Offtaker of Last Resort Advisory Group
11/04/2014

Advisory Group Attendees

Dima Rifai, Paradigm Change Capital Partners LLP
María Paz García Alajarin, EDP Renewables
Ravi Baga, EDF Energy
Christian Milhan, Ofgem
Andrew Maclellan, Energ-y
Dave Handley, RES
Graham Meeks, Green Investment Bank
Stuart Noble, Scottish Power
Keith Patterson, Brodies

Bond Dickinson Attendees

Jen Stott, Bond Dickinson
Chris Towner, Bond Dickinson
Daniel Ballard, Bond Dickinson

DECC Attendees

Tim Warham, DECC (chair)
Matt Coyne, DECC
Helena Crow, DECC
Adam Harper, DECC
Michelle Toussaint-Bourne, DECC
Darryl Croft, DECC

Apologies

Christian Pegrum, EON
Konstantin Suplatov, PWC
Charlie Garrood, PWC

	OLR Backstop PPA Contract	

After introductions, Matt Coyne presented an overview of the Backstop PPA contract and addressed the issues that have arisen post-consultation. Detailed comments on the drafting were welcomed.

Contract Variations

- The group questioned whether the opportunity for the two parties to agree to vary the terms of the contract post allocation would leave the process of bidding for a BPPA contract open to gaming risk.
- DECC explained that due to the levelisation payments being processed separately to the discount in the BPPA there was no obvious mechanism that could lead to gaming risk. In any event the offtaker would still have to bid competitively to win the contract. Therefore any gaming would result in downward pressure on bids, resulting in a lower cost to the consumer .
- BD added that the single management fee bid by each offtaker cannot be changed post allocation and should reflect the risk profile. Levelisation arrangements also cannot be changed and the price in the contract is fixed, reducing the incentive for gaming. .
- The group agreed that modifications to the contract would need to be mutually agreed and no party could be forced to accept amended terms.

Treatment of Renewable and Embedded benefits

- MC outlined policy options for the treatment of renewable and embedded benefits. We have heard that banks do not typically consider embedded benefits or LECs bankable revenues for long-term PPAs, not ascribing a value to LECs in their modelling beyond a certain timeframe. The BPPA contract reflects

this and does not factor revenues from renewable and embedded benefits attributing these as zero.

- Lenders and generators pointed out that equity providers do attribute some value to LECs in their modelling.
- The group noted that not attributing a value to LECs effectively increases the OLR discount.
- DECC explained that the approach to modelling the discount had not included LECs and therefore the ultimate level of discount should be considered against a baseline that did not include the LEC. As the offtaker would receive the LEC, it would be expected that the offtakers would factor the value into their bid.
- However, generators noted that in that context the discount may be too high and they would therefore not expect the OLR to be bankable, and that they may continue to require long-term PPAs. This would not meet the objective of the OLR as generators would still have difficulty getting a route to market. DECC agreed to consider this within their modelling.

Negative Revenue Protection

- MC outlined the current policy position on negative revenue protection. Negative price protection has been renamed as negative revenue protection responding to confusion with terms reflected in the consultation.
- The group were asked whether they agreed with DECC's approach to negative revenue protection; do offtakers think it is deliverable through auction; and does it provide the right balance for generators?
- Generators felt that negative revenue protection would be a good option as an innovation in the market but could interfere with generators providing balancing services to the market.
- DECC noted that the mechanism is optional and if the generator preferred, they could either manage the risk through side-agreements or forgo the protection and continue to provide balancing services through their usual mechanisms. DECC also noted that this could be considered in the scheme review if the contract terms for future projects are revisited.
- The group sought clarification on the responsibilities for the Balancing Mechanism (BM) if generators continue to generate when there are negative prices. BD explained that all parties to the BM would be licenced suppliers who, as part of their licence conditions could regulate bids and offers in the BM process. The BM responsibility would still sit with the generator, the generator being the lead party.
- The group questioned how generators and offtakers would know if the threshold was crossed if prices were negative in the market as they would not know the clearing price. MC clarified that filters can be set through trading platforms which would trigger automatically at a certain threshold.
- TW explained that RO generators may self-curtail for example at -1 ROC/LEC. It is unlikely that CfD generators would curtail on a system basis leading to RO generators balancing the system sooner than CfD generators (see Baringa work for National Grid).
- The group questioned how the price at which this mechanism is triggered would be set. MC explained the choice to include this and the price at which it is triggered would be a generator decision, but that the calculation would be based on the negative strike price plus the discount plus short run marginal costs. This information would be in the schedule so would be available to offtakers prior to bidding. The generator would have the best view of the market and would know what price to specify and offtakers can price in the cost.
- The group queried whether the negative revenue protection could be a call option with offtakers taking power at certain prices. BD explained that the generator sets the negative price trigger, which if reached leads to the offtaker informing the generator the threshold has been met. The offtaker is

obliged not to sell the expected output. The generator must then decide whether to curtail or continue generating. If they continue generating they will face the system sell price for their output. The group questioned how notice provisions work and what the reasoning was for allowing 10 hours. BD explained that offtakers would be aware of prices for the next day at 11:00 each day giving 12 hours' notice of negative prices. Allowing 10 hours' notice gives Offtakers a minimum of two hours to give generators notice the negative price trigger had been reached.

- The group suggested technical minima should be considered if negative prices occurred in conjunction with an event that made it difficult for generators to re-start following self-curtailment. MC clarified that the decision of whether to curtail or not has been left with the generator as they are best placed to make these decisions themselves, on a case by case basis.

Curtailment Option for offtaker

- MC outlined the feedback from the consultation which did not support the proposed offtaker right to curtail option. Therefore it has been removed from contract. Similar provisions could still be negotiated bilaterally, in side agreements outside the contract.

Metering

- MC clarified that DECC have been working with Elexon to ensure the BMU switch can happen within 5 working days and provisions are being made under the CfD to support these timings.
- The group accepted this option.

Data Provision Requirements

- HC outlined the data provision requirements and the changes to the policy options post-consultation. The contract would not specify that SCADA must be provided, but that the generator needed to provide information of what data it could provide.
- The group questioned whether information would be supplied. HC confirmed that this information will be provided in the Schedule 1 proforma before bids are placed. Changes would have to be agreed between parties.
- The group queried where risk would be attributed if an offtaker required the generator to install new equipment which then did not work. It was clarified that this would be part of the offtaker cost and therefore would be the offtaker's risk. This would not need to be specified in the BPPA itself as it would be covered by a separate agreement.

Penalties for inadequate notification of forced outages

- HC gave an overview on the changes to penalties for inadequate notification of forced outages.
- It was confirmed that this is a cumulative cap.
- The outage materiality threshold schedule was questioned and DECC clarified that thresholds are not to be included and this will be reflected in future drafts.
- The group agreed that it is in the generator's best interest to inform offtakers of outages and there are no obvious reasons why a generator would fail to notify outages as described in the contract.

Project Specific Information for Schedule 1

- HC took the group through the information requirements in Schedule 1.
- The group was asked whether these information requirements were reasonable – could generators supply this information; is this information sufficient for offtakers to price bids?
- Generators stated that some information is confidential and they would not disclose e.g. historical output information, without a Non-Disclosure Agreement in place.
- Suppliers questioned whether this information was already in the public domain. It is in the public domain for transmission connected generators and thought there should be no reason why a distributed generator would not be able to make this available.
- DECC will check on the availability and publication of metered data.

Direct Agreement

- HC outlined the policy position that the terms of the Direct Agreement should be set out in a schedule to the BPPA.
- The group agreed with this and there were no comments.

General question – Allocation

- The group questioned the progress in defining the allocation period. Finance preferred a shortened allocation period, with 5 weeks being preferable. However, they expressed a preference for the longer 6 week period with a hard deadline for allocation, rather than a shorter time period with a softer deadline that may slip with no penalty.
- DECC will discuss this further with Ofgem.

	Next Steps
	DECC is processing consultation responses and drafting the government response. DECC is working towards a summer consultation on the policy detail, BPPA Contract and secondary legislation. The OLR team continues to work on licence and code modification and the regulations and will schedule another OLRAG in May to discuss the detail and issues arising from these outputs. The team continues to work to have the OLR in place by the time CfDs are signed.