



**LOW CARBON**  
CONTRACTS COMPANY

# Introduction

## CFD Round 2 – Application Stage

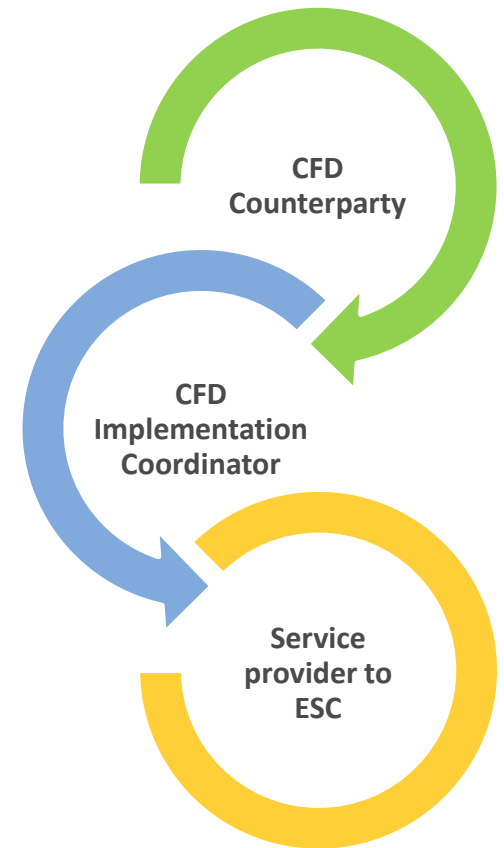
**Ruth Herbert**

LCCC

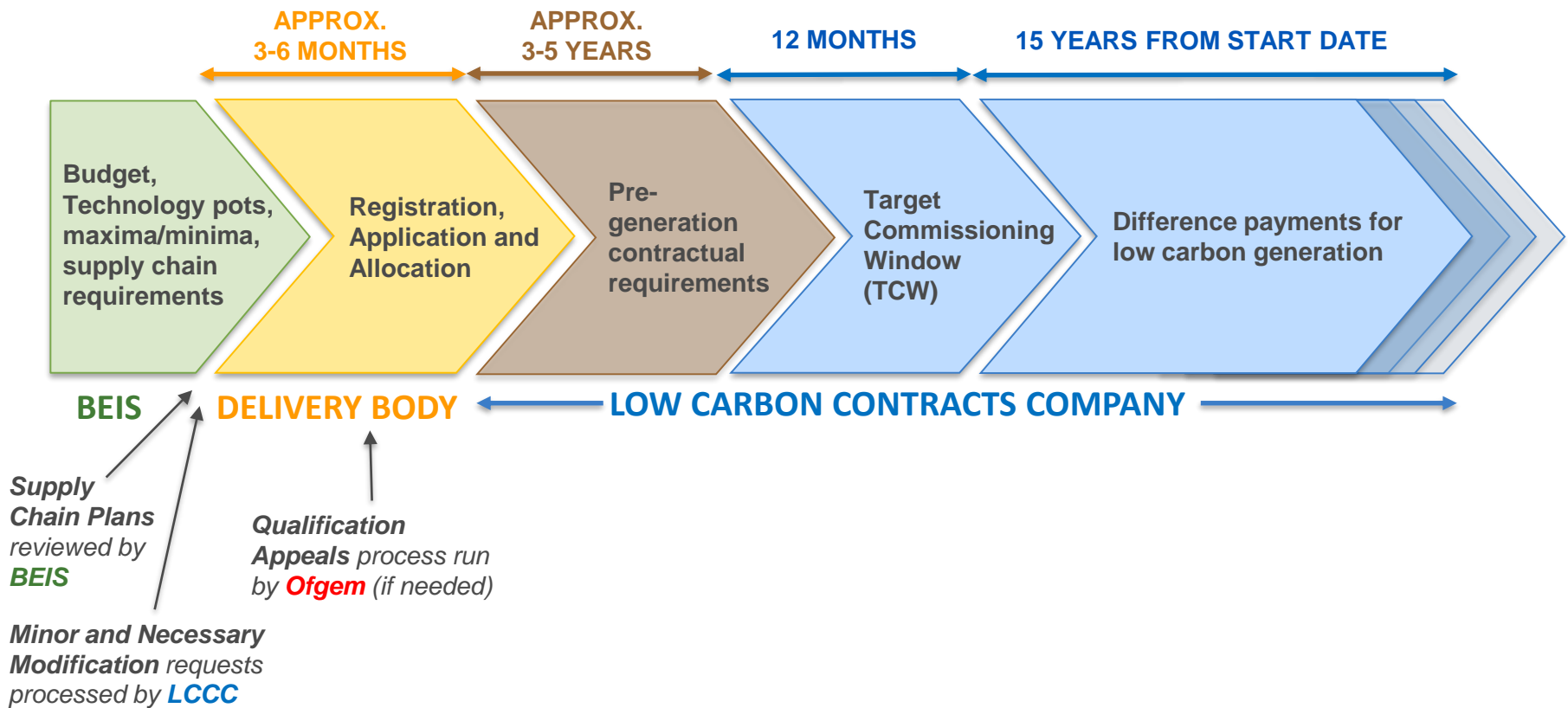
# About LCCC

---

1. **Low Carbon Contracts Company** is a government-owned company established to be the **independent counterparty to private law Contracts-for-Difference (CFDs)**.
2. LCCC is also committed to **working in partnership** with CFD Delivery Partners and industry to oversee the **delivery of the end-to-end CFD scheme**
3. LCCC also runs **Capacity Market settlement operations** on behalf of the **Electricity Settlements Company**.



# CFD Scheme Overview – Roles and responsibilities



# Event Agenda



nationalgrid

Electricity Market Reform  
DELIVERY BODY



Department for  
Business, Energy  
& Industrial Strategy

Time	Applicant Readiness for CFD Allocation Round Agenda	Delivery Partner	Presenter
09:00	Tea and coffee on arrival		
09:30	Welcome and Introduction:	LCCC	<i>Ruth Herbert</i>
09:50	Policy Update (high level) from BEIS including;	BEIS	<i>Jane Walker Kieran Power</i>
10:20	Overview of CFD Contract and Q&A	LCCC	<i>Ryan Trow Ruth Herbert</i>
<b>11:15</b>	<b>Break</b>		
11:35	Overview of Registration, Application and Qualification Process and Q&A	EMR Delivery Body	<i>Paul Mullen</i>
12:10	Overview of Allocation (including Interleaving) and Q&A	EMR Delivery Body	<i>Ben Smith</i>
13:10	Future stakeholder engagement	LCCC and EMR Delivery Body	<i>Ruth Herbert Paul Mullen</i>
13:15	Networking Lunch	All	<i>All</i>
<b>14:30</b>	<b>Close</b>		

# This session

---

1. Timeline for Round 2
2. Minor & Necessary Modifications window is open!
3. Feedback – Sli.do #6993

# Key Dates for Round 2

---

Stage	Dates
Minor & Necessary Modifications window	13-22 March 2017
Application window	3-21 April 2017
Qualification assessment window	24 April – 15 May
Applicants notified of outcome of Qualification assessment	15 May

→ Full timeline provided in revised LCCC Implementation Plan published on 13 March 2017 at [www.lowcarboncontracts.uk](http://www.lowcarboncontracts.uk)

# This session

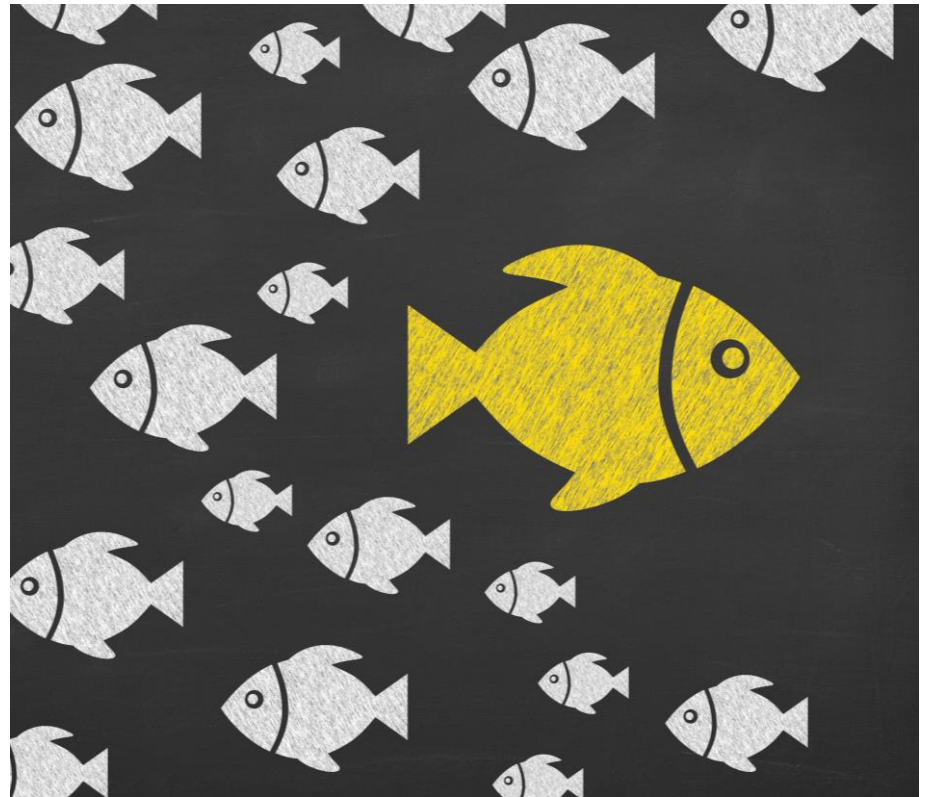
---

1. Timeline for Round 2
2. Minor & Necessary Modifications window is open!
3. Feedback – Sli.do #6993

# Minor and Necessary Changes

---

- Applications for changes to be made to LCCC no later than 20 business days before the Application Closing Date (i.e. by 22 March 2017)
- BEIS Counterparty Costs Notice sets a maximum LCCC cost (for carrying out its obligations under a CFD or making arrangements for the performance of new obligations required by a modification) at £12,000, above which the effect of a modification would not be minor.





# M&N Application Process

- Generators can apply to modify CFD prior to contract allocation but only for changes that are both 'minor' and 'necessary'
- Information to be provided:
  - Short description of change
  - Proposed amendment to CFD wording
  - Explanation of why it is both Minor AND Necessary

Minor & Necessary Change Request Form	
Requests for Minor & Necessary Changes can be sent as an Excel attachment to minor.necessary@lowcarboncontracts.uk. So as to be considered for Projects in the 2014 allocation round, Minor & Necessary Change Request Forms must be received by 1700 on the day that is 20 working days before the Allocation Closing day, i.e. 29 September 2014 based on Closing day of 27 October 2014. Forms received after this deadline in relation to 2014 allocation round projects will not be considered prior to the closing date for that allocation round.	
In this form, references to the "Regulations" are to The Contracts for Differences (Standard Terms) Regulations 2014 as laid before parliament on 23 June 2014.	
Applicants should use one request form per change.	
1. Applicant Details	
Company name of applicant for CfD:	
Name of Project:	
>>>>>>>>	
Individual making request: [Point of reference for all communications with the Low Carbon Contracts Company in relation to this request]	
E mail address:	
>>>>>>	
Telephone number:	
>>>>>>	
Postal address:	
>>>>>>	
Alternative e mail address: >>>>	
Alternative Telephone number:	
2. Date	
Date of Submission:	>>>>>
Prior application made:	Yes/No
If Yes, date of prior application:	
2014 Allocation round Please ensure	Yes/No
Director's statement is signed	Yes/No
Later Allocation round	Yes/No
Date of Receipt:	
To be completed by the Low Carbon Contracts Company	

# M&N Assessment

---

- A modification will generally not be minor if it:
  - Is likely to affect any generator liabilities or commercial benefits under the CFD
  - Is likely to cause LCCC to incur cost in carrying out its obligations under the CFD or meeting new obligations required by the modification
  - Would affect any agreement between LCCC and any third party, or require new agreement between LCCC and any third party
- A modification may be necessary if the applicant acting reasonably could not accept the offer of a CFD without modification
- A modification will not be granted where its necessity relates to the circumstances of the ownership or control of the applicant

# This session

---

1. Timeline for Round 2
2. Minor & Necessary Modifications window is open!
3. Feedback – Sli.do #6993



**LOW CARBON**  
CONTRACTS COMPANY

# Features of the CFD

16 March 2017

**Ryan Trow**  
**Lead Commercial Manager**

# Disclaimer

---

*This presentation (including all content, whether oral or in writing) has been prepared for the exclusive use and benefit of those recipients to whom it is addressed. Unless LCCC provides express prior written consent, no part of this presentation should be reproduced, distributed or communicated to any third party. The content of these slides and any statements made by LCCC in the presentation is provided in good faith, however, neither the content of the slides nor any statements made are (or are intended to be) any form of representation, undertaking, warranty or legal advice and do not (and are not intended to) take precedence over the provisions of the CFD, the terms of which shall always prevail.*

# Agenda

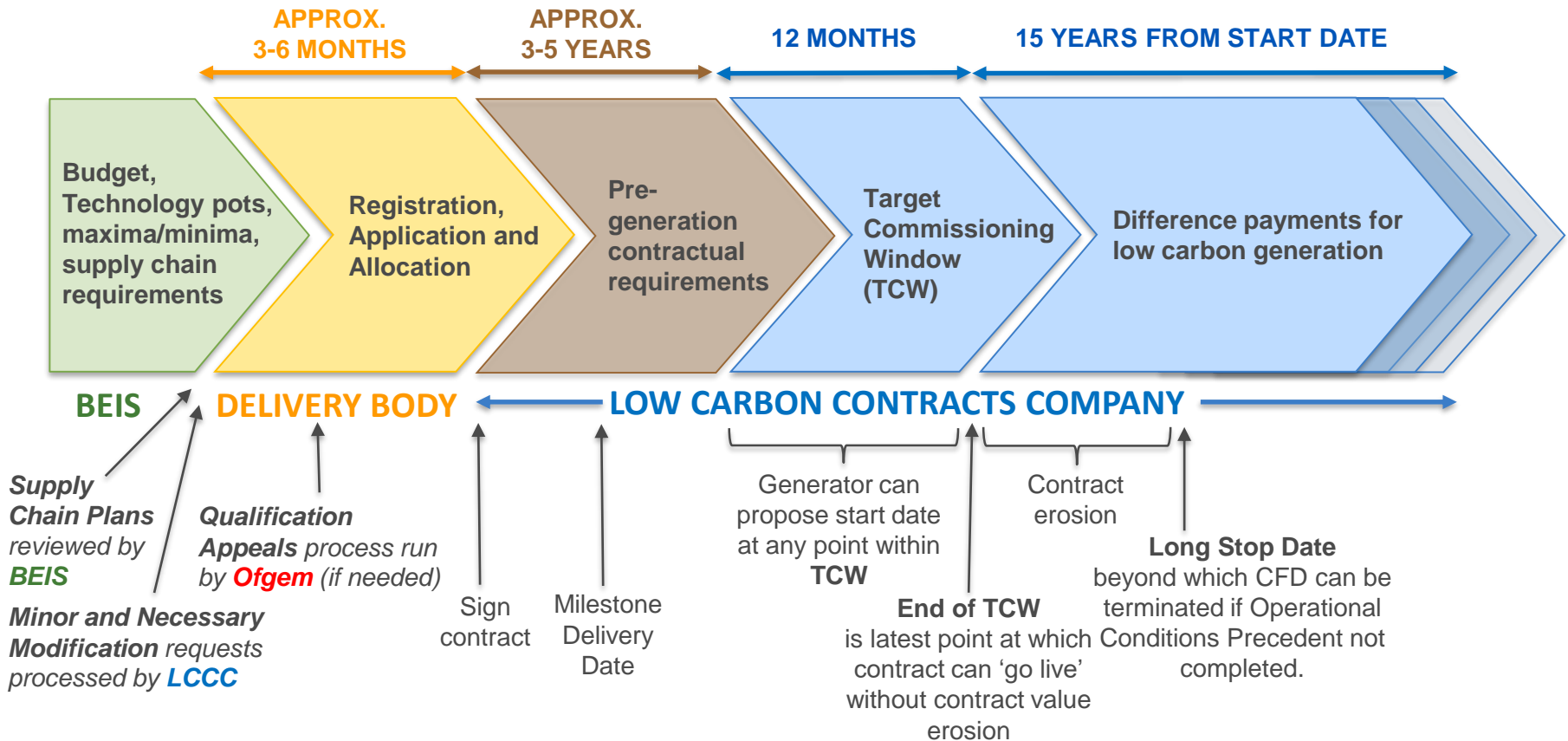
---

1. Translation Table
2. Contract Production, Signing, ICP and Milestone Requirement  
*Questions*
3. Forms of Agreement including focus on Private Network  
Agreements  
*Questions*
4. Installed Capacity
5. Main Questions Section

# Translation Table: Definitions

Application/ Delivery body	CFD notification	CFD agreement	Notes
<b>Applicant</b>		<b>Generator</b>	Applicant can be different to the nominated party to enter into the CFD(s). The nominated party/ parties in the Application will become the Generator. There is no mechanism to change this after the application window has closed.
<b>Capacity/ Installed Capacity/ Declared Net Capacity</b>	<b>Successful allocation Capacity</b>	<b>Initial Installed Capacity Estimate (IICE), ICE, FIC</b>	The suite of capacity related definitions evolve in their meaning and use. Mechanisms in the CFD allow reduction of Installed Capacity only. The definitions are all net of parasitic load and losses.
<b>CFD Unit</b>	<b>CFD Unit</b>	<b>Facility</b>	Broadly similar meanings albeit CFD Unit has a greater focus on geographical coordinates and Facility means the generating facility comprising aa assets used to generate electricity. Exclusive metering is required.
<b>Private Network Generator</b>	<b>Partial Connection / No Connection</b>	<b>Private Network CFD Agreement</b>	Such generators will use the Private Network CFD. There is no right or mechanism to convert to a direct connection once selected

# Stages of CFD processes and LCCC role





# Contract Production and Signing

---

- LCCC is responsible for producing and issuing CFD contracts
- A CFD Notification from National Grid triggers an intensive regulated process where key things have to happen every 10 working days for the next 30 working days
- The deliverable for the first 10 working days is to get offers signed by LCCC delivered to Generators
- LCCC can only offer a contract to a party named in the CFD Notification and it can only be that party that signs the agreement
- Condition 79 in Standard Terms and Conditions (Transfers) gives only limited rights to the Generator

# Contract Production and Signing - Days 0-10

---

**Day 0:** LCCC gets CFD Notification from National Grid at same time National Grid notifies successful auction applicants (the 'Generators')

**Day 0:** LCCC will establish contact with Generators

**Day 0-1:** LCCC will send Key Dates letter <https://lowcarboncontracts.uk/pre-contract-signature>

**By Day 3:** LCCC will send by secure email (**EGRESS**) draft contracts for checking by respective Generators

**By Day 5:** Generators confirm accuracy of drafts (if they want to)

**Day 9 after 5:00pm:** LCCC will send by secure email (**EGRESS**) CFD offers signed by LCCC

**Day 10:** Post 2 copies of CFD signed by LCCC to Generators

# Contract Production and Signing - Days 11-20

---

**Day 10:** Generator receives pdf of CFD signed by LCCC

**Day 10-12:** Generator receives 2 hard copies of the CFD signed by LCCC

**Day 20:** By no later than 5:00pm a countersigned CFD must be received by LCCC from the Generator

After Day 20: In the case that only a pdf was delivered by the deadline, a hard copy of countersigned CFD is to be delivered to LCCC

# Initial Conditions Precedent – Days [21]-[30]

---

- ICPs consist of:
  - **Legal Opinion** - This confirms the Generator's legal capacity and authority to enter into the CFD
  - **Know Your Customer** - This is a process by which LCCC must be satisfied of the legal identity, ownership and control of the Generator
  - **Description of Facility** - This requires the Generator to provide details of the assets comprising the Facility and a map or plan of the Facility

<https://lowcarboncontracts.uk/pre-contract-signature>

# Milestone Requirement

---

- Within 12 months of contract signature, generators must demonstrate their commitment to delivering the project by fulfilling the Milestone Requirement in either one of the following ways:
  - By incurring actual spend equal to at least 10% of the Total Project Pre-Commissioning Costs which are the expected project development and construction costs for the relevant technology; or
  - By evidencing various commitments to the Project, which are set out in the CFD including that the generator has sufficient means to finance the project

---

# QUESTIONS

# CFD Agreement Templates

---

Standard CFD Agreement

Unincorporated Joint Venture CFD

Private Network CFD

} Available for all technologies (but please tell us if considering a UJV)

Phased Single Metering CFD

Phased Apportioned Metering CFD

} Available for offshore wind projects only

# Standard CFD template

---

- Incorporates Standard Terms and Conditions
- Suitable for transmission or distribution connected projects but not for projects connecting to a Private Network
- Not suitable for Unincorporated Joint Ventures
- Not suitable for phased offshore wind projects





# Unincorporated Joint Venture CFD template

- Notice obligations differ to enable notices to be served on all JV parties
- Termination provisions altered to require notice to be given in order to ascertain whether the non-defaulting JV party is able to continue to perform the obligations under the CFD



# Single Metering Phased CFD Agreement Template

---

- Each phase must have at least one exclusive Balancing Mechanism Unit (BMU)
- Not possible to have two or more phases sharing a BMU
- If cross-phase BMU may be required, consider Apportioned Metering template



# Apportioned Metering Phased CFD template

- BMU can be shared between phases
- Additional metering and monitoring obligations
- SCADA data to enable apportionment of metered volumes across phases



# ‘Direct’ Connected Generation

---

## Clause 31. Generator Undertakings: Metering

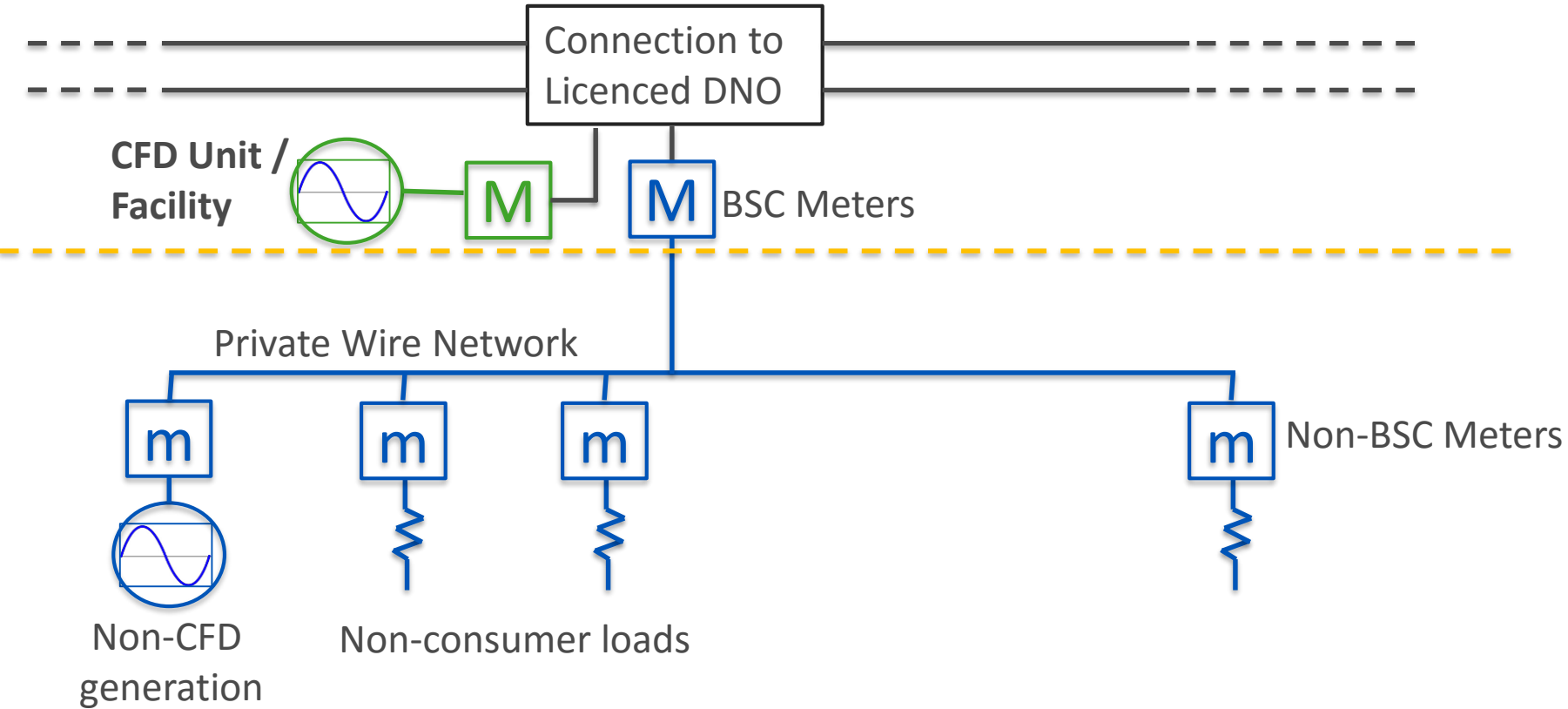
**31.1(b)i** .....the Generator undertakes.... To ensure that at all times the Facility Metering Equipment accurately records the BM Unit Metered Volume;

**31.1(c)**..... The Generator undertakes.... To ensure that at all times the Facility Metering Equipment measures the input and output electricity referred to in Condition 31.1(b) separately from any other input or output electricity

“ **Facility Metering Equipment**” means (i) the Metering Equipment measuring the flows of electricity associated with the Facility, its metering System and its associated BM Units(s)....(ii)....

*CHP industrial processes and nearby electricity loads must be separately metered – they therefore do not impact the Metered Output*

# 'Direct' Connected Generation



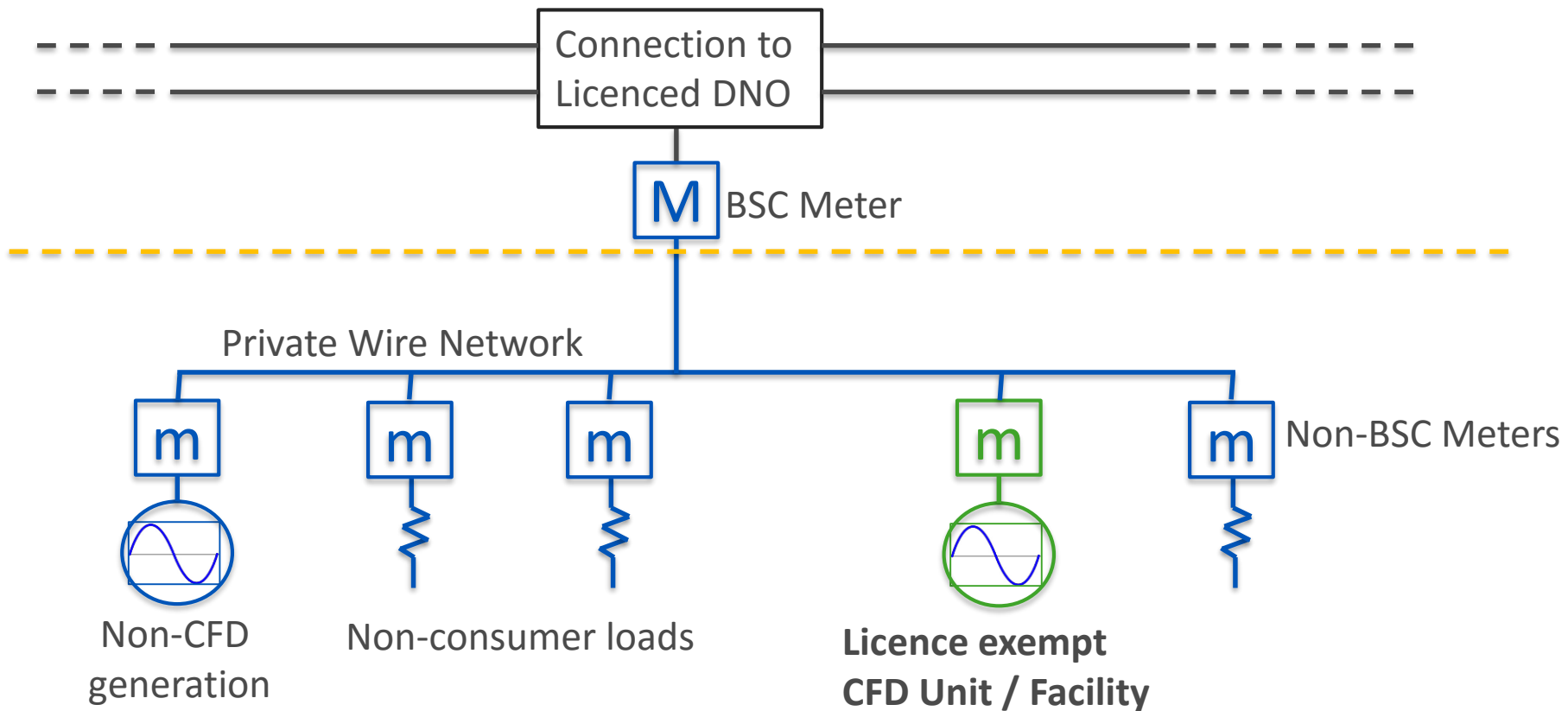
# Private Network CFD Agreement Template

---

- Applies to licence-exempt generators where output is not exclusively for a network operated by a Licensed Distributor
- A 'direct connected' CFD Unit/ Facility would not use a Private Wire Network CFD template
- A 'partially connected' or 'islanded' CFD Unit/ Facility would use a Private Wire Network CFD template

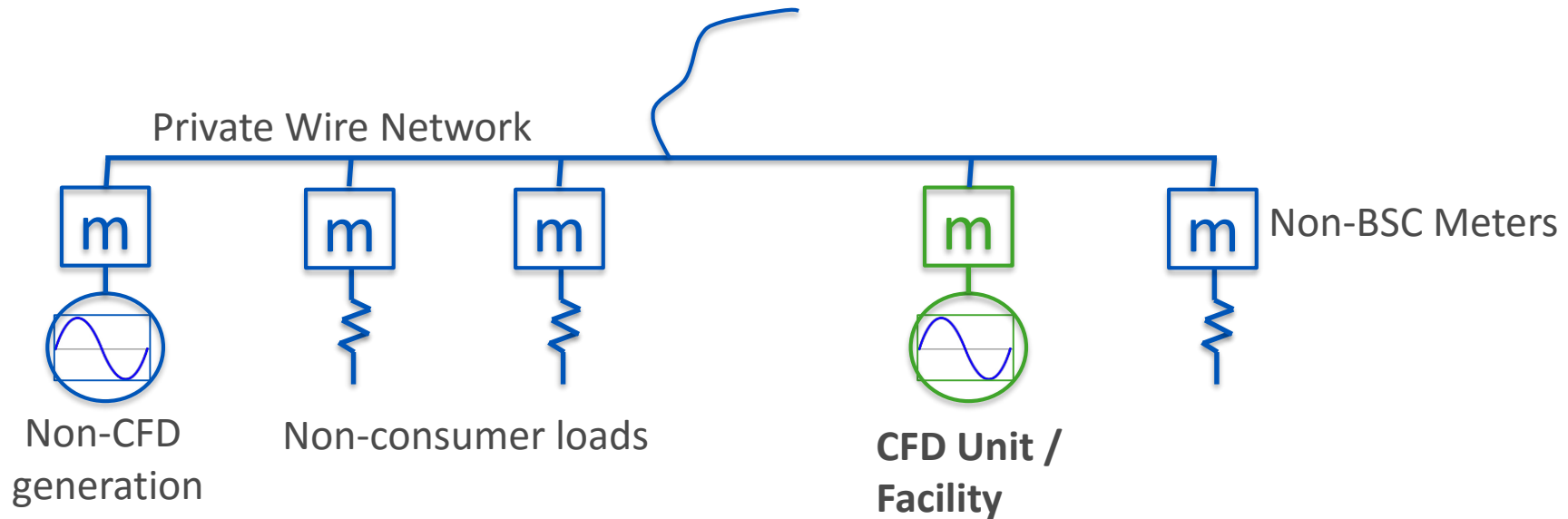
QUESTIONS: what is the differences between these connection types, the different forms of CFD agreements and how generation may be marketed?

# 'Partially' Connected Private Network Generation



# 'Islanded' Private Network Generation

Islanded generators are obliged to have a route to market; if all consumers are lost a replacement route to market must be found within 18 months





# Private Network CFD Agreement Template

---

## Definition of a Private Network Generator

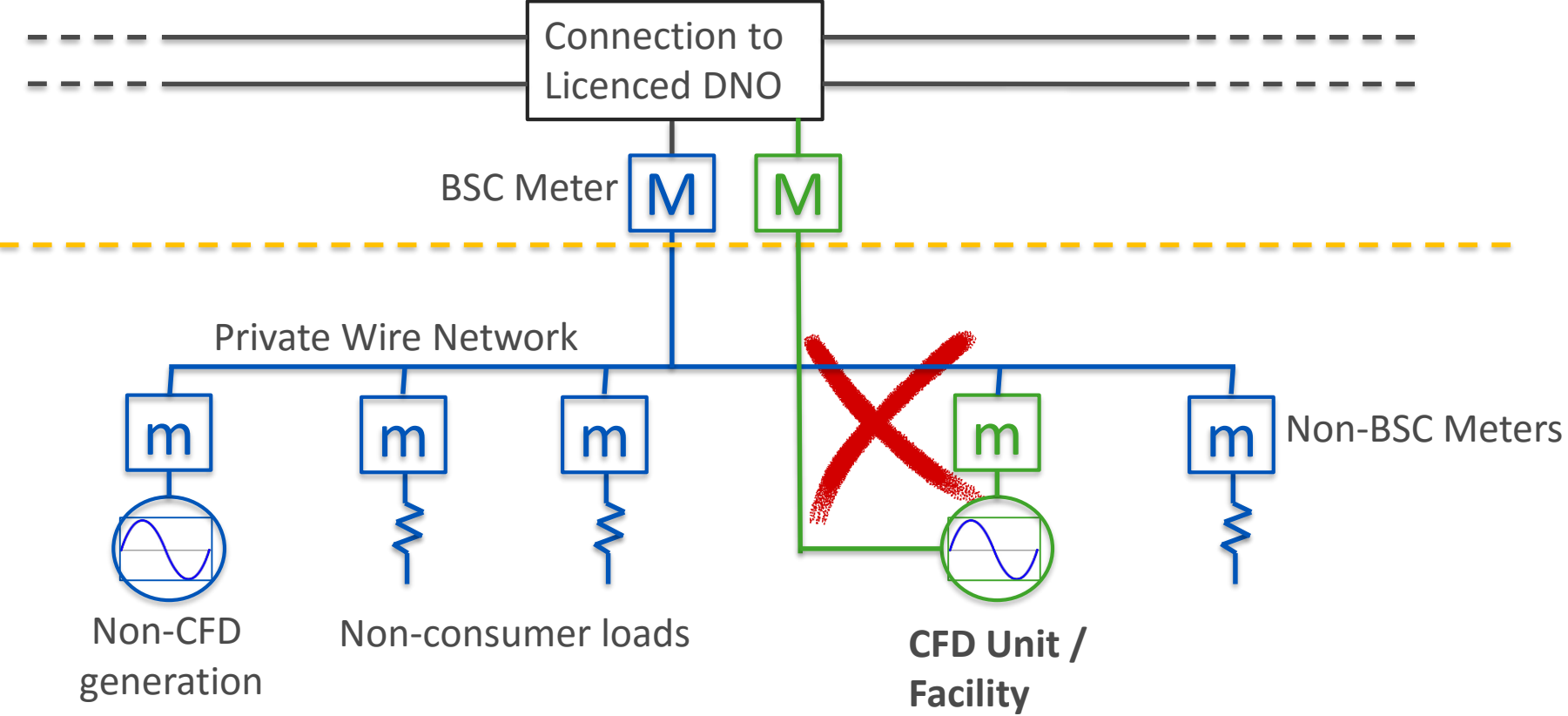
- 1.3(a) is exempt from the requirement to hold a licence for the generation of electricity.....
- 1.3(b) the Facility generates electricity solely or partly for the supply to a private Network; and
- 1.3(c) the **Facility Metering Equipment is not, and is not required to be, registered in accordance with the BSC.....**

## Generator Undertakings: Metering

31.1(c) to ensure that the **Facility Metering Equipment measures the input and output electricity..... Separately from any other input and output electricity**

*Other electrical loads on the Private wire network must be separately metered – they therefore do not impact the Metered Output*

# No template CFD available for this Scenario!



# Private Network CFD Agreement Template

---

- Private Network drafting differences have a heavy focus on metering obligations to give similar level of assurance as BSC registered meters
- Limited changes to other sections
- It remains the generator's responsibility to find customers for electrical output – difference payments are still based on strike price less the adjusted BMRP/IMRP reference
- Applicants must chose one or the other connection type as it leads to a very different template being used; there is no right or mechanism to switch after applying for or signing a CFD

---

# QUESTIONS

# Installed Capacity

- Installed capacity guidance has been published on our website at: <https://lowcarboncontracts.uk/pre-generation>
- It is net of losses and parasitic load
- It is operated on a continual basis at maximum capacity possible without causing damage to it
- Parasitic load covers assets that are used (or intended to be used) to generate or deliver electricity
- Final Installed Capacity notice can't exceed Initial Installed Capacity Estimate



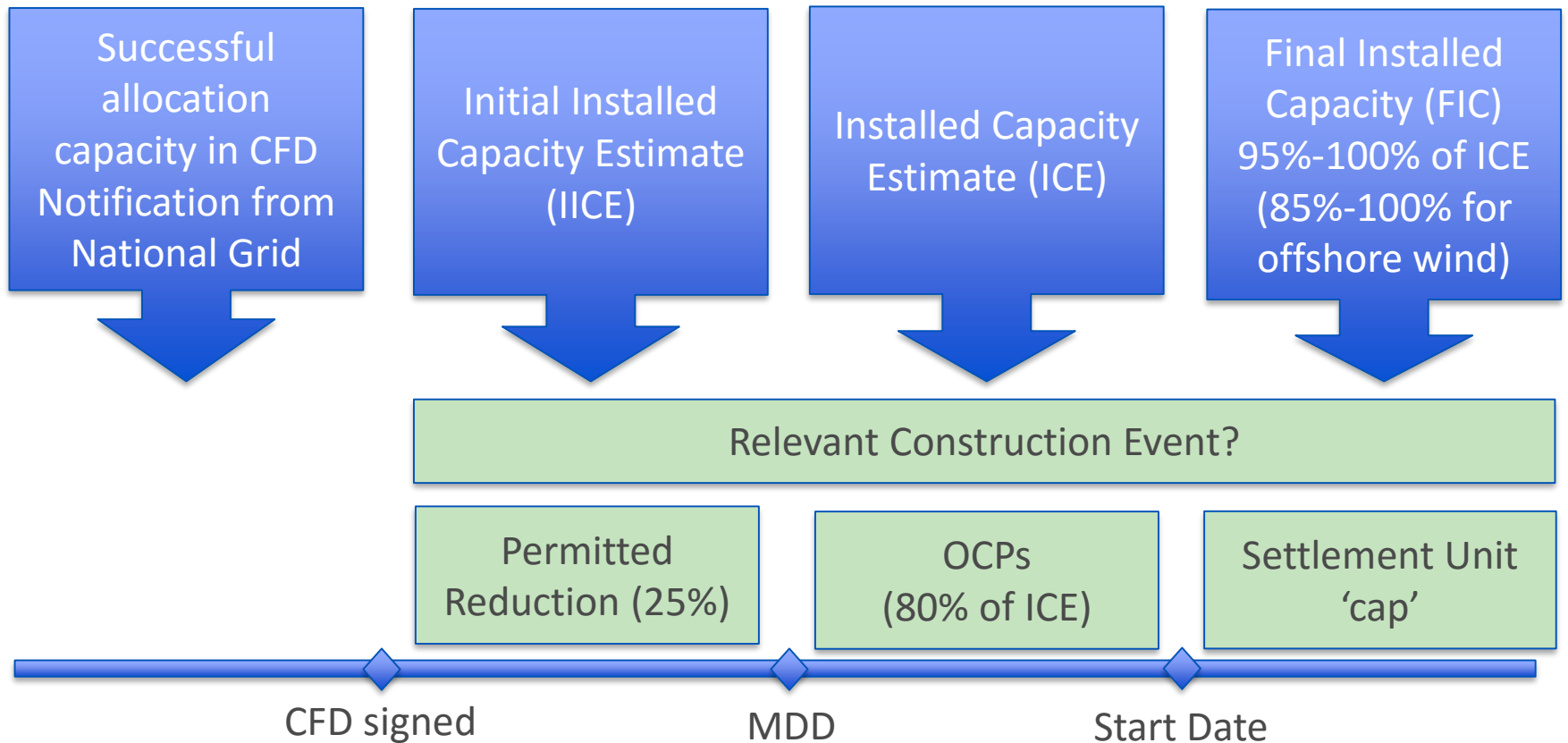
# Installed Capacity

---

Parasitic load covers assets that are used (or intended to be used) to generate or deliver electricity – *part of the definition of “Facility”*

- The parasitic electrical load of conveyor belts used to deliver fuel for generating electricity should be deducted when determining the IC if it is necessary for the Facility to continuously generate for a sustained period at the maximum capacity possible and without causing damage to the Facility.
- The electrical load of equipment that is separately metered, for example, to segregate recyclable material from fuel should not be deducted when determining the IC if it is not necessary for the Facility to continuously generate for a sustained period and without causing damage to the Facility
  - The purpose of this process is recycling and could have been managed in advance without the need for the Facility to be generating.

# Installed Capacity Journey





**LOW CARBON**  
CONTRACTS COMPANY

[cfpreparations@lowcarboncontracts.uk](mailto:cfpreparations@lowcarboncontracts.uk)

# QUESTIONS

[All images courtesy of Shutterstock]

© Low Carbon Contracts Company Ltd

Fleetbank House

2-6 Salisbury Square

London EC4Y 8JX

T 0207 211 8881

[lowcarboncontracts.uk](http://lowcarboncontracts.uk)



# This session

---

1. State aid cumulation
2. Forthcoming technical changes
3. Financial reporting obligations

# State Aid Cumulation

---

- Unauthorised cumulation of state aid is illegal and thus all CFD holders need to comply
- New drafting in Standard T&Cs sets requirements on existing obligations:

*“Clause 32.4 - The Generator represents and warrants to the CfD Counterparty that, as at the Start Date, the following statement is true, accurate and not misleading:*

- A. no State aid or Union Funding has been received in relation to the costs of the (A)Project (regardless of whether such aid or funding is received by the Generator or by any other person), other than:*
- i. the State aid arising under this Contract for Difference;*
  - ii. any State aid or Union Funding which is expressly authorised by the European Commission to be cumulated with a Contract for Difference; or*
  - iii. any State aid or Union Funding notified to the CfD Counterparty in accordance with the process for the satisfaction or waiver of the State Aid Declaration Operational CP.”*

- In the event that a CFD project has been, or is in receipt of state aid other than the CFD, then this aid will need to be paid back before CFD payments can start.
- Generators must seek their own legal advice on this topic and ensure that the information we receive is accurate.

# This session

---

1. State aid cumulation
2. Forthcoming technical changes
3. Financial reporting obligations

# Implementing Locational TLM

---

- On 14 December 2016 the CMA published its Order implementing its proposal for a **Locational Transmission Loss Multiplier**.
- This requires Elexon to implement a **non-zero locational Transmission Loss Factor** (TLF) within the BSC (P350 Modification <https://www.elexon.co.uk/mod-proposal/p350/>):

$$\text{TLM}_{ij} = 1 + \text{TLF}_{ij} + \text{TLMO}^+$$

- The CFD Standard Terms and Conditions refer to TLM in two processes:
  - **Difference Payment calculations**, in the definition of Loss Adjusted Metered Output (LAMO) and Part 5A Baseload Difference Amount, which both use a definition of TLM as “the multiplier allocated in accordance with the BSC...”
  - **Strike Price Adjustment** calculation, which uses  $\text{TLM}(D) = \text{TLMO}^+_j$

# Implementing Locational TLM

---

- LCCC proposes to align the definition of TLM(D) used for Strike Price Adjustment with that used for Difference Payments, so TLM(D) will be based on the average (across all GB generators) of:
  - “the transmission loss multiplier i) allocated in accordance with the BSC, or ii) any new or substituted multiplier or factor which is in the nature of, or similar to, a transmission loss multiplier”*
- This will uphold the original policy intent to “hold CFD generators neutral to any change in the average transmission losses allocated to generators under the BSC” (p29, P350 Assessment Report, 12/01/17).

# Implementing the Indirect Land Use Change (ILUC) Directive

---

- **ILUC Directive** entered into force in 2015, amending the Renewable Energy Directive to include provisions addressing the impact of ILUC caused by biofuels and bioliquids.
- Requirement to cap amount of bioliquids and biofuels at a level equivalent to 7% of UK transport and energy.
- Needs to be transcribed in UK law by 10<sup>th</sup> Sep 2017.
- Impact on CFDs:
  - Only a small amount of crop derived bioliquids are anticipated under the CFD, if any
  - Under the CFD Standard Terms and Conditions generators have an obligation to comply with EU directives, however **CFDs may need to be updated in line with the Directive to demonstrate compliance**

# This session

---

1. State aid cumulation
2. Forthcoming technical changes
3. Financial reporting obligations

# Financial Reporting of CFDs

---

## *Status of LCCC*

- LCCC has received legal advice that it does **not** constitute an "undertaking" for EU law purposes and could not therefore be a Non-Financial Counterparty for the purposes of EMIR.
- Although the Low Carbon Contracts Company will not be subjected to EMIR reporting requirements, industry counterparties to CFDs are likely to have to comply with various reporting and threshold obligations under EMIR.



# Financial Reporting of CFDs

---

## *Treatment of EMR CFDs*

- LCCC has received legal advice that Electricity Market Reform CFDs are financial instruments as defined by MiFiD and therefore subject to reporting requirements under EMIR.
- We would advise organisations to obtain legal advice on their regulatory obligations with respect to EMR CfDs and consult the FCA's EMIR information pages:

<http://www.fca.org.uk/firms/markets/international-markets/emir>



**LOW CARBON**  
CONTRACTS COMPANY

**If you have any questions please forward  
them to:**

**[cfpreparations@lowcarboncontracts.uk](mailto:cfpreparations@lowcarboncontracts.uk)**

© Low Carbon Contracts Company Ltd

Fleetbank House

2-6 Salisbury Square

London EC4Y 8JX

T 0207 211 8881

**[lowcarboncontracts.uk](http://lowcarboncontracts.uk)**