

Consideration of other financing options

Overview of Low Carbon Contracts Company (LCCC) Model

The ESO presented a case study on the Low Carbon Contracts Company (LCCC) to the Workgroup for inspiration on the levies that are used to fund the payments to Contracts for Difference (CfD) generators. The ESO representative explained that payments made to Contracts for Difference (CfD) Generators under CfD's are funded by a statutory levy on all license electricity Suppliers in GB. The payments are charged to Suppliers based on gross demand and the Suppliers have to make pre-payments against the Electricity Supplier Obligations. These obligations are:

- **Interim Levy Rate (ILR)** an interim rate payment, charged at a fixed £/MWh rate on a daily basis across each levy quarter
- **Total Reserve Amount (TRA)** a lump sum 'reserve' payment at the start of each levy period (every quarter)

The rates for these are set by LCCC on a quarterly basis, before the beginning of the preceding quarter. There is also an Operational Costs Levy which funds the operational costs of LCCC, this Operational Costs Levy is also charged to Suppliers under the Supplier Obligation Regulations. There is also a process for additional reserve payments in extraordinary circumstances (a final piece of risk mitigation following TRA).

A Workgroup member explained that the reason the process was set up like this for CfDs is because it was regarded as a tax, which has to be reconciled in the same year due to treasury rules.

The Workgroup overall preferred the notion of having a single fixed tariff, which includes capital to build the BSUoS fund, to having two separate payments for the tariff and the fund.

Initial finance options

Initial finance options were presented to the Workgroup and are summarised in the table below.

Option	Description	Pros	Cons
Fixed supplier specific capital buffer	Utilise similar method as LCCC use for CfD to create agreed fixed amount of buffer for potential high BSUoS costs.	<ul style="list-style-type: none"> • Contribution proportionate to BSUoS payer's market share. • Cash ringfenced in Escrow account to attract interest and be returned if supplier exits. 	<ul style="list-style-type: none"> • Requires suppliers to provide cash to support the scheme upfront. Introduces a new level of cost and complexity into BSUoS charging. • Supplier capital is tied up even if low

			usage of ESO credit facilities.
Flexible supplier specific capital buffer	Utilise similar method as LCCC use for CfD but suppliers only contribute as risk increases.	<ul style="list-style-type: none"> As above but contributions reviewed quarterly and topped up/returned depending on overall level of over/under recovery. Suppliers do not have capital tied up permanently, only when risk of exceeding ESO credit facilities. 	<ul style="list-style-type: none"> Could require additional contributions when suppliers are least able to pay. Significant amount of additional complexity in BSUoS billing.
Over-recovery buffer	Set BSUoS price to over-recover from suppliers and create permanent buffer	<ul style="list-style-type: none"> Easy to administer Could be built up over more than one year 	<ul style="list-style-type: none"> May not be fair to suppliers entering/exiting the market at different times Cash is not ringfenced and no interest received No restrictions on how ESO could use the cash
Restate BSUoS tariffs in year	BSUoS tariffs are amended within fixed period (forward looking basis)	<ul style="list-style-type: none"> Affects BSUoS payers only, doesn't create risk of further balancing cost increases 	<ul style="list-style-type: none"> Diminishes benefit of fixed BSUoS as risk remains to suppliers that fixed tariffs may change within fixed period May lead to supplier default May not generate cash quickly enough
Temporarily delay payment to Balancing Services Providers	Utilise principle used in Ireland whereby payments to balancing services providers temporarily delayed based on the principles that given	<ul style="list-style-type: none"> Shares the risk across industry and affects parties that may have benefitted from exceptional circumstances and 	<ul style="list-style-type: none"> Risk of balancing service providers reducing service offerings May require balancing contract changes

	balancing costs are exceeding expectations balancing service providers have commercially benefitted from this	increased balancing costs • Quick to take effect	
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