

Question Log - Contracts for Difference - Supplier Obligation

Programme / Project Name				DECC EMR Workshops		 Department of Energy & Climate Change		
Last Updated				20/11/2013				
Issue Id.	Date Raised (dd/mm/yyyy)	Programme/ Project/ Workstream Affected	Issue Category	Question raised in Collaborative Development group	Don't agree it's an issue	It's a known issue + it's covered in the ConDoc / other document (please provide reference)	It's a new issue + we'll consider how to respond	External Comment
1	02/10/2013	End to end policy - other	Contracts for Difference	Subsequent publications - will these documents be final, or still open to consultation?	x			The consultation document sets out the process for resolving policy, with processes set out in the Operating Model and Implementation Plan.
2	02/10/2013	End to end policy - other	Contracts for Difference	Budget for CfDs and how these are set - do you need to consider the budget for the life of the CfD? Will people be able to understand where they are in relation to FCFS / constrained rounds?			x	Please refer to the minutes and correspondence in regards to the Allocation workshops
3	02/10/2013	End to end policy - supplier obligations	Contracts for Difference	How is the reserve fund calculated? What is the likely scale of the fund? Three month minimum notice. Scale to be included in impact assessment in October.		x		The calculation of the Reserve Fund is discussed in the Consultation Document (pg. 97) and is open for consultation under Question CFD16. The Supplier Obligation impact assessment sets out the likely size of the Reserve Fund.
4	02/10/2013	End to end policy - supplier obligations	Contracts for Difference	What will the 2014/15 payment be? Zero? Early indications, payments to generators in year commencing April 15 at the earliest - supplier payments would commence pre-April '15. Further information to come on this. Still possible for a payment next year. May be lump sum set-up payments due before April 15.		x		Current position is set out on page 128 of the Consultation Document. The size of the relevant fixed levy payments will be published at least three months in advance of payments starting. Further detail on this will be published in December 2013.
5	02/10/2013	End to end policy - supplier obligations	Contracts for Difference	Does the reserve fund / insolvency fund count towards the levy control framework?		x		Consultation document page 130: "The CfD budget parameters within the Levy Control Framework for each delivery year will be set by end 2013 and will be published in the EMR delivery plan" (and again subsequently in the spring 2014).
6	02/10/2013	End to end policy - supplier obligations	Contracts for Difference	Can more information be made available on the Reserve Fund?		x		Consultation Document (pg 96 - 99) covers the reserve fund and its reconciliation including a number of questions for industry to respond to.

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7	02/10/2013	Manage collateral	Contracts for Difference	Should there be a confirmation from the settlement agent once collateral received and checked? (ref10) There will be information made available every working day as to requirements versus what posted - this will be reflected on the process map. Process map could explicitly reflect the choice for suppliers to post additional collateral above their requirements to avoid having to make regular additions. (ref 5)			x	These comments will be reflected in the process maps which will be published in due course.
8	02/10/2013	Manage collateral	Contracts for Difference	When will we have a better understanding of the magnitude of Collateral costs? Collateral costs are included in impact assessment.		x		The supplier obligation Impact Assessment sets out market-wide potential collateral requirements (under option 3) of between £74m and £113m in 2016 and between £187m and £279m in 2020 (pg34) - these requirements would be shared amongst all suppliers. The Consultation Document sets out the detail with a number of questions for industry to respond to (pg 102 - 106).
9	03/10/2013	Invoicing / Reconciliation	Contracts for Difference	Can we capture the necessary complexity / detail in relation to set-up suppliers and generators? Not given on this map or the separate one yesterday.			x	The practical steps required for implementing invoicing in relation to the Supplier Obligation are currently under development. Further detail will be provided through the Operating Model and via delivery partners in early 2014.
10	03/10/2013	Invoicing / Reconciliation	Contracts for Difference	Could the size of the reserve fund be reduced by sizing collateral against variable rate? Easier to have a collateral requirement against the fixed rate. Policy area - needs to be thought about. More detail on policy in the ConDoc			x	This policy area is covered in the Consultation Document (pg 94-98) and responses to this are welcomed.
11	03/10/2013	Invoicing / Reconciliation	Contracts for Difference	Concerns raised on metering requirements of invoices, including unit metering not covered by BSC. Referred to metering sub-group under CfD expert group - would be covered under that.	x			To be covered through the metering expert group. Details of this will be published in 2014.
12	03/10/2013	Invoicing / Reconciliation	Contracts for Difference	12a) Does the process allow for modifications over time? Would need a greater level of detail in process maps to identify changes to systems. 12b) A worked example for settlement day would be very useful - one at the end, beginning of financial year.	12a		12b	Worked examples of particular CfD processes, including Supplier Obligation processes, will be covered in the Target Operating Model (publication date TBD).

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13	03/10/2013	Invoicing / Reconciliation	Contracts for Difference	Requirements would mean a new system for e.g. renewable generators (used to monthly bills). We need to map out the customer journey for differing type of generators.		x		Please refer to the Consultation Document for the proposed approach on this issue (pg 100). Further detail on the collateral and payment requirements for all generators will be published in early 2014.
14	03/10/2013	Invoicing / Reconciliation	Contracts for Difference	Wording around raising issues against invoices / credit notes by suppliers / generators currently unclear.			x	These comments will be reflected in the process maps which will be published in due course.
15	03/10/2013	Invoicing / Reconciliation	Contracts for Difference	EII - provisions currently in development. Could use BSC data as one option. SO will be paid based on non-exempt electricity. (Again to metering sub-group)		x		The proposed approach to EIIs will be included within draft regulations, expected to be published in early 2014.
16	03/10/2013	Invoicing / Reconciliation	Contracts for Difference	Could we have more detail on the RQM processes? Still being developed. Proposals in 4-6 weeks. Sustainability compliance included in that.			x	Detail on the sustainability compliance process will be released alongside the final version of the CfD contract (timing TBD).
17	03/10/2013	Invoicing / Reconciliation	Contracts for Difference	What would be the potential size of the Reserve / Insolvency Reserve Funds? (Repeat of Question 3)		x		The Supplier Obligation impact assessment sets out the likely size of the Reserve Fund. The calculation of the Reserve Fund is discussed in the Consultation Document (pg. 97) and is open for consultation under Question CFD16.
18	03/10/2013	Payments / Receipts	Contracts for Difference	Some small generators could struggle to make payments in 5 days. BACS - 3 days. 2 days to approve invoices seems tight. Direct debit possible? Does government banking service allow direct debits? CHAPS quicker but more expensive. Need to consider irregularity of payments and difference between BSC and non-BSC registered participants. Potential for different invoicing terms for small payments (as per BSC)?			x	This issue is currently under discussion through various stakeholder engagement channels and views would be welcome.
19	03/10/2013	Payments / Receipts	Contracts for Difference	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. Not straightforward.			x	Current position is to include this detail on the same invoice as for levy payments. This position on this issue will be confirmed in Spring 2014.
20	03/10/2013	Payments / Receipts - non-payment	Contracts for Difference	Worth noting that in event of call on group collateral, BSC would have to call on each suppliers letter of credit at the same time? Potentially a big admin burden to call on LCs at the same time. There is quite an early warning system involved. Early warning of payment / credit default through system, given daily invoicing. Form of collateral can be cash or LoC.			x	This is a known issue and is currently under discussion through various stakeholder engagement channels. Views would be welcome.

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21	03/10/2013	Payments / Receipts - non-payment	Contracts for Difference	Wouldn't suppliers take advantage of those extra two business days (rectification period)? Potentially, but the rectification period can be used to sort out small differences (as experienced by Elexon). Interest on late payments between 5 and 7 days. (Add to process map)		x		These comments will be reflected in the process maps which will be published in due course.
22	03/10/2013	Payments / Receipts - non-payment	Contracts for Difference	Further detail could be added to the process map to reflect transparency for the benefit of all industry participants needs to be incorporated.			x	These comments will be reflected in the process maps which will be published in due course.
23	9/10/2013	Estimate Reserve Fund	Contracts for Difference	In the process of forecast model development for each year - will the parameters of the model / the model itself be made available to people? Will the model methodology be open for consultation?			x	DECC intend to make the model parameters available as appropriate. The process for developing and consulting on the model methodology and how to meet industry requirements are still under consideration.
24	9/10/2013	Manage Reserve Fund	Contracts for Difference	When will the size of the Reserve Fund be known and methodology? This will be covered in the Impact Assessment. (Repeats Q3 & Q17)		x		The Supplier Obligation impact assessment sets out the likely cost of the Reserve Fund. The calculation of the Reserve Fund is discussed in the Consultation Document (pg. 97) and is open for consultation under Question CFD16.
25	9/10/2013	Manage Reserve Fund	Contracts for Difference	Might be worth having a timeline showing how payments and volume reconciliation runs for a given day would flow through the different levies and fund reconciliations.			x	Worked examples of particular CfD processes will be covered in the Target Operating Model (publication date TBD) through 'participant journeys'. The exact 'journeys' and timelines to be included are currently TBD.
26	9/10/2013	Manage Reserve Fund	Contracts for Difference	Should a new supplier's Reserve Fund contribution be sized according to their plans, as opposed to their month 1 market share? Another solution would be a monthly top-up or triggers for new suppliers? A number of available approaches.			x	The current position is covered in the Consultation Document (pg 98) and responses to this are welcomed.
27	9/10/2013	Manage Reserve Fund	Contracts for Difference	The actual process to start the Reserve Fund Management process wouldn't involve an action of settlement agent asking BSCCo for stuff, rather it would be written into BSC and be available to them.			x	These comments will be reflected in the process maps which will be published in due course.
28	9/10/2013	Manage Reserve Fund	Contracts for Difference	If metering dispute within year, need to understand the materiality threshold for recalculating the size of the Reserve Fund for all suppliers mid-year.	x			Reserve Fund contribution will be based on market share in November of the previous year.
29	9/10/2013	Manage Reserve Fund	Contracts for Difference	What happens when Reserve Fund gets drawn? Not reflected on process map.			x	The 'business as usual' draw-down of the Reserve Fund will be reflected in the process maps / Target Operating Model which will be published in due course.

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30	9/10/2013	Manage Reserve Fund	Contracts for Difference	In extreme scenario (of market prices and difference payments), the fixed levy payment could be changed or there could be a call for funding for the Reserve Fund - dependent on what is cost effective. This needs to be documented quite clearly as to what might happen in the event that the Reserve Fund is not sufficient. The extraordinary process should be included in the process map.		x	x	The high-level position in respect of exceptional circumstances, such as depletion of the Reserve Fund is set out on page 94 of the Consultation Document. DECC is looking at the triggers and parameters for in-year adjustments to the levy rate and Reserve Fund and will be testing the proposed approach with the CfD expert group. Given the conservative approach to sizing the reserve fund the likelihood of needing in-year adjustments is very remote.
31	9/10/2013	Manage Reserve Fund	Contracts for Difference	At the moment, notifications of the Reserve Fund level per supplier are issued to supplier on a quarterly basis - keen to take views on how often would be useful. More transparency would be better - would propose monthly Reserve Fund notifications?		x		The Consultation Document sets out the initial detail of notifications (page 96) with a questions for industry to respond to (CFD19).
32	9/10/2013	Manage Reserve Fund	Contracts for Difference	Payments for Reserve Fund invoice by May, expected in July? Still looking at this.			x	Reserve Fund reconciliations are expected to take place in May of each year, with payments due by 1 July (Consultation Document page 98). The current position will also be described in the Operating Model / process maps which will be published in due course.
33	9/10/2013	Estimate Reserve Fund	Contracts for Difference	When will Reserve Fund sizing will be notified to market? Could include this in the process map.			x	Suppliers will be notified of the estimated amounts due for the following year's reserve fund at the same time that the £/MWh unit fixed rate is announced (January) - Consultation Document page 98. The current position will also be reflected in the Operating Model / process maps which will be published in due course.
34	9/10/2013	Estimate Reserve Fund	Contracts for Difference	Reserve Fund calculation would involve forecasting January to March for settlement data? May involve a reference month (e.g. November). Reserve Fund Estimation is both an adjustment for the previous year and estimation for the coming year.				The Consultation Document (page 97) and Supplier Obligation Impact Assessment sets out the initial detail of Reserve Fund estimation.
35	9/10/2013	Reserve Fund / Levy Reconciliation	Contracts for Difference	Relationship with LCF needs to be clarified - rate will be based on LCF from 2 years previously?			x	Please refer to the minutes and correspondence in regards to the Allocation workshops
36	9/10/2013	Reserve Fund / Levy Reconciliation	Contracts for Difference	Finalised rate to be published / notified - should be added to process map.			x	These comments will be reflected in the process maps which will be published in due course.

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37	9/10/2013	Invoicing / billing documentation (Elexon)	Contracts for Difference	Would VAT be chargeable on any elements of the CfD invoices?			x	DECC can confirm that the current position is that no VAT will be charged on any elements of CfD levy payments.
38	9/10/2013	Invoicing / billing documentation (Elexon)	Contracts for Difference	What is the current view on information transparency? In the current strawman templates, we are not reporting individual generator or supplier market share data.	x			Current position was set out in the Collaborative Development session - no further response required.
39	9/10/2013	Invoicing / billing documentation (Elexon)	Contracts for Difference	Billing statements will include changes to RQM values included in the reconciliation runs. Current RQM % should be included on the bill.	x			No response required on this point.
40	9/10/2013	Invoicing / billing documentation (Elexon)	Contracts for Difference	Would the billing statements / invoices need to be issued separately for individual CfDs? Could invoice separately but apply to the same billing entity? Need to understand implications for Project Financing. DECC will take this away and consider.			x	The response to this issue is currently under development and a response will be released alongside the final version of the CfD contract (timing TBD).
41	9/10/2013	Invoicing / billing documentation (Elexon)	Contracts for Difference	Why are Counterparty set-up / operating costs being levied on a per MWh basis? Only useful if there is a need for transparency with consumers. Otherwise might make sense to run similarly to BSC operating costs, budgeted annually and levied by market share.		x		The current position is to charge operating costs on a £/MWh basis in order to be consistent with the supplier obligation levy. This area is open to consultation at the moment and views would be welcomed. A decision on this will be published once consultation responses have been received.
42	9/10/2013	Invoicing / billing documentation (Elexon)	Contracts for Difference	Could the initial year be seen as a 'test-run' for suppliers / generators given the amounts involved? DECC would like more information on the operationalisation approach (discussion offline).			x	DECC is following up with industry bilaterally in regards to this issue. DECC and delivery partners intend to discuss the preferred approach to initial years with suppliers.
43	9/10/2013	Invoicing / billing documentation (Elexon)	Contracts for Difference	Concern over size of Reserve Fund - creates political risk for suppliers at year-end. Ofgem could provide transparency to consumers, but would the information give confidence? Would be useful for consumer groups to be involved in the sizing of the Reserve Fund.		x		The process for developing and finalising the forecast model, including engagement with stakeholders, will be discussed at the Consultation Workshop on the CfD Payment model to be held on the 20th November 2013.
44	9/10/2013	Invoicing / billing documentation (Elexon)	Contracts for Difference	Defaulting supplier would have an asset in the Reserve Fund / or remaining reconciliation payments. Who owns the asset in the Reserve Fund legally - could it be used to pay back supplier costs incurred through mutualisation?			x	This issue is currently under discussion with the CfD expert group and a response will be included in the response to Consultation in Spring 2014.
45	9/10/2013	Invoicing / billing documentation (Elexon)	Contracts for Difference	Change the word 'notice' to 'notification' to imply its not a demand (pg10).			x	These comments will be reflected in the process maps which will be published in due course.