Department
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Climate Change

CFD Counterparty and Capacity Market Settlement Body: operational cost levies

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Aims

1. Present the latest operational cost recovery plans including the consultation, regulations and institutional set-up
2. Outline the timetable for next steps and publication
3. Explain how the levy rates will be calculated
4. Explain the variables and assumptions which underpin the operational costs and how we have dealt with them
5. Seek views on approach

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Background to the consultation

The Energy Act 2013 gave SoS the power to raise levies on electricity suppliers to fund the operational costs of the CFD Counterparty and Capacity Market Settlement Body (CMSB).

These two levies are in addition to those which will fund the CfD and CM payments to generators.

The EMR implementation consultation in October 2013 set out how the Energy Act 2013 power would be implemented including that we intended to consult on the proposed operational costs in early 2014.

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Process for consultation/scrutiny of costs

We plan on achieving full transparency and scrutiny of the two companies' operational costs through the annual consultation on the operating cost levies and the publication of each company's audited annual accounts. Ultimately the operational costs of each body will also be subject to the approval of Parliament, as the operational levies are amended in Regulations annually.

As Government-owned companies, the CFD Counterparty and CMSB will be subject to the applicable rules and principles in the Government's framework for managing public money. Their operations and costs will be scrutinised by the National Audit Office (NAO) and Public Accounts Committee (PAC).

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How the levy will be calculated

We are designing the operational cost levies for both the CFD Counterparty and the CMSB to mirror the levies which will fund CFD and CM payments.

CFD Counterparty will be using a £/MWh model whereby their projected costs for the year will be divided by the forecast Megawatt hour supply for January – March 2014. This will provide the levy rate which will then be laid before Parliament annually.

The CMSB is to adopt a different model to that of the CFD Counterparty, it will simply be levying its budget under a fixed levy-rate model. The CMSB will work out its projected costs for the forthcoming year and then apportion this amongst suppliers based on their market share of annualised peak demand. This amount will be laid before Parliament every year.

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Synergies and the Service Agreement

As far as it is possible to do so, we propose that the two companies will enter into an agreement whereby the CFD Counterparty will provide resources, accommodation and facilities to the CMSB. The CMSB will pay for this through the cost recharge which will in turn be funded through the CMSB's operational cost levy.

The two companies have a number of synergies which require similar resourcing i.e. legal, Elexon relationship management and finance as well as back-office functions such as IT and HR.

The set-up process of the CFD Counterparty is ahead of that of the CMSB and as a result will be putting its resources and facilities in place earlier.

As the CMSB's resourcing is to be significantly less than that of the CFD Counterparty for the enduring regime and there is a difference in timing, it was more efficient to jointly develop systems, resourcing and facilities.

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Timing of the consultation

1. We are aiming to publish the consultation towards the end of March

2. As highlighted in the October EMR consultation, this will be a four week consultation

3. We intend to publish our official response to the consultation on the levy rate/budget in early June.

4. Shortly after this, regulations will be laid before Parliament which will include the levy rate/budget

5. We plan for the CFD Counterparty to be designated and the regulations to come into effect in August 2014 as these will be debated in Parliament prior to the summer recess.

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Questions

1. It is important to ensure that the companies proposed operational costs are transparent. Do you have any comments on arrangements to ensure this?

2. We are setting up and resourcing the companies so that they are prepared for the enduring regime; do you think that the budget allows the company to achieve this?

3. Do you have any comments on any other aspects of the proposals?

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Any Questions?