Department for Business, Energy & Industrial Strategy

Contracts for Difference and Capacity Market Scheme Update 2021

HC 899

December 2021

Contracts for Difference and Capacity Market Scheme Update 2021

Presented to Parliament pursuant to
Section 5(4) of the Energy Act 2013

Ordered by the House of Commons to be printed on 14 December 2021

HC 899

This publication is available at www.gov.uk/official-documents.

Any enquiries regarding this publication should be sent to us at energy.security@beis.gov.uk.

ISBN 978-1-5286-3031-3

E- Number E02688792 12/21

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by HH Associates Ltd on behalf of the Controller of Her Majesty's Stationery Office.

Contents

Executive summary

1. This is the eighth annual update outlining the progress that has been made on the policy mechanisms implemented under the Electricity Market Reform programme, which closed in 2015. The key mechanisms are the Contracts for Difference (CfD) scheme and the Capacity Market. Both are designed to incentivise the investment required in the UK's energy infrastructure and to deliver low carbon and reliable energy supplies, while minimising costs to consumers.

2. This document sets out the headline achievements over the past 12 months in the following areas:

   - **The Contracts for Difference** scheme, enabling investment in low-carbon electricity generation;
   - **The Capacity Market**, ensuring sufficient electricity capacity to meet peak demand;
   - **The Electricity Demand Reduction** pilot, providing financial support to organisations to deliver electricity capacity savings at peak times.
   - **The Emissions Performance Standard**, ensuring new fossil fuel-fired electricity generation contributes to electricity security in a manner consistent with decarbonisation objectives.

Key progress since the 2020 update

Contracts for Difference

3. The Government opened the fourth Allocation Round (AR4) on 13 December 2021, as announced in May 2021. Several consultations were held during the year on further scheme changes and amendment regulations came into force on 25 June 2021. AR4 has a budget of £265m per year to support new renewable deployment, including £200m for offshore wind.

4. Consultations published in 2012 have, among other things, looked to strengthen the Supply Chain Plan requirements for sites of 300MW and above, facilitate the inclusion of floating offshore wind in the scheme and improve the response of CfD generators to market prices. The Government also published in July 2021 a summary of responses to its Call for Evidence on how renewables will be deployed beyond AR4 and what this may mean for the future of the CfD mechanism.

5. The one-off loan given to the CfD Counterparty (Low Carbon Contracts Company) which protected suppliers from increased levy costs during the COVID-19 pandemic was recovered through an increase in the Q2 2021 levy rate.

Capacity Market

6. The Government ran a consultation between 5 March 2021 and 16 April 2021 on incremental and technical improvements to the Capacity Market.[1] Proposed changes included adjusting the formulae and clarifying legislation in relation to the Capacity Market's

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966729/capacity-market-2021-consultation-improvements.pdf

Carbon emissions limits, extending certain coronavirus easements introduced in 2020, and making a range of minor improvements and corrections to the Capacity Market.

7. A Government Response to the above consultation was published on 21 June 2021 setting out the changes to be taken forward and any adjustments made to proposals in light of stakeholder feedback.[2] The necessary changes to the Capacity Market Regulations were made on 26 July 2021 and came into force on 27 July 2021. Changes to the Capacity Market Rules came into force on 5 July 2021.

8. On 26 July 2021, the Government published a Call for Evidence on Capacity Market, entitled "Improving delivery assurance and early action to align with net zero". This publication sought stakeholder views on ways to improve assurance that capacity security[3] at auction will deliver when required (for example, by strengthening the Capacity Market's penalty regime to better deter non-delivery of capacity), and on ways to ensure the Capacity Market's design does not act as a barrier to the wider decarbonisation of the power sector (for example, by making changes to avoid locking carbon intensive capacity into long capacity agreements). The Call for Evidence closed for responses on 1 November 2021, and a summary of responses is due for publication during Winter 2021/22.

9. The above Call for Evidence also commences the Government's engagement with stakeholders on the Capacity Market's second statutory five-year review of the Capacity Market (the "Ten-year Review"), which is due for publication by Summer 2024.

Electricity Demand Reduction

10. There have been no notable developments in 2021 regarding Electricity Demand Reduction, so the position remains as stated in the 2020 report[4].

11. Recent activities to promote energy efficiency in the UK include a Call for Evidence on Facilitating Energy Efficiency in the Electricity System[5], and a commitment to introducing a Future Homes Standard which will see new build homes future-proofed with low carbon heating and the highest standards of energy efficiency from 2025.

12. A number of policies and schemes are already in place to support businesses to cut their energy use, such as the Climate Change Agreements scheme[6], the Energy Savings Opportunity Scheme[7], and the introduction in April 2019 of Streamlined Energy and Carbon Reporting by all UK large or quoted businesses[8].

Emissions Performance Standard

13. There have been no notable developments in 2021 with regards to the Emissions Performance Standard (EPS), so the position remains as stated in the 2020 report.[9]

---

[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/994995/capacity-market-2021-consultation-improvements-government-response.pdf
[3] https://www.gov.uk/government/consultations/capacity-market-2021-call-for-evidence-on-early-action-to-align-with-net-zero
[4] https://www.gov.uk/government/publications/contracts-for-difference-and-capacity-market-scheme-update-2020
[5] https://www.gov.uk/government/consultations/facilitating-energy-efficiency-in-the-electricity-system
[6] https://www.gov.uk/guidance/climate-change-agreements--2
[7] https://www.gov.uk/guidance/energy-savings-opportunity-scheme-esos
[8] https://www.gov.uk/government/publications/academy-trust-financial-management-good-practice-guides/streamlined-energy-and-carbon-reporting
[9] https://www.gov.uk/government/publications/contracts-for-difference-and-capacity-market-scheme-update-2020

14. The government conducted a five-year review of the regulation in 2019 as required by the Energy Act 2013.The review was carried out by BEIS officials. A call for evidence exercise was used to ask questions on the performance of the EPS in achieving its objectives, whether its objectives were still appropriate and whether any issues had arisen in its operation. A total of twenty-seven responses were received. The government also reviewed plant built since implementation and obtained feedback from the Environment Agency.

15. The overwhelming majority of stakeholders indicated support for the EPS. The review found that the EPS has, to date, been successful as a regulatory backstop, reinforcing existing planning policy. No unintended consequences were identified through the review.

Contracts for Difference Scheme

Deliverable	Achieved	When
Allocation Round (AR4) dedicated website is launched	✓	April 2021
Government publishes its response to the November 2020 consultation on Supply Chain Plans and the CfD contract and confirms that AR4 will open in December 2021	✓	May 2021
The Contracts for Difference (Miscellaneous Amendments) Regulations 2021 came into force	✓	June 2021
Government publishes its response to the January 2021 consultation on a new Supply Chain Plan questionnaire	✓	July 2021
Government publishes its response to the Call for Evidence: Enabling a High Renewable, Net Zero Electricity System	✓	July 2021
AR4 final auction parameters and budget announced	✓	November 2021
Government publishes its response to the consultation on CfD contract changes	✓	November 2021
Allocation Round 4 opened	✓	December 2021

Introduction

16. The CfD scheme is the Government’s main mechanism for supporting new low carbon electricity generation projects. Contracts are awarded in a series of competitive auctions, with the lowest price bids being successful, which drives efficiency and cost reduction. CfDs give greater certainty and stability of revenues to electricity generators by reducing their exposure to volatile wholesale prices, while protecting consumers from paying for higher costs when electricity prices are high.

17. The scheme has delivered substantial new investment and significant cost reductions in several renewable technologies since it was introduced in 2014. The third CfD Allocation Round (AR3), held in 2019, has been the most successful round so far, awarding contracts to 5.8GW of new renewable capacity. Allocation Round 4 (AR4), which opened in December 2021, aims to be the largest so far. To date, CfD contracts have been awarded

to around 16GW of new renewable electricity capacity, including 13GW of offshore wind. As of October 2021, 6.03GW of that capacity is operational[9]. Operational capacity is forecast to exceed 8GW by the end of 2022.

18. In addition to the renewable projects, the scheme also supports the 3.2 GW Hinkley Point C nuclear project which is currently under construction. CfD contracts are managed by the Low Carbon Contracts Company (LCCC), a government-owned company. Information on the CfD projects managed by the LCCC is published on their CfD Register[10].

Preparations for the Fourth CfD Allocation Round (AR4)

19. On 7 May[11] Government announced that AR4 will open to applications in December 2021 and on 13 September published a press notice outlining details of the draft budget and other auction parameters for the round[12]. This included a budget of £265m, of which £200m will be available for new offshore wind projects, reflecting the Prime Minister's commitment to deliver 40GW of offshore wind capacity by 2030. Draft budgets were also allocated for more established technologies (Pot 1) and less established technologies (Pot 2) which included a budget minimum to support floating offshore wind. Other documents containing the eligibility requirements for participation in the allocation round, administrative strike prices for each eligible technology and the delivery years (i.e. the years in which successful AR4 projects will be expected to start generating) were published alongside the press notice to give prospective applicants early sight of the auction details. The final details were published in November.

20. Government consulted on further refinements to the scheme and contract terms during 2021. A Government response published in May[13] set out details of how several policy decisions consulted on in 2020 would be implemented, including:

- Measures to strengthen the Supply Chain Plan (SCP) requirements for sites of 300MW and above, including new powers for the Secretary of State to consider whether generators have sufficiently implemented their SCP commitments and to the LCCC to terminate contracts of generators who are not delivering on their SCP commitments.

- Proceeding with changes to the CfD contract terms to enable Floating Offshore Wind projects participate in the scheme for the first time.

- Changes to negative pricing rules that result in generators not receiving CfD payments when reference prices are negative. This amendment incentivises generators to respond to market signals and adapt to the needs of the system while protecting bill payers from subsidising generation when supply is abundant.

- Confirmation of drafting changes to the CfD contract to remove all references to coal-to-biomass conversions in line with the policy decision taken in November 2020 to exclude this technology from future allocation rounds.

[10] https://www.lowcarboncontracts.uk/cfds
[11] https://www.cfdallocationround.uk/news/allocation-round-4-open-december-2021
[12] https://www.gov.uk/government/collections/contracts-for-difference-cfd-allocation-round-4
[13] https://www.gov.uk/government/consultations/contracts-for-difference-cfd-changes-to-supply-chain-plans-and-the-cfd-contract

21. These and other scheme changes were enshrined in legislation through The Contracts for Difference (Miscellaneous Amendment) Regulations 2021[14], which came into force on 25 June 2021.

22. The Government consulted from January to March 2021 on a new Supply Chain Plan Questionnaire and published its response in July[15]. The consultation sought views on whether the questionnaire would deliver on SCP objectives, how they should be marked and whether it would drive investment in a UK supply chain. In its response, the Government confirmed decisions to restructure and simplify the questionnaire and improve the clarity of the guidance on the success criteria.

23. Projects of 300MW and above wishing to participate in AR4 must have a Supply Chain Plan approved by the Secretary of State. The application window was from 27 September to 3 October 2021. Applications are assessed against the criteria in the Supply Chain Plan Questionnaire and associated guidance. Applicants whose Supply Chain Plans satisfy the requirements will receive a Supply Chain Statement from the Secretary of State allowing them to fulfil this eligibility requirement for entry to the allocation round.

24. The Government undertook a short technical consultation[16] during October 2021 on further proposed drafting changes to the CfD Standard Terms and Conditions. The aims of the proposed amendments were to ensure that the contract continues to function as intended following the UK's exit from the European Union and our transition to a new subsidy control regime, to implement changes proposed by Ofgem to the requirements for GB electricity generators to pay towards the cost of balancing the GB electricity network (which is reflected in payments to CfD generators) and to allow more time for the administration of certain matters following the signature of CfD contracts by successful AR4 applicants. A Government response and final version of the CfD contract terms were published in November 2021[17].

Action to mitigate the impacts of COVID-19 on the CfD scheme

25. The Government took steps in 2020 to mitigate the impact on electricity suppliers of the increased costs of the CfD scheme resulting from measures brought in to reduce the spread of COVID-19. The CfD scheme is funded by financial contributions from licensed electricity suppliers who pay in proportion to their market share of electricity sales. The money is collected by LCCC, the CfD Counterparty, through an electricity supplier obligation and paid to CfD projects for the renewable electricity that they generate.

26. Following a public consultation in May 2020, the Government decided to protect suppliers from 80% of the increase in their obligations in the second quarter of 2020 up to a maximum of £100m, to be met through a one-off loan of £75million to LCCC. This was a result of the lower demand for electricity depressing wholesale prices. This loan was recovered through an increase in the Interim Levy Rate, a per MWh charge to suppliers which covers payments to CfD generators, in Q2 2021.

---

14 https://www.legislation.gov.uk/uksi/2021/758/contents/made

15 https://www.gov.uk/government/consultations/contracts-for-difference-cfd-for-low-carbon-electricity-generation-new-supply-chain-plan-questionnaire

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

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

Call for Evidence on the future of the CfD scheme

27. A Government Call for Evidence on how renewables will be deployed beyond AR4 and what this may mean for the future of the CfD mechanism ran from December 2020 to March 2021[18]. Responses broadly highlighted two aspects: the need for short-term incremental improvements and longer-term change. The Government response of July 2021 stated that, for the near-term, responses will inform the design of future allocation rounds from Allocation Round 5, particularly in how to strike the right balance between supporting investment in new projects, while exposing projects to the right market signals to drive efficient behaviour. Further consultation will be undertaken on any future proposed policy changes.

28. The Government response indicated that consultation responses will be used to inform its role in supporting renewable deployment, including the use of the CfD within broader market arrangements in the long-term. The Government response recognised that any longer-term changes would need to be considered holistically as part of a wider approach to the electricity market, ensuring that the UK remains on track to deliver the deployment and energy system required for Carbon Budget 6 and Net Zero.

Call for Evidence on Marine Energy

29. The Marine Energy Call for Evidence ran between 28 August and 20 September 2020[19] and sought information on the deployment potential of marine energy technologies across the United Kingdom. Question 2 invited views and evidence on how the Contracts for Difference process could support the sector. Respondents were supportive of a technology-specific minimum for tidal stream, floating wind and wave energy in future CfD rounds.

30. The Government has created a ringfenced budget minimum of £24m to support floating offshore wind and £20m for tidal stream projects in AR4. These budgets will help drive development and deployment of emerging technologies in the United Kingdom.

Five-year review of the CfD scheme

31. The Government has a statutory obligation to conduct a five-year review of the Contracts for Difference Scheme, as required by the Energy Act 2013. The focus of the five-year review is to consider to what extent the policy has met its original objectives and if these objectives remain appropriate and, if so, the extent to which those objectives could be achieved in a way that imposes less regulation. The first CfD five-year review was evidenced by the first phase of an external evaluation of the scheme that provided an evidence base to inform ongoing design and development of the CfD and related low carbon generation schemes. The findings of the five-year review are expected to be laid in Parliament shortly.

[18] https://www.gov.uk/government/consultations/enabling-a-high-renewable-net-zero-electricity-system-call-for-evidence
[19] https://www.gov.uk/government/consultations/potential-of-marine-energy-projects-in-great-britain-call-for-evidence

Hinkley Point C

32. On 29 September 2016, the Government signed a Contract for Difference for Hinkley Point C[20], the first new nuclear plant in the UK for more than 20 years. The strike price is £92.50[21] per megawatt hour.

33. Hinkley Point C will provide 3.2 GW of secure, base load, low carbon electricity for at least 60 years, meeting around 7% of the UK's current energy needs and powering nearly six million homes. It will boost the local and national economy, providing 25,000 job opportunities and a target of 1,000 apprenticeships during construction and operation. A total of almost £4bn was originally forecast to go into the regional economy over the lifetime of the project. This was composed of approximately £1.5bn during construction and approximately £2.4bn during operations. In October 2021, the developer reported that 12,786 job opportunities had been created, 787 apprentices had been trained on the project and that £3.5bn had been spent in the South West region.

34. The project achieved its first major milestone in June 2019 – the construction of the common raft of the nuclear island for reactor one. In May 2020, the analogous milestone was completed for the second of the two reactors.

35. On 27 January 2021, the developer of Hinkley Point C announced that they expect the first reactor to start generating power in June 2026, with a risk that it will be delayed by a further 15 months. The second reactor is expected to start generating power 12 months after Reactor 1 with a further 9 months of risk. This risk of delay has been consistent since it was first reported in July 2017. The estimated capital cost is now £22bn to £23bn, which means an increase of £500m from the previous announcement made by the developer in September 2019. The realisation of the delay risk mentioned above would incur a potential additional cost in the order of £0.7bn. The investor highlighted that, under the terms of the Contract for Difference, there is no impact for UK consumers or taxpayers from the reported cost increase. At the time of writing, this represents the most recent formal update on cost and schedule for the project.

[20] https://www.gov.uk/government/publications/hinkley-point-c-documents

[21] In 2012 prices, assuming the Sizewell C project has not achieved a Final Investment Decision, otherwise the Strike Price is reduced by £3/MWh.

Capacity Market

Deliverable	Achieved	When
T-1 and T-4 auctions successfully secured capacity out to 2024/25	✓	March 2021
Government publishes consultation on incremental and technical improvements to the Capacity Market	✓	March 2021
Changes made to Capacity Market Regulations and Rules implementing changes resulting from the March 2021 consultation	✓	July 2021
Government publishes Call for Evidence on Improving delivery assurance and early action to align with net zero	✓	July 2021
Prequalification for the 2022 T-1 and T-4 auctions	✓	November 2021

Introduction

36. The purpose of the Capacity Market is to ensure security of Great Britain's electricity supply at least cost to consumers, by providing all forms of capacity with the right incentives to be on the system and to deliver electricity when needed. The Capacity Market ensures there is sufficient reliable capacity available during periods of electricity system stress, for example during cold, still periods with high demand and low wind generation.

37. The Capacity Market works by allowing eligible capacity providers to bid into a competitive auction to provide capacity. Successful capacity providers are awarded a capacity agreement and receive steady payments to ensure enough capacity is in place to meet demand at times of system stress. These capacity payments incentivise the necessary investment to maintain and refurbish existing capacity, and to finance new capacity where necessary. Capacity providers face penalties if they fail to deliver capacity when requested during a system stress event.

38. The Capacity Market is technology neutral – it does not seek to procure allocated volumes of capacity from specific types of technology. All types of technology are able to participate – except for capacity providers in receipt of support from other specific policy measures – provided they can demonstrate sufficient technical performance to contribute to security of supply, and provided they comply with the Capacity Market's emissions limits[22].

[22] https://www.gov.uk/government/publications/carbon-emissions-limits-in-the-capacity-market

Capacity Auctions

39. Capacity auctions are held one (T-1) and four (T- 4) years ahead of the delivery year when capacity must be provided, giving investors certainty over part of the future revenues they will receive. Existing generating capacity competes against new build, Demand Side Response (DSR) and interconnectors, with the auction procuring the mix of capacity which provides best value for consumers.

40. In early 2021 there was a T-1 auction for delivery in 2021/22 and a T- 4 auction for delivery in 2024/25.

41. Table 1 below lists the planned auctions for 2022.

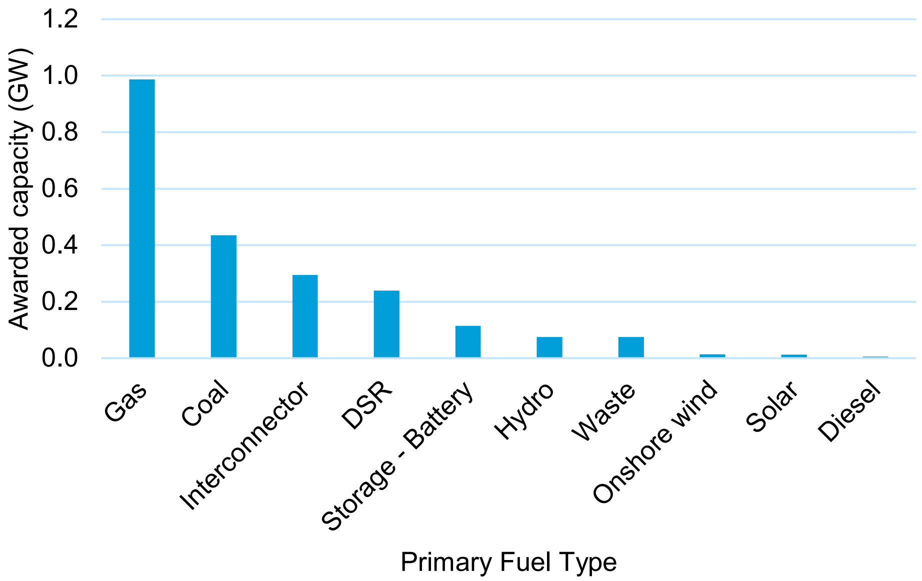
Table 1. List of capacity auctions to be held in 2021

Auction	Delivery year	Auction Date
Year-ahead Capacity Auction (T-1)	2022/23	15-16 February 2022
Four year-ahead Capacity Auction (T- 4)	2025/26	22-23 February 2022

T-1 Auction results for 2021/22

42. The T-1 auction for the 2021/22 delivery year concluded on 2 March 2021 and secured 2.3GW of capacity at a clearing price of £45/kW. Just over 4.2GW of de-rated capacity entered the auction, of which 53% received capacity agreements for delivery (Figure 1). 63% of awarded capacity is from existing generation capacity, and 13% from new build generation capacity. The remaining capacity was awarded to existing interconnectors, proven and unproven DSR.

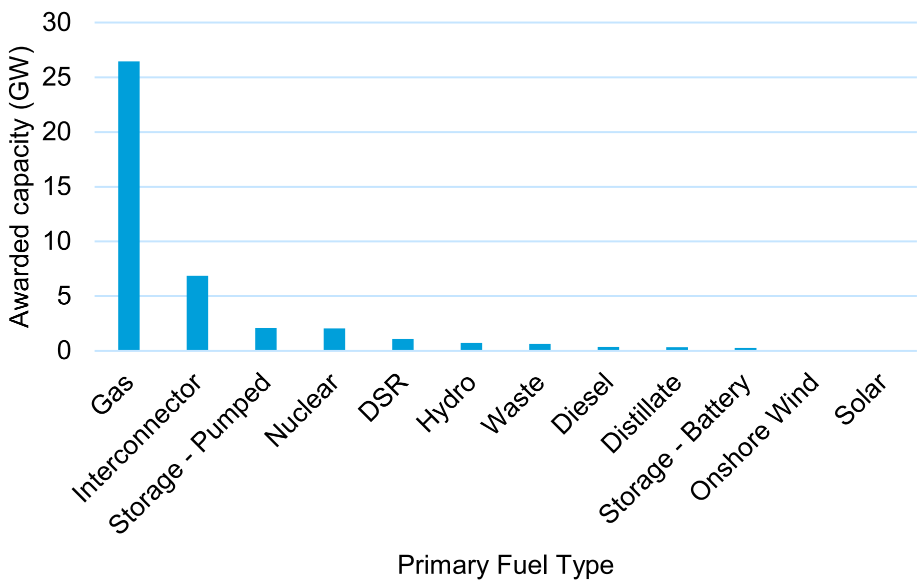
Figure 1. T-1 Auction results breakdown of Capacity Agreements awarded by fuel type (GW)



T- 4 Auction results for 2024/25

43. The T- 4 auction for the 2024/25 delivery year concluded on 10 March 2021 and secured 40.8GW of de-rated capacity at a clearing price of £18/kW. Just under 52GW of de-rated capacity entered the auction, of which 79% received capacity agreements for delivery (Figure 2). 75% of awarded capacity is from existing generation capacity, 4% from new build generation capacity, 8% from existing interconnectors, and 9% from new build interconnectors. The remaining capacity was awarded to refurbished generation capacity, proven and unproven DSR.

Figure 2. T-4 Auction results breakdown of Capacity Agreements awarded by fuel type



Capacity Market Payments

44. Over the course of the year, The Electricity Settlements Company handled Capacity Payments totalling £1,094.7m. Capacity payments were made to 22.6GW of capacity for Delivery Year 2019/20 (£405.3m) and 29.0GW for Delivery Year 2020/21 (£689.4m).

Changes to the Capacity Market Rules and the Electricity Capacity Regulations

45. A consultation was held in March 2021 on a range of improvements to the Capacity Market. Full details can be found in the consultation documents[23]. A summary is provided below. The improvements were implemented through legislation in June and July 2021:

- Changed certain formulae and clarifications to the legislation relating to Carbon Emissions Limits in the Capacity Market. This will ensure that the formulae allow for a better reflection of certain technologies' actual carbon emissions. The amended formulae allow for a better reflection of certain technologies' actual carbon emissions and improved clarity for capacity providers.

- Provided the Capacity Market Delivery Body greater flexibility to consider information which corrects non-material errors in prequalification applications. This should reduce the risk of prequalification applications being rejected due to minor, administrative errors.

- Prevented certain secondary trades from being rendered ineffective if the transferor's Capacity Agreement is terminated. This will make it easier to replace capacity which closes prematurely and at short notice, after a T-1 auction.

- Extended the coronavirus easements relating to the extended long-stop date, the extended deadlines for Metering and DSR Tests for DSR Capacity Market Units, and Independent Technical Expert certificates in relation to progress reports. The easement around appeals (which applies in specific circumstances and is subject to certain conditions) has not been changed and continues to be in place for Capacity Market Units that were awarded an agreement before 1 April 2020. These easements allow management of any delays to operator's fulfilment of Capacity Market milestones, caused by the pandemic. We have not extended the easements on Satisfactory Performance Days, DSR baseline data or the Metering Test deadline, as these are expected to be of limited impact and no requests were made for continuation of these easements.

- Extended the deadline for meeting the Extended Years Criteria so that it aligns with the requirement to provide evidence of Total Project Spend and make the sanction for breaching both (a reduction in agreement length) referable to the Secretary of State. This will ensure consistency across Capacity Market obligations and deadlines and enable Capacity Providers to refer matters to the Secretary of State if they believe they have sufficient grounds.

[23] https://www.gov.uk/government/consultations/capacity-market-2021-proposals-for-improvements

- Allowed refurbishing plant to have the same Long-Stop Date as new build plant. This will provide refurbishing plant that secure agreements in a T- 4 auction with the option of an additional 12 months to deliver their capacity if it suffers delays to works.

- Disabled the net welfare algorithm for T-1 auctions that are held only to meet the 50% set-aside commitment. Under the Electricity Capacity Regulations 2014 we are committed to auctioning at least 50% of the capacity that was set aside for the T-1 auction. This will ensure that when an auction is held for the sole purpose of meeting this commitment, the costs to the consumer of the auction are minimised.

- Maintained the minimum capacity threshold at 1MW. This will ensure that the Capacity Market continues to be aligned with other electricity markets and that the costs of administration are balanced with broad market access.

- Made several minor improvements and corrections to the legislation. These involve minor corrections to the Capacity Market Rules, primarily to address cross-references to EU law.

Low Carbon Contracts Company (LCCC) and Electricity Settlements Company (ESC)

46. LCCC and ESC are responsible for helping Government to deliver key elements of the Capacity Market and CfD schemes, respectively.

47. LCCC, as counterparty to CfDs (including the Investment Contracts which have been transferred to LCCC[24]), enters into and manages long-term contracts with low carbon generators, managing difference payments for qualifying generation. The details of these projects are listed on the CfD Register, available on the LCCC website[25].

48. The ESC is responsible for all financial transactions relating to the Capacity Market, including managing capacity payments, credit cover, penalties, and volume reallocation.

49. Both the LCCC and ESC are companies limited by shares and wholly owned by the Secretary of State for BEIS. The companies became operational on 1 August 2014 and operate within two main frameworks: the Energy Act 2013 (and the relevant regulations made under the Act) and the corporate and company law frameworks.

50. In the past year, there have been a number of highlights across the CfD and Capacity Market schemes. These include:
    - 742.5MW of new low carbon capacity became operational in 2020/21 and started to receive CfD payments.
    - Five CfDs became operational in 2020/21, commissioning 0.7GW. Bringing the total operational CfD capacity to around 5.6GW.
    - Managing 72 CfDs with an estimated fair value of £89bn, including Hinkley Point C.
    - Developing a new data portal to enable direct downloads of CfD and Capacity Market data in response to requests from suppliers and in support of the Open Data initiative.
    - Developing an indicative Heads of Terms for industrial Carbon Capture Use and Storage published by BEIS in December 2020.
    - Finalising all system, process and reconciliations from regulatory changes implemented to restart the Capacity Market.
    - Delivering a stress testing event programme to ensure that systems, end-to-end processes and interfaces for a Stress Event were tested and automated where required.
    - Advising BEIS and Ofgem on policy, regulation and rule change using ESC's growing analytical capability to improve the efficient operation of the Capacity Market and achievement of its policy objectives.
    - Engaging with capacity providers with a new ESC Webinar and at Delivery Partner events. New Capacity Market timeline created to help participants understand end-to-end Capacity Market actions and dependencies.

[24] Investment contracts, which have been transferred to LCCC, are treated by virtue of regulation 2(4) of the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 as CfDs for various purposes. Any reference to a CfD in this document is to be treated as including any such Investment Contracts.

[25] https://www.lowcarboncontracts.uk/cfds

National Grid Electricity System Operator

51. National Grid Electricity System Operator (ESO) runs the electricity system in Great Britain. National Grid ESO has also continued to play a fundamental role in aiding the Capacity Market and CfD schemes through its role as the Electricity Market Reform Delivery Body (DB). The DB provides support to market participants and constantly looks at how to improve its ability to undertake its role.

52. The DB has delivered key activities in preparation for the CfD Allocation Round 4 which opened in December 2021, including:

    - Working collaboratively with BEIS to assess the implications and deliverability of proposed scheme amendments;
    - Supporting the rules drafting process for the Allocation Framework and implementing these rules into the auction system and business processes in advance of the round opening;
    - Working closely with all Delivery Partners to create an updated customer micro-site for Allocation Round 4 that is more effective and easier for applicants to navigate;
    - The introduction of a co-creation approach to producing customer guidance on the CfD application, allocation and auction processes; and
    - An enhanced suite of guidance materials for applicants, inclusive of auction scenario video tutorials and webinars, to support applicants in understanding the process as well as key policy changes for Allocation Round 4.

53. For the Capacity Market, the DB implemented key activities in relation to the auctions and agreement management, including:

    - Working closely with BEIS to draft and consult on new Capacity Market rules for 2021 delivery and implementing these rules into systems and processes to ensure a smooth transition for customers;
    - Embedding a new customer relationship management tool, with over 90% of all queries received from customers being resolved within 5 working days;
    - Working with Ofgem to update the relevant Balancing Services within the Capacity Market rules and taking on the ownership for publishing and reviewing related Guidelines;
    - Introducing a new co-creation process to improve customer guidance on Capacity Market related processes and introducing more personalised customer engagement on upcoming Agreement Management milestones. The DB have worked closely with customers to ensure messages are clear and easier to navigate, supported where appropriate with “how to” videos and podcasts;
    - Continuing to enhance modelling in line with Panel of Technical Experts recommendations to deliver the Electricity Capacity Report (ECR) 2021; and
    - Working on the delivery of a new IT Portal to administer the Capacity Market prequalification, auction and agreement management processes, with the first implementation planned in 2022. The DB are working directly with customers via dedicated user groups engaged in the design and testing of the new system.

E02688792

978-1-5286-3031-3