



Department
of Energy &
Climate Change

Contracts for Difference Operating Model

Selected Process Maps

December 2013

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Selected Process Maps

Prepared by DECC

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Introduction

Purpose

This document is a partial draft version of the CfD Operating Model published to provide industry with a set of revised process maps following the Collaborative Development process. These process maps are subject to change as a result of the ongoing consultation process and related policy changes. In an iterative process, updated maps will continue to be published for stakeholder review and comment.

This document is a high level description of the current view of the end state Operating Model (OM) for the Contracts for Difference (“CfD”) scheme. It sets out:

- The roles and associated responsibilities for delivering the operational components of the CfD scheme;
- The processes required in order to implement the award and management of CfDs, including related payment processes;
- The supporting infrastructure needed to enable these processes; and
- How the resources (people, processes, facilities and technologies) required for CfDs will interact.

As CfDs shift from policy design to implementation, the OM will articulate how CfDs are expected to operate.

The OM focuses on the enduring CfD scheme, when the market goes live, rather than on CfD investment contracts signed before the ‘go live’ date¹.

Audience

This document is a reference document for generators and suppliers to enable them to prepare for the implementation of CfDs.

This document is not intended to be a description of the legal requirements with which parties involved in CfDs must comply, and must not be relied on for that purpose.

¹ It is expected that CfD investment contracts will be transferred into the Counterparty after market go live.

Using this document

This version of the document is based on settled and /or ‘minded to’ policy positions as set out in the October 2013 Consultation on Proposals for EMR Implementation² (‘the Consultation’).

This document should therefore be read in conjunction with the Consultation, as well as the publications released alongside this document. These include the Draft Contracts for Difference (Allocation) Regulations 2014³, the Draft Contracts for Difference (Supplier Obligation) Regulations⁴, and the Contracts for Difference and Supplier Obligation Impact Assessment documents⁵ and the Eligibility Criteria⁶. CfD policy is set out in these and other policy and guidance documents, which provide supplementary information to those preparing for or considering participating in CfDs – **this policy is subject to the views of the consultation and possible change as a result of this. As such, the Operating Model and Process Maps are subject to change.** At the time of writing, current policy documents were available at the following location, as part of the overall Electricity Market Reform (EMR) programme:

<https://www.gov.uk/government/policies/maintaining-uk-energy-security--2/supporting-pages/electricity-market-reform>

The OM will sit alongside the implementation plan⁷, which will set out how delivery partners and industry participants will prepare for initial CfD applications and ‘go-live’ on CfD payments.

The OM is not intended to replace or supersede CfD regulations or legislation and should be read in conjunction with up to date versions of the CfD contract, rules and regulatory documents themselves and any other information issued as guidance.

We set out a glossary of all terms used in this document in Annex C: Glossary.

Summary and background

The Electricity Market Reform (EMR) programme is intended to incentivise investment in secure, low-carbon electricity generation, in a way that ensures affordability for consumers. EMR is the Government’s response to the challenges facing the electricity sector:

- A fifth of 2011 capacity has to close over the next ten years;

² DECC (2013), Electricity Market Reform: Consultation on Proposals for Implementation, October.

³https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/249561/cfd_allocation_regulations_2014_si.pdf

⁴https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/249562/cfd_supplier_obligation_regulations_2014si.pdf

⁵https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/249571/ia_cfd_second_ary_legislation.pdf;

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/252273/131022_IA_-_Supplier_Obligation__final_for_publication_21_10_2013_.pdf

⁶https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/252834/Eligibility_Criteria_for_Public_Consultation.xlsx

⁷ A version of the CfD Implementation Plan is expected to be published in early 2014.

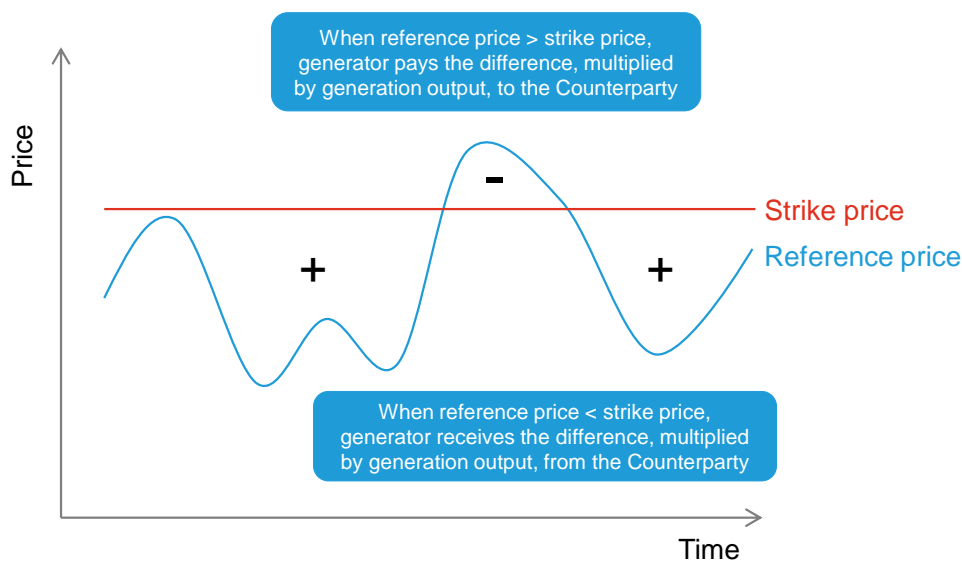
- The generation mix will need to change to respond to the challenge of climate change and meet our legally-binding carbon and renewable targets; and
- The expectation that electricity demand will continue to increase over the coming decades.

CfDs aim to bring forward the investment needed in new, low-carbon electricity generation. CfDs are designed to achieve this by providing long term electricity price certainty for low carbon generation – including nuclear, renewables and carbon capture and storage (CCS).

CfD contracts will be managed and administered by the CfD Counterparty, a private company owned by Government.

Generators who have entered into a CfD will have their revenues from selling their electricity into the market supplemented by a top-up, when the electricity Market Reference Price is below the contractually set Strike Price⁸. These payments will be funded through an obligation on suppliers. Conversely, if the electricity Market Reference Price is higher than the Strike Price then generators will be obliged under CfDs to pay the difference back to the Counterparty who will pass it back to suppliers. See Figure 2 below:

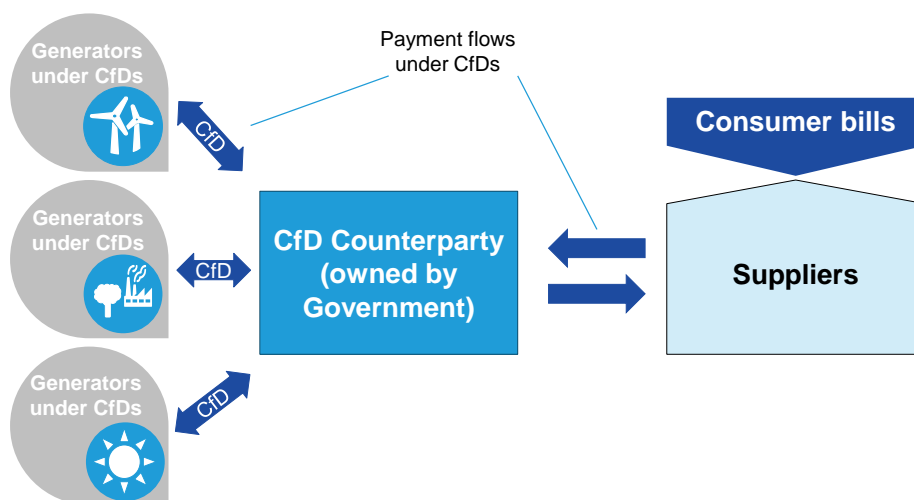
Figure 1: Payments under the CfD mechanism



All payment flows between suppliers and generators will pass through the CfD Counterparty, as shown in Figure 2.

⁸ DECC (2013), Electricity Market Reform Delivery Plan, December.

Figure 2: Overview of CfD payment flows



A CfD is a private law contract, entered into with the CfD Counterparty. The Counterparty's operational costs will also be funded by money from electricity suppliers under the supplier obligation arrangements. Powers for the supplier obligation are within the 2013 Energy Act and secondary legislation, which is expected to come into effect in summer 2014.

Change control

The process maps contained in Annex A are owned by the CfD Business Design Authority. The CfD Business Design Authority has been established as part of the CfD Counterparty's role as Implementation Coordinator for the CfD regime.

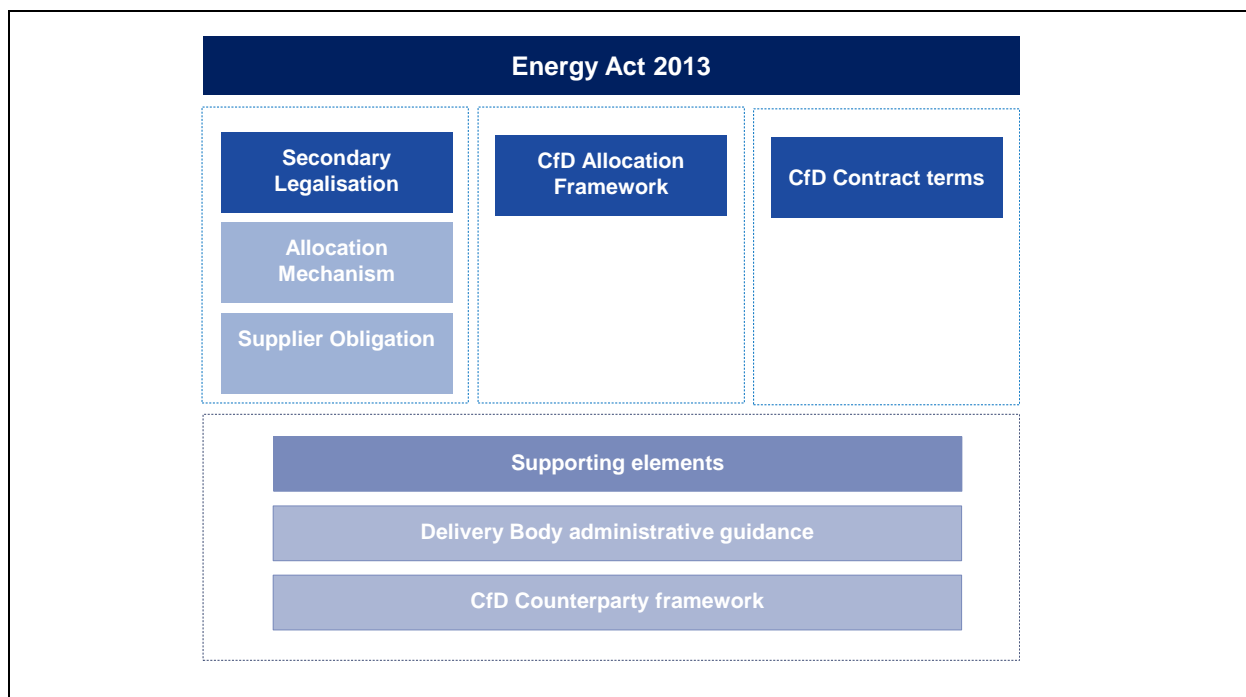
Bibliography

Legislative framework

The CfD scheme will be put in place by the Secretary of State under the powers conferred by the Energy Act 2013. The CfD itself is a contract and the standard Terms will be published. The CfD regime will be implemented through a combination of secondary legislation and the CfD Allocation Framework (AF). Supporting the secondary legislation and the AF will be detailed administrative guidance published by National Grid.

The CfD Counterparty will be governed by company documents including a Framework Document. These arrangements are summarised in Figure 3 below.

Figure 3: CfD Legislation



CfD regulations (which will be introduced by the Secretary of State) will cover a number of aspects of the CfD scheme including the circumstances in which the Secretary of State can prepare and publish a CfD and the circumstances in which the CfD Counterparty can amend the terms. In addition, the Secretary of State will have the power to produce an Allocation Framework (AF) and CfD Contract terms. The Allocation Regulations & Eligibility Regulations will contain the legal framework for the allocation of CfDs and the Allocation Framework will include technical rules, details and procedures that enable the CfD allocation process to operate efficiently and flexibly. It is anticipated that the requirements set out in the AF will be implemented by the EMR Delivery Body and enforced by Ofgem – subject to the AF being enforceable.

Figure 4: Status of key documents

Document	Current status
Energy Act 2013	<i>Achieved Royal Assent 18 December 2013</i>
Secondary Legislation – Allocation Mechanism	<i>Draft regulations published for consultation October 2013</i>
Secondary Legislation – Supplier Obligation	<i>Draft regulations published for consultation October 2013</i>
CfD Allocation Framework	<i>To be published in early 2014</i>
CfD Draft Contract	<i>Updated draft generic contract terms published in December 2013</i>

Consequential Code and Licence Modifications

As a consequence of the Energy Act 2013's provisions to implement the CfD scheme, existing electricity codes and licences require consequential amendments. The Energy Act includes provisions for the Secretary of State to modify licence conditions and documents maintained under licence conditions, together with related agreements, for the purpose of giving effect to the CfD scheme.

Working with Ofgem, National Grid and Elexon, the Government will be assessing which existing licence conditions, industry documents and agreements may need consequential amendments and will publish the proposed amendments in January 2014. These may include the following:

Figure 5: Potential amendments to existing standards

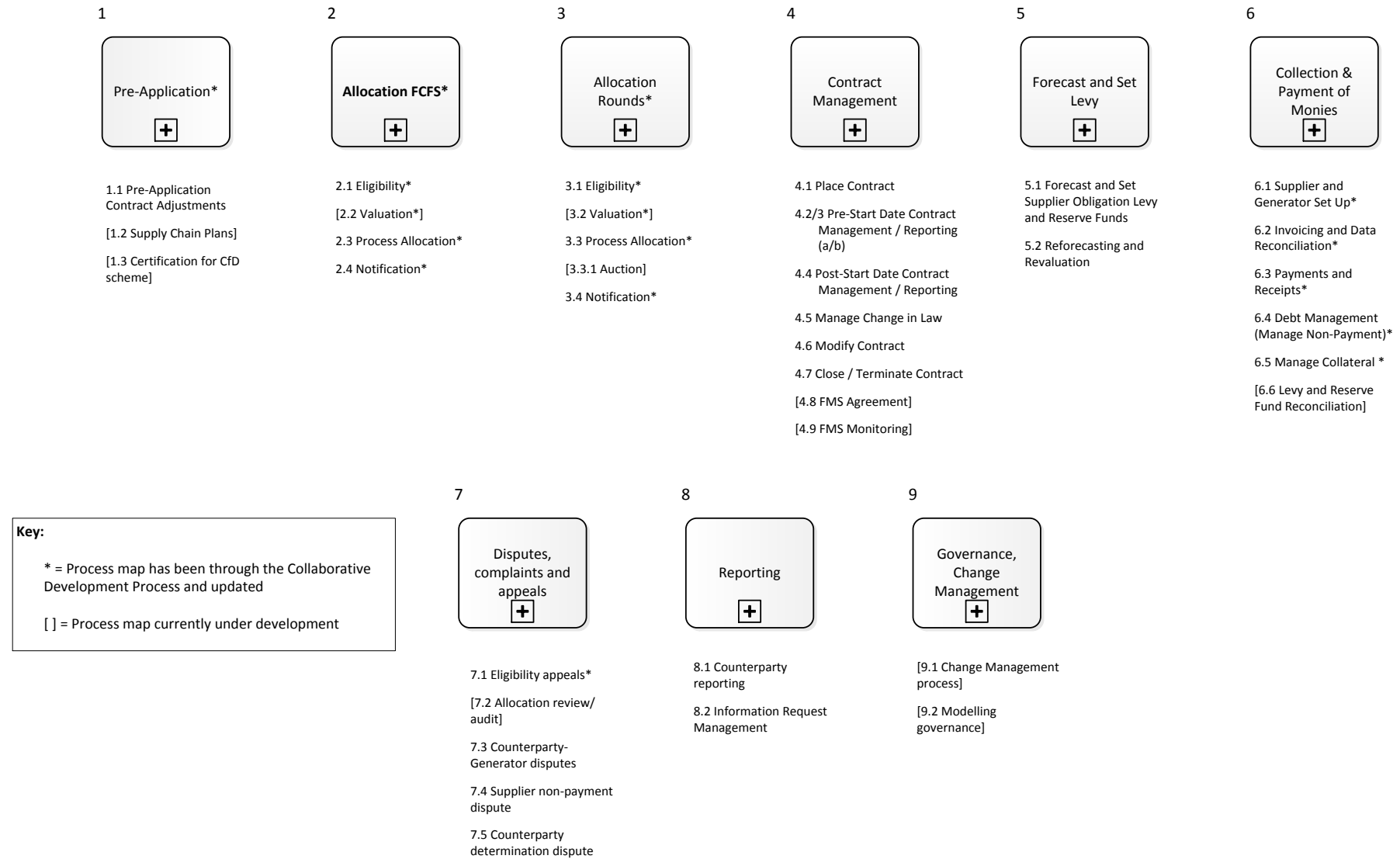
Existing electricity licences that might require an amendment	Existing electricity industry documents that might require an amendment or consideration of whether an amendment is necessary
<ul style="list-style-type: none"> • Generation licence • Transmission licence • Supply Licence • Distribution Licence • Interconnection Licence 	<ul style="list-style-type: none"> • Grid Code • CUSC (including schedules and exhibits) • Entered into CUSC bilateral agreements and documents • BSC • STC • GB Security and Quality of Supply Standard • Fuel Security Code • Distribution Code • Distribution Code and Use of System Agreement (DCUSA) • Balancing Services Agreements

Process Overview

This section describes at a high level the processes required to operate CfDs. The descriptions and processes described will represent the 'Level 0' view of processes. 'Level 1' process maps are included at Annex A: Level 1 Process Maps.

Figure 6 below shows the current process map hierarchy at Level 0 and Level 1. This details the scope of processes relevant to industry participants in relation to CfDs – it therefore doesn't include processes, such as Grid Connection, which are of relevance to Generators, but not specific to projects applying for CfDs.

Figure 6: Level 0 Process Index



The following process map groups are published in this document:

5. **Forecast and Set Levy:** Contains the processes of forecasting CfD payments, managing and reconciling Levy and Reserve Fund payments, and identifying collateral requirements.
6. **Collection & Payment of Monies:** Includes the processes of invoicing and issuing credit notes to both suppliers and generators, and collecting and paying the associated payments under CfDs, the Supplier Obligation and Operational Cost Levy.

The remaining process map groups, indicatively listed in the index above, will be published as part of an updated Operating Model in early 2014 – please note the content and structure of these process maps is subject to change, reflecting on-going policy discussion and further updates to maps will continue to be published for stakeholder review and comment.

Annex A: Level 1 Process Maps

The CfD process maps are attached to this document. The following table sets out the current state of review of the different process maps.

[See attached PDFs for Process Maps]

Annex B: Data Flow Tables [In development]

[Data flow tables are currently subject to development and review by DECC and Delivery Partners where information is currently known. The first iteration of this document may not include some systems information.]

Annex C: Glossary

For clarity, the definitions described below hold across the CfD Operating Model document:

AF	Allocation Framework
BSC	Balancing and Settlement Code
BSCCo	Balancing and Settlement Code Company (ELEXON Ltd.)
CfD	Contract for Difference
CUSC	Connection and Use of System Code
ECSA	Energy Company Supplier Administration
EII	Energy Intensive Industries
Generator	Prospective applicant, applicant or recipient to a CfD contract
LCF	Levy Control Framework
Ofgem	Office of Gas and Electricity Markets
SA	Settlement Agent
SO	Supplier Obligation
SOLR	Supplier of Last Resort
STC	System Operator-Transmission Code Owner
Supplier	Party operating under a supply license [in the relevant geography]
Supplier Obligation	Payments, funding and collateral requirements levied on all suppliers
Supply Chain Plan	Documentary requirement on specific generators to demonstrate supply chain impacts in relation to their proposed generation investment

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