Strike Price Adjustment Guidance

Version 2
Issued on 19 July 2018

Applicable to Investment Contracts, CFD Agreement and CFD Standard Terms and Conditions issued on August 2014 and March 2017
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Disclaimer

This guidance does not and is not intended to supersede or replace the provisions of the CFD. This guidance does not constitute legal or investment advice and should not be relied upon as such. Generators should consult their professional advisors where they require advice, whether legal or otherwise. LCCC further reserves the right to amend this guidance and any associated guidance from time to time.

This guidance should not be viewed as in any way restricting LCCC in the nature, type and/or amount of evidence, information and documentation it will require to satisfy itself of the Generator's fulfillment of the Operational Conditions Precedent, nor as to the nature, level and timing of our consideration or reconsideration of the evidence that is provided. LCCC reserves the right at any time to request further or additional evidence, and to review or reconsider the evidence already provided.
Section 1: Introduction

LCCC performs the Strike Price Adjustment (SPA) calculations annually as per the relevant CFD clauses and communicates the revised Strike Prices to the Generators by the 5th business day post the 1st of April each year.

This guidance is intended to help generators understand the series of calculations that result in a Generators annual adjusted Strike Price.

1.1 This document provides non-binding guidance and simplified worked examples in respect of various Strike Price adjustments.

1.2 Strike Price adjustments covered by this guidance include:

- Indexation Adjustment
- TLM(D) Strike Price Adjustment
- Balancing System Charge Strike Price Adjustment

1.3 Appendix A lists the publicly available data sources that the SPA calculations utilise.

1.4 In addition, LCCC publishes on the EMRS website the (https://www.emrsettlement.co.uk/settlement-data/settlement-data-cfd-generators/) interim-calculations; essentially these are the results per calculation step which at the end of the process leads to the revised Strike Price. This allows Generators who wish to perform their own calculations with some useful checkpoints.
Section 2: Definitions

2.1 The “CFD Counterparty” is the Low Carbon Contracts Company Ltd.

2.2 Please refer to Defined terms used in this guidance and not defined herein should be given the meaning provided in the “CFD” (which is comprised of the CFD Agreement and the CFD Standard Terms and Conditions as published by the Department of Energy and Climate Change on 29 August 20141 and in March 20172). This guidance is also applicable to Investment Contracts. However, Generators with Investment Contracts are advised to review the equivalent clauses.

2.3 In respect of the Investment Contracts, also considered are the Amended Notification (from DECC, dated July 2014); and the Amended Notification (from LCCC, dated August 2014) (together these form an “Investment Contract” or “IC”).

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Section 3: Indexation Adjustment

3.1 Each calendar year the Low Carbon Contracts Company (LCCC) calculates an Indexation Adjustment which becomes effective on the first day of the Summer Season (starting 1 April) of such year.

This Indexation Adjustment is calculated as a function of the Initial Strike Price, the sum of the Strike Price Adjustments applicable, and an Inflation Factor. The calculation is based on the following formula:

\[
\text{Strike Price} = (S_{\text{base}} + A_{\text{base}}) \times \prod_t
\]

where:

- \(S_{\text{base}}\) is the Initial Strike Price;
- \(A_{\text{base}}\) denotes the sum of the Strike Price Adjustments applicable to Settlement Unit \((t)\), expressed in Base year terms; and
- \(\prod_t\) is the Inflation Factor applicable to Settlement Unit \((t)\).

It should be noted that for the purposes of this calculation, both the Initial Strike Price and the Strike Price Adjustments are expressed in Base Year Terms which, in the case of Strike Price Adjustments, may require a further calculation (this is explained in more detail below).

As per the formula above, the Initial Strike Price plus the sum of the Strike Price Adjustments is multiplied by the Inflation Factor. The result of this calculation is the indexed Strike Price which applies from the Indexation Anniversary.

An illustrative example is presented in the table below:

<table>
<thead>
<tr>
<th>Term</th>
<th>Illustrative assumption</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>(S_{\text{base}})</td>
<td>£100/MWh</td>
<td>Use the Initial Strike Price as defined in the relevant contract</td>
</tr>
<tr>
<td>(A_{\text{base}})</td>
<td>£2.55/MWh</td>
<td>Sum of the Strike Price Adjustment applicable, and expressed in Base Year Terms</td>
</tr>
<tr>
<td>(\prod_t)</td>
<td>1.05</td>
<td>Inflation Factor applicable, illustrative</td>
</tr>
<tr>
<td>Strike Price</td>
<td>((£100/MWh + £2.55/MWh) \times 1.05 = £107.68/MWh)</td>
<td>from the relevant Indexation Anniversary</td>
</tr>
</tbody>
</table>

Note: numbers and calculation are for illustrative purposes only. Only a simple, single example is presented and other scenarios may exist.

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3 See CfD: Condition 14, 20
See IC: Condition 14, 19
4 See CfD: Condition 14.4, 20.4
See IC: Condition 14.4, 19.4
Section 4: Base Year Terms

4.1 For the purposes of calculating the Indexation Adjustment, any Strike Price adjustments which are not expressed in Base Year Terms must be ‘deflated’. This is done as per the formula below:\(^5\):

\[
ADJ_{\text{base}} = ADJ_x \times \frac{\text{CPI}_{\text{base}}}{\text{CPI}_x}
\]

where:

- \(ADJ_x\) is the Strike Price Adjustment (expressed in £/MWh) in any year (x);
- \(\text{CPI}_{\text{base}}\) denotes the Base year CPI; and
- \(\text{CPI}_x\) denotes the arithmetic mean of the monthly CPI over the year (x);

It is noted that the monthly CPI, as published by the Office for National Statistics, is used as an input into the above formula\(^6\).

An illustrative example is presented in the table below:

<table>
<thead>
<tr>
<th>Term</th>
<th>Illustrative assumption</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>(ADJ_x)</td>
<td>£1.50/MWh</td>
<td>Strike Price Adjustment in year (x); e.g. a TLM(D) Adjustment in year 2015</td>
</tr>
<tr>
<td>(\text{CPI}_x)</td>
<td>128.03</td>
<td>Arithmetic mean of CPI in the calendar year (X), e.g. in 2015</td>
</tr>
<tr>
<td>(\text{CPI}_{\text{base}})</td>
<td>121.0</td>
<td>Base Year CPI, as defined in the contract, e.g. October 2011</td>
</tr>
<tr>
<td>(ADJ_{\text{base}})</td>
<td>$\frac{121.00}{128.03} \times 1.50$</td>
<td>from the relevant Indexation Anniversary</td>
</tr>
</tbody>
</table>

Note: numbers and calculation are for illustrative purposes only. Only a simple, single example is presented and other scenarios may exist.

---

\(^5\) See CfD: Definitions “Base Year Terms”
\(^6\) See IC: Definitions “Base Year Terms”

At the time of this report, monthly CPI could be sourced from the time series data published by the ONS under the D7BT category via the below website:
[https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7bt](https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7bt)
4.2 The Inflation Factor as used in the calculation of the Indexation Adjustment, is calculated as per the formula below:

$$\prod_t = \frac{CPI_t}{CPI_{base}}$$

where:

$$\prod_t$$ is the Inflation Factor;

$$CPI_t$$ denotes the CPI for January of the relevant calendar year or, where the CPI for January is not published by the first (1st) day of the Summer Season in such calendar year, the Reference CPI, which is applicable to the Settlement Unit (t); and

$$CPI_{base}$$ denotes the Base Year CPI; or

An illustrative example is presented in the table below:

<table>
<thead>
<tr>
<th>Term</th>
<th>Illustrative assumption</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>$CPI_t$</td>
<td>127.1</td>
<td>CPI for January of the relevant year, e.g. January 2015</td>
</tr>
<tr>
<td>$CPI_{base}$</td>
<td>121.0</td>
<td>Base Year CPI, as defined in the contract, e.g. October 2011</td>
</tr>
<tr>
<td>$\prod_t$</td>
<td>$\frac{127.1}{121.0} = 1.05$</td>
<td>This represents the relevant Inflation Factor which is used in the calculation of the Indexation Adjustment</td>
</tr>
</tbody>
</table>

Note: numbers and calculation are for illustrative purposes only. Only a simple, single example is presented and other scenarios may exist.

It is noted, that where there has been a re-basing of the index prior to the Indexation Anniversary, a different formula is used. This is discussed in more detail below.

4.3 Where the CPI index is re-based by the ONS, and such re-basing has taken effect in the twelve months prior to the Indexation Anniversary, a different formula, being the re-basing formula set out at limb (B) of the definition of “Inflation Factor”, should be used.

This re-basing formula makes a conversion of the Base Year CPI as defined in each contract, as this will be presented using a different ONS index base than the applicable CPI of the calculation period. For example, the Base Year CPI may be presented on the basis of 2005=100, while the applicable CPI may be presented on the basis of 2015=100. Where such a re-basing has occurred, the following formula is used:

$$\prod_t = \frac{CPI_t}{CPI_{base}}$$

9 See CfD: Definitions “Inflation Factor” (B)

9 See IC: Definitions “Inflation Factor” (B)
\( \Pi_t = \frac{CPI^{\text{new}}_t}{CPI^{\text{old}}_{\text{base}}} \times \frac{CPI^{\text{old}}_b}{CPI^{\text{new}}_b} \)

where:

- \( \Pi_t \) is the Inflation Factor;
- \( CPI^{\text{new}}_t \) is the CPI applicable to Settlement Unit \( (t) \), using the new (re-based) index;
- \( CPI^{\text{old}}_{\text{base}} \) is the Base Year CPI, using the original index;
- \( CPI^{\text{old}}_b \) is the CPI in the month in which the re-basing has occurred, using the original index; and
- \( CPI^{\text{new}}_b \) is the CPI in the month in which the re-basing has occurred, using the new (re-based) index;

An illustrative example is presented in the table below:

<table>
<thead>
<tr>
<th>Term</th>
<th>Illustrative assumption</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>( CPI^{\text{new}}_t )</td>
<td>99.8</td>
<td>Applicable CPI, eg for Feb 2016</td>
</tr>
<tr>
<td>( CPI^{\text{old}}_{\text{base}} )</td>
<td>121.0</td>
<td>Base Year CPI, using the old index</td>
</tr>
<tr>
<td>( CPI^{\text{old}}_b )</td>
<td>127.5</td>
<td>CPI in month of rebasing, using original index</td>
</tr>
<tr>
<td>( CPI^{\text{old}}_b )</td>
<td>99.5</td>
<td>CPI in month of rebasing, using new index</td>
</tr>
<tr>
<td>( \Pi_t )</td>
<td>( \frac{99.8}{121.0} \times \frac{127.5}{99.5} = 1.06 )</td>
<td>This represents the relevant Inflation Factor which is used in the calculation of the Indexation Adjustment</td>
</tr>
</tbody>
</table>

Note: numbers and calculation are for illustrative purposes only. Only a simple, single example is presented and other scenarios may exist.
Section 5: TLM(D) Strike Price Adjustment

5.1 **Note: Only applicable to generators which receive a TLM(D) Strike Price Adjustment**

5.2 Each year a TLM(D) Strike Price Adjustment is calculated, which then applies from the relevant Indexation Anniversary.

The TLM(D) Strike Price Adjustment is based on the TLM(D) Charges Difference, which in turn is calculated as per the formula below:\(^1\):

\[
TCD = (SP_{IB} - IBC) \times \left( \frac{TLM_A - TLM_i}{1 - TLM_A} \right)
\]

where:
- \(TCD\) is the TLM(D) Charges Difference;
- \(SP_{IB}\) is the Indexed Base year Strike Price, but for this purpose, references to CPI\(_t\) in the definition of Inflation Factor shall be to the CPI for January in the TLM(D) Charges report Year, save where the CPI for January is not published by the first (1st) day of the Summer Season in such TLM(D) Charges Report Year, in which case CPI\(_t\) shall be the Reference CPI;
- \(IBC\) is the Base Year CPI, using the original index;
- \(TLM_A\) is the actual TLM(D) Charge (expressed as an absolute decimal) in respect of the TLM(D) Charges Review Period; and
- \(TLM_i\) is the Initial TLM(D) Charge (expressed as a decimal) in respect of the TLM(D) Charges Review Period; and

Each of the components in the formula above is considered in further detail below.

5.3 The Indexed Base Year Strike Price is calculated as per the formula below, noting that for the purposes of CPI\(_t\), the CPI for January in the TLM(D) Charges Report Year is used:\(^2\).

\[
SP_{IB} = TI_1 \times CP_{base}
\]

where:
- \(SP_{IB}\) is the Indexed Base Year Strike Price;
- \(TI_1\) is the Inflation Factor; and
- \(CP_{base}\) is the Initial Strike Price;

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\(^1\) See CfD: Condition 47.1 (E)
\(^2\) See CfD: Condition 47.1 (E); Definitions “Inflation Factor”
An illustrative example is presented in the table below:

<table>
<thead>
<tr>
<th>Term</th>
<th>Illustrative assumption</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step 1: Calculate the Inflation Factor</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TLMD Charges Report Year</td>
<td>1 Jan 2015 to 31 Dec 2015</td>
<td>Illustrative</td>
</tr>
<tr>
<td>CPI</td>
<td>127.1</td>
<td>CPI for January of the relevant year, e.g. January 2015</td>
</tr>
<tr>
<td>CPI&lt;sub&gt;base&lt;/sub&gt;</td>
<td>121.0</td>
<td>Base Year CPI, as defined in the contract, e.g. October 2011</td>
</tr>
<tr>
<td>$\prod_1$</td>
<td>$\frac{127.1}{121.0} = 1.05$</td>
<td>This represents the relevant Inflation Factor which is used in the calculation of the Indexation Adjustment</td>
</tr>
</tbody>
</table>

| **Step 2: Calculate the Indexed Base Year Strike Price** |                                             |                                                                      |
| SP<sub>base</sub>             | £100.00/MWh                                  | Use the Initial Strike Price as defined in the relevant contract    |
| $\prod_1$                     | 1.05                                         | Inflation Factor applicable, as calculated above                     |
| SP<sub>IB</sub>               | £100.00/MWh x 1.05 = £105.00/MWh             | This represents the Indexed Base Year Strike Price for the purposes of calculating the TLM(D) Adjustment |

Note: numbers and calculation are for illustrative purposes only. Only a simple, single example is presented and other scenarios may exist.

5.4 The Indexed Initial Balancing System Charge is calculated as per the formula below. It is noted that for the purposes of CPI<sub>i</sub>, the CPI for January in the TLM(D) Charges Report Year<sup>13</sup> is used, and for the purposes of CPI<sub>base</sub>, the CPI for the penultimate month of the Initial Balancing System Charge Window is used<sup>14</sup>.

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<sup>13</sup> See CfD: Condition 47.1
See IC: Condition 45.2

<sup>14</sup> See CfD: Condition 47.1 (E); Condition 46.1 (D)
See IC: Condition 45.2 (G); Condition 44.2 (F) (also see DECC Amendment to the IC)
\[ IBC = \prod_t \times I \]

where:

- \( IBC \) is the Indexed Initial Balancing System Charge;
- \( \prod_t \) is the applicable Inflation Factor, but for this purpose references to:
  - (a) Base Year CPI (\( CPI_{\text{base}} \)) in the definition of Inflation Factor shall be to the value of the CPI for the penultimate month of the Initial Balancing System Charge Window; and
  - (b) \( CPI_t \) in the definition of Inflation Factor shall be to the CPI for January in the Balancing System Charge Report Year save where the CPI for January is not published by the first (1st) day of the Summer Season in such Balancing System Charge Report Year in which case \( CPI_t \) shall be the Reference CPI; and
- \( I \) is the Initial Balancing System Charge;

An illustrative example is presented in the table below:

<table>
<thead>
<tr>
<th>Term</th>
<th>Illustrative assumption</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step 1: Calculate the Inflation Factor</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TLMD Charges Report Year</td>
<td>1 Jan 2015 to 31 Dec 2015</td>
<td>Illustrative</td>
</tr>
<tr>
<td>Balancing System Charge Report Year</td>
<td>1 Jan 2015 to 31 Dec 2015</td>
<td>Illustrative</td>
</tr>
<tr>
<td>Initial Balancing System Charge Window</td>
<td>1 Mar 2013 to 31 Feb 2014</td>
<td>Illustrative</td>
</tr>
<tr>
<td>( CPI_t )</td>
<td>127.1</td>
<td>CPI for January of the relevant year, e.g. January 2015</td>
</tr>
<tr>
<td>( CPI_{\text{base}} )</td>
<td>126.7</td>
<td>CPI for the penultimate month of the CFD balancing system charge window, e.g. Jan 2014</td>
</tr>
<tr>
<td>( \prod_t )</td>
<td>( \frac{127.1}{126.7} = 1.00 )</td>
<td>Use the Initial Strike Price as defined in the relevant contract</td>
</tr>
<tr>
<td><strong>Step 2: Calculate the Indexed Initial Balancing System Charge</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>( I )</td>
<td>£1.00/MWh</td>
<td>Use the Initial Balancing System Charge as defined in the relevant contract</td>
</tr>
<tr>
<td>( \prod_t )</td>
<td>1.00</td>
<td>Inflation Factor applicable, as calculated above</td>
</tr>
<tr>
<td>( IBC )</td>
<td>( \Sigma 1.00/MWh \times 1.00 = £1.00/MWh )</td>
<td>This represents the Indexed Initial Balancing System Charge for the purposes of calculating the TLM(D) Adjustment</td>
</tr>
</tbody>
</table>
5.5 The Initial TLM(D) Charge is set out in the relevant contract.\(^\text{15}\)

The Actual TLM(D) Charge is sourced from publicly available data published by a BSC Company for the period from 01 January in the calendar year immediately preceding the relevant TLM(D) Charges Report Year to 31 December in such calendar year.\(^\text{16,17}\)

5.6 The TLM(D) Charges Difference is calculated as per the formula presented in section 5.2 and the various terms discussed above.

An illustrative example is presented in the table below:

<table>
<thead>
<tr>
<th>Term</th>
<th>Illustrative assumption</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>SP</td>
<td>£100.00/MWh</td>
<td>The Indexed Base Year Strike Price for the purposes of calculating the TLM(D) Adjustment, as calculated above</td>
</tr>
<tr>
<td>IBC</td>
<td>£1.00/MWh</td>
<td>The Indexed Initial Balancing System Charge for the purposes of calculating the TLM(D) Adjustment, as calculated above</td>
</tr>
<tr>
<td>TLM(_A)</td>
<td>0.0100</td>
<td>Actual TLM(D) Charge sourced from publicly available data, illustrative</td>
</tr>
<tr>
<td>TLM(_I)</td>
<td>0.0085</td>
<td>Initial TLM(D) Charge is set out in the relevant contract, illustrative</td>
</tr>
<tr>
<td>TCD</td>
<td>(£100.00/MWh–£1.00/MWh) * 0.0100−0.0085 / 1−0.0100 =£0.15/MWH</td>
<td>This represents the TLM(D) Charges Difference the purposes of calculating the TLM(D) Adjustment</td>
</tr>
</tbody>
</table>

Note: numbers and calculation are for illustrative purposes only. Only a simple, single example is presented and other scenarios may exist.

\(^\text{15}\) See CFD: Definitions “Initial TLM(D) Charge”

\(^\text{16}\) See IC: Definitions “Initial TLM(D) Charge” (as per DECC Amendment to the IC)

\(^\text{17}\) The Actual TLM(D) Charges may be sourced from the Elexon web portal (see link below) by searching for TLM (a user account is required):

https://www.elexonportal.co.uk/news/latest?cachebust=k2guo30wbl

As TLM data is recorded for each half hour settlement period on a daily basis, the Actual TLM(D) Charge for the year is calculated as 1 - Average of Delivering TLM(D) Charges.

Note - TLM data may vary based on day of downloaded due to the settlement run updates which replace the previously published information.
5.7 The TLM(D) Strike Price Adjustment is now calculated using the TLM(D) Charges Difference. This is calculated as per the below:\(^8\):

(i) the TLM(D) Charges Difference calculated in respect of that Indexation Anniversary; less
(ii) any TLM(D) Charges Differences added to the then applicable Strike Price in respect of any previous Indexation Anniversary; plus
(iii) any TLM(D) Charges Differences deducted from the then applicable Strike Price in respect of any previous Indexation Anniversary.

An illustrative example is presented in the table below:

<table>
<thead>
<tr>
<th>Term</th>
<th>Illustrative assumption</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>TLM(D) Charges Difference (current)</td>
<td>£0.15/MWh</td>
<td>This represents the TLM(D) Charges Difference the purposes of calculating the TLM(D) Adjustment</td>
</tr>
<tr>
<td>TLM(D) Charges Difference (previous)</td>
<td>£0.10/MWh</td>
<td>This represents the sum of TLM(D) Charges Differences previously added</td>
</tr>
<tr>
<td>TLM(D) Strike Price Adjustment</td>
<td>£0.15/MWh – £0.10/MWh = £0.05/MWh</td>
<td>This represents the TLM(D) Strike Price Adjustment</td>
</tr>
</tbody>
</table>

Note: numbers and calculation are for illustrative purposes only. Only a simple, single example is presented and other scenarios may exist.

\(^8\) See CfD: Condition 47.1 (F)
See IC: Condition 45.2 (H) (as per DECC Amendment to the IC)
Section 6: BSC Strike Price Adjustment

6.1 Note: only applicable to generators which receive a BSC Strike Price Adjustment

6.2 Each year the Balancing System Charge Strike Price Adjustment is calculated, which then applies from the relevant Indexation Anniversary.

The Balancing System Charge Strike Price Adjustment is based on the Balancing System Charge Difference, which in turn is calculated as per the formula below:\(^1\):

\[
BSCD = ABC - IBC
\]

where:

- \( BSCD \) is the Balancing System Charge Differences;
- \( ABC \) is the Actual Balancing System Charge; and
- \( IBC \) is the Indexed Initial Balancing System Charge;

Each of the components in the formula above is considered in further detail below.

6.3 The Indexed Initial Balancing System Charge is calculated as per the formula below. It is noted that for the purposes of CPI\(_t\), the CPI for January in the Balancing System Charge Report Year is used, and for the purposes of CPI\(_\text{base}\), the CPI for the penultimate month of the Initial Balancing System Charge Window is used:\(^2\);

\[
IBC = \prod t \times I
\]

where:

- \( IBC \) is the Indexed Initial Balancing System Charge;
- \( \prod t \) is the applicable Inflation Factor, but for this purpose references to:
  - (a) Base Year CPI (CPI\(_\text{base}\)) in the definition of Inflation Factor shall be to the value of the CPI for the penultimate month of the Initial Balancing System Charge Window; and
  - (b) CPI\(_t\) in the definition of Inflation Factor shall be to the CPI for January in the Balancing System Charge Report Year save where the CPI for January is not published by the first (1st) day of the Summer Season in such Balancing System Charge Report Year in which case CPI\(_t\) shall be the Reference CPI; and
- \( I \) is the Initial Balancing System Charge;

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\(^{1}\) See CfD: Condition 46.1; Condition 46.1 (E)
\(^{2}\) See IC: Condition 44.2; Condition 44.2 (G)
\(^{20}\) See CfD: Condition 46.1 (D)
\(^{21}\) See IC: Condition 44.2 (F)
An illustrative example is presented in the table below:

<table>
<thead>
<tr>
<th>Term</th>
<th>Illustrative assumption</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step 1: Calculate the Inflation Factor</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial Balancing System Charge Window</td>
<td>1 Mar 2013 to 28 Feb 2014</td>
<td>Illustrative</td>
</tr>
<tr>
<td>Balancing System Charge Report Year</td>
<td>1 Jan 2015 to 28 Dec 2015</td>
<td>Illustrative</td>
</tr>
<tr>
<td>CPI$_t$</td>
<td>127.1</td>
<td>CPI for January of the relevant year, e.g. January 2015</td>
</tr>
<tr>
<td>CPI$_{base}$</td>
<td>126.1</td>
<td>CPI for the penultimate month of the CFD balancing system charge window, e.g. Jan 2014</td>
</tr>
<tr>
<td>$\Pi t$</td>
<td>xxxxxxxx</td>
<td>This represents the relevant Inflation Factor which is used in Step 2 below</td>
</tr>
</tbody>
</table>

| Step 2: Calculate the Indexed Initial Balancing System Charge               |                         |                                                                      |
| xxx                           | £1.00/MWh               | Use the Initial Balancing System Charge as defined in the relevant contract |
| $\Pi t$                      | 1.00                    | Inflation Factor applicable, as calculated above                       |
| xxx                           | £1.00/MWh * 1.00 = £1.00/MWh | This represents the Indexed Initial Balancing System Charge for the purposes of calculating the BSC Strike Price Adjustment |

Note: numbers and calculation are for illustrative purposes only. Only a simple, single example is presented and other scenarios may exist.

6.4 The Actual Balancing System Charge is calculated from relevant generator data provided by the GB System Operator (in the case of BSUoS Charges) or a BSC Company (in the case of RCRC Credits) for the period from 01 February in the calendar year immediately preceding the relevant Balancing System Charge Report Year to 31 January in such Balancing System Charge Report Year$^{21}$. $^{22}$

As per the CFD requirements, the relevant generator data must not include Embedded Generators$^{23}$. Generators for the purposes of the Balancing System Charge are deemed to be Balancing Mechanism Units (BM Units) with a positive metered volume. This assessment is performed every Settlement Period.

The Actual Balancing System Charge is as calculated as (Total BSUoS Charges - Total net RCRC Credits) / Total BSUoS Generator Metered Output.

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$^{21}$ See CID: Condition 46.1 (C); Definitions “Actual Balancing System Charge”; Balancing System Charge Report
$^{22}$ See IC: Condition 44.2 (E); Definitions “Actual Balancing System Charge”; Balancing System Charge Report
$^{23}$ The key components of the Actual Balancing System Charge are: total BSUoS metered output (MWh); total net BSUoS Charges and, total net RCRC Credits and of the electricity generators in Great Britain.

For further details on this data please see Appendix A.
6.5 The Balancing System Charge Difference is calculated as per the formula presented in section 6.2 of this report and the various terms discussed above.

An illustrative example is presented in the table below:

<table>
<thead>
<tr>
<th>Term</th>
<th>Illustrative assumption</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC</td>
<td>£2.00/MWh</td>
<td>Actual Balancing System Charge sourced from publicly available data, illustrative</td>
</tr>
<tr>
<td>IBC</td>
<td>£1.00/MWh</td>
<td>Indexed Initial Balancing System Charge, as calculated above</td>
</tr>
<tr>
<td>BSCD</td>
<td>£2.00/MWh−£1.00/MWh</td>
<td>£1.00/MWh This represents the Balancing System Charge Difference the purposes of calculating the Balancing System Charge Strike Price Adjustment</td>
</tr>
</tbody>
</table>

Note: numbers and calculation are for illustrative purposes only. Only a simple, single example is presented and other scenarios may exist.

The Balancing System Charge Strike Price Adjustment is now calculated using the Balancing System Charge Difference. This is calculated as per the below:

\[
BSCD = ABC - IBC
\]

where:

- \(BSCD\) is the Balancing System Charge Differences;
- \(ABC\) is the Actual Balancing System Charge; and
- \(IBC\) is the Indexed Initial Balancing System Charge;
Section 7: Appendix A

Generator Identification

7.1 The CFD requires that the Annual Balancing System Charge is calculated in respect of “Generators” only. To ensure this, the BSUoS, RCRC and Metered Volume must be evaluated at a BM Unit level for each Settlement Period; only the +ive volume BM Units should be included in the final figures.

7.2 Please refer to The CFD also requires that embedded “exemptible” (license-exempt) generators are excluded from the calculation of the Balancing System Charge. The license-exempt status for each BM Unit can be determined by combining the prefix of the BM Unit ID with its Exempt Export Flag; this is registered with the Central Registration Agency (CRA). The table below shows how BM Units are categorised and which categories are included in the Balancing System Charge calculation.

<table>
<thead>
<tr>
<th>BM Unit ID Prefix</th>
<th>Category</th>
<th>Inclusion in Balancing System Charge?</th>
</tr>
</thead>
<tbody>
<tr>
<td>T_</td>
<td>Transmission Connected</td>
<td>Included</td>
</tr>
<tr>
<td>E_</td>
<td>Distribution Connected</td>
<td>Included where Exempt Export Flag = False</td>
</tr>
<tr>
<td>I_</td>
<td>Interconnector</td>
<td>Excluded</td>
</tr>
<tr>
<td>2_</td>
<td>Supplier</td>
<td>Excluded</td>
</tr>
<tr>
<td>C_</td>
<td>Supplier</td>
<td>Excluded</td>
</tr>
<tr>
<td>M_</td>
<td>Miscellaneous</td>
<td>Included</td>
</tr>
</tbody>
</table>

For clarity, the calculation of the Balancing System Charge should be based only on BM Units which have the following attributes:

- +ive metered volume
- a BM Unit ID prefix of T_ or M_, or a BM Unit ID prefix of E_ with an Export Exempt Flag of F (false).

This assessment must be done on a Settlement Period basis.

BSUoS Charge

7.3 The Connection and Use of System Code (CUSC) defines how BSUoS is calculated and charged. CUSC Section 14.30 defines the allocation of the total BSUoS charge. Charges are calculated at a Trading Unit level, but an effective BM Unit breakdown of the BSUoS charge can be calculated using the formulas provided in CUSC Section 14.30.2.

Charges are allocated based on a different formula depending on whether the Trading Unit is net offtaking or net delivering. Therefore, to establish the BSUoS charge at a BM Unit level, the net status of the parent Trading Unit must be known. This can be deduced from the TLM or from the Trading Unit Metered Volume. Note that it is possible for a +ive volume BM Unit to be within a net offtaking Trading Unit. Under this situation the BM Unit acts to suppress the overall BSUoS charge for the Trading Unit; and effectively has a negative charge.
RCRC Charge

7.4 BSC Section T 4.10 defines the calculation of RCRC. The method is similar to that of BSUoS, with charges/payments allocated to BM Units depending on the net flow of the Trading Unit. An effective BM Unit breakdown of RCRC can be calculated using the formulas in BSC Section T 4.10.2. As such the same considerations with regards to Trading Unit net Metered Volume must be taken into account to determine the direction of the charge/payment.

Data Sources

7.5 The relevant settlement period data can be sourced from Elexon Report SAA-I014 (subflow 2), which is available from Elexon. Please contact the Elexon BSC Service Desk for details on accessing this data (https://www.elexon.co.uk/contacts/).

Total BSUoS Charges are the calculated as the BSUoS generator metered output (MWh) for each settlement period multiplied by the corresponding BSUoS Price. The half hourly BSUoS Price for each settlement period may be sourced from the BSUoS SF dataset from the National Grid website via the following link: http://www2.nationalgrid.com/bsuos

Total net RCRC Credits are calculated as the sum of generator metered output (MWh) for each settlement period multiplied by the corresponding Residual Credit £/MWh rate for each settlement period. For each settlement period the Residual Credit £/MWh rate settlement run used should be consistent with that used for the total BSUoS generator metered output (MWh)

RCRC prices can be sourced from the Elexon web portal by searching for RCRC (a user account is required): https://www.elexonportal.co.uk/news/latest?cachebust=k2guo30wbl

Note - RCRC data may vary based on the day of downloaded due to settlement run updates which replace previously published information.

EMRS has published a copy of the relevant settlement period data https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7bt