CFD Implementation Event: Introduction for New Applicants

18 June 2015
Welcome and Introduction

18 June 2015
<table>
<thead>
<tr>
<th>Timing</th>
<th>Session</th>
<th>Delivery partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>09.30</td>
<td>Welcome and Introduction</td>
<td>Low Carbon Contracts Company</td>
</tr>
<tr>
<td>09.40</td>
<td>Overview of EMR</td>
<td>Low Carbon Contracts Company &amp; National Grid</td>
</tr>
<tr>
<td>10.10</td>
<td>The CFD Contract</td>
<td>Low Carbon Contracts Company</td>
</tr>
<tr>
<td>10.40</td>
<td>Break</td>
<td>Low Carbon Contracts Company</td>
</tr>
<tr>
<td>10:55</td>
<td>Overview of CFD Allocation Process</td>
<td>National Grid</td>
</tr>
<tr>
<td>11:35</td>
<td>Stakeholder Engagement Session</td>
<td>Low Carbon Contracts Company &amp; National Grid</td>
</tr>
<tr>
<td>12:05</td>
<td>Plenary and Close</td>
<td></td>
</tr>
</tbody>
</table>

Those wishing to use the wifi should search for **OneGreatGeorgeStreet** on their device and then click the button to accept the Terms and Conditions of use.
Overview of EMR

Ruth Herbert
18 June 2015
Agenda

1. Electricity Market Reform
2. EMR Companies
3. CFD Overview
4. Timeline
5. Further information
The trilemma

Security of supply
Affordability
Decarbonisation

Electricity Market
What is EMR?

The Government’s Electricity Market Reform programme is aimed at attracting up to £100bn investment needed to transform the sector.

**EMR** includes:

- **Contracts for Difference (CFD) scheme** to support investment in new low carbon generation (replacing the existing Renewables Obligation) and

- **Capacity Market scheme** to facilitate security of supply.

DECC created **two** companies to help deliver these schemes:

- **Low Carbon Contracts Company Ltd (LCCC)**

  and

- **Electricity Settlements Company Ltd (ESC)**
Agenda

1. Electricity Market Reform
2. EMR Companies
3. CFD Overview
4. Timeline
5. Further information
About LCCC

Low Carbon Contracts Company is a government-owned company established to be the independent counterparty to private law contracts known as “EMR CFDs”.

LCCC is also committed to working in partnership with EMR delivery partners and industry to oversee the delivery of the end-to-end CFD scheme, facilitating:

- Delivery Partner Cooperation and
- Industry Readiness

LCCC also runs Capacity Market settlement operations on behalf of the Electricity Settlements Company.
Who we are

Our non-executive directors bring a wide range of expertise covering energy markets, finance, law, construction, settlement systems, regulatory oversight and government policy.” Martin Read, Chair

Board

Martin Read (Chair)
Jim Keohane (Senior Independent Director)
Neil McDermott
Helen Turner

Non-executive directors:

Anne Baldock
Tony Bickerstaff
Marion King
Jonathan Mills
Anthony Odgers
Dr Simon Orebi Gann
Tony White
Agenda

1. Electricity Market Reform

2. EMR Companies

3. CFD Overview

4. Timeline

5. Further information
CFDs designed to provide long-term price certainty for low-carbon technologies

CFDs pay a variable ‘top-up’ to developers, based on:

- **Strike Price:** Estimate of the cost of investing in each technology
- **Reference Price:** Measure of the average price of electricity

Source: DECC
Stages of CFD process

Key feature of a CFD is that it is allocated **early in the project development life-cycle** → CFD process reflects this.

Source: DECC
Roles and Responsibilities under the CFD scheme

DECC
1. Sets policy and terms of the CFD contract and varies terms for contracts issued in future.
2. Sets out eligibility and qualification criteria that applicants must meet and is responsible for supply chain plan approvals.
4. Provides CFD budget information for participants.
5. Has ability to intervene following the audit report and determine whether to proceed with, re-run or terminate an allocation round.
6. May award CFDs outside the generic allocation process.
7. Is sole shareholder of the Low Carbon Contracts Company, reviews and approves its operational budget.
8. Sets operational costs levy rate for Low Carbon Contracts Company.

Low Carbon Contracts Company
1. Considers requests for Minor and necessary modifications.
2. Signs CFD contracts with projects allocated by Delivery Body and Government.
3. Manages and monitors contracts including Investment Contracts transferred from DECC in line with terms.
4. Forecasts CFD Payments and fixes Supplier Obligation interim rate and reserve amounts on a quarterly basis.
5. Provides accountability, governance and control of the monies collected and disbursed under the CFD Supplier Obligation Regulations.

National Grid
1. Assesses the eligibility of applications for generic CFDs and notifies applicants of eligibility determination.
2. Values all applications and assesses whether an auction process is required to decide which applicants should be offered a CFD.
3. Runs the CFD allocation process.
4. Provides the Low Carbon Contracts Company with the information necessary to offer a CFD.
5. Conducts analysis to support Government’s setting of administrative strike prices.
6. Reports value of applications to DECC.
7. Determines disputes regarding CFD eligibility (Tier 1 disputes).

Ofgem
1. Ensures that the Delivery Body carries out its duties efficiently, cost effectively and in a timely fashion.
2. Determines disputes regarding CFD eligibility (Tier 2 disputes).
3. Is the body to which suspected market collusion is reported.

EMR Settlement Ltd
1. Collects payments to/from suppliers and generators.
2. Collects and holds collateral from suppliers.
3. Mutualises unpaid payments.
4. Holds and manages reserve funds and credit cover payments.

Other Outsourced Delivery
Such as meter verification and fuel monitoring.

Source: Indicative CFD Allocation Round Operational Plan (www.lowcarboncontracts.uk)
CFD Counterparty role

Established as an independent counterparty to increase investor confidence in CFDs.

Forecasting CFD payments, and setting Supplier Obligation interim rate and reserve.

Signing and managing the life-cycle of CFDs and Investment Contracts.

Managing settlement process including collecting payments from Suppliers to pass on to Generators and vice-versa when required.

LCCC's Guiding Principle is to maintain investor confidence in the CFD scheme and minimise costs to consumers.
CFD Supplier Obligation

• Must be paid by all licensed electricity suppliers in Great Britain from 1 April 2015

• Suppliers will make pre-payments consisting of unit cost fixed rate, charged as a £/MWh rate on a daily basis, and lump sum ‘reserve’ payments at the start of each levy period for each quarter.

\[
SO\ Levy(£/MWh) = \frac{Total\ Payments\ to\ Generators(£)}{Total\ Demand(MWh)}
\]

• Regulations require that the total reserve amount must be sized to give the Counterparty 95% confidence that it can make all payments in that levy period.

Reserve fund defined so that in 95% of scenarios all payments can be made to generators
Forecasting CFD payments

- Interim Levy Rate (£/MWh) is set 3 months in advance
- Key variables can change considerably from the time of forecast to when realised.

\[
SO\ Levy_{(\text{£/MWh})} = \frac{(StrikePrice_{(\text{£/MWh})} - MarketReferencePrice_{(\text{£/MWh})}) \times Generation_{(\text{MWh})}}{Total\ Demand_{(\text{MWh})}}
\]

- LCCC uses its **Supplier Obligation Forecasting Model (SOFM)** to set the interim rate and size of reserve payments and a **Transparency Tool** to explain our calculations to suppliers.
Agenda

1. Electricity Market Reform
2. EMR Companies
3. CFD Overview
4. Timeline
5. Further information
Indicative 2015 Allocation Round Timeline
– no reviews or appeals

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>29</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Indicative CFD Allocation Round Key Activities and Milestones – Appendix A: No reviews or appeals

- No reviews or appeals
- Delivery Body: DECC
- Applicants: Low Carbon Contracts Company

Key Activities and Milestones:
1. Consultation on proposed CFD contract and amendments
2. NDD Regs enter into force
3. Final Decision Notice (FDN)
4. Lay Affirmative Regs
5. Lay Negative Amendment Regs
6. Lay Affirmative Regs
7. Publish CFD Allocation Round Notice
8. Publish CFD Allocation Notice
9. Publish Counterparty Costs Notice
11. Publish Strike Prices for Pot 2 Techs for 2019/20 and 2020/21
12. Publish NDD exemption Notice
13. Affirmative Regs come into force
14. Affirmative Regs
15. NDD Regs enter into force
16. CFD Op Cost Levy (15/16) Regs enter into force
17. NDD Exemption request window closes
18. Supply Chain Plan Assessment
19. Affirmative Regs come into force
20. Last date for SoS decision on NDD exemption applications
21. 2015 Allocation Round commencement date
22. All Minor and Necessary modifications concluded
23. Determine whether applicants qualify
24. Notify applicants of qualification status
25. Inform SoS of total budget impact
26. SoS to consider budget increase (or decides to delay or cancel auction)
27. Invite Sealed bids
28. Submit Sealed Bids
29. 2015 Allocation Auction
30. Auction Monitor report to SoS
31. Notify LCCC and applicants of the allocation outcome
32. Prepare contracts and send to successful applicants
33. Sign and return contracts
<table>
<thead>
<tr>
<th>Milestone / Activity</th>
<th>Indicative date</th>
<th>Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lay Negative Amendment Regulations</td>
<td>15/06/2015</td>
<td>DECC</td>
</tr>
<tr>
<td>Lay Affirmative Amendment Regulations deemed necessary following the CFD consultation (alongside Govt response to CFD consultation)</td>
<td>06 July 2015</td>
<td>DECC</td>
</tr>
<tr>
<td>Publish Non Delivery Disincentive Guidance</td>
<td>July 2015</td>
<td>DECC</td>
</tr>
<tr>
<td>Publish 2015 CFD Allocation Round Notice, Amended CFD, Standard Terms Notice &amp; CFD Counterparty Costs Notice</td>
<td>July 2015</td>
<td>DECC</td>
</tr>
<tr>
<td>Publication of 2015 Indicative CFD Budget and Strike Prices for Pot 2 Technologies for 2019-21</td>
<td>July 2015</td>
<td>DECC</td>
</tr>
<tr>
<td>Publication of 2015 Supply Chain guidance</td>
<td>July 2015</td>
<td>DECC</td>
</tr>
</tbody>
</table>

Please note these timings are indicative only and are subject to Government and Parliamentary process. Low Carbon Contracts Company will endeavour to provide any updates to milestones in a timely manner.
# Milestones – next 3 months [2]

<table>
<thead>
<tr>
<th>Milestone / Activity</th>
<th>Indicative date</th>
<th>Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applicants to request Minor and Necessary Modifications</td>
<td>July - 7 October</td>
<td>Applicants</td>
</tr>
<tr>
<td>Applicants submit Supply Chain Plans</td>
<td>04 August - 1 September</td>
<td>Applicants</td>
</tr>
<tr>
<td>Publish exemption request notice, if required (Non Delivery Disincentive)</td>
<td>11 August</td>
<td>DECC</td>
</tr>
<tr>
<td>Closing date for requests for an exemption under Non Delivery Disincentive Regulations</td>
<td>01 September</td>
<td>Applicants</td>
</tr>
<tr>
<td>Supply Chain Plan assessment</td>
<td>2 September - 13 October</td>
<td>DECC</td>
</tr>
<tr>
<td>Affirmative Amendment Regulations come into Force (subject to Parliamentary process)</td>
<td>18 September</td>
<td>DECC</td>
</tr>
<tr>
<td>Publication of CFD Budget Notice, the Allocation Framework and the Allocation Framework notice</td>
<td>End September/ Early October</td>
<td>DECC</td>
</tr>
<tr>
<td>Last date for Secretary of State decision on Non Delivery Disincentive exemption</td>
<td>06 October</td>
<td>DECC</td>
</tr>
<tr>
<td>2015 Allocation Round commencement date</td>
<td>21 October 2015</td>
<td>Delivery Body</td>
</tr>
</tbody>
</table>

Please note these timings are indicative only and are subject to Government and Parliamentary process. Low Carbon Contracts Company will endeavour to provide any updates to milestones in a timely manner.
Agenda

1. Electricity Market Reform
2. EMR Companies
3. CFD Overview
4. Timeline
5. Further information
Current website

Generators

This area is designed to provide generators with key documents to help prepare for, and participate in, the CFD Scheme.

Contracts for Difference ("CFDs") are designed to provide stability for Low Carbon generators to encourage the move towards a secure, diverse low carbon electricity supply in the UK. The CFD works by ensuring that generators will receive a fixed price level for the low carbon electricity they produce during the time the contract is running. This is known as the 'strike price'.

Generators will receive revenue from selling their electricity into the market as usual and independently of the CFD. However, when the market reference price is below the strike price they will also receive a top-up payment calculated and paid by the Low Carbon Contracts Company. The cost of these payments will be met by the supplier obligation, a levy on electricity suppliers. Conversely if the reference price is above the strike price, the generator must pay back the difference.

The first CFD Allocation Round is only open to eligible renewables generators, and the eligibility, qualification and allocation process is being undertaken by the Delivery Body, National Grid.

The generic CFD Contract sets out the terms and conditions. If there is a barrier to the generator signing the contract and a generator considers that a minor and necessary modification is required to their contract they can request this following the Minor and Necessary Change Procedure.

Support Materials

A range of implementation materials are available to support generator preparations for CFD:

Implementation Plan

Slides and Q&A from Implementation Co-ordination events

Links

iServer
National Grid

Events

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep 09</td>
<td>CFD Implementation Coordination Update and Review Session 9:30am to 5:00pm</td>
</tr>
<tr>
<td>Oct 14</td>
<td>CFD Implementation Coordination Update and Review Session 9:30am to 5:00pm</td>
</tr>
</tbody>
</table>
New website is coming soon…

Photos of CFD Projects

Event Booking Online

Engage with Us
To find out more information from the EMR Delivery Bodies…

• …on EMR and the CFDs LCCC manages, visit the LCCC website
  [www.lowcarboncontracts.uk](http://www.lowcarboncontracts.uk) or
  [www.cfd.lowcarboncontracts.uk](http://www.cfd.lowcarboncontracts.uk) for the CFD Register

• …on EMR allocation and auction processes visit:

• …on EMR settlement services, visit our settlement agent EMRS’s website
  [www.emrsettlement.co.uk](http://www.emrsettlement.co.uk)
The CFD Contract

Nic Rigby
Puk Lykke-Moller
18 June 2015
Disclaimer

• Parties should rely upon the drafting of the relevant CFD Agreement and FiT CFD Standard Terms and Conditions in relation to the contract they enter into, not these slides.

• Parties are recommended to obtain their own Legal advice on any issues of interpretation or Contract queries.
Agenda

1. What is the CFD
2. 2014 allocation recap
3. Minor and Necessary
4. How is the Contract Managed
What is the CFD?

**Strike Price:**
- Determined by competitive bidding
- No higher than the administrative cap

**Reference Price**
- Determined by the day-ahead GB price (Intermittent)
- For Baseload Technologies, derived by the NASDAQ & LEBA reported trades

**Difference Payment**

![Chart showing Reference electricity price £/MWh and Strike Price £/MWh, with Payment from CPB £/MWh and Payment to CPB £/MWh](chart.png)
More than just the difference payment

Contract
For Difference

- Difference Payment
- 15 Year Contract Term
- Dispute Resolution Processes
- Change in Law Protection
- Flexibility Over Delivery
- Ability To Adjust Capacity
- Force Majeure
- Protection against Grid Delay
- Index Linked Payments (to CPI)
Benefits to developers of the CFD

<table>
<thead>
<tr>
<th></th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Removal of wholesale electricity price exposure</strong> by providing a fixed strike price to developers, largely stabilising project revenue</td>
</tr>
<tr>
<td>2</td>
<td><strong>Robust and reliable private law contractual arrangement</strong> providing developers with a clear set of rights and obligations, and recourse to arbitration processes to resolve disputes</td>
</tr>
<tr>
<td>3</td>
<td><strong>Robust single counterparty</strong> owned by government and set up as a limited liability company</td>
</tr>
<tr>
<td>4</td>
<td><strong>Post CFD, certainty and security of support levels</strong> in the project development process</td>
</tr>
<tr>
<td>5</td>
<td><strong>Provisions that protect the value of the CFD</strong> to developers (e.g. change in law protection)</td>
</tr>
</tbody>
</table>
What about the obligations?
Delivery obligations

Defined by the CfD Agreement and CfD Terms & Conditions – available on our website

Key milestones:

- Initial Conditions Precedent – mainly administrative
- Milestone Delivery Date obligations – evidence of commitment; 10% spent or entered into contracts with suppliers and finance providers
- Further Conditions Precedent – commissioning and operational requirements
Delivery obligations

- **Milestone Delivery Date (MDD) obligations**
  - +1 year to MDD
  - MDD termination rights & capacity adjustment rights

- **Developer’s choice**
  - Further Conditions
    - Precedent
      - 12 months TCW (3m for Solar, 6m for Landfill Gas)
      - Start date threshold
  - +1 year
  - Contract erosion
  - Must Commission
2014/15 Round 1: Recap

- 29 contracts were offered & 27 were signed
- Offshore Wind, Onshore Wind, Energy from Waste, ACT and Solar PV represented in the mix
- Thus industry appetite is clear

CFD Round 1: Signed Contracts per Technology

- Offshore: 4
- Onshore: 15
- Solar: 3
- ACT: 2
- Energy from Waste: 3

CFD Round 1: MW of Signed Contracts per Technology

- Offshore: 1162
- Onshore: 749
- Solar: 39
- ACT: 62
- Energy from Waste: 95
2014/15 Round 1: Recap

• Successful Initial Conditions Precedent process with lessons learned

• On their way to meet their Milestone Requirements by the Milestone Delivery Date

• 2 of the Investment Contracts (earlier form of CFD) successfully met their Milestone Requirements on time earlier this year – others scheduled to follow later this year or early 2016

• So it does work!
Minor & Necessary process
The Contract and your Project

- The Contract has been designed to cover a wide range of eventualities
- Standard contracts deliver fairness, good understanding, robust and consistent delivery
- You need to check how your project will fit with the Standard Terms

- The Contracts for Difference (Standard Terms) – Part 3, gives the option for the Counterparty (the Low Carbon Contracts Company) to agree to “Minor & Necessary modifications”. These need to be agreed prior to the allocation of contracts.
How to apply for Minor and Necessary

- Applications for Minor and Necessary modifications can be made after an allocation round notice has been published (currently planned for July 2015)
- Must be applied for ‘promptly’ and no later than 20 working days before end of Application Closing Date
- Minor & Necessary modification requests should be submitted to the Low Carbon Contracts Company
- Generators should use the template form (will be published on our web-site)
- Guidance on requesting modifications will be published once the allocation round is announced
- Please note that applications will need to be signed by a Director
- The Low Carbon Contracts Company must respond no later than 5 working days before Application Closing Date
Information to be provided

- Short description of the requested modification

- Proposed change(s) to legal wording of Clause(s) in CFD Agreement

- Explanation of why you consider the change to be allowed under the Regulations (why is it minor? and why is it necessary?)

- Additional supporting information

- Directors statement and signature
Issues

- A requested change must be both Minor and Necessary
- If we don’t have enough information
- If we don’t have enough time
Useful documents


- Guidance on Minor & Necessary Modification Requests, to be published on our website. Will include the template form to be used

- Contract for Difference Standard Terms and Conditions; 2015 revised version to be published by DECC

- CFD Agreement relevant to your project (Generic, Phased, Private Wires); 2015 revised versions to be published by DECC

The 2014 CFD agreement and Standard Terms and Conditions documents can be found via: https://lowcarboncontracts.uk/ in the Generator area, CFD contract
How is the Contract managed?
In practice – Working with you

- You will have a dedicated and experienced Contract Manager. You will be informed about who is your Contract Manager as soon as possible after you get notified of the allocation of a CFD.

- Each Contract Manager covers all the projects that are operated by a Company or Group.
General Approach

• LCCC treat all parties equally

• Use of web site to post
  • standardised documentation (Contract Notices)
  • guidelines (KYC, Milestone Requirements)

• Feedback always welcome
  • Topics covered in future events
  • Material available on web site

• NOTE: We will not provide Contract explanation and applicants need to access legal advice
Generator’s Role

• Engage early with Low Carbon Contracts Company and let your Contract Manager know as early as possible of any issues
  • Confidentiality maintained by limiting to one person
• Prepare a mitigation plan
• Discuss with Low Carbon Contracts Company and then implement the plan
• Extra costs are better than breach of the CFD
Our focus

- Minor & Necessary
- Contract signature
- Initial Conditions Precedent
- Milestone Requirement
- Further Conditions Precedent
- Start of Generation
Closing Remarks

• The CFD is a private law contract
• Both parties must meet the contract obligations
• Stretching the requirement can’t be done equitably
• No allowances as not fair on those who meet the contract obligations

• Contact us:
  Website www.lowcarboncontracts.uk
  Email: contractmanagement@lowcarboncontracts.uk
Break
10.40am – 10.55am
Overview of CFD Allocation Process

Yasharn Smith
Paul Mullen
18 June 2015
Agenda

Overview

Pre-Application Activities

Qualification

Qualification – Reviews and Appeals

Valuation

Allocation

Getting you ready for Round 2
CfD Process – End to End

1. Pre-Application Activities
2. Application
3. Qualification
4. Review
5. Appeal
6. Valuation
7. Sealed Bids
8. Allocation & Independent Audit
9. Allocation Notification
Contracts for Difference

Pre-Application Activities

Paul Mullen
EMR Delivery Manager
1. Pre-Application Activities
2. Application
3. Qualification
4. Review
5. Appeal
6. Valuation
7. Sealed Bids
8. Allocation & Independent Audit
9. Allocation Notification

Applicants

Apply

Request

Review

Request

Appeal

Round Variation / Budget Revision Notices

Assess Eligibility

Review

Qualifying Applicants

RO Check

Appeal

DEPARTMENT OF ENERGY & CLIMATE CHANGE

nationalgrid

ofgem

LOW CARBON CONTRACTS COMPANY
1. Pre-Application Activities
2. Application
3. Qualification
4. Review
5. Appeal
6. Valuation
7. Sealed Bids
8. Allocation & Independent Audit
9. Allocation Notification

Applicants
Allocation Reports Review
CfD Notification
Round Closes
Issue Contract
Contract Signature
CfD Process – End to End

1. Pre-Application Activities
2. Application
3. Qualification
4. Review
5. Appeal
6. Valuation
7. Sealed Bids
8. Allocation & Independent Audit
9. Allocation Notification
Registration – High Level Principles

All Companies that wish to participate in the Contracts for Difference will need to register.

Necessary to ensure a publicly recognised officer of the company has approved the registration.

Other “company users” of the Portal may be added by the main company administrator user(s) (“Main Admin”).
Company Registration Form completed on system

Signed and scanned Company Registration Form uploaded

System Notification

Verification

System Notification

System Notification

Delivery confirmation

System Notification

System Notification

Confirm registration outcome via email

If successful receive log in details
Contracts for Difference

Qualification
CfD Process – End to End

1. Pre-Application Activities
2. Application
3. Qualification

4. Review
5. Appeal
6. Valuation

7. Sealed Bids
8. Allocation & Independent Audit
9. Allocation Notification
CfD Qualification

To be a qualifying applicant

- Meet Eligibility Requirements (General, additional & supplemental)
- Not be an Excluded Applicant
- Provision of other information/data
CfD Qualification – Eligibility Requirements

1. Pre-Application Activities
2. Application
3. Qualification
4. Review
5. Appeal
6. Valuation
7. Sealed Bids
8. Allocation & Independent Audit
9. Allocation Notification

- Not an Excluded Applicant
- Planning Decision Notice
- Supply Chain Plan >=300MW
- Supplemental Requirements for phased Offshore projects
- Non Delivery Disincentive Exemption Certificate
- Connection Agreement(s) / Countersigned Offer(s) signed by Applicant
CfD Qualification – Other Information/Data

1. Pre-Application Activities
2. Application
3. Qualification
4. Review
5. Appeal
6. Valuation
7. Sealed Bids
8. Allocation & Independent Audit
9. Allocation Notification

Valid Incorporation

Evidence of incorporation – e.g. Company Registration and VAT/Tax Registration

Contract terms

Type of CfD Contract
Version number of standard or modified terms (+ for modifications date entered into with LCCC)

Additional Information (inc.)
- Name, address and contact details of Applicant, Agent (if non GB), Entity to enter into CfD Contract, Entity receiving notices under CfD Contract
- Project name and location
- Capacity (MW)
- Target Commissioning Date and start of Target Commissioning Window
- Technology specific questions
- For LCCC to complete CfD contract
Contracts for Difference

Qualification – Reviews and Appeals
CfD Process – End to End

1. Pre-Application Activities
2. Application
3. Qualification
4. Review
5. Appeal
6. Valuation
7. Sealed Bids
8. Allocation & Independent Audit
9. Allocation Notification
CfD Qualification – Reviews and Appeals

Reviews
• Where Delivery Body ("DB") determine that you are a non qualifying applicant
  • Applicant can raise a non qualification review
  • Applicant can provide clarification but no new evidence

Appeals
• Where DB determine that you are a non qualifying applicant after review
  • Applicant can raise Appeal to Ofgem (cc DB)
  • Allocation may proceed if overrunning
  • Applicant can appeal to High Court where Ofgem uphold DB decision
Contracts for Difference

Valuation

Yasharn Smith
EMR Delivery Manager
Valuation Formula

- **Top-Up Payment**
  - Strike Price minus Reference Price

- **General conversion factors**
  - e.g. Transmission losses, hours to days.
  - Set out in Allocation Framework

- **Technology Specific Factors**
  - e.g. Load factors
  - Set out in Allocation Framework

- **Capacity**
  - Provided by Applicant
CfD Valuation

Budget

Pots

Valuation Formula

Budget Assessment; by Pot, total value / minima / maxima in each year

DB Notification to SoS (DECC)

Allocation

SoS (DECC) increase budget?
Contracts for Difference

Allocation
CfD Process – End to End

1. Pre-Application Activities
2. Application
3. Qualification
4. Review
5. Appeal
6. Valuation
7. Sealed Bids
8. Allocation & Independent Audit
9. Allocation Notification
CfD Allocation – Process Overview

Step 1
• Check if Auction is required. If yes, applicants notified to submit Sealed bids

Step 2
• Run Unconstrained/Constrained allocation

Step 3
• Independent Audit of DB Calculations

Step 4
• SoS reviews; Proceed, Re-run or Cancel Allocation Process.

Step 5
• DB CfD Notifications : (LCCC & Applicants)
When is an Auction Required
Illustration only

- **Auction Required**
- **No Auction Required**
CfD Allocation – General Principles

**Budget Rule**
- Pot /Budget (Cannot Be Exceeded Except for Pending Projects)

**Constraint**
- Only competitive where binding constraint (E.g. MIN capacity/MAX capacity/Pot Budget)

**Across Years**
- All projects in same Pot will compete on strike price basis, regardless of delivery year.
- Years can close independently

**Bids/ Prices**
- Projects will be awarded in order of lowest to highest strike price
- Sealed bid process (includes bidder flexibility)

**Pay as Cleared**
- Clearing Price set by most expensive successful project in each year (subject to cap at the Technology Admin Strike price).
Contracts for Difference

Getting you ready for Round 2
Getting you ready for Round 2

At future events we will cover:

- Registration Demo and details on Application and Qualification process
- Specific details on Valuation and Allocation Rules
- Overview and Demo of Allocation bidding processes

Supporting documents (to be published):

- User Guide
- Round Guidance
- Registration Guide
- Application Form Guide
- Sealed Bid Guide
- Webinars
Get the latest CfD Information

Subscribe to the new National Grid EMR Portal
(Please renew your subscription even if you were registered on the previous Portal)

SubscribeNow

You can stay up-to-date with Contract for Difference developments by signing up to our news list.
We will alert you to updates to policy and application processes, send you invitations to implementation coordination and training events and notify you of any important CfD news.

Company Name: __________________________
First name: __________________________
Surname: __________________________
Enter email: __________________________

Do you also wish to receive latest updates on Capacity Markets? □

Subscribe now

Your information will only be used to deliver newsletters and alert you to news information relevant to the delivery of the EMR.
National Grid. Your information will not be shared with any third party.
Contact us

Contracts For Difference Enquiries

01926 655300
box.emr.cfd@nationalgrid.com
Stakeholder Engagement Session

Rita Congera
18 June 2015
Working Together

Collaborate

Engage

Feedback
Perception Study for the Low Carbon Contracts Company

Key Statistics

- LCCC conducted a snapshot stakeholder analysis in the Spring of 2015
- We surveyed a wide range of stakeholder groups
- Positive feedback but we are on a learning curve
- Strong need for Delivery Bodies to identify who is responsible for what.
- Employees seen as ‘excellent’, ‘knowledgeable’ and ‘great to work with’

<table>
<thead>
<tr>
<th></th>
<th>Developers</th>
<th>Investment contracts</th>
<th>Suppliers / generators</th>
<th>Investors</th>
<th>Trade bodies</th>
<th>Delivery partners</th>
<th>Media</th>
<th>Consumer reps</th>
<th>Interested sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication delivered about CfDs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Workshops/Seminars</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees responsive and helpful</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level of knowledge of LCCC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Good management of CfD process</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dedicated contract manager</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*NB The above table draws together a number of similar opinions within and across stakeholder groups.*
Plenary session:
Summary and close
Please give us your feedback!

Please return your badge on your way out. Thank you for attending today.