those suppliers who have not defaulted.
- If a percentage of each supplier's cash input to the Insolvency Reserve Fund was drawn upon first, as opposed to Letters of Credit then it may be a lot less problematic.
- Counterparty will seek to recover debts through the courts, as they have an obligation to recover these debts. At the moment, this has not been agreed (e.g. it may be better to allow the Counterparty discretion to assess whether the cost of chasing a debt outweighs the probability of getting the debt settled), and views on this will be sought via the consultation.
- Transparency in this process for the benefit of all industry participants needs to be incorporated into the process map, at the point of stage 22.
- Credit default notice could include a payment range for amount of default, or, as with BSC it could show the percentage of debt.
- Expectation of what Ofgem will do once notified? They carry out their own investigation if appropriate, and if insolvency is imminent then they will appoint a Supplier of Last Resort (SOLR).
- Does the CfD counterparty have an obligation to recover outstanding amounts? The obligation is included in Energy Bill. Would a harder rule be fair? If obligation is not recovered, then someone else is paying it. Therefore, wouldn't want the powers of the Counterparty to be completely open - can look at in consultation.