Questions & Answers

Supplier Event 29/02/24

Low Carbon Contracts Company

Contents

Engagement

What has LCCC found to be the most effective way to communicate with Suppliers?
We regularly receive useful insight from the attendees to our quarterly webinars.
Additionally, we have started engaging more frequently with Suppliers on a 1-on-1 basis which we have found to be very useful in ensuring that Suppliers get the guidance they need and that we receive the feedback that enables us to assist Suppliers in the most optimal way.
Following the enthusiastic reception and success of the supplier event, we are reviewing our engagement strategy.
In the first instance though, please reach out to us at our inbox at info@lowcarboncontracts.uk and we will direct your query to the right person.

Will any advice given to some Suppliers become freely available to the rest of us?
Yes, we plan to update the FAQ section on the LCCC Website with the most commonly asked questions we receive.

Can LCCC do teach-in sessions as the complexity of schemes has increased?
We are happy to arrange sessions with both LCCC and EMRS personnel. Please send any suggestions to info@lowcarboncontracts.uk

Will LCCC be using info@ as it grows - is there a better way to communicate with you?
info@lowcarboncontracts.uk is the best way we can track and monitor all enquiries effectively.

There is no open change process where Suppliers can be stakeholders with regards to the levies that are administered by LCCC. What can be done about this?
In addition to the engagement Suppliers are already undertaking, we encourage Suppliers to engage in open dialogue with us and we can pass on this feedback during future consultations to Government.

How is LCCC preparing for potentially substantial changes to their scope and remit with the complexity of schemes?
We are actively engaged with policy makers, so we have a comparatively better view of the schemes over the horizon as they take form. As the policies become more clearly defined, we are able (if we are selected to become the administrator of these future schemes) to ensure that we are fully prepared to deliver what is required.

How are LCCC's costs monitored to check they give value for money?
We play a vital role in delivering and managing levies. Therefore it is important the company is adequately resourced to perform its role effectively.

We are very cognisant that we are consumer funded and that opportunities for operational cost savings should be identified and implemented wherever possible.

We are transparent with our reporting and all details can be found in our Annual Report.

Can more data be published on the CfD register, e.g Tcw end date, longstop, end dates, Inc extensions?
We will always endeavour to get as much useful information on the CfD register as reasonably possible, as long as it remains within the boundaries of confidentiality and policy. We are always happy to consider improvements that will enhance the dataset and improve accuracy. We hold quarterly webinars where we would love to hear your feedback on this topic. Contact info@lowcarboncontracts.uk to be added to the distribution list.

Will differences between the LCCC data portal and EMRS be clarified/rectified? W.R.T Capacity Market data
LCCC and EMRS have separate online resources providing data for public use with distinct use cases. We are aware there may be some overlap between the two, but please reach out to info@lowcarboncontrats.uk with specifics and screenshots if you do see that there are differences in data.

Is there any scope to speed up availability of data? Faster is better.
Regulations dictate we publish data on set schedules, typically aligned with quarterly forecasting runs, although depending on the dataset this may be updated more regularly (daily). There may be opportunities to publish data more frequently or earlier particularly with new tech infrastructure in place for us by the end of the year. We will take this away as feedback and keep front of mind, and if any changes are made subsequently, we will announce on the website.

Will the dashboards that exist under the CfD be replicated for all forthcoming schemes?
Yes. We will have new dashboards online for forthcoming schemes, along with Data Portal datasets.

Please may the advanced forecast CFD payments dashboard be changed so you can see the payments per tech type?

and

Would it be possible to share forecasting assumptions for CfD advanced forecasts in same way as the ILR e.g. capacity & average market prices per technology?

A refresh of the forecasting dashboards will go live later this year. Thank you for your suggestion, we will try to incorporate this in the refreshed dashboard.

Can LCCC forecasting share the assumptions that can be public on the website and a list of the assumptions that specifically not published e.g. commercial assumptions?
Each quarter we share the details of the material assumptions via webinar Contact info@lowcarboncontracts.uk to be added to the distribution list). In addition to this, we are looking to publish more guidance documents on the website, detailing forecasting methodologies and assumptions. The first in this series will be published in June.

Can the 15M forecast be published more regularly and include set ILR periods?
Currently the 15M forecast is refreshed every 3 months as part of the quarterly determination run. We will be making the change to publish the 15M forecast more regularly, wherever we adjust (either before or in period) to align cost estimates more closely. We expect this to be announced and launched by the end of the year.

Is it possible to achieve a greater level of harmonization between the ILR & Ofgem Price Cap?
We have invested in this process over the last year. We have further aligned operations between CfD levy setting and the price cap, following a consultation led by Ofgem last year. We intend to close the gap even further, for example moving to 2-week market price observational windows which we aim to be in place by the August determination run.

Are LCCC forecasting issues with grid connections in longer term forecasts?
Not currently since these don't yet have a significant impact in our two-year forecasts. This will be included as part of future improvements of the model.

Does the domestic price cap inherently create more variance in CFD/wholesale costs as most GB demand is inflexible to price?
The energy price cap relates to the prices domestic consumers pay for electricity with Suppliers. This does not have a bearing on CfD costs unless we are seeing a material reduction in demand due to prices. There is some evidence for this, which you can see in the latest DUKES electricity market publication, but we model the historical data and generally our forecast variance in recent years relating to demand is relatively low.

Can you take us through the recent adjustments in the ILR and why they weren't made sooner?
We make adjustments in the ILR and TRA when there's a material risk of an overcollection from Suppliers or a significant risk we will run out of funds to make generator payments in the quarter. These are designed to be exceptional actions, which we take rarely, but recent market conditions have dictated we take more regular action. Information on each adjustment can be found in the News section of the website.

Given the NAO found that CfD wasn't the best value solution for nuclear, why does government seem to think it is the best solution for everything else?
The current CfD scheme has been extremely successful in lowering the costs of renewable generation. Since 2014, the CfD scheme has successfully facilitated investments in 29.4 gigawatts of low-carbon energy (including nuclear) with 6.4GW currently operational.

Is it possible to adjust CfD forecasted levy rates (FLRs) for the latest market prices prior to the Ofgem price cap period alongside potential adjusted ILRs?
Currently the 15M forecast is refreshed every 3 months in quarterly determination run, which Ofgem partly source data. We will be making the change to publish the 15M forecast more regularly,

wherever we adjust (either before or in period) to align cost estimates more closely. We expect this to be announced and launched by the end of the year.

When would the Suppliers be getting the first invoice on nuclear RAB?
30 days after trigger notice.

Suppliers should receive their first invoice once the Revenue Collection Contract has come into effect, prior to which Suppliers will have received 30 days' notice of the ILR & TRA in accordance with the legislation.

Is there any guidance around how the allowed revenues for RAB will be determined?
The allowed revenue will be determined by Ofgem based on 'building blocks' set out in the company's RAB licence.

DESNZ' recent consultation on the RAB licence provides further detail on the proposals.

https://www.gov.uk/government/consultations/modifications-to-the-sizewell-c-regulated-asset-base-licence

When does collection of the nuclear RAB levy start? Is the full mechanism and methodology published for Suppliers to use for forecasting?
DESNZ, Ofgem and LCCC continue to engage as project development progresses and will endeavour to provide Suppliers with as much notice/information as possible ahead of any final investment decision.

Subject to the outcome of the equity raise process and other relevant approvals we aim to take a Final Investment Decision for the project later this year.

We expect to have a published RAB supplier forecasting methodology in place by June.

Would construction delays allow nuclear generators to receive additional revenue through RAB?
During the construction phase, the Nuclear Energy (Financing) Act 2022 allows the Secretary of State to increase a project company's allowed revenue under the RAB model if necessary to complete construction.

If exercising this power, the Secretary of State must have regard to the interests of existing and future consumers. They would need to consult named parties – including Ofgem – before exercising the power, and to publish a statement setting out the procedure they would expect to follow when making decisions.

We are committed to robust due diligence of a nuclear project's costs and schedule, including with reference to its levels of maturity, before making a final investment decision, and, if the project is approved, to implement any appropriate incentives regime to manage project costs and schedules.

This is set out under the Nuclear RAB economics licence:
https://www.ofgem.gov.uk/publications/sizewell-c-nuclear-power-station-economic-regulation-guidance"

A levy to fund Nuclear Generation puts additional costs on domestic consumers and additional risk on Suppliers as they are already exposed to several levies. Can these costs not be covered by direct taxation instead?

The Government has used the CFD revenue stream as a starting point in the design of the nuclear RAB revenue stream. The primary goal in the introduction of CFDs was to incentivise private sector investment in secure, low-carbon electricity. This means that the revenue stream for CFDs was designed with similar considerations in mind to the nuclear RAB revenue stream. Following assessments of the different models that could be used for the revenue stream under nuclear RAB, it has been determined that a 'CFD like' revenue model is likely to be the least disruptive to the market and the option that potential investors in nuclear RAB projects would be most comfortable with.

There is only 30d notice under RAB between notification of ILR & when invoices are due, what notice will there be of when the scheme is due to go live?
DESNZ, Ofgem and LCCC continue to engage as project development progresses and will endeavour to provide Suppliers with as much notice/information as possible ahead of any final investment decision.

Subject to the outcome of the equity raise process and other relevant approvals we aim to take a final investment decision for the project later this year. We cannot provide a more specific timeline at this point, as commercially sensitive negotiations and project development is ongoing.

Nuclear RAB is set up similarly to the CfD scheme in a few ways – will the same be true for other future schemes?
Our website provides an overview of each of the schemes we are supporting, which can be found at the following link: https://www.lowcarboncontracts.uk/our-schemes/

With likely spiralling increases to construction cost, will all the cost risk sit with Suppliers?
We are committed to subjecting projects seeking to use RAB with rigorous due diligence to mitigate against cost and schedule overruns, and it is a requirement of the legislation for projects to be suitably mature and likely to represent value for money.

Any project approved to use RAB and which receives a positive final investment decision will be subject to a robust incentives regime to manage project costs and schedules.

Under RAB, the risk is still shared with project developers. Developers are incentivised under the regime to deliver on time and schedule and penalised for project overruns.

If a nuclear asset is offline for an extended period and not generating, will they still receive their full allowed revenue?
There is a baseline of funding required for RAB assets as even when not running there are costs associated to running a Nuclear Power Plant – This is not the same as their full allowed revenue.

Would an unplanned outage mean immediate increase in levy (30 d) or carried over to following year or smeared over multiple years to mitigate impact?
Under the nuclear RAB model, Ofgem will determine a nuclear company's allowed revenue in accordance with the parameters in their RAB licence.

Will forecasted multi-year construction costs be made available and periodically updated?
Under the nuclear RAB model Ofgem will determine a nuclear company's allowed revenue in accordance with the parameters in their RAB licence.

The RAB licence government is consulting on includes proposals which allows the nuclear company to make an application to Ofgem for in- year revenue support due to an unplanned outage (which is a low probability event) and how this will be applied to supplier levy. When considering an application, Ofgem will take into consideration its principal objective to protect consumers interests.

A link to the consultation can be found here-
https://www.gov.uk/government/consultations/modifications-to-the-sizewell-c-regulated-asset-base-licence

How much notice do we get on the switch from construction phase to operational phase?
Suppliers would receive a notification of RAB interim levy rate and total reserve amount at least 30 days before the start of any upcoming quarterly obligation period.

Is there a reason why the RAB isn't collateralised to avoid mutualisation payments?
Suppliers are required to provide collateral. However, if a Supplier defaults and LCCC is of the opinion that we don't hold enough collateral from the defaulting Supplier, LCCC may use the mutualisation process and require other Suppliers to pay further amounts to cover the amount of that default in proportion with their respective market shares.
Our current working practice and guidance documents have been updated to reflect this.

RAB: Allowed Revenues vs Marginal Revenues, seems like a risk transfer from generators to consumers? Why is this done on an annual basis?
Ofgem calculates the nuclear companies allowed revenue for each charging year. Once the plant becomes operational, they will be incentivised to maximise market revenue.

DESNZ are currently consulting on proposals for the RAB licence and are seeking to ensure that the RAB licence achieves a fair and appropriate allocation of risks between consumers, taxpayers, and investors in the project.

How granular are RAB difference payments during operation? Daily like CFD or just quarterly reconciliation?
During operations if the nuclear company's forecast market revenues for the charging year fall below the Allowed Revenue, then the nuclear company will receive a "difference payment" to make up their Allowed Revenue. Suppliers would be invoiced for daily interim rate payments to fund these difference payments.

If their forecast market revenue for the charging year exceeds their allowed revenue the nuclear company will pay the difference to the revenue collection counterparty who would pass this back to Suppliers through a quarterly reconciliation process.

Will there be a quarterly rec for the construction phase of RAB?
Reconciliation will be carried out on a rolling basis after the end of the quarter (at which point more accurate metered data would be available), irrespective of the project phase.

RAB: There seems no incentive to maximise generation if there is an allowed revenue or even come live?
Under the RAB licence consultation, there is an incentive to maximise revenues once the plant goes into operations (i.e Market Price Adjustment).

The purpose of this Market Price Adjustment is to set out the obligations on the licensee (i.e nuclear company) to trade power on market terms, in a manner reflective of an efficient 'baseload' generating plant operating in a competitive market.

Further information can be found in the RAB licence consultation - https://www.gov.uk/government/consultations/modifications-to-the-sizewell-c-regulated-asset-base-licence

EIIs

Who is the charging base for RAB? Final demand, EIIs, battery storage other etc...?
Suppliers will be charged according to their market share - excluding any 'excluded electricity' under the Energy Intensive Industries (EII) exemption.

Are similar EII exemptions expected for future schemes?
EIIs will be exempted from the Nuclear RAB scheme and we continue to work with DESNZ colleagues to ensure the EIIs are considered in future energy policy making to try to avoid retroactive exemptions.

Do you think EIIs will change their behaviour in peak times once they have most of their incentives removed?
No – the nature of these businesses is such that energy use is fundamental to their production in both peak and off-peak times. Electricity will continue to be a major cost for EIIs, even after the Supercharger is implemented, so they will continue to be incentivised to increase their energy efficiency where possible.

For the capacity market forecast volume data, is chargeable demand just the current gross demand with EIIs taken off or is the losses involved changing?
Chargeable demand is equal to Gross Demand minus EII Demand.

Levies are issued on the polluter pays basis. This is contrary to that principal and spreads charges to smaller consumers - how sustainable is this policy?
EII relief schemes reduce the cumulative impact of energy and climate change policies on industrial electricity prices. This reduces the risk of carbon leakage, supports the competitiveness of key manufacturing industries and helps to keep production in the UK rather than risking them moving overseas to countries with less ambitious climate policies. Like all sectors of the economy, industry will need to decarbonise, but it is equally important that they remain competitive, and that the UK remains an attractive location to invest during the transition to Net Zero.

Will DPA costs come through as part of the usual EMRS invoicing?
Yes, DPA costs will come through EMRS invoicing.

When will Suppliers get more of an idea on DPA?
Suppliers are being asked for fixed price contracts out to 2028/29.

Is the increase to 100% exemption for RO, FiT and CfD confirmed? When will we know the final 24/25 obligation level for the RO?
The increase to 100% for the existing Exemption Scheme has been legislated for and will take effect from 1 April. The revised level of the RO Obligation was published on GOV.UK on 26 March as trailed by DBT and DESNZ.

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Other

Is hydrogen levy just for funding non-CCUS hydrogen production?
The Hydrogen Levy at present will fund production of hydrogen. There is potential for it to include Storage and Transportation in the future.