



Allocation – Key questions

Expert Group

Tuesday 02 April 2013

Objective of the session



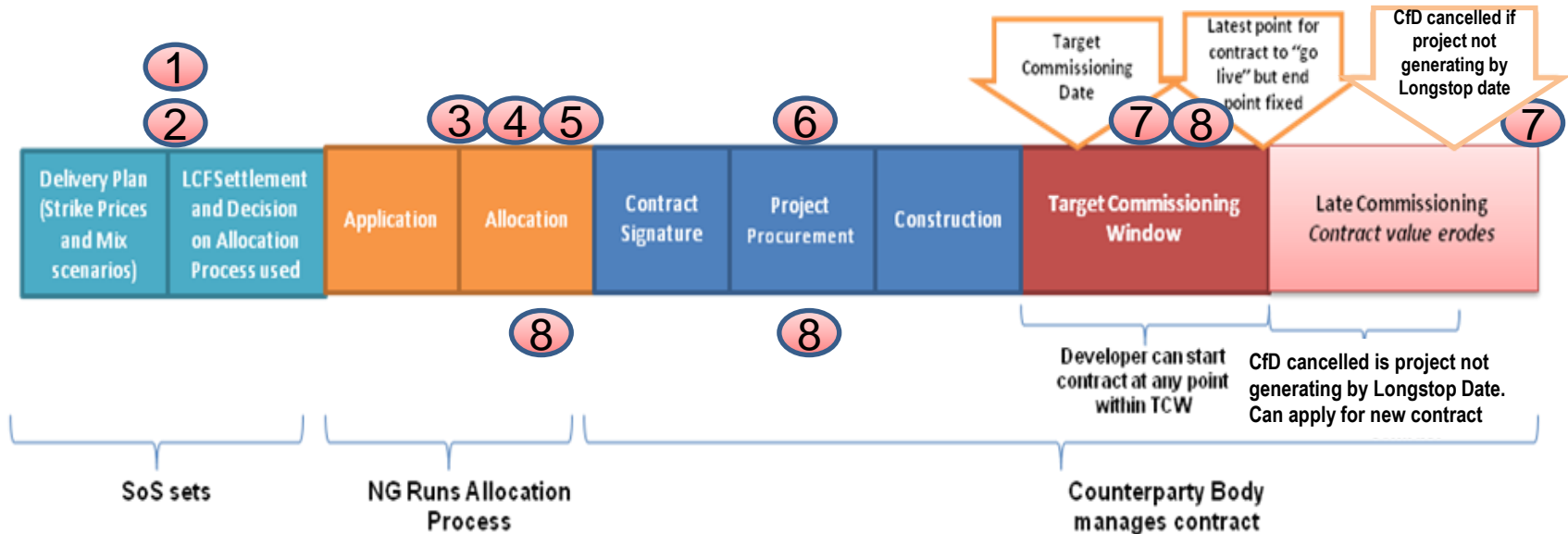
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- This presentation sets out the main topics of work being covered within the context of the design of the allocation process.
- The aims of this session are to:
 - make sure that all the key questions are being considered so developers and investors can be provided with the information required to engage with the system and make investment decisions;
 - get your reflections on which questions are of particular importance within each work area.

Overview of the system



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1. Eligible generation
2. How does a project prove its eligibility to apply?
3. First Come, First Served
4. Allocation Rounds
5. Allocation Rounds – allocating under a constraint
6. Milestones
7. Target Commissioning Windows & Longstop Dates
8. Phasing

Stated position

- Definition of low carbon generation – renewables under RO, nuclear and CCS
- Definitions to be set out in secondary legislation
- 'New' includes Biomass conversion
- Requires separate metering
- Not able to get CfD and RO for same generation
- Anticipate plant eligible for the Small-scale FiT will be excluded

Questions and basic points for discussion

1. Electricity only – or heat under CHP?
2. Confirm Small-scale FiT eligible plant excluded or offer choice of SSFIT and CfD?
3. Should it include replacement of refurbishment of other generation?
4. What happens if original plant has life under RO still to run?
5. Do we require additional metering if additional capacity is being added?
6. What is metering position for non-Grid connected generation?

When/Where delivered

- Publication alongside Delivery Plan (July)
- Contract Terms for metering issue (July)

Interactions & Inputs

- Application Eligibility
- RO Transition
- Metering subgroup
- Need definitions from OND and OCCS

How does a project prove its eligibility to apply for a CfD?



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Stated position

- Application post planning permission and grid connection agreement
- Provide size, date of delivery, Technology type

Questions and basic points for discussion

1. What do applicants have to provide?
2. What do biomass conversion applicants (within any pot for fast moving technologies) have to provide?
3. How much checking does NG carry out?
4. Do NG run a pre-eligibility process?
5. Is this for allocation rounds only, or also FCFS?
6. How long does the process take?
7. How does this work with FCFS and Allocation Rounds?
8. Is a declaration that a project is not in receipt of the RO sufficient?
9. How do appeals work?

When/Where delivered

- Mott work underway. Report due by end of April
- Publication alongside Delivery Plan (July)
- National Grid guidance / business rules (end 2013)

Interactions & Inputs

- Institutions Conflicts of Interest
- Institutions Governance
- Need feedback from Sci/Eng, and Technology Offices
- Need NG to provide suggestions on process

Stated position

- It is intended that there will be a period of First come, First served allocation.
- As long as the Developer satisfies eligibility criteria and there is sufficient money in the budget and the threshold for switching to rounds has not been hit...
→ National Grid issues direction to the Counterparty sign contract with applicant.
- Where more than the specified threshold amount of budget is spent the transition to allocation rounds is triggered.

When/Where delivered

- Publication alongside Delivery Plan (July)
- National Grid guidance / business rules (end 2013)

Questions and basic points for discussion

1. How does the trigger work?
2. What level of trigger to move to allocation rounds?
3. Is 50% the right threshold for the trigger?
4. Is it 50% of total budget or individual year's budget?
5. What happens to project which triggers allocation rounds?
6. Does it trigger allocation rounds for all years, just subsequent years, or year where trigger exceeded?
7. How does the FCFS process work?
8. How long does it take?
9. Can system be paper based or have to be automated?
10. What information is provided to industry about contracts awarded, Budget committed and any subsequent changes?
11. What happens if a developer appeals a decision?
12. Does FCFS apply to the pot for fast moving/unpredictable technologies?

Interactions & Inputs

- LCF Budget decisions
- Delivery Plan
- Need LCF Budget Decisions from Exec Board
- NG advice regarding the detailed approach

Stated position

- Developer satisfies eligibility criteria
- National Grid announces dates for application rounds
- All applications received before published close date assessed together.
- All applications need to provide information necessary to allow constraint choice to be made –e.g. sealed envelope with strike price bid
- Applications assessed – where sufficient budget available then
 - National Grid issues direction to Counterparty to sign the contract with the applicant
- Where budget is insufficient... see next slide

Questions and basic points for discussion

1. How does the process work?
2. How long does the process take?
3. What order does the process happen in? - Is there a separate eligibility checking process?
4. What happens to unsuccessful applicants? Do we just let them enter a future round of their own choosing, or do we automatically enter them into future rounds?
5. What happens if an applicant appeals a decision?
6. Which technologies are in general pot and which in the pot for fast moving technologies?
7. When might a round system be tested?
8. What information is provided to industry about contracts awarded, Budget committed and any subsequent changes?

When/Where delivered

- Publication alongside Delivery Plan (July)
- National Grid guidance / business rules (End 2013)

Interactions & Inputs

- LCF Budget decision
- Delivery Plan
- Need NG input on detailed process

Allocation Rounds – allocating under a constraint



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Stated position

- There needs to be a clearly understood, fair process of distinguishing between projects.
- Could distinguish in a range of ways:
 - (i) Price
 - (ii) Discount percentage
 - (iii) Other?

Questions and basic points for discussion

1. Which constraint option do we use? - What are Government's drivers least cost, supply chain etc?
2. How does the process work?
3. How long does the process take?
4. What happens to unused bids if we opt for sealed envelope approach?
5. What happens if an applicant appeals a decision?
6. What happens when two or more projects are otherwise indistinguishable on objective criteria?
7. What happens to any unspent budget (i) once year over; or (ii) where money is left due to constraint process?
8. Does the same constraint process apply for pot for fast-moving/ unpredictable technologies?
9. What information is provided to industry about contracts awarded, Budget committed and any subsequent changes?

When/Where delivered

- Publication alongside Delivery Plan (July)
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Interactions & Inputs

- LCF Budget decision
- Delivery Plan
- Need Exec Board decision/agreement by Tech Offices
- Need NG input on detailed process

Stated position

- Different milestones for different technologies
- Proof to be provided by one year after CfD award
- Evidence of significant commitment, e.g. substantive penalty if pull out of contracts for EPC, generation engines, cabling etc?

Questions and basic points for discussion

1. What proportion of the total spend does the milestone have to represent?
2. What evidence does developer need to provide?
3. How does the Counterparty check they have been met?
4. What do the penalties in the contract have to look like to reassure the Counterparty that developer can not renege on contract?
5. What happens if developer appeals a decision?
6. What information is provided to industry about contracts awarded, Budget committed and any subsequent changes?

When/Where delivered

- Mott work underway. Report due by end of April
- Contract Terms (July)
- Publication alongside Delivery Plan (July)

Interactions & Inputs

- Contract Terms
- TCW / LSD
- Phasing
- Awaiting Mott work
- Need input from ORED regards technologies

Target Commissioning Windows & Longstop Dates



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Stated position

- Different TCWs and LSDs for different technologies
- Details to be provided by Consultancy work being conducted by Mott MacDonald

Questions and basic points for discussion

1. What updates does the Project have to provide?
2. In what format do updates have to be provided?
3. If a technical problem means capacity of project needs to change how is this raised?
4. By how much will we allow project to change capacity?
5. What happens when capacity changes by more than this amount?
6. Should projects be able to increase capacity?
7. What happens when project passes its TCD – what notifications are needed that it is going to be late?
8. Does the Counterparty need to warn a project when its TCW is about to end?
9. What happens if project informs the Counterparty that it is capable of commissioning earlier?
10. What information is provided to industry about contracts awarded, Budget committed and any subsequent changes?

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Interactions& Inputs

- Contract Terms
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Stated position

- The intention is to allow projects to phase under the CfD subject to them adopting appropriate metering arrangements.

It is necessary to assess and choose between:

- DECC Option 1: One CfD per phase
- DECC Option 2: One CfD for all phases/all capacity
- Alternative options
- Some combination of options

Questions and basic points for discussion

1. Which technologies should phasing be offered to?
2. What options should we adopt?
3. How many phases should be allowed?
4. What additional detailed developer journey / heads of term / procedures need to be in place for projects/developers seeking phasing?
5. What information is required?
6. When do payments start?
7. How should delays to TCWs and LSDs be handled?
8. What happens if a project (or phase of a project) underdelivers?
9. What information is provided to industry about contracts awarded, Budget committed and any subsequent changes?

When/Where delivered

- Contract Terms (July)
- Publication alongside Delivery Plan (July)

Interactions & Inputs

- Contract Terms
- Milestones
- TCW / LSD
- Need input from Tech Offices regarding technologies which should be considered

Next Steps



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- We are in the process of turning our current position of all of these areas into a word document strawman
- Once we've done this we will look to share sections of the strawman with you and work up answers to the questions iteratively either in meetings like this or offline.