



Department
of Energy &
Climate Change

Supplier Obligation - Reconciliation

29 August 2013

Aims

- Outline the proposed approach to reconciliation.
- To seek the group's views on:
 - Whether the proposed approach would work in practice
 - Are there any alternative approaches?
 - How often would you like notification of reserve fund balance?
- Outline how payments from generators and recovery of mutualisation are managed

- The levy year will run from 1 April – 31 March
- Suppliers will pay an estimated payment on account (PoA) in advance of the actual levy being finalised
- In cash terms the reserve fund can be carried forward from one year to the next but surpluses cannot be carried over to reduce the following year's levy.
- Once all reconciliations have taken place, the final levy rate is defined in relation to the amount paid out to generators for the financial year in question
- Any reconciliation that takes place after the original financial year must net to zero within each specific financial year.
- The reserve fund will be based on a July to June timetable

Supplier obligation reconciliation timeline



Department
of Energy &
Climate Change

- See separate timeline

- Payments in the reserve fund are made up of:
 - Lump sum payment at start of year
 - Levy payments – the difference between what is paid in by suppliers and out to generators
- Payments to and from the fund will be tracked for each supplier to determine individual reserve fund balances (although monies will be held and used collectively)
- Each supplier's contribution to the opening balance will be based on their market share for the latest monthly trading data
- Payments will be made by the end of June each year
- Suppliers will have at least 3 months notice of the expected size of the next year's reserve fund

- Any balance at year end will be rolled over to the opening balance for the following year
- Any balance that is larger than the amount needed for the following year will be returned to the appropriate supplier/s

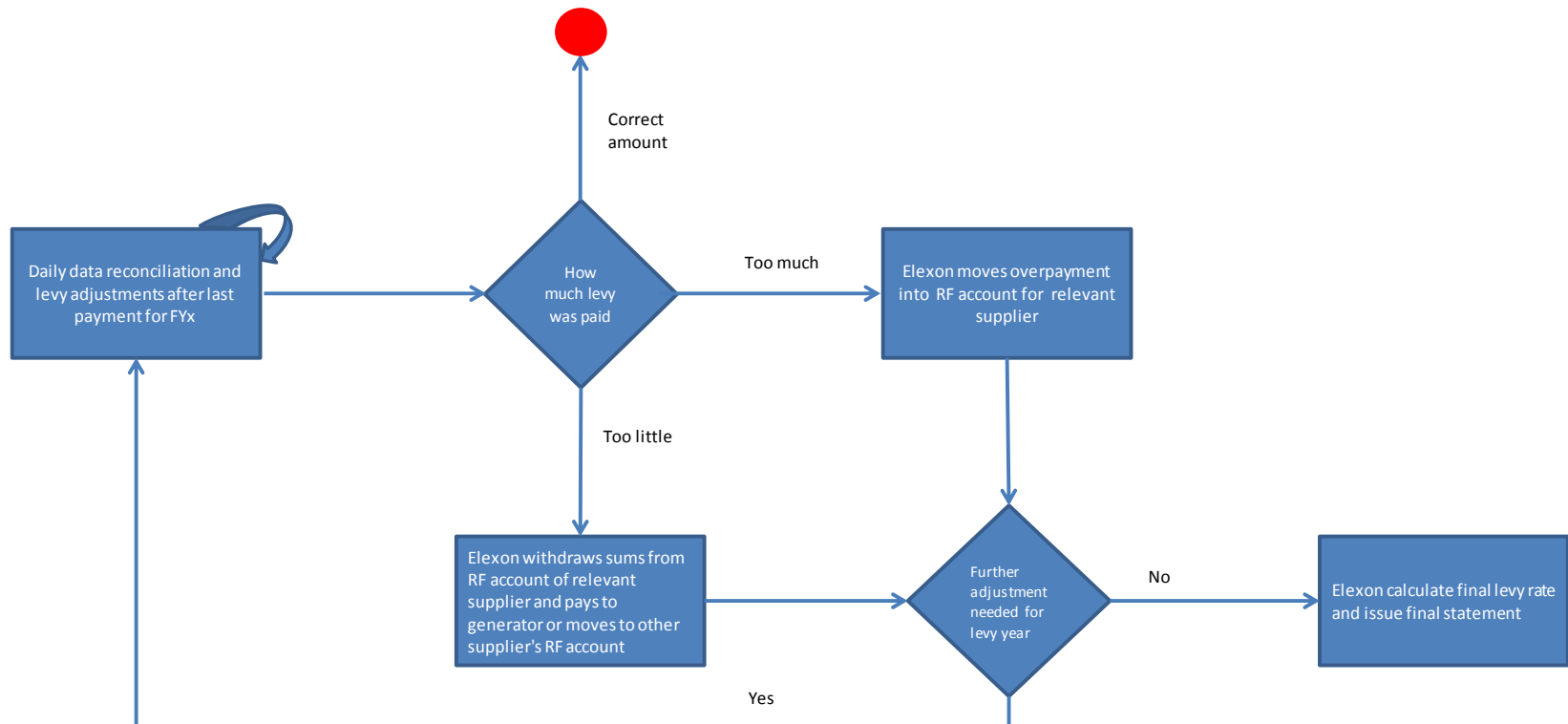
Timing:

- January – notification of new reserve fund size and estimated surplus at current year end
- April – payment made to generator for final settlement day of the year (31 Mar)
- May – suppliers notified of exact closing balance and amount owed for new reserve fund
- June – suppliers make payment or receive a credit note

Levy reconciliation post year end



Department
of Energy &
Climate Change



What you'll see

- Any adjustments to supply data (MWh) received between 1 April (FY1) – 30 April (FY2) will be adjusted through bills at the fixed PoA rate
- Monthly statements with reserve fund balance and levy paid to date

'Behind the scenes'

- Any adjustments to supply data after year end (from May onwards) will be made through the reserve fund
- Any adjustments to generation data will be adjusted through the reserve fund both in-year and post year end

- Short-term payments are held in the reserve fund and reconciled at year end as part of the normal process
- If a zero rate levy is set due to a persistent reversal of payment flows:
 - Payments are held in the reserve fund
 - The counterparty calculates what will be paid to suppliers based on market share on the day of settlement (using SF data)
 - Suppliers will be paid after the calculation has been completed
- Termination payments – as with a zero rate levy suppliers would be paid after the market share calculation has been completed

Question

- Should payments to suppliers be reconciled post SF run?

- The counterparty can pursue any debts from a defaulting supplier in civil court
- Any monies recovered that were mutualised will be returned to those suppliers who participated, in proportion to what they paid
- Any money owed to companies who no longer exist will be either:
 - distributed to the other participants up to the point that they are reimbursed to 100% of what they paid, and/or
 - used by the Counterparty to cover operational costs – any surplus would be returned to suppliers at year end.
- This is separate to the reserve fund reconciliation

Question

- Is data for mutualisation currently reconciled?