



Department
of Energy &
Climate Change

CfD Consultation Workshop

13 November 2013



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INTRODUCTION



EMR Consultation on implementation proposals

- Published on 10 October 2013. Closes on 24 December 2013.
- Since the start of the EMR process, we have engaged closely with stakeholders:
 - Meetings with relevant trade associations, energy companies, consumer groups, investors and NGOs;
 - Key industry events;
 - EMR Expert Groups to discuss key aspects of the CfD policy design, institutional set-up;
 - Collaborative Development meetings.
- During the consultation period, we are holding a series of events/workshops in addition to our ongoing engagements.



Why we are here today

- Today's Workshop is an opportunity:
- for YOU to gain a greater understanding of the scope and contents of the consultation;
- for US to hear your concerns and directly capture feedback.
- We aim to have an open, transparent and fruitful discussion.
- We will cover – regulations, give you updates on LCF management, constrained allocation, contract key terms, the supplier obligation and the CfD counterparty set-up.



Agenda

	Timing	Topic
1	9.30am- 10:00am	Introduction a) Welcome and structure of the day b) End-to-end CfD – from allocation to payment
2	10:00am- 12:00pm	CfD Regulations a) Giving legal effect to the CfD b) Allocation framework
3	1:00pm- 2:00pm	Policy updates a) LCF management b) Constrained allocation c) Contract (key terms) d) Supply chain
4	2.30pm-3:45pm	CfD supplier obligation a) Overview and Rate and reserve fund setting b) Backstops c) Operational costs
5	3:45pm-4:00pm	CfD counterparty set-up update
4	4:00pm- 4:15pm	Thank-you and wrap up



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An Overview of the CfD: *Implementing EMR*

Chris Hemsley

Head of CfD Design & Implementation, DECC

13 November 2013



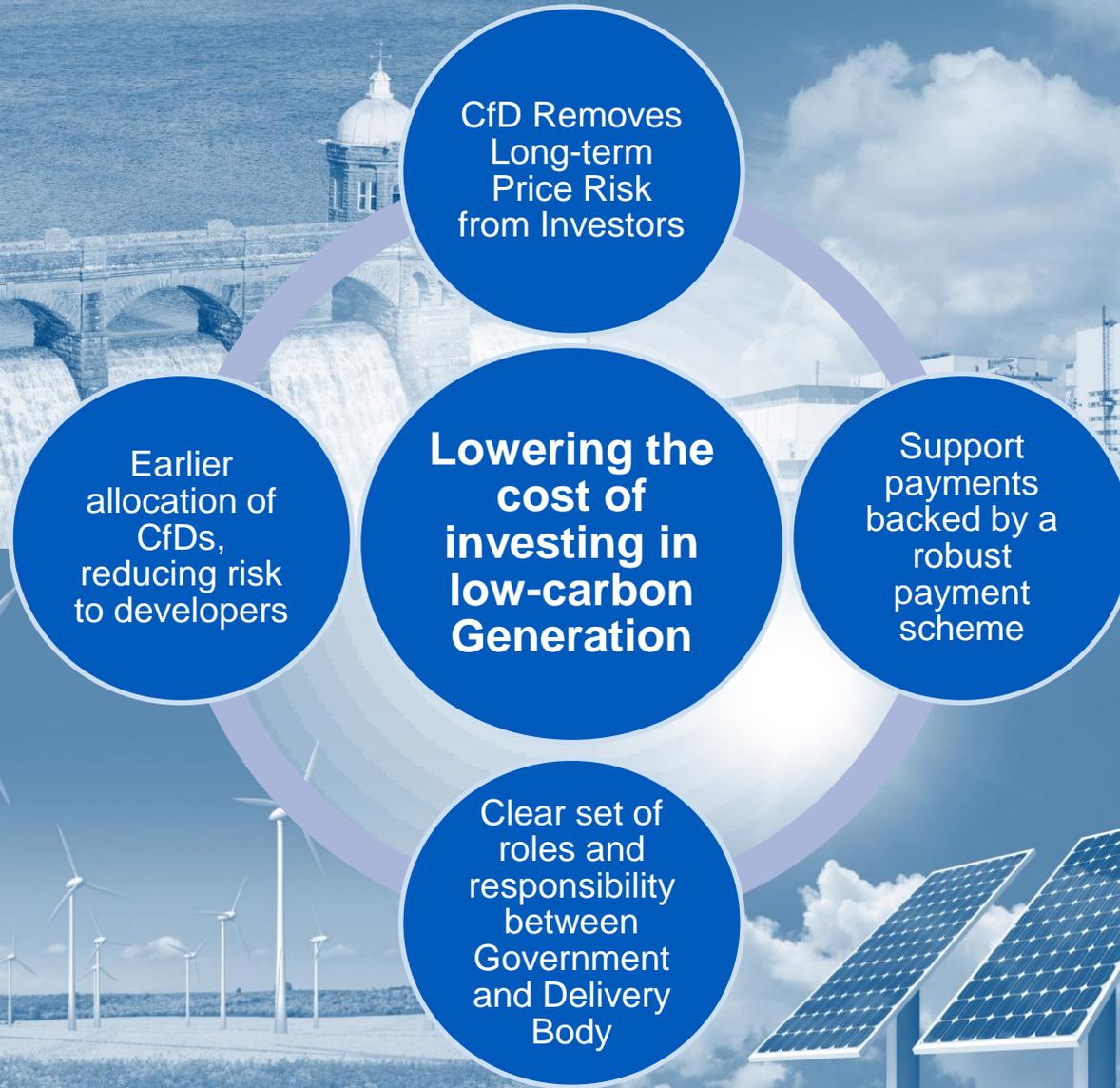
Government's objectives for EMR

- The Government's energy and climate change goals are to deliver secure energy on the way to a sustainable, affordable, low-carbon energy future and drive ambitious action on climate change at home and abroad.
- This requires substantial investment in new generation and networks: approximately £110 billion of capital investment in the decade to 2020 – this is like building 20 Olympic stadiums every year.
- To meet this challenge, we need to attract investment from a broad pool of investors, and support investment by a wide range of developers.
- The Contract for Difference (CfD) is the proposed instrument to attract this investment in low-carbon generation



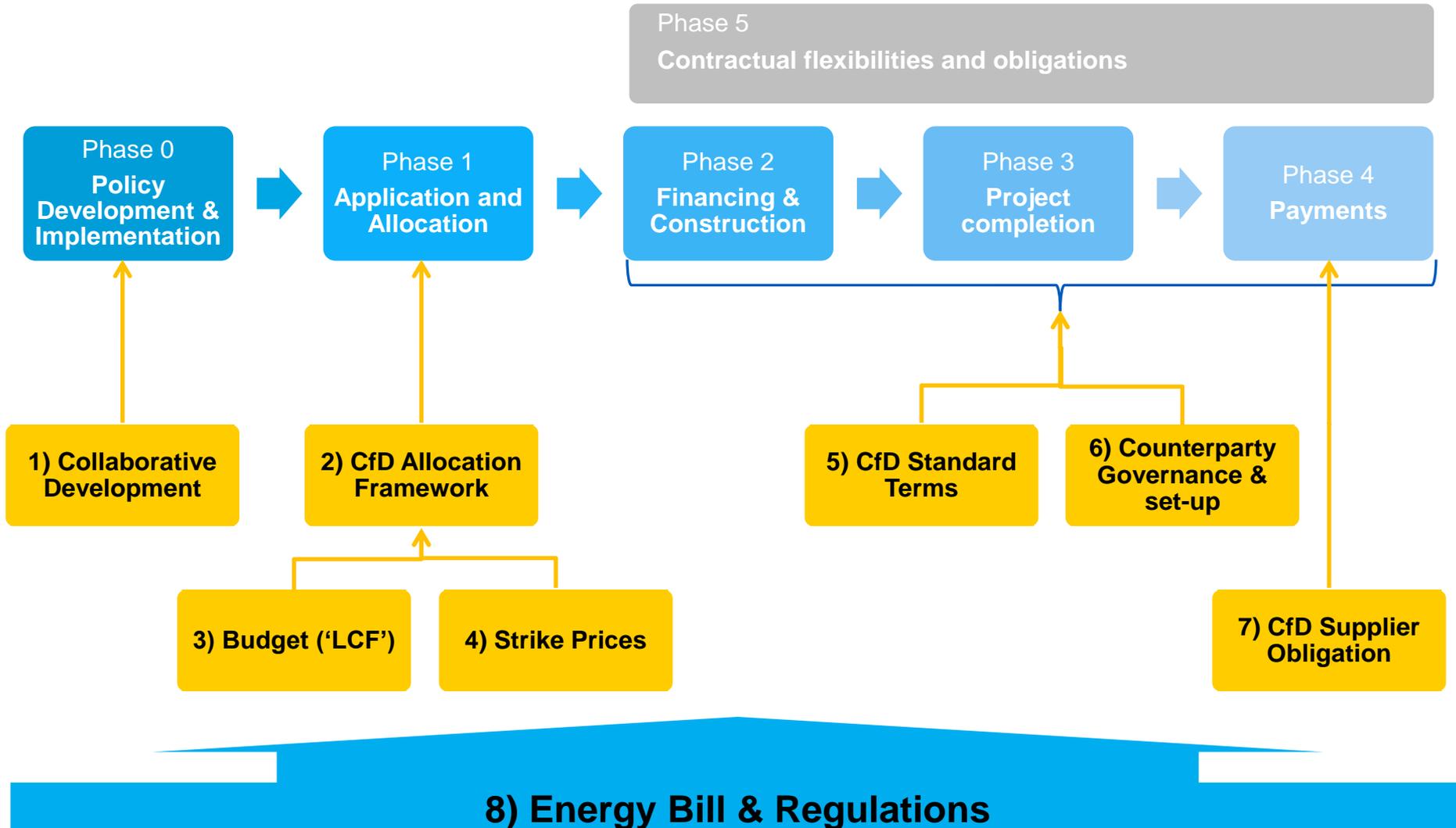


Supporting investment in Low-Carbon Generation





Key Components of EMR





Progress on key components

1) Collaborative Development

- Joint working with Industry to ensure systems and processes are in place
- Steering Group established
- Initial process review complete

2) CfD Allocation Technical Framework

- Analysing responses to consultation on draft allocation methodology
- Allocation Framework scheduled for publication Q1 2014

3 & 4) Budget and Strike Prices

- Draft Delivery Plan consultation on Strike Prices closed on 25 September 2013
- Final Delivery Plan: December

5) CfD Standard Terms

- Analysing responses to consultation on draft contract terms
- Continue to work with CfD Expert Group and other stakeholders to develop terms

6) Counterparty Set-up & Governance

- Set up led by DECC with Shareholder Executive
- Elexon designated as settlement agent, working on behalf of the Counterparty.
- Recruitment of senior team underway

7) CfD Supplier Obligation

- Collaborative Development (October)
- Consultation on proposals, through October consultation

8) Energy Bill & Regulations

- Lords Report expected to commence shortly
- Bill expected to receive Royal Assent by end 2013, subject to Parliament
- Consultation on Secondary Legislation ends on 24 December

Giving the CfD legal effect

Phase	Key Elements of the Framework	Implemented Through
Applying for a CfD	Delivery Body: assesses applicants against rules set out in regulations and the Allocation Technical Framework	Requirement on Secretary of State to set out (reflecting constraints set out in regulations) in Energy Bill
	Supply Chain Plans: larger developers required to obtain approval from Secretary of State for a SCP	Implemented through regulations (eligibility requirement to apply for a CfD) Guidelines to be issued to assist developers
CfD Allocation	Delivery Body: allocates CfDs applying detailed processes that comply with the rules in regulations and the Allocation Framework	Requirement in Energy Bill
CfD Award	Delivery Body: notifies the Counterparty Body, which will then enter into CfD	Requirement in Energy Bill
	CfD contract clauses: set out in standard terms issued by Secretary of State	Regulations set out detail for contents of standard terms, and process for their revision
CfD Signature	Developer: can request modifications to standard terms, within tightly defined limits (i.e. 'minor and necessary'), before applying for CfD	Regulations constrain scope of any amendments to CfD, pre-signature and otherwise constrain Counterparty to enter into 'standard' terms
CfD Payments & Management	Counterparty Body: party to CfD, 'manages' the CfD; Elexon works on Counterparty's behalf to invoice and process payments	Operation of Counterparty determined by the CfD, Energy Bill, forthcoming Regulations and Framework Agreement with Secretary of State Company documents (articles of association and framework document) will also apply
	Supplier Levy: Collects funds to make payments against CfD.	Regulations set out detail of the Supplier Levy

(Structure envisaged following amendment to Energy Bill. Process subject to will of Parliament)



Way Forward



Final Strike
Prices

End 2013

Consultation
on
Regulations

Closes
December
2013

Energy Bill
currently
in the House
of Lords.

Royal Assent
before end-
2013

Regulations
come into
effect

Summer
2014

FID Enabling
for
Renewables

First CfDs
awarded early
2014

Allocation
and signature
of first
'generic' CfDs

Autumn 2014



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Legislative basis for Contracts for Difference

Ben Rattenbury and James Clarke
CfD Design & Implementation
13 November 2013



Energy Bill Amendments

1. CfD Standard Terms

Gives the Secretary of State the power to issue and, from time to time, revise, the CfD standard terms

2. CfD notification

Provides for regulations regarding how the System Operator is to notify the CfD counterparty of an allocation decision

3. Offer to contract

Provides for regulations regarding how the CfD counterparty is to offer a contract to a generator following a notification from the System Operator

4. Modifications to the standard terms

Enables the CfD counterparty to agree ‘minor and necessary’ modifications to the standard terms, on a case by case basis, pre signature

5. Allocation Framework

Gives the Secretary of State the power to issue and, from time to time, revise, detailed rules governing CfD allocation (the “allocation framework”)



Key Components

- **Standard Terms**

- Contract Terms relating to payment, commissioning, etc.
- Determined by Government, in accordance with provisions in regulations
- Combined with 'Cover Sheet' to provide a full, legally-enforceable contract

- **Cover Sheet**

- The part of the contract that
 - Details the project-specific information, such as location and start date, to be determined by the allocation process
 - Specifies which generic "standard terms" are to relate to a particular project (e.g. which reference price to use)

- **Allocation process**

- Operated by National Grid, in accordance with the rules set out in the Allocation Framework



CfD Standard Terms

New clause sets out that in issuing or revising standard terms the Secretary of State may designate terms which may not be modified, and must:

- Must have regard to matters in 5(2)
- Must publish standard terms

Standard terms must also be issued or revised in accordance with regulations:

- Minimum consultation periods
- List of areas of the contract that must be in all sets of standard terms

Term; Calculation of Metered Output, Market Reference Price and Strike Price; Changes in law; Installed capacity adjustment; Conditions precedent; General provisions regarding liabilities, remedies and waivers; Dispute resolution; Termination; Change control procedure.

Questions

1. Does this provide appropriate investor certainty?
2. How could these proposals be improved?



Modifications

Modification = change to the standard terms, agreed between the CfD counterparty and the generator, on a case by case basis, pre-signature

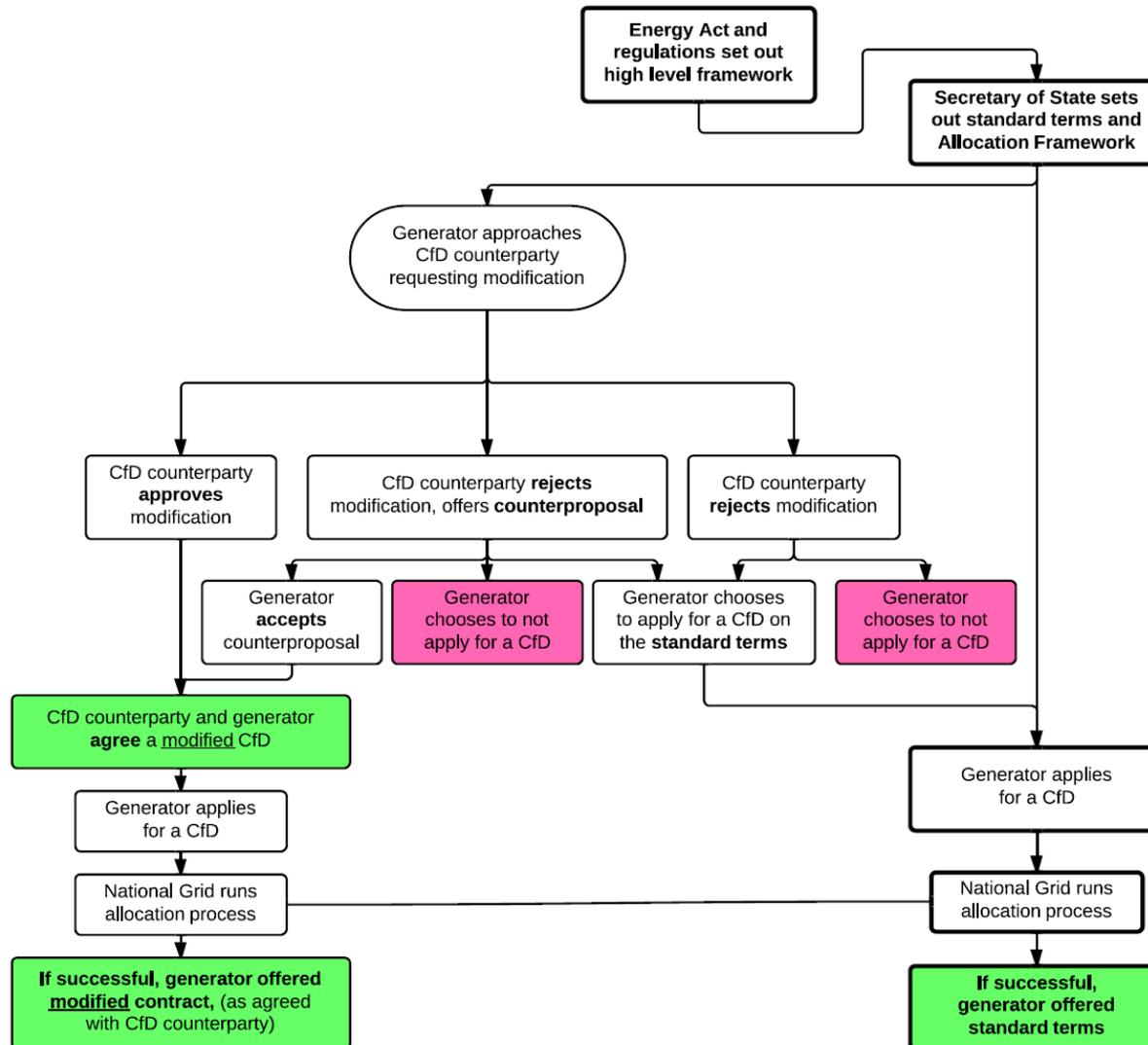
Modifications to the standard terms may be necessary for particular situations, for example:

- To reflect different financial structures
- To adapt to different corporate structures

Must balance flexibility to agree modifications with maintaining the overall risk-reward balance in the contract.



Modification process





Modification principles 1

Counterparty can Approve/Reject/Counterproposal

We propose that the CfD counterparty has 20 working days to consider a modification request. In practice this will mean that developers discuss changes with the counterparty in advance

Two principles must be met:

- The adjustment will not alter the risk-reward balance of the CfD (non-material, or **minor**)
- The adjustment is essential for the generator to be able to sign a CfD (**necessary**)

Regulations to provide further guidance



Modification principles 2

Draft definitions

Minor: The modification(s) are deemed to offer no net substantive benefit over any signatory to a CfD on the standard terms. A net substantive benefit can be defined as the risk-reward balance of the modified CfD being likely to be more favourable than that represented by the standard terms, all things being equal.

Necessary: The applicant can demonstrate that they are unable to sign the standard terms having taken all steps which a reasonable and prudent generator could make, were a modification to the contract not possible.

Questions

3. Do the proposals provide flexibility within appropriate boundaries?
4. Do the definitions of 'minor' and 'necessary' reflect the stated policy intention?
5. How could these proposals be improved (without broadening the scope for modifications)?



CfD allocation framework – what is it?

- Bill amendment currently proceeding through the Lords to give the Secretary of State power to create allocation frameworks.
- Instead of Act + Regulations + Guidance, there will be Act + Regulations + Allocation Framework + Guidance.
- Allocation framework text will look like regulations – same precision.
- Regulations and framework are separate documents – but work together as one set of rules, with the allocation framework being capable of being amended relatively quickly without the need for parliamentary approval.
- Guidance will contain explanations of what the provisions in each document mean and low-level material such as which forms to use and where to send them.



CfD allocation framework – why is it needed?

- Framework is needed to cover those elements of CfD allocation system that might need to be changed:
 - relatively quickly, if there is a risk of gaming or unintended consequences...
 - ...or frequently, such as after each of the first few allocation rounds, to refine in light of experience.
- Amending such elements through parliamentary process for regulations would potentially disrupt smooth functioning of CfD system and take up parliamentary time needlessly often.



CfD allocation framework – opportunities to comment

- We intend to publish a draft of the framework early in 2014; with the final version in late Spring, at a similar time to laying the implementing regulations in Parliament.
- We will be seeking views from stakeholders on the draft framework when it is published.
- It will be informed by the Allocation Methodology that has been developed, which sets out Government's policy positions, and also the consultation that has taken place on this document and previous publications.
- We will also discuss it with the CfD Expert Group at that point.

CfD allocation framework – what will it contain? (1)

Proposed Content for Regulations	Proposed Content for Allocation Technical Framework
<ul style="list-style-type: none"> Eligible technologies and eligibility criteria. 	<ul style="list-style-type: none"> Other information required from applicants.
<ul style="list-style-type: none"> Allocation phases and when to move between them. Frequency of rounds. 	<ul style="list-style-type: none"> Precise trigger for moving from FCFS. Detailed process for Grid to follow.
<ul style="list-style-type: none"> Power to vary budget and restrictions on this. Scope for maxima and minima. 	<ul style="list-style-type: none"> Where and how budget is published. Methodology for valuing CfDs.
<ul style="list-style-type: none"> Basis of rationing, e.g. by price. 	<ul style="list-style-type: none"> Precise rationing process.
<ul style="list-style-type: none"> Main elements of appeals. 	<ul style="list-style-type: none"> Detailed process for Grid to follow.
<ul style="list-style-type: none"> TCWs and LSDs for each technology 	<p>(None)</p>



CfD allocation framework – what will it contain? (2)

- Fuller table in EMR Consultation on Proposals for Implementation, pages 49 to 50.
- This is still provisional:
 - We are keen to hear your views;
 - Content may change as we progress with drafting both documents, when interactions become clearer.



CfD allocation framework – amending the framework

- Purpose of the framework is to be amendable at shorter notice or more often than regulations.
- We are currently considering how much notice to aim for with respect to each part of the framework.
- Would welcome your initial views (recognising this may be easier once draft framework has been published).
- Position already set out for changes to budget (see pages 57-60 of condoc):
 - extensive discretion for Government to vary budget up or down outside of allocation rounds (or with 28 days' notice during FCFS);
 - but no reductions in budget for participants within a round once it opens.



CfD allocation questions

CfD allocation framework

1. Do you agree that the proposed split between regulations and the allocation framework is the best way to implement the policy, whilst retaining the necessary flexibility?
2. How far ahead of an allocation round opening will you need to be notified of possible changes to the allocation framework? For which parts of the framework is this most important from your perspective?



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Managing the Levy Control Framework

Alon Carmel,
Delivery Plan Team, EMR Programme
13 November 2013



Contents

1. LCF overview and projected spend
2. Risks and mitigations
3. Emerging Governance Framework

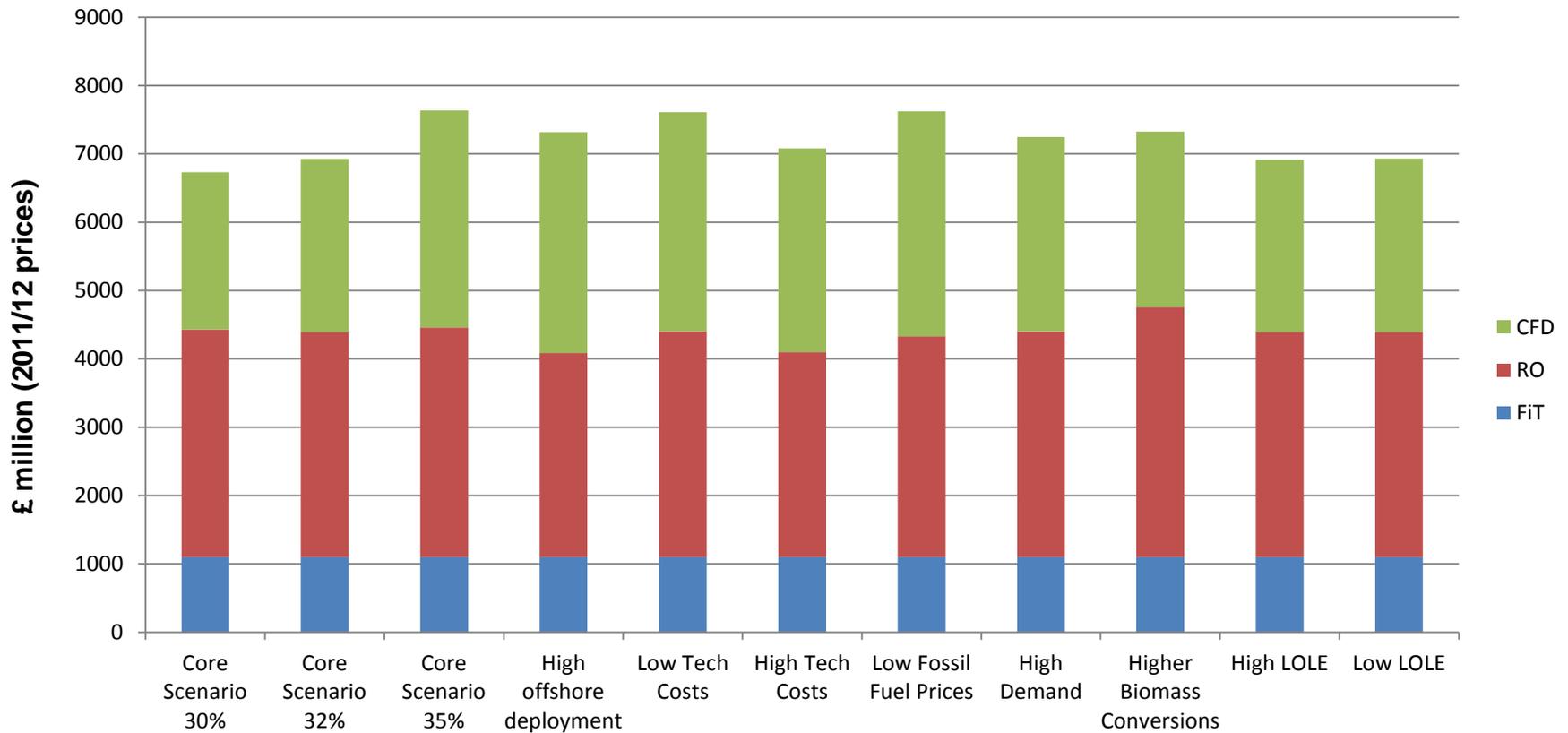
1. The Levy Control Framework (LCF): Stability for investors and protection of the consumer

LCF Upper Limit (2011/12 prices)	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£4.30bn	£4.90bn	£5.60bn	£6.45bn	£7.00bn	£7.60bn

- ▶ The Levy Control Framework (“LCF”) sets out the maximum support for low carbon generation on an annualised basis.
- ▶ These numbers include: the RO, small scale FITs, CfDs (not Warm Homes Discount, Capacity Market).
- ▶ Transparency provides clarity for investors about the likely availability of support for low carbon projects. Regular information on remaining CfD budget will be available once allocation is under way.



LCF spend in 2020/21





2. Risks and mitigations

Risks of overspend and under-delivery are driven by:

- Deployment risk (*e.g. greater or less deployment of technologies than expected*)
- Wholesale prices
- Load factors
- Electricity demand

Potential mitigations and corrective actions:

- Revise future strike prices
- CfD constrained allocation mechanism
- Revise CfD allocation rules (*e.g. maxima and minima*)
- RO banding or ss-FiTs tariff review
- Pause CfD allocations



3. LCF Governance functions

- **Purpose:** to robustly manage the LCF expenditure to minimise the impact on consumer bills while achieving the Government's objectives
- DECC is currently designing the LCF governance framework – to be published in Delivery Plan (scheduled Dec 2013).
- Governance functions include:
 - Defining budget and allocation (Renewables Obligation, CfDs, ss-FiTs)
 - Regular monitoring of actual and projected LCF spend (e.g. on a monthly basis)
 - Taking corrective actions to manage risks of over and under spend
 - Providing strategic oversight and challenge



Budget setting

- DECC needs to estimate and monitor various budgets:
 - the Renewables Obligation
 - Small Scale FITs
 - CfD – including CfD for FIDeR
 - DECC will need to consider whether to set (and revise) technology specific maxima or minima for certain technologies
 - DECC will need to decide how much budget to release to National Grid for CfD allocation
-



Monitoring Spend

- DECC will need to maintain regular and frequent oversight of spend in order to manage the risk of overspend, as well as the risk of under delivery
- We are considering doing this on a monthly basis in order to maximise our ability to respond to deployment changes such as solar PV deployment surge in 2010-2011
- The LCF Governance Framework will need regular, reliable information on number of CfD contracts signed, and projected spend under these contracts from the CfD Counterparty and National Grid.
- DECC will also regularly analyse and re-analyse the risks e.g. through modelling stress tests

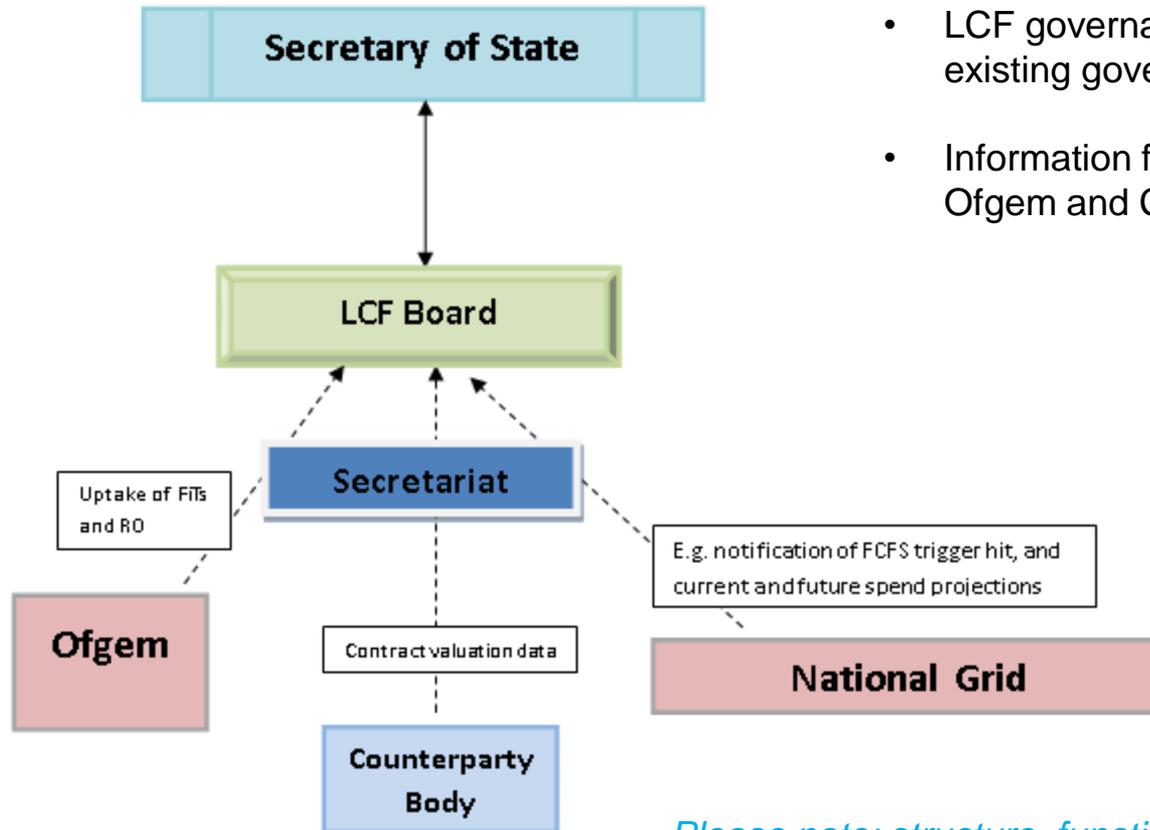


Strategic oversight and challenge

- Providing input and informing carbon budget setting
- Considering the impact of any new policies on levy spend
- Input to reporting on progress in meeting 2020 targets



How LCF governance might operate



- LCF governance will align with existing governance structures
- Information flows from Grid, Ofgem and CPB

Please note: structure, functions, and reporting requirements remain illustrative at this stage



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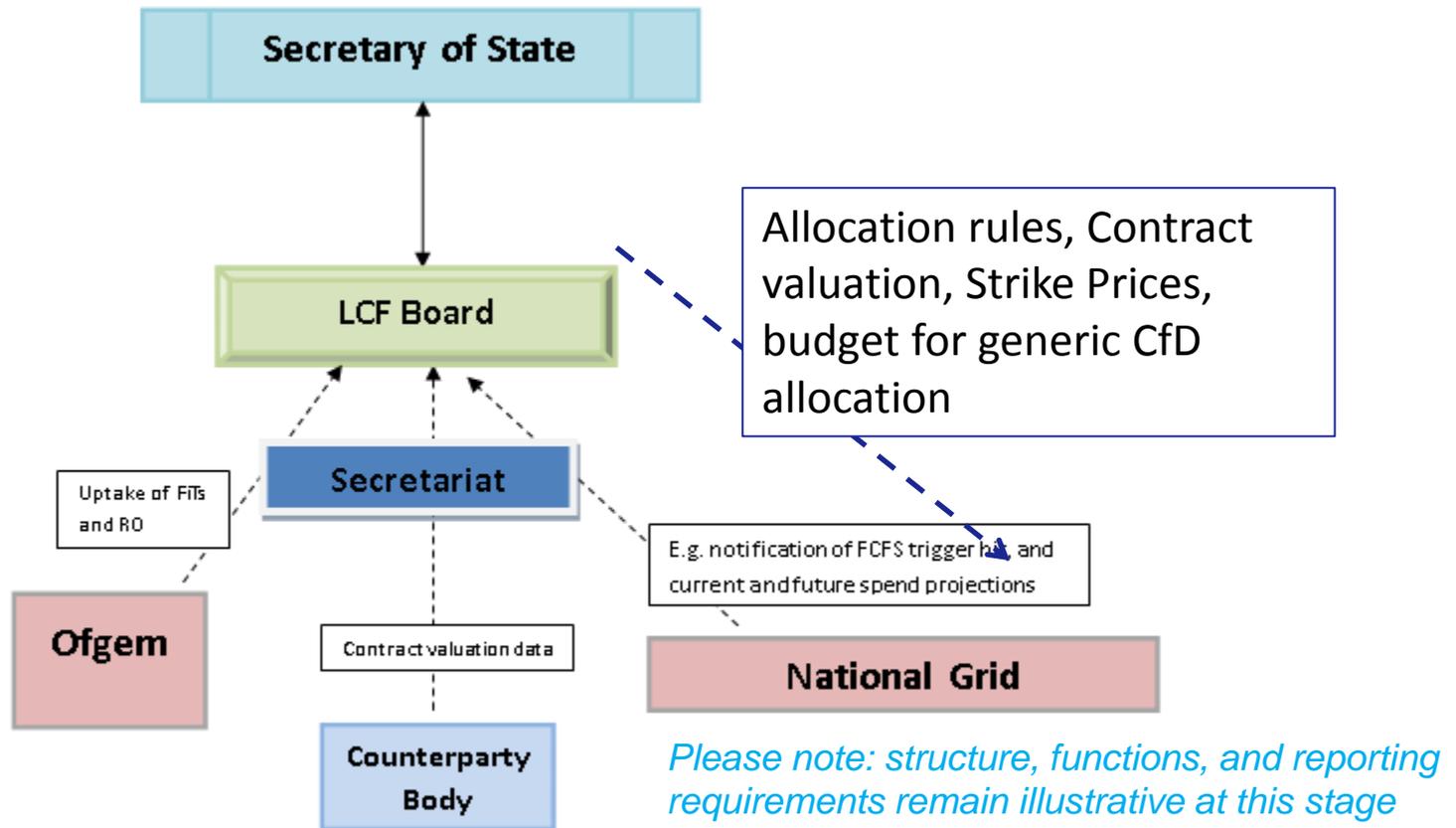


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CfD Allocation: Policy Update

Vikram Balachandar
Policy lead, CfD Design
13 November 2013

Budget for CfDs will be released to DB





Duration and existence of First-Come, First-Served phase to be confirmed

- The intention is that once a trigger has been met (e.g. 50%) of the CfD budget within any delivery year has been used up, the EMR delivery body will seek Government's approval to move to Allocation Round
- Duration of the First Come First Served phase of allocation will be impacted by wider decisions on the use of the LCF cap and value for money considerations
 - There are some scenarios in which FCFS may only last for a short period or may not be able to operate at all
 - if so, Government will consider moving immediately to allocation rounds and will also consider introducing constraints for certain technologies or groups of technologies.
- Once Allocation Rounds have been introduced, they will operate for all delivery years and across all technologies.
- The precise level for this trigger is set will be confirmed in the final delivery plan, planned for publication in December 2013



Allocation rounds work much like FCFS unless constraints are triggered

- Once Allocation Rounds have been introduced, they will operate for all delivery years and across all technologies.
 - Two scenarios are possible under allocation rounds:
 - Unconstrained allocation: If all the bids within the round can be satisfied within the CfD budget then all projects are allocated contracts. The exceptions to this may be where a technology or group of technologies minima or maxima interact with the wider budget in particular ways (explained in more detail below).
 - Auctions/ “Constrained allocation”: If there is insufficient budget to satisfy all bids or maximum constraints are exceeded, then an auction (constrained allocation) will apply.

Under constrained allocation, CfDs will be allocated via an auction mechanism

- Projects subject to rationing will be ranked according to the strike prices they offer, with the cheapest projects securing CfDs
- Subject to overall budget and potential minimum and maximum constraints on “categories” (i.e. technologies or groups of technologies)
- If a “pay-as-clear” auction, clearing prices would be determined as follows:
 - For categories that are subject to **binding** minima or maxima, the clearing price would be the most expensive accepted bid in each category
 - For categories which are not subject to binding maxima, the clearing price would be equivalent to the most expensive accepted bid before the overall budget constraint (for that delivery year) is reached
- The Strike Price paid to a project would be the lower of:
 - the administrative strike price for the technology; or
 - the clearing price established for the category



Number of details still under consideration

- The precise rules for triggering the rationing process
 - Which applicants are subject to the auction? How does this interact with technology minima (if used)?
- The precise mechanics of the auction process when triggered, including:
 - Auction format: descending clock vs. sealed bid, pay-as-bid vs. pay-as-clear
 - Interaction with minima and maxima (if used)
 - Budget flexibilities between Delivery Years
 - Treatment of phased projects – key principles:
 - Single strike price bid for all phases
 - Since a phased project is not divisible, whole project either receives or does not receive a CfD under constrained allocation
 - Allocation will need to have regard to the different budget constraints that will apply across different years
 - Implementation of tie-breaker principles set out in the allocation methodology
 - Appeals process to apply to Delivery Body allocation decisions
 - Use of sealed bids by Government



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Annex: Illustrative examples of CfD auctions

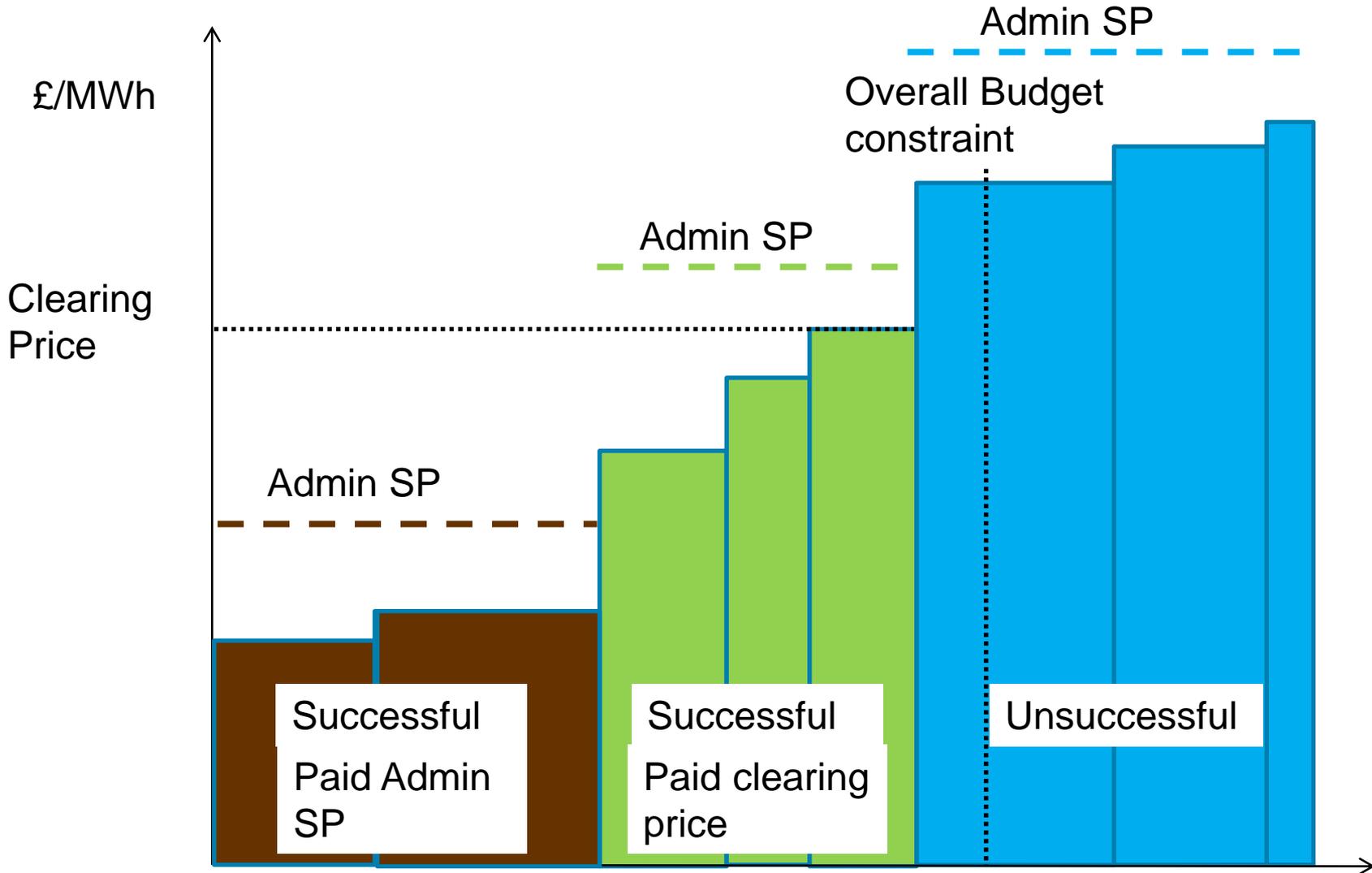


Illustrative Examples

- Note: the examples that follow are animated and are best viewed in “Slide Show” mode
 - 3 scenarios:
 1. No (binding) technology minima / maxima, single delivery year
 2. Technology minimum
 3. Technology maximum
 - Explanation:
 - Example focuses on projects commissioning in the same year (for simplicity)
 - One bar for each project:
 - Height of bar represents Strike Price bid
 - Width of bar (i.e. x-axis) represents project size (i.e. either GW or budget)
 - Colours denote different technologies

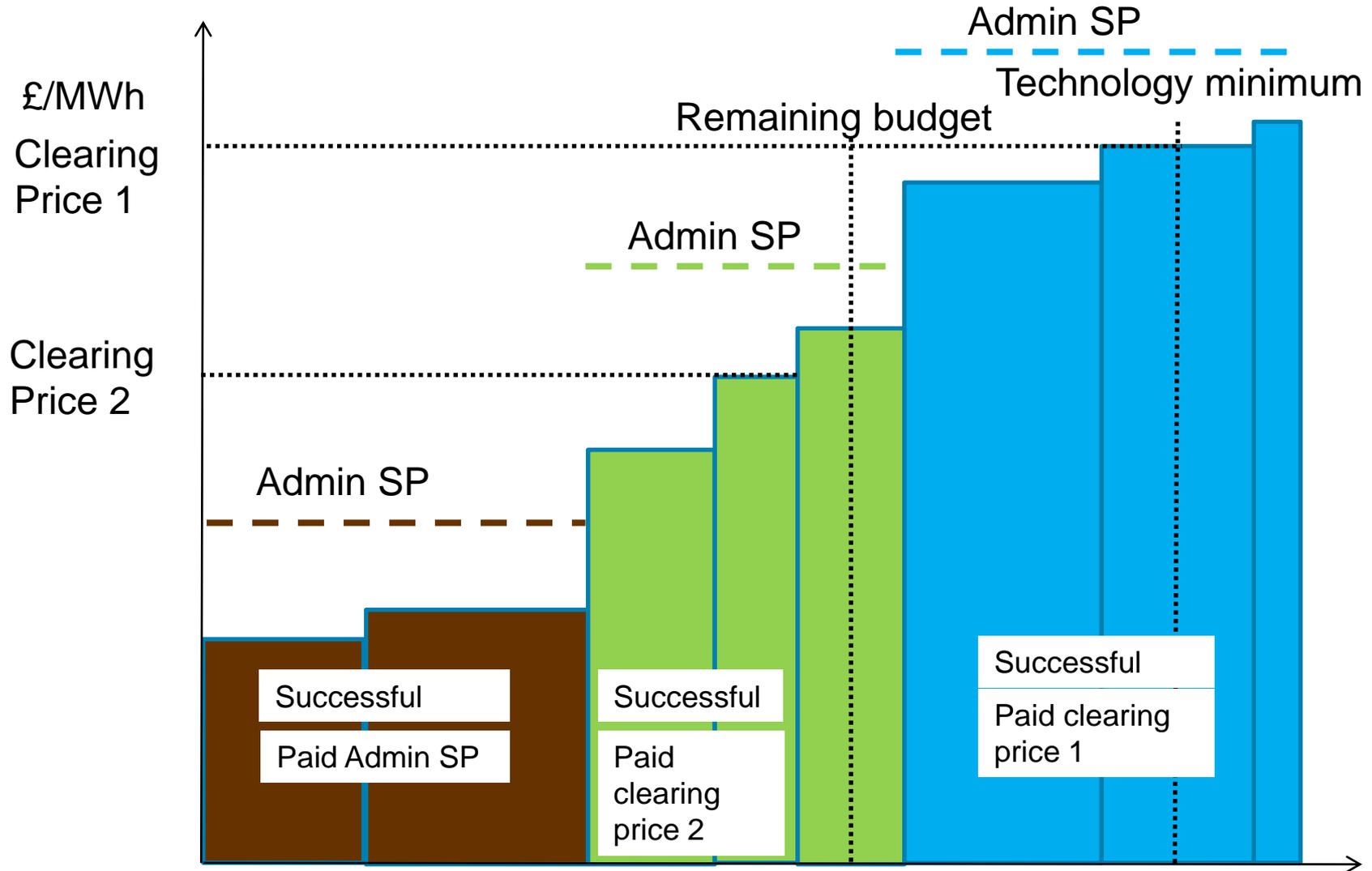


Scenario 1 – no (binding) minima / maxima



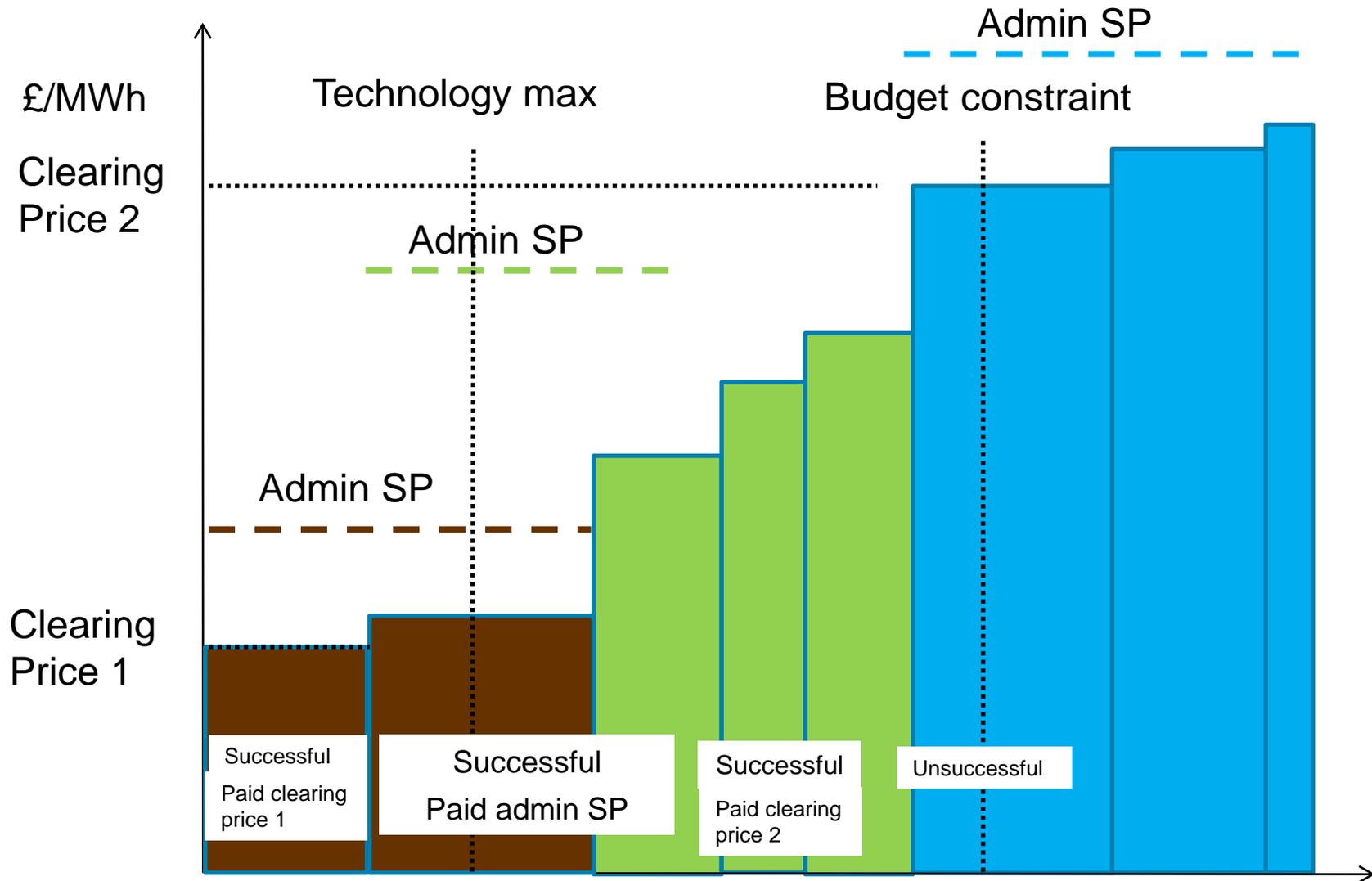


Scenario 2 – Technology minimum





Scenario 3 – Technology maximum





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Key Terms of the CfD Contract

Chris Hemsley

Head of CfD Design & Implementation, DECC

13 November 2013



Recap on process

May 2012

- Draft Operational Framework
- Draft Energy Bill

November
2012

- Final Operational Framework, including contract Heads of Terms
- Energy Bill introduced

June 2013

- Strike Prices published
- Updated policy on key terms

August
2013

- Draft CfD contract terms published
- Allocation Methodology published
- Series of workshops on CfD Terms and Allocation design

October
2013

- Consultation on secondary regulations
- Government amendments tabled on CfD allocation and contract structure

CfD Contract Terms

Changes since November Heads of Terms

What you told us	The changes we made to the CfD
Concern about the breadth of change in law	Cover for general changes with discriminatory effects, which lack objective justification. Protection against ‘curtailment’ without compensation and ‘political shutdown’.
Concern that CfD exposes Generators to risks of changes to transmission charges	Cover for changes in certain transmission charges (BSUoS and TLM).
Termination likely to discourage investors / hair-triggers	Reduced termination events and introduced cure periods.
Index-linked payments	100% indexation to CPI
No claw-back / refinancing clauses	Confirmed that generic CfDs will not include clauses to claw-back gains.

CfD Allocation Methodology

Changes since November Operational Framework

What you told us	The changes we made to the CfD
Developers need greater flexibility to vary capacity as project is refined	Greater flexibility, allowing up to circa 30% reduction in capacity, circa 10% at no cost.
Need for protection against unexpected events, beyond the developers' control	Force Majeure + Protection against grid delays + Protection against geological conditions
CfD needs to support phased commissioning	Phasing solution for offshore wind, with all phases receiving the Strike Price of the first phase.
CfD should support a wide range of technologies and generators	Continue to work on the detail of metering to support projects connected through the transmission, distribution and private wire networks.

Need to ensure an appropriate balance of risk between developers and consumers

Risks	Flexibility Allowed
Uncertain Commissioning Date	<ul style="list-style-type: none"> - Target Commissioning Window - Can Commission outside of TCW, at a cost, and before Long Stop Date - Can nominate a later Target Commissioning Date
Late Commissioning	<ul style="list-style-type: none"> - Target Commissioning Window - Force Majeure provisions - Cover for delays caused by Grid Connection
Uncertain Commissioning Volume	<ul style="list-style-type: none"> - Circa 30% flexibility to reduce capacity - Circa 10% flexibility without cost, of which half must be exercised by SFC milestone
Unable to Commission Full Volume	<ul style="list-style-type: none"> - Retain 5% flexibility at commissioning - Further 20% flexibility (with Strike Price adjustment) - Can reduce capacity, without penalty, in light of certain Geological issues



Way forward

- Work continues on the detail of the terms and allocation process
 - Completing the drafting, informed by responses to August publication
 - Ongoing engagement on the detail with the CfD Expert Group, workshops and bilaterals
- Next steps:
 - Delivery Plan in December, with finalised policy positions and Strike Prices
 - CfD 'Standard Terms'
 - Allocation Framework
- Longer term:
 - Plan to introduce Regulations in late Spring 2014 ahead of implementation in July 2014
 - First generic CfD signature in Autumn



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Supply Chain

Paul Dyer

MI Strategy and Programme Office, DECC

13 November 2013



Supply Chain Plans

New policy to encourage open and competitive supply chains and promote innovation & skills in the low carbon sector. This will drive down the cost of low carbon generation over the long term and result in lower energy costs to consumers.

- The EMR Implementation Consultation stated intention to require developers to submit Supply Chain Plans.
- Projects above 300MW capacity will be asked to submit a Supply Chain Plan to be eligible to enter the allocation process for a CfD.
- Plans will be assessed by Government and must show the plan demonstrates enough action is being taken, or will be taken under each criteria.
- Developers will then submit the certificate that shows their Supply Chain Plan has been approved to National Grid when applying for a CfD.
- Policy was set out in the EMR consultation, but further details and a chance to share views, will be published in late November.
- Government will publish the Regs and draft guidance next year, before the EMR go live date, to allow companies to prepare their submission.



Supply Chain Plan: Eligibility Criteria

Supply Chain Plans will be assessed against a set of criteria – at the moment, we think these will cover the following:

Skills

- Whether a workforce is in place with the necessary skills to undertake and construct the project and, if not, what steps the developer will take to address this.
- How the workforce's skills will be maintained and developed for the construction and life of the project.

Broadening the Supply Chain

- How the project will encourage broader supply chains to increase competition and bring down costs.

Innovation

Whether approaches have been taken or will be taken to deliver the project in a way that boosts innovation in the sector.

We may also take into consideration the stage of development for the project, financial commitments and payments made to date.

Companies may be asked to submit a post build report showing implementation of the plan, setting out what happened and why.



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CfD Supplier Obligation

Helen Dhoot

Counterparty Body and CfD Payment Team

13 November 2013



Supplier obligation : agenda

Presentation 1

Overview of the supplier obligation

Rate and reserve fund setting

Q&A

Presentation 2

Backstops – collateral, insolvency reserve fund, mutualisation, enforcement and disputes

Q&A

Presentation 3

Operational costs

Q&A



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Supplier obligation overview and rate setting

Helen Dhoot

Counterparty Body and CfD Payment Team

13 November 2013



Supplier Obligation: the basics (1)

- Statutory obligation on GB and NI suppliers to pay for CfDs
- Powers within the Energy Bill:
 - “Backstops”: collateral, mutualisation, ability to hold funds.
 - All licensed suppliers in GB and Northern Ireland.
 - Compulsory payment: requirement of license
- Detail in draft CfD (Supplier Obligation) Regulations which we are currently consulting on
- Regulations will be laid in Parliament and debated next year



Supplier Obligation: the basics (2)

Energy Bill duties

SoS must make regulations that make provision for electricity suppliers to pay a CFD counterparty for the purpose of enabling the counterparty to make payments under CFDs;

SoS must include such provision as is necessary to ensure that a CFD counterparty can meet its liabilities under any CFD to which it is a party;

Regulations must impose a duty on the CFD Counterparty in relation to the collection of sums;

A CFD counterparty must exercise the functions it has to ensure that it can meet its liabilities under any CFD to which it is a party.

Supplier Obligation: the basics (3)

Who is doing what

Who	What
Government	Designs and imposes the supplier obligation through primary and secondary legislation. This includes setting out who will pay, the formulas for calculating how much they will pay; when they will pay, and what will happen if they don't pay. Provides model to the CfD Counterparty to set the supplier obligation rate.
CfD Counterparty	Uses powers within the Energy Bill to raise the supplier obligation following the rules within the Supplier Obligation Regulations. Administers "backstops" according to the regulations. Operates rate setting model.
Elxon (BSCco)	Operates on behalf of the CfD Counterparty collecting the supplier obligation. Underpinning data is from the BSCco.
Ofgem	Enforces the supplier obligation as a license requirement.
Suppliers in GB and NI	Pay the supplier obligation and into a series of funds; post collateral.



Strength of the Supplier Obligation

The following framework of backstops are aimed to ensure payment to generators in case of supplier default:

- Collateral
- Insolvency reserve fund
- Mutualisation of debts
- Supplier of Last Resort (SoLR)
- Energy Supply Company Administration (ESCA)
- Enforcement of debt in the courts

Approach to the supplier obligation rate

November 2012

- Variable rate levy
- Monthly settlement period
- Collateral covering c.50 days
- Issued call for evidence

What we heard

- Difficulties in hedging and bearing the risk of price volatility
- Majority preference for a fixed rate
- Preference for a shorter settlement period
- Impacts of posting collateral



Features of a fixed rate levy

- Levy year is 1 April – 31 March
- Reserve fund to smooth payments
- Daily invoicing – billing period as 1 settlement day
- Generators paid 28 days in arrears



How the rate and reserve fund is set

- Will procure a forecasting model that the CfD Counterparty will use to set SO levy and reserve fund size
- £MWh rate = forecast CfD payments/forecast electricity demand
- Minimum of three months notice
- Capability for in-year adjustments to levy rate and/or amount required for the reserve fund
- Reserve fund sized to cover higher than expected CfD payments, based on analysis of uncertainty in future CfD generation and reference prices
- Reserve fund should cover all but the most extreme events (e.g. sustained periods of significantly lower than expected reference prices and/or high wind generation)



How analysis is feeding in to policy on Supplier Obligation

Published an Impact Assessment alongside the Consultation on draft CFD Regulations

Provided initial estimates of the size of the reserve fund and IRF and the level collateral

Conducted cost-benefit analysis of the supplier obligation levy options

Will publish a revised Impact Assessment alongside Government Response underpinning final CFD Regulations

This will feed in to final policy decisions (e.g. choice of levy and 'p' values for reserve fund)

Will also procure an enduring model that CFD Counterparty will use to set levy and size the reserve fund

Snapshot of Impact Assessment and next steps on modelling

	Supplier obligation payments (£m)		IRF size (£m)		Collateral size (£m)		Reserve fund (£m)		Domestic bill impacts (£/year)	
	Ref case	Low FF	Min	Max	Min	Max	Min	Max	Min	Max
2016	234	482	9	14	74	113	7	234		
2017	1327	2013	12	18	113	172	19	247		
2018	1782	2720	14	22	137	205	29	256		
2019	1947	2948	16	25	164	244	43	270		
2020	2549	3845	19	28	187	279	60	287		
Average	1568	2402	14	21	135	202	32	259	0.56	0.89

a: Calculated on basis of maximum liability under 'windy months' scenario

b: Calculated on basis of maximum liability under 'wind months' scenario, plus additional funds to cover annual changes in low fossil fuel price scenario



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CfD Supplier Obligation backstops: detail

Louis Du Plessis

Counterparty Body and CfD Payment Team

13 November 2013



Strength of the Supplier Obligation

The following framework of backstops are aimed to ensure payment to generators in case of supplier default:

- Collateral.
- Insolvency reserve fund.
- Mutualisation of debts.



Collateral

Suppliers must post collateral to cover their future payments.

Collateral must cover 21 calendar days

Collateral levels are monitored daily

Collateral may be either cash or Letters of Credit (from an A minus rated bank)



Insolvency reserve fund

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.

Fully funded when the scheme starts.

Funded by either cash or Letters of Credit (from an A minus rated bank).



Mutualisation

The insolvency reserve fund is 'topped up', through mutualisation, in parallel to it being utilised to cover defaulting supplier payments.

Results in a continuous fully funded insolvency reserve fund.

The process will end when enduring solution for the defaulting supplier is found.



Enforcement, SoLR and ESCA

The counterparty will pursue the defaulting supplier for outstanding SO payments.

In parallel OfGEM will take action including appointing a Supplier of Last Resort (SoLR) in the event of insolvency.

Collateral and the insolvency reserve fund provide cover until the SoLR is appointed.

The SoLR solution relates to smaller suppliers - for larger suppliers ESCA will apply.



Disputes and enforcement

Disputes

- Disputes relating to a counterparty decision or notice are resolved with the counterparty directly (e.g. calculation of the levy rate or a non-payment notice).
- Disputes relating to BSC supply or generation data used to calculate payments are dealt with under the BSC.
- Where a supplier is dissatisfied with the resolution of the dispute by the counterparty it may resolve the dispute through judicial review.
- Where a supplier contests the supplier obligation regulations it may proceed to judicial review.

Enforcement

- Breach of licence conditions are enforceable by OfGEM.
- Counterparty recovers unpaid debts through the courts.



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CfD Supplier obligation: Counterparty operational costs

Anna Forberg

Counterparty Body and CfD Payment Team

13 November 2013



How operational costs will be recovered

- DECC is paying the set-up costs of the counterparty. Once it is operational, it will be funded by suppliers through a levy.
- We are maximising synergies with supplier obligation to minimise administrative burden on suppliers:
 - calculated based on the counterparty's agreed annual budget divided by total estimated electricity supply in the same year to reach a similar £/MWh rate
 - will be collected daily along with the supplier obligation.
- The Counterparty will submit a budget to the Secretary of State. The rate will be set in regulations each year.
- If at year-end more was collected than was needed, the surplus will be repaid to suppliers.



When the operational cost levy will be set and collected

First year of operation (2014/15):

Consultation in early 2014 on proposed rate for the first year
(July to end of FY)

Rate expected to come into effect mid-2014

Collection of payments: No later than end FY

Enduring regime (from 2015/16):

Consultation in Oct /Nov

Regulations laid in January

Rate comes into effect in April



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Introduction to the CfD Counterparty

Ruth Herbert
Counterparty Body Team
13 November 2013



What is the CfD Counterparty?

The CfD Counterparty **will be:**

A private company, owned by Government

Responsible for signing and managing CfD contracts with electricity generators

A professional organisation, run by an experienced team of experts

Operational, with full powers, by July 2014.



Principal institutions and their roles in implementing EMR

Government

- Responsible for setting policy, (e.g. CfD strike prices and volume of capacity to contract for), and for the policy costs.
- Puts into regulation the terms of the System Operator's delivery role, and reporting requirements.
- Appoints and defines the terms for the independent Panel of Technical Experts to review the System Operator's analysis and report to Government.
- Devolved Administrations will be consulted on the CfD Regulations and fully involved in the delivery plan process. The Northern Ireland Executive will be asked to consent to CfD strike prices .

The Counterparty Body will be accountable to Government

CfD Counterparty Body

- A private company, owned by Government. Responsible for:
- Signing CfD contracts with projects deemed eligible by Government or the System Operator.
 - Managing those contracts in line with terms set out in the contracts.
 - Forecasting supplier obligation levy rate, collecting collateral from suppliers.
 - Through its settlement agent (Elexon) ensuring that payments flow from/to generators and suppliers.

System Operator

Responsible for EMR delivery:

- Provides analysis to Government to support policy decisions.
- Administers allocation process for CfD
- Administers and runs the capacity auctions for the Capacity Market.

The System Operator will ultimately be accountable to Government for the EMR delivery functions.

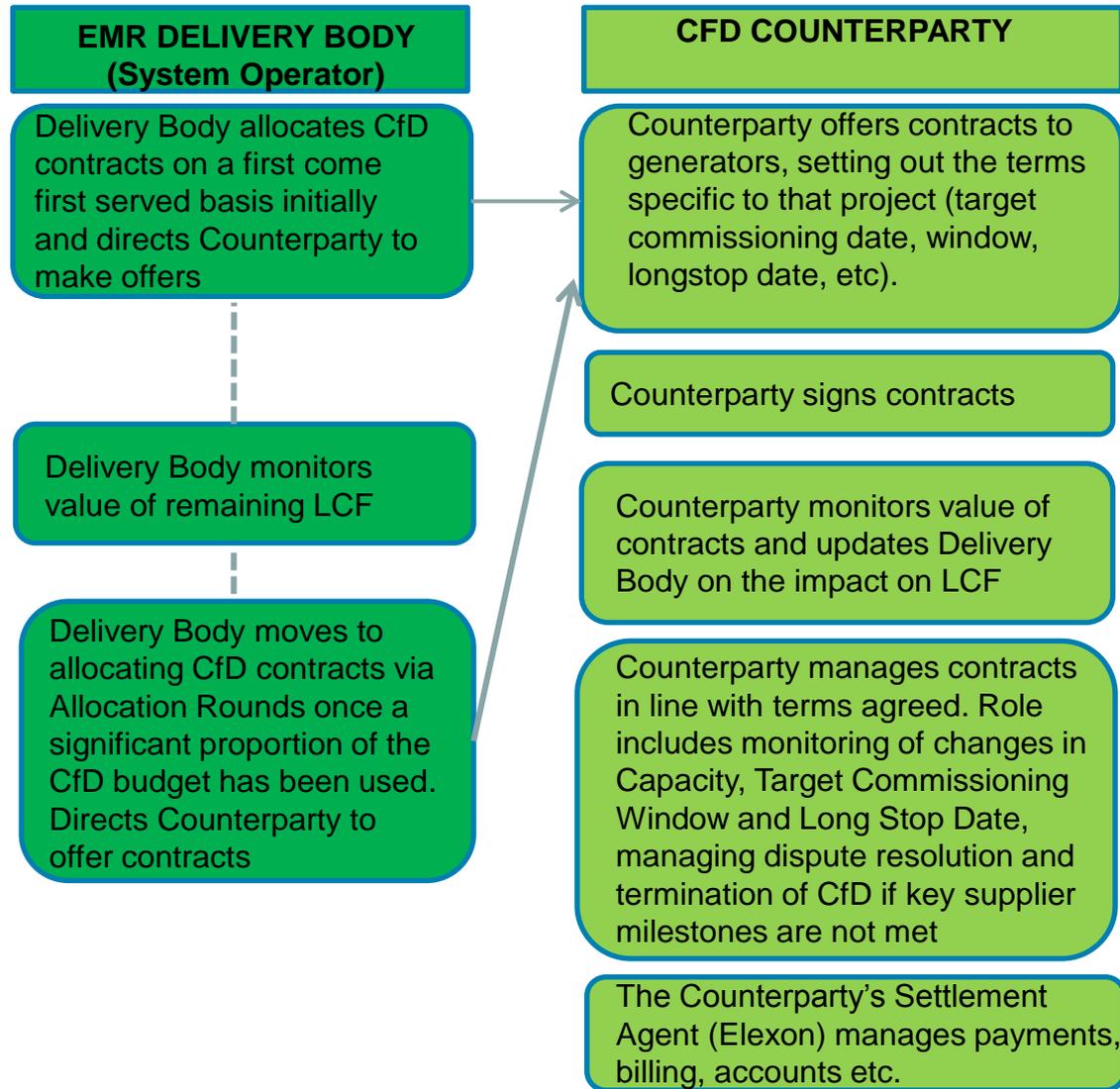
Ofgem will oversee the performance of the System Operator in its role as EMR delivery body, to incentivise performance and ensure value for money.

Ofgem

- Continue to regulate the System Operator through a system building on the existing incentive regime.
- Holding the System Operator to account for its performance and internal admin costs for EMR.
- It is proposed that Ofgem will have an appeal function in respect of certain decisions by the System Operator in exercising its CfD and CM functions



Role of the CfD Counterparty in the CfD process





Key CfD Counterparty responsibilities

Pre-Application

Considering requests for minor and necessary amendments to generic CfDs before the potential applicant decides to apply for a CfD

From Allocation to Start Date

Execution:

preparation of CfD and arranging execution
satisfaction of Initial Conditions Precedent

Milestone Satisfaction: Substantial Financial Commitment by Milestone Delivery Date.

Start Date: satisfaction of Further Conditions Precedent and certification of Start Date.

Post Start Date *(when payment flows commence)*

Payment and settlement

Reference Price review and Strike Price indexation

Audit of metering and reporting

Fuel monitoring and sampling compliance



Establishing the CfD Counterparty

A **Setup Team** is currently working on the establishment of the CfD Counterparty's personnel and systems ready for Designation once secondary legislation enters into force, which is expected in July 2014 (subject to the will of Parliament).

Part of DECC, the Setup Team is led by Kenneth MacRitchie, Head of Business Establishment.

Kenneth has extensive experience in project financing of the UK electricity industry. He was formerly General Counsel at the BIS-based UK Green Investments team, where he was instrumental in establishing the Green Investment Bank as a fully independent, public company.

He is supported by a specialist team looking after IT, Finance, Settlement, Operations and Integration.



Role of the Setup Team

IT

Design the IT systems for the CfD Counterparty through development of the necessary business process maps; systems/interface architecture; and traceability matrix from policy/governance through process to requirement and subsequent delivery

Finance

Develop the CfD Counterparty's business plans and operating cost budgets; accounting policies and systems; reporting processes and structures
Work with DECC to procure a system to forecast the Counterparty's CfD commitments, to calculate the supplier obligation and the reserve fund

Settlement

Vendor management of the Settlement Agent (Elexon) and development of the processes by which it will work
Development of processes by which the CfD Counterparty will manage relationships with the Settlement Agent

Operations

Project manage CfD Counterparty set up
Establish transitional governance
Establish the necessary infrastructure and key staffing and resource requirements to enable efficient operation of the CfD Counterparty from 2014

Integration

Project manage implementation of CfD policy
Establish Business Design Authority and change control on the CfD Operating Model
Maintain CfD Operating Model including process maps
Oversee testing activities, produce testing status reports



EMR Operational timeline

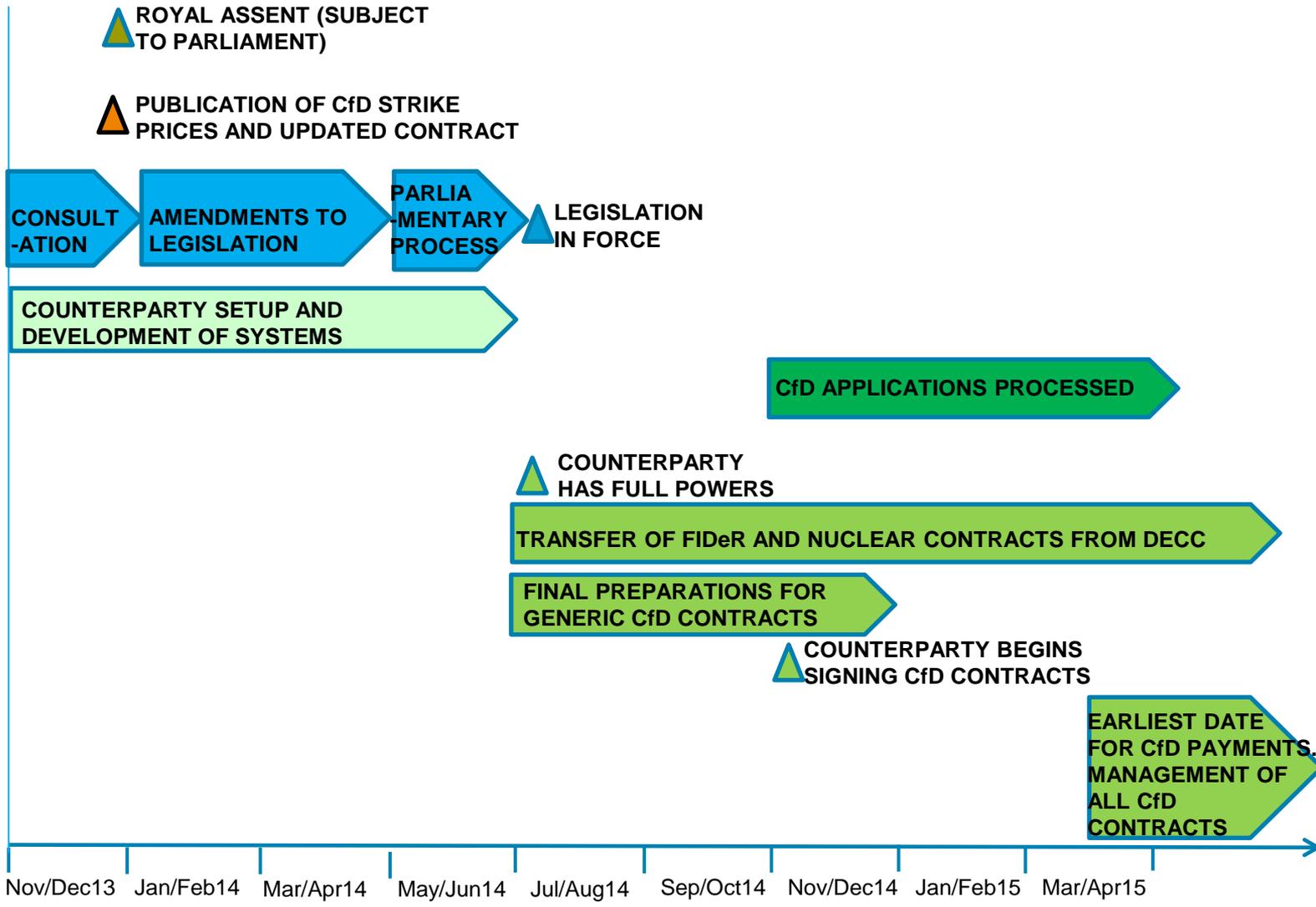
PRIMARY LEGISLATION

SECONDARY LEGISLATION

COUNTERPARTY SETUP TEAM

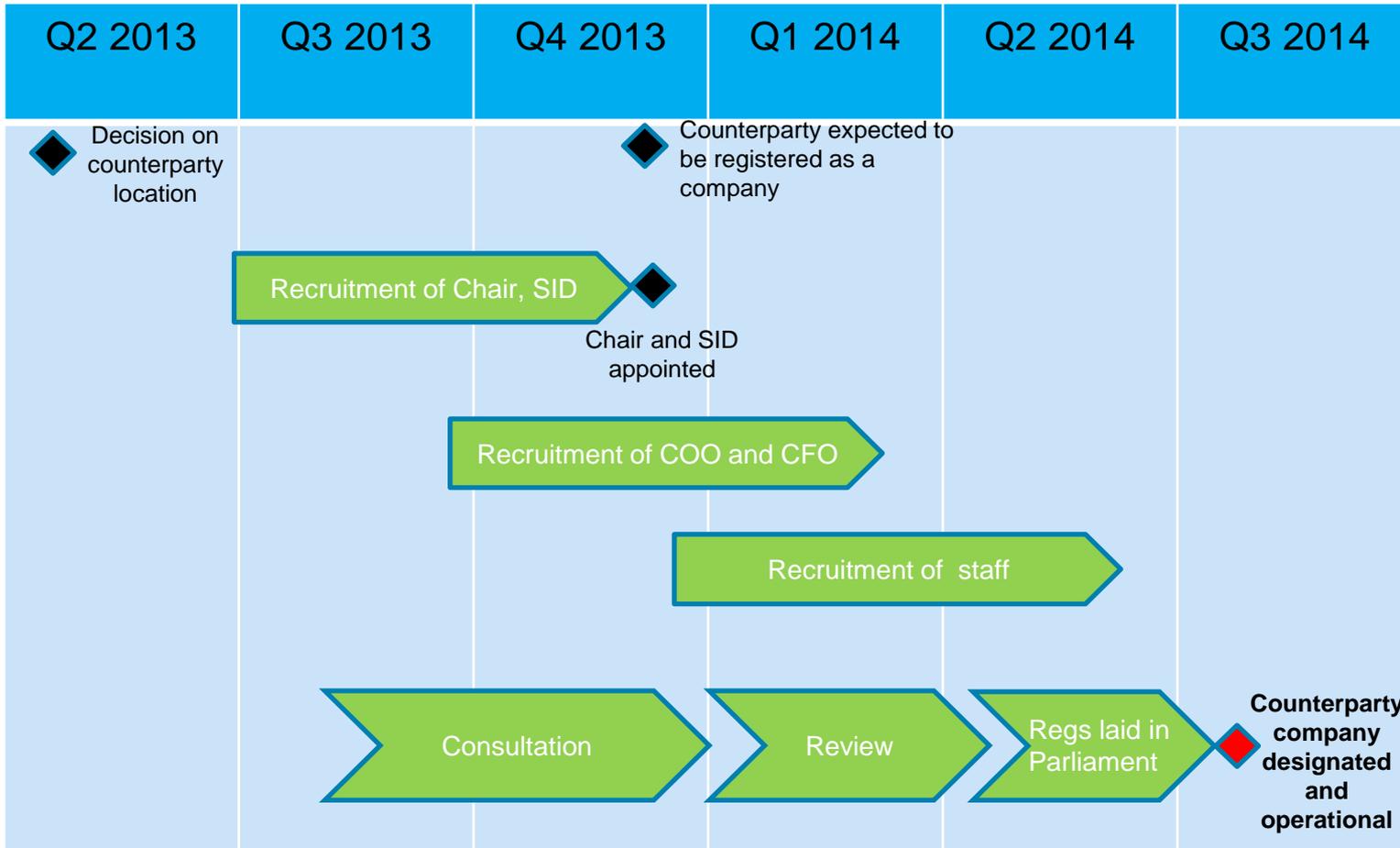
DELIVERY BODY

COUNTERPARTY





Timeline for CfD Counterparty setup





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