



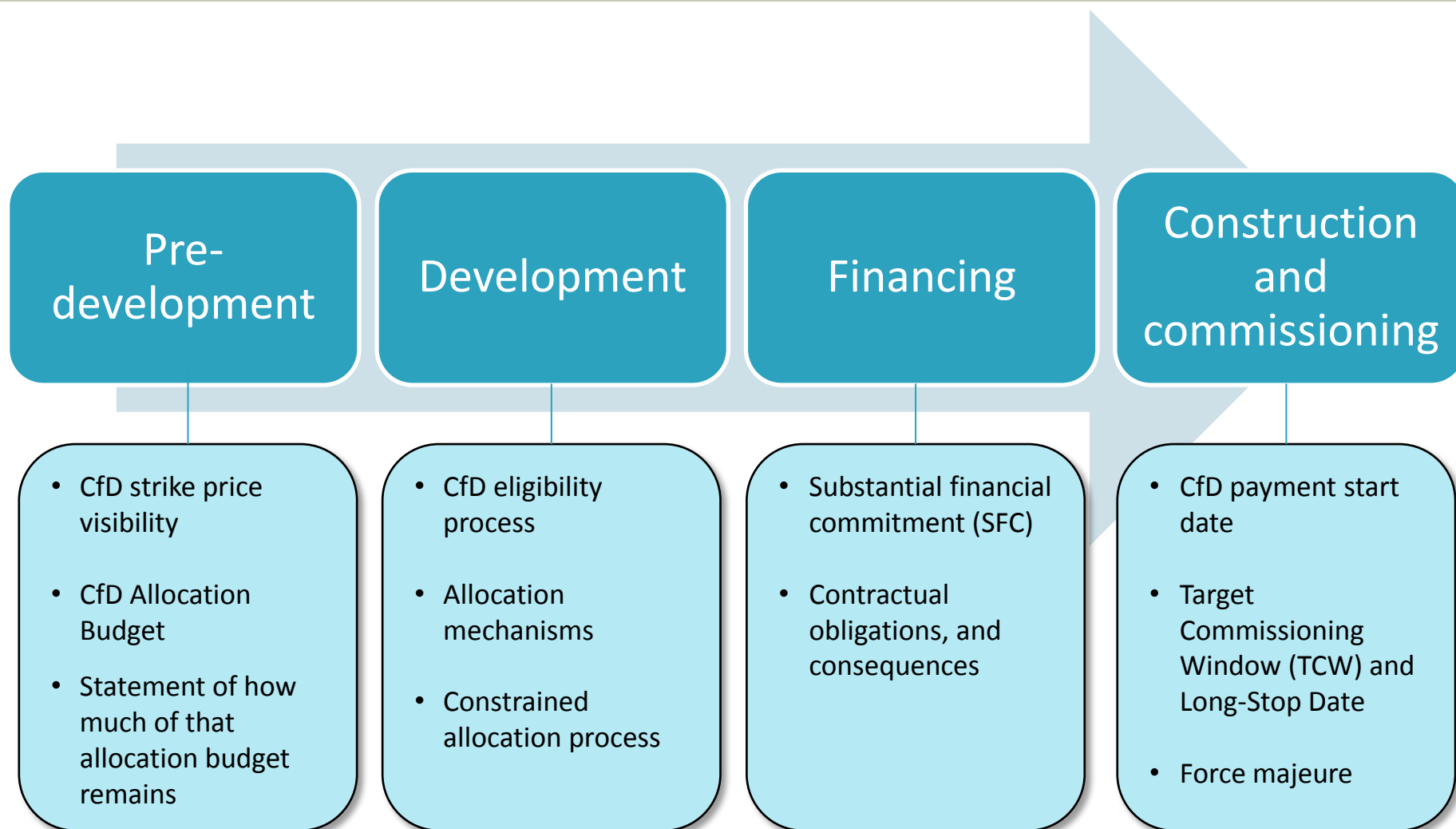
# CfD Allocation process

CfD Expert Group

29 May 2013



## Over view of the system

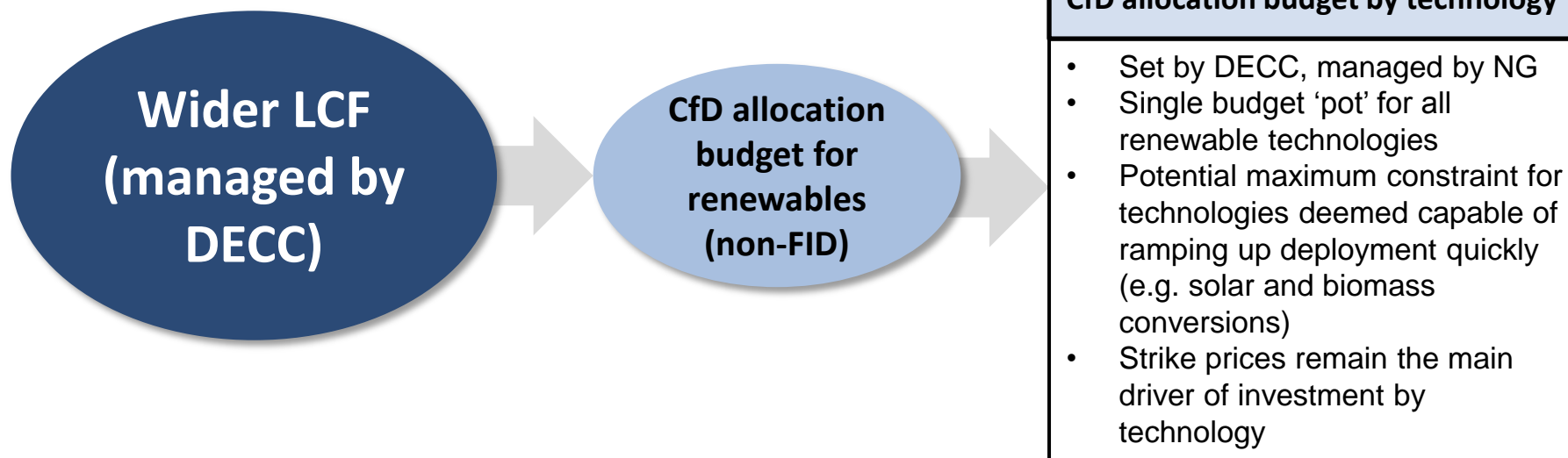




## LCF allocation

### LCF availability by technology

- The LCF will increase to £7.6b in 2020 (real 2012 terms)
- This covers the costs of the CfD as well as existing policies (including the RO, small-scale FiT etc)
- Ahead of allocation commencing, developers can expect to know the annual CfD budget as well as any constraints applying to their technology





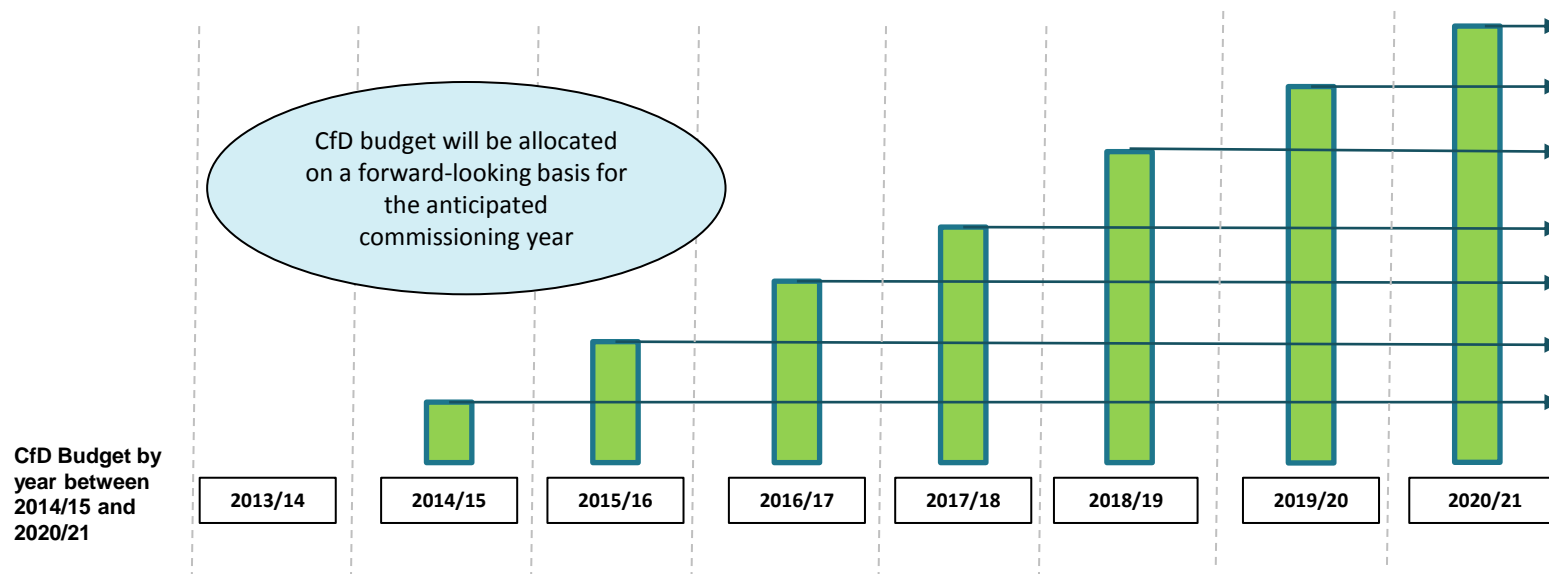
# Forecasting budget headroom



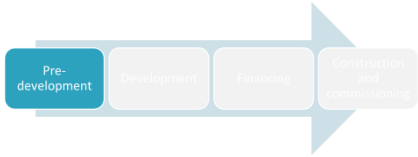
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## CfD budget headroom forecast

- The CfD allocation budget constraint will apply on an annual basis, subject to the total period budget
- The SO will be responsible for publishing CfD budget updates throughout the year:
  - Taking into account the changing value of existing contracts
  - Could be real-time available data if CfDs are allocated on a First Come First served (FCFS) basis
- Any underspends in a given year will be available in subsequent years' CfD budgets



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## Questions for consideration



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- How often should NG provide information on CfD budget availability?
  - How should the information be provided and how often should the assumptions be consulted on?
  - How should progress against any technology-specific CfD budget constraints be communicated?
- Is there sufficient visibility of CfD strike prices?
  - When do developers need to know DECC's decision on whether administrative pricing will continue beyond 2020?



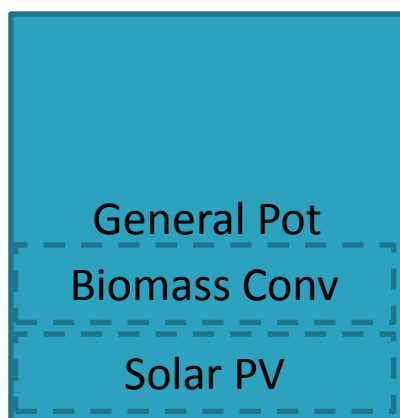
# Approach to controlling cost for immature/ unpredictable technologies using maxima or ring-fenced budgets



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- The majority of renewable energy technologies have relatively predictable rates of deployment and learning but a few technologies have costs that can rapidly change – e.g. biomass conversion and solar. It is these unpredictable technologies that risk breaching the CfD Budget if the strike prices set fall out of line with project costs.
- It is recommended that the CfD allocation budget will be managed through one single pot with a small number of maxima (limits which prevent specified technologies from committing more than a designated sum of the budget in a particular delivery year).

## General pot with maxima



- Maxima would be set out within the Delivery Plan, and could be amended in annual updates.
- This would provide the market with a clear but evolving understanding of the quantity of support available for the effected techs and make an assessment of their likelihood of securing a CfD.
- In the event the maximum limit is not reached in a delivery year that money could be accessed by projects of another technology or rolled into the budget for the same tech in subsequent years.

- An alternative approach would be to have 3 pots (one general pot and 2 separate pots for biomass conversion and solar pv respectively). However, this is less flexible, and makes management of the wider LCF more complex.

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# Constrained allocation

## Constrained allocation windows

- Once a significant portion of the CfD allocation budget has been committed and DECC is a long way towards achieving its targets, more projects may come forward in a particular round than can be supported
- In such situations CfDs may need to be rationed through constrained allocation windows
- The rules for rationing must be defined and publicised upfront to enable visibility for developers
- When allocation rounds are triggered Developers will be required to submit additional information on the strike price they are prepared to accept as part of their application. In a constrained allocation window this information would be accessed and used to distinguish between projects.
- Two rationing options are currently being considered: price-based and discount-based

Rationing option	Description	Advantages	Disadvantages
Price-based	Stack projects by the price they would be willing to accept	Least cost overall deployment	Reduced diversity of generation
Discount-based	Stack projects by the % discount on the relevant strike price that they would be prepared to offer	Allows for least cost projects by technology, enabling diversity	May result in greater cost of deployment overall



## Questions for consideration

- **What should happen to the information submitted in Sealed Bids?:**  
Are you content for this information to only be accessed in two situations-
  - When more projects may come forward in a particular round than can be supported by the Budget
  - When the Delivery body is periodically gathering data to ultimately to inform new strike prices?
- **What are your views on the arrangements required for handling sealed bids?**



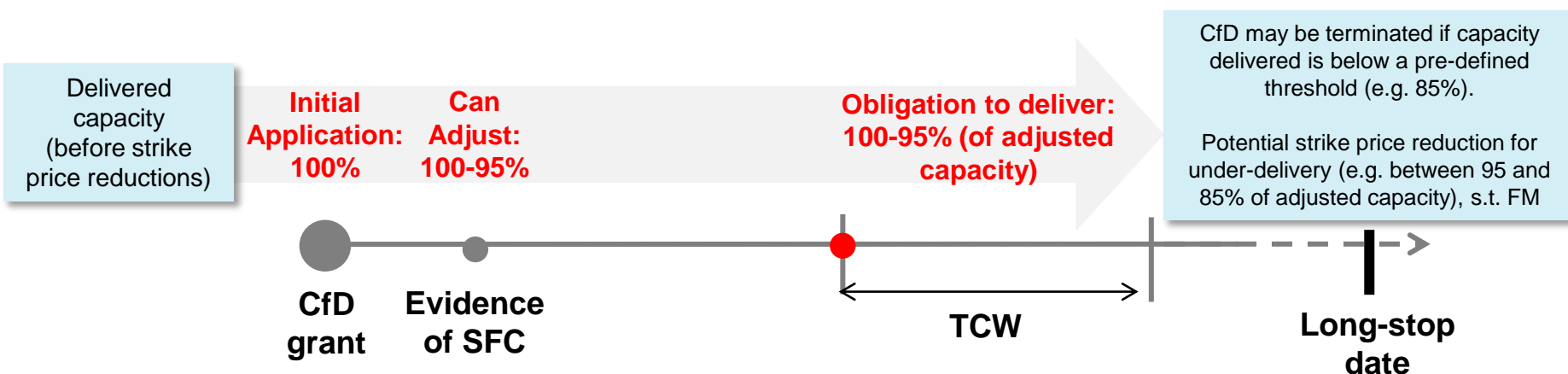


# Capacity delivered – latest policy thinking



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- We are currently exploring the potential to allow a limited degree of flexibility on the contract quantity
  - Flexibility may be offered both at financial commitment milestone as well as at commissioning (in addition to FM)
  - Delivering below this range may lead to a proportionate reduction in the strike price (e.g. 0.5% reduction for each 1% under-delivery)
  - There may be a backstop termination clause if the capacity falls below a certain threshold (e.g. 85%)



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## Capacity delivered – related questions



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- As part of the debate around amending capacity some have queried whether the SFC Milestone should be linked to the date a CfD is allocated or the Target Commissioning Date.
- Government retain a concern around risk of Budget being committed to projects which then do not proceed. Shifting the SFC milestone later increases that risk and increases the extent to which viable project may be crowded out.
- It should also be noted that as the time period between Allocation and the Substantive Financial Commitment milestone increases, there is a reduction in the amount of flexibility which can be offered around:
  - Target Commissioning Windows and Longstop Dates; and
  - The amount by which a project can amend the capacity it seeks to deliver.
- We are interested in your views this issue.