



Department for Business, Energy & Industrial Strategy

25 November 2021

Accompanying Note to the Budget Notice for the Fourth Contracts for Difference Allocation Round

1. The Government is today publishing the Budget Notice that the Secretary of State is required to give to the EMR Delivery Body, National Grid, ahead of the Contracts for Difference (CfD) Allocation Round opening in December 2021. The requirement for a Budget Notice is set out in Regulation 11 'Budget Notices' of the Contracts for Difference (Allocation) Regulations 2014 (as amended).

CfD Budget

2. Table 1 in the Budget Notice sets out the CfD budget (in monetary terms) for all three technology groups ("Pots"), for the fourth Allocation Round which will open in December 2021. The CfD budget is also set in terms of capacity of electricity generation for Pot 1¹ of this Allocation Round (Table 2 in the Budget Notice)¹.
3. The available budget for this Allocation Round has been allocated to three technology pots and is presented by Delivery Year. The figures given are the total available for applications bidding into any Delivery Year in this Allocation Round.
4. We are opening 2023/24 and 2024/25 as delivery years for Pot 1, and 2025/26 and 2026/27 as delivery years for Pot 2² and Pot 3³. A Delivery Year is the year when a project can start receiving payments under its CfD contract.
5. A technology subject to a minimum (see paragraph 11) will have first access to the specified part of the budget, but if that is not used then it will be available to other technologies in that pot. CfD contracts will then be allocated to the cheapest eligible projects first, regardless of their start date, if they fit within the monetary budget profile provided and, in Pot 1, the relevant maximum and the overall capacity cap. If the monetary budget (or, in Pot 1, the capacity cap) is exceeded in any Delivery Year or subsequent Valuation Year, the relevant auction will close⁴ (subject to the

¹ Onshore Wind (>5MW), Solar Photovoltaic (PV) (>5MW), Energy from Waste with CHP, Hydro (>5MW and <50MW), Landfill Gas and Sewage Gas

² ACT, AD (>5MW), Dedicated Biomass with CHP, Floating Offshore Wind, Geothermal, Remote Island Wind (>5MW), Tidal Stream and Wave

³ Offshore Wind

⁴ In previous allocation rounds, a single delivery year would close.

consideration of flexible bids). At that point, a single clearing price would apply across the delivery window (subject to administrative strike prices and maxima rules), in contrast to previous allocation rounds where different clearing prices could be set in each delivery year.

6. The detailed rules about how the Allocation Round works are set out in the Allocation Framework, published alongside the Budget Notice.
7. The overall budget of £285m (in 2011/12 prices) is the maximum total amount of support available to be allocated in the fourth Allocation Round. Projects that are successful in the round will receive support for 15 years, subject to contract terms.
8. We will release budget as follows for the fourth Allocation Round:
 - Pot 1: £10m (in 2011/12 prices) for projects for which the relevant Delivery Year is 2023/24 or 2024/25. A capacity cap⁵ of 5GW will apply to this pot.
 - Pot 2: £75m (in 2011/12 prices) for projects for which the relevant Delivery Year 2025/26 or 2026/27. A capacity cap will not apply to this pot.
 - Pot 3: £200m (in 2011/12 prices) for projects for which the relevant Delivery Year is 2025/26 or 2026/27. A capacity cap will not apply to this pot.
9. Pursuant to regulation 12 of the Contracts for Difference (Allocation) Regulations 2014, the Secretary of State retains the option of increasing the Budget following the commencement of the Allocation Round via a budget revision notice.

Maxima and Minima

10. In Pot 1, there is one maximum for onshore wind, and one maximum for solar PV. The maxima will cap how much capacity of either technology (up to 3,500 MW for onshore wind or up to 3,500 MW for solar PV) can be successful, within an overall capacity cap of 5,000 MW in the Pot 1 auction.
11. In Pot 2, there is one minimum for tidal stream, and one minimum for floating offshore wind. The minima allow projects of the specified technology (totalling up to £20m in 2011/12 prices for tidal stream, and £24m in 2011/12 prices for floating offshore wind) first access to the total Pot 2 budget of £75m (in 2011/12 prices), protected from competition from other technologies. However, if the budget assigned to the minima is not used fully, any remaining budget will be available to all technologies (including those subject to the minima) in the general Pot 2 auction. The Delivery Body will run

⁵ This will be applied as a hard constraint.

minimum auctions in ascending order of size; running the minimum auction for tidal stream first, followed by the minimum auction for floating offshore wind.

12. A detailed description of how maxima and minima will operate within the CfD allocation process is set out in the Allocation Framework, published alongside the Budget Notice.

Administrative Strike Prices

13. Table 3 in the Budget Notice sets out Administrative Strike Prices applicable to applications in the next Allocation Round.

14. The methodology used to determine these Administrative Strike Prices is set out in the 'Methodology used to set Administrative Strike Prices for CfD Allocation Round 4' note published alongside the Draft Budget Notice.

15. In line with the single clearing price explained above, a single Administrative Strike Price applies to each technology within its relevant applicable Delivery and Valuation Years.

Potential reforms to the Balancing Services Use of System charge (BSUoS)

16. An assumption around BSUoS charges being paid by relevant generators has been incorporated when setting the auction parameters, including monetary budgets and Administrative Strike Prices (ASPs), set out in the Budget Notice. We are aware that Ofgem are considering the removal of BSUoS charges from generators⁶ and understand that they will issue a consultation on their recommended approach and announce a decision in due course.

17. If Ofgem decide to remove BSUoS charges from generators, regardless of when this decision is taken, the strike prices of those successful projects liable to pay BSUoS charges would be adjusted downwards after contracts are awarded. This would be done through the annual strike price adjustment undertaken by the Low Carbon Contracts Company (LCCC) to account for the fact that BSUoS is no longer to be paid.

18. The value used for this downward adjustment will be the Initial Balancing System Charge, which is published in the Standard Terms Notice alongside the Budget Notice. This value (£4.29/MWh) is published in current prices so would be converted to 2012 prices before being deducted from the initial strike price awarded to the relevant projects. More information on how this adjustment would work if Ofgem decide to

⁶ <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp308-removal>

remove BSUoS charges from generators is in the Government response⁷ to the consultation on further drafting amendments to the CfD contract, published on 25 November 2021. An explanatory note containing with illustrative examples showing how the annual strike price will be adjusted for the Initial Balancing System Charge in the scenarios where Ofgem removes BSUoS charges from generators or decides to continue with the current policy, will be published on the AR4 microsite.

19. Given the uncertainty around the timing of Ofgem's final decision, the Government believes it is right for the allocation round to proceed based on current known BSUoS policy at the point of publication. We do not think it would be appropriate to anticipate any particular outcome from Ofgem's review and would not expect to modify auction parameters if Ofgem were to announce their decision prior to the allocation round closing.

Reference prices

20. A 'reference price' is an estimate of the average GB market price for electricity captured by the relevant technology. Under the CfD scheme, payments are made to generators based on the difference between their strike price and the market reference price, the latter of which is calculated in-life by the LCCC as a season-ahead price for baseload technologies (such as fuelled technologies, the Baseload Market Reference Price, 'BMRP') and a day-ahead hourly price for intermittent technologies (such as solar PV, and onshore and offshore wind, the Intermittent Market Reference Price, 'IMRP').
21. Separately, a technology specific reference price is used in the valuation formula, set out in Appendix 2 of Schedule 2 in the Allocation Framework, with each price series of the technology applied set out in Schedule 3. These are estimates of future wholesale electricity prices and are used to calculate the estimated budgetary impact of each application during the Allocation Round. They do not influence the outturn reference prices calculated by the LCCC in-life (the BMRP and IMRP). For the fourth Allocation Round, we have applied five separate reference prices for use in the valuation formula (versus two in AR3), to better reflect the potential market price captured by different intermittent technologies given differing generation patterns. This approach has been introduced with the intention of improving the accuracy of our budget estimates during the Allocation Round.

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⁷ <https://www.gov.uk/government/consultations/contracts-for-difference-allocation-round-4-further-changes-to-the-cfd-contract>