



LOW CARBON
CONTRACTS COMPANY

Q4 2017 Supplier Obligation Levy Rate & 15 Month Forecast

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Andrea Marucci, Junior Forecasting Analyst

Questions

Please direct any questions during the webinar to:

info@lowcarboncontracts.uk

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Understanding the Supplier Obligation

Supplier Obligation is a compulsory levy on electricity suppliers to cover CFD payments to generators. It is paid by electricity suppliers in accordance with their market share of eligible gross demand. Below is a simplified formula for illustration purposes.

The cost per MWh is given by:

$$\text{supplier obligation levy} = \frac{\sum_i \text{generation}_i * (\text{strike price}_i - \text{market reference price}_i)}{\text{total eligible demand}}$$

where \sum_i is the sum over all CFD generators i

Understanding the Supplier Obligation

Supplier Obligation is split across three payment mechanisms:

Interim Levy Rate (ILR)

- Daily rate in £/MWh: specified a quarter in advance, but paid on a daily basis

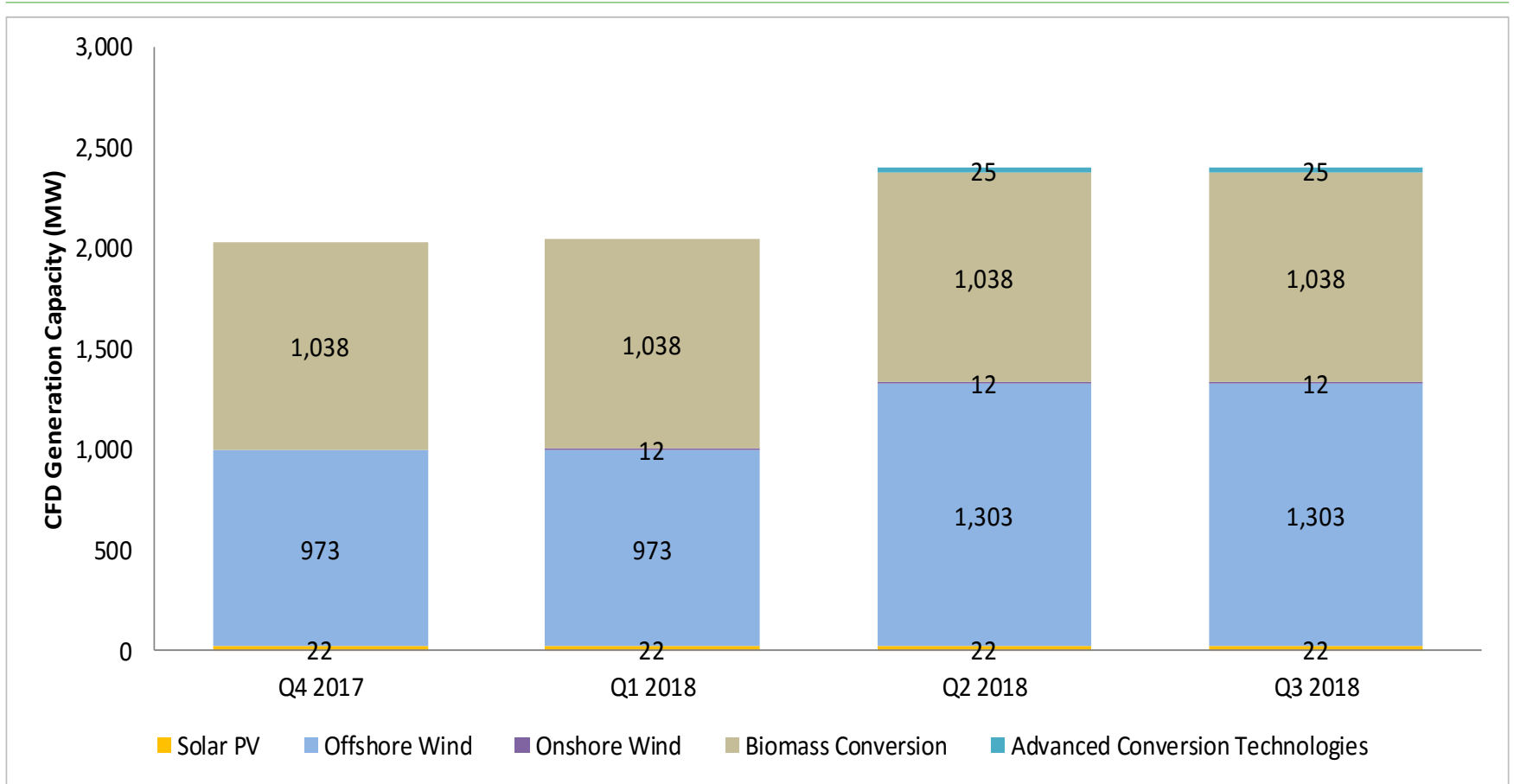
Total Reserve Amount (TRA)

- Reserve amount to cover uncertainty in CFD; set at a level to ensure a 95% probability that LCCC will, during a given period, be able to meet all payments it might have to make under the CFDs
- The CFD counterparty notifies the amount of each electricity supplier's reserve payment for a quarterly obligation period before the 8th working day of the quarterly obligation period which immediately precedes that period; it is paid within the 5th business day following the invoice i.e. within the 12th business day of the quarterly obligation period to which it relates

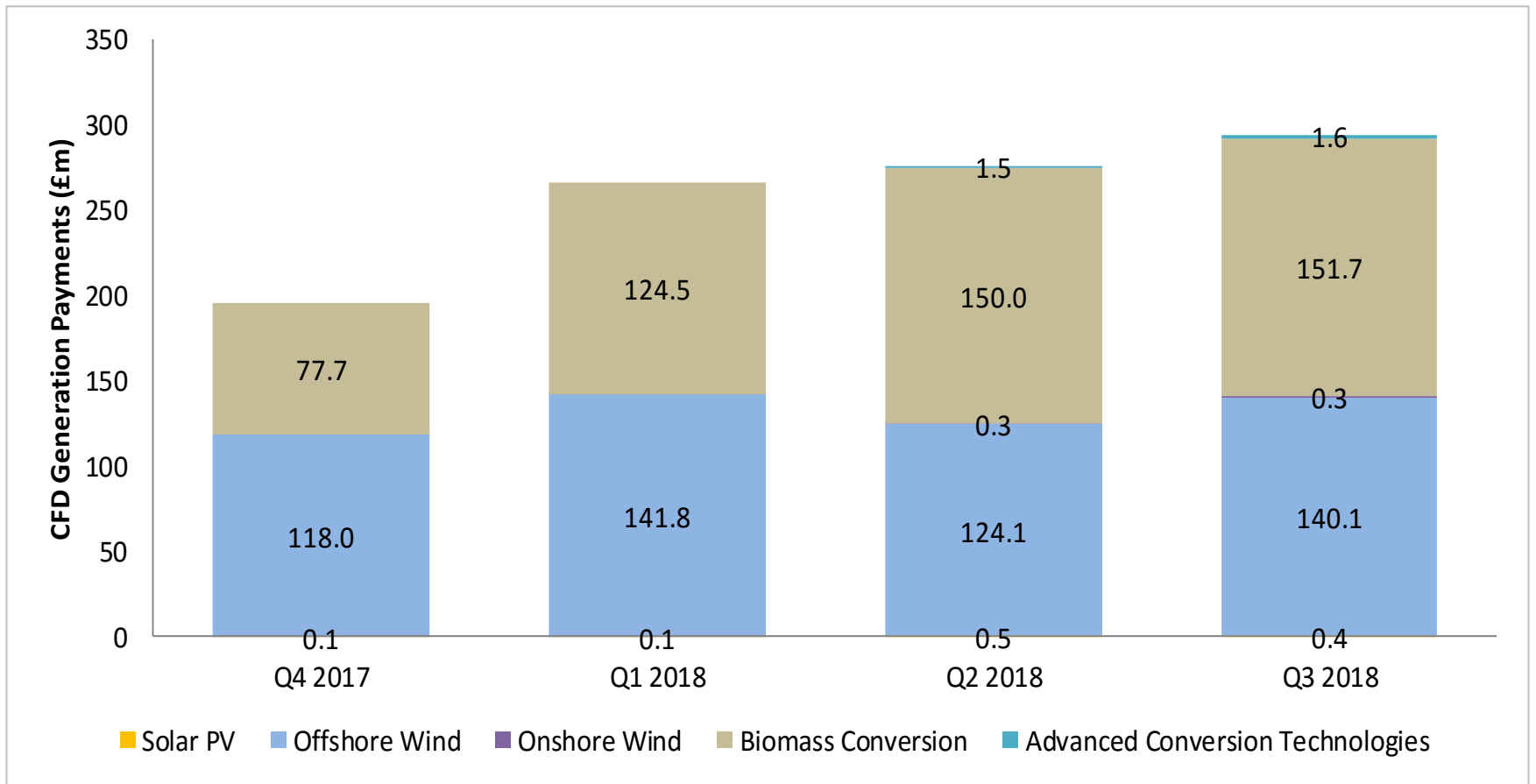
Reconciliation

- Retrospective reconciliation based on some metered data and actual price information
-

CFD Generation Capacity by Fuel Type



CFD Generation Payments by Fuel Type



Q4 2017 Supplier Obligation Levy Rate

Supplier Obligation for the period from 01 October 2017 to 31 December 2017, to cover payments to CFD generators accrued in the period:

Interim Levy Rate (ILR)

- Set at **£2.517 / MWh** for the period
- Up from £1.553 / MWh in Q3 2017

Total Reserve Amount (TRA)

- Set at **£0.00** for the period
- Down from £34,316,588.50 in Q3 2017

Forecast Assumptions: Generation

Any significant change to our forecast may trigger an in-period adjustment to the TRA and ILR to meet payments.

For illustration, our primary forecasting assumptions include:

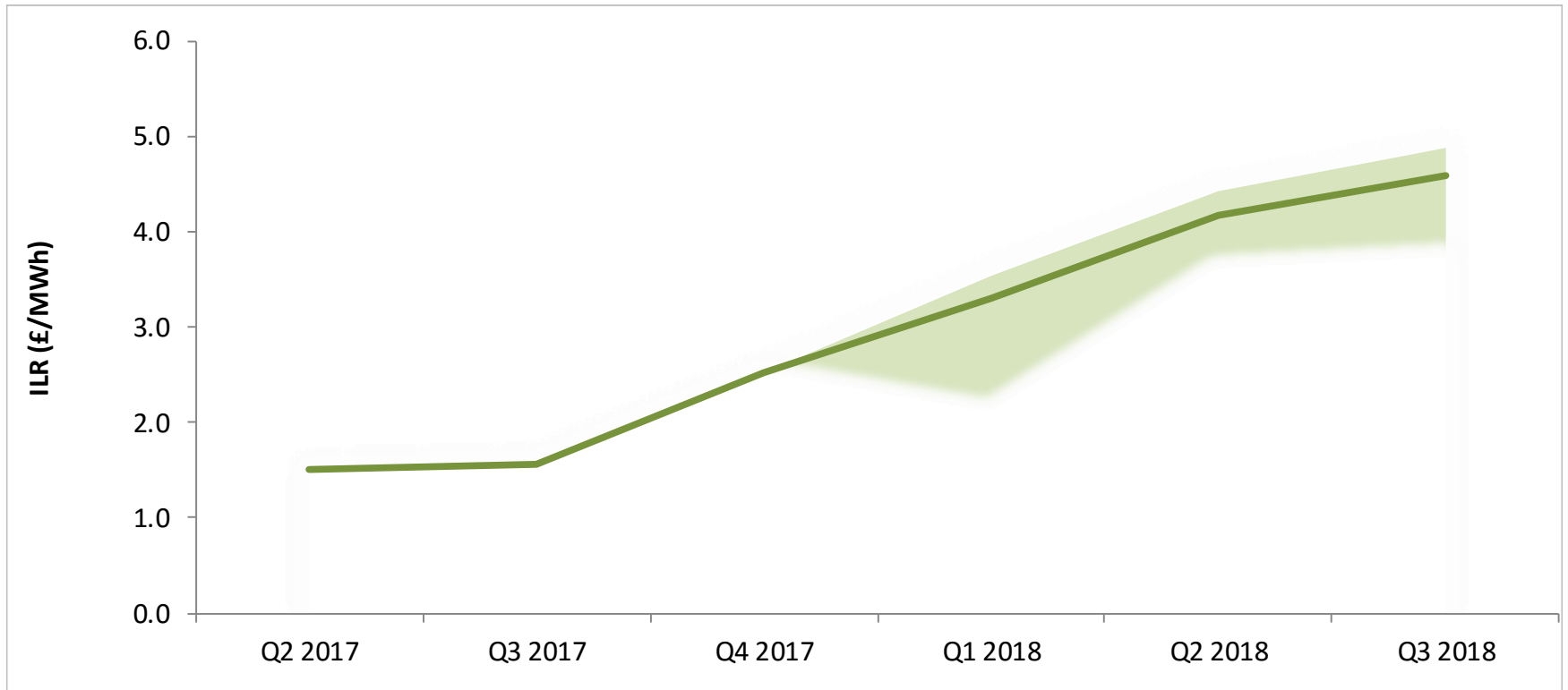
- **Solar:** Two units are expected to generate in Q4 2017.
- **Biomass Conversion:** Generation has commenced from one unit with effect 21 December 2016; a 10 week outage is expected 27 August to 6 November 2017. Another unit will come online during Q4 2017
- **Offshore Wind:** Generation is expected from 5 facilities during the period; two of these are expected to come online during Q4 2017

Forecast Assumptions: Other

Any significant change to our forecast may trigger an in-period adjustment to the TRA and ILR to meet payments.

- **Market price:** The forecast BMRP for winter 2017 used for the determination of the Q4 2017 ILR and TRA carries uncertainty when compared to the actual BMRP. This is because at the point of determination less than half of the winter 2017 baseload prices had already been known.
- **Electricity demand:** The calculation of eligible demand assumes that 11.8 TWh of 'Energy Intensive Industries' demand will be exempt as per the BEIS guidance at the time LCCC produced the forecast.

15 Month Forecast ILR with Low and High Case



Further Assumptions Low and High Case Sensitivities

Base case:

- Commissioning dates as per expected date published in CFD register

Low case:

- Assumes generators commission 6 months after the Base case start date assumption
- Simulates an increase in market prices of 15%

High case:

- Assumes generators commission 2 months prior to the Base case start date assumption
- Simulates a drop in market prices of 13%

Why does the TRA vary so much between quarters?

The TRA is as much about working capital/Cashflow as about uncertainty

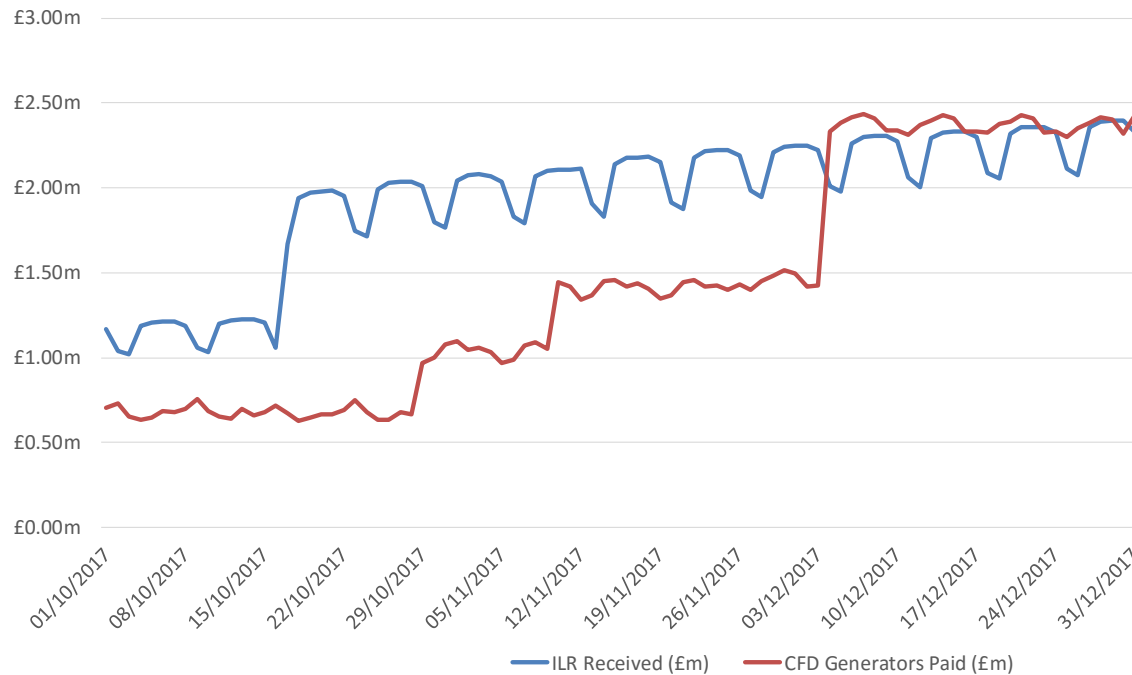
Quarter	Status	ILR £/MWh	TRA £m
Jul-Sep 17	Determination	1.553	34.32
Oct-Dec 17	Determination	2.517	0.00
Jan-Mar 18	Forecast / Base	3.302	38.46
Apr-Jun 18	Forecast / Base	4.170	26.58
Jul-Sep 18	Forecast / Base	4.592	31.33

TRA is zero, which is significantly below the other TRA values

- According to REMIT* a large biomass generator plans an outage until 6 November 2017
- Costs for Oct-Dec 17 are therefore back-loaded
- This means we need to hold less reserve money to pay generators on time in this quarter compared with adjacent quarters

Illustration of TRA Calculation

Q4 2017 TRA: Daily cash flow on paid basis



Back loading of generation results in excess ILR income over CFD costs paid: Low TRA



Interim Levy Rate	Total Reserve Amount
£2.517 / MWh	£0.00m
October - December 2017	At the 95th percentile

Expected payments to generators
£195.87m
October - December 2017



Expected eligible supply	Assumed CFD capacity	Forecast CFD generation	Forecast Average IMRP	Forecast Average BMRP
77,828,661 MWh	2,033 MW	2,223,802 MWh	£44.80 / MWh	£45.96 / MWh
October - December 2017	Online by end of December 2017	October - December 2017	October - December 2017	October - December 2017