



Department  
of Energy &  
Climate Change

# Electricity Market Reform: Contract for Difference - Allocation Methodology for Renewable Generation

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# Overview

This document provides a summary of the journey a developer must go through in order to secure and then retain a Contract for Difference (CfD). It describes the:

- Information which will be available to developers;
- Information developers will have to provide to Government or the Delivery Body; and
- The processes that Government, the Delivery Body and the CfD Counterparty will follow when determining whether projects: are eligible for CfDs; have been successful in securing a CfD; and whether they are entitled to retain the CfD from the point of award through to project commissioning.

While this paper primarily describes the high level mechanics of the CfD allocation and project monitoring systems it also touches on a number of areas of policy design. The paper updates a number of the policy proposals set out in the 2012 Draft Operational Framework. The main changes are summarised below, with more details provided in the body of the document:

- The concepts of Target Commissioning Windows and the Longstop Date remain in place but we now have set out the time-periods that we intend to attach to the Target Commissioning Window and Longstop Date for each technology included in this allocation process;
- There is now greater flexibility for developers to adjust the capacity of their project after securing a CfD;
- The approach to phased projects has been modified, allowing projects to receive the strike price applicable to the first phase for subsequent eligible phases; and
- The allocation system has also been modified to include an eligibility criterion that requires developers to have submitted an approved supply chain plan to Government.

This document should be read in conjunction with the Draft CfD Contract Terms that DECC has published today. This contains the detailed drafting of the CfD terms going to value and sets out the legal framework for those parts of the allocation and contract monitoring system that take place after contract award and which are described in Part 2 of this document.

Neither this document nor the Draft CfD Contract currently sets out the detail of the arrangements which apply for generators in Northern Ireland, as there will need to be variations to accommodate the different market arrangements and planning rules. The UK Government will continue to work with the Department of Enterprise, Trade and Investment in Northern Ireland (DETI) to ensure that contract allocation can operate on broadly similar terms in the Single Electricity Market. Furthermore, while the Energy Bill would allow CfDs to be issued to projects outside the UK, the current scope of this document is only to projects located in Great Britain.

Finally, while this document describes the interactions between the Government, the Delivery Body and the CfD Counterparty, it is not intended to be a full statement of the governance arrangements operating between Government and the Delivery Body and the CfD Counterparty respectively.

### **Structure of this document**

This document is in two main parts:

- Part 1: sections 1-3 cover the period from application to signing of a CfD; and
- Part 2: sections 4-7 covers monitoring of projects by the CfD Counterparty between contract signature and delivery.

The document also contains four annexes:

- Annex A – Detailed Eligibility Provisions
- Annex B – Phased Projects
- Annex C – Detailed requirements for evidencing the achievement of the Substantive Financial Commitment Milestone by Technology

# PART 1

This part sets out the rules and high level processes governing the period from a developer preparing and submitting a CfD application through to the CfD Counterparty and the generator signing a CfD.

## Section 1 - Application

**The application process allows developers to submit prescribed project details and evidence to the Delivery Body. The Delivery Body will then review this evidence against predefined criteria to identify eligible projects.**

### Application process

#### Principles of approach

1. Applicants for CfDs will be required to provide the EMR Delivery Body (the System Operator within National Grid) with evidence that the proposed project is eligible for support and is sufficiently advanced to have a realistic prospect of progressing through to commissioning. The Delivery Body will use the information provided by developers to determine whether the eligibility criteria have been met before it runs the allocation process.
2. Applicants will be permitted to make one application for each specific project or part project at a time (but may submit applications for several different projects at the same time). Applications may not be made if a current CfD is in place for that project or part project. Applications for a particular project or part project can be resubmitted, but only after any previous application for that project or part project has been assessed by the Delivery Body.

#### Eligibility criteria

3. The developer will need to provide evidence that a number of Eligibility Criteria have been met before the Delivery Body will allow a project to enter the CfD allocation process. DECC is continuing to work with industry to identify the documents that will enable the Delivery Body to judge accurately whether the criteria have been met. The criteria that a project will have to meet are:
  - A. The project is for a qualifying form of low carbon generation (see Annex A);
  - B. Planning Permission or Development Consent, plus Crown Estates Agreement for Lease where applicable, have been secured;
  - C. A Grid Connection Offer has been accepted;

- D. Evidence that applicant is validly incorporated under the laws of the jurisdiction in which it is incorporated<sup>1</sup>;
  - E. Evidence (in the form of a certificate from Government) that a company's supply chain plan meets the eligibility condition that the project has a valid supply chain plan; and
  - F. Supporting Information that enables the CfD to be drafted.
4. Additional evidence may be required for some project types or technology classes<sup>2</sup>. Annex A explains how projects already in receipt of the Renewables Obligation, Small Scale Feed in Tariff or other low-carbon electricity scheme are treated.
5. Failure to meet any of these eligibility criteria will result in the Delivery Body rejecting the application. These criteria are discussed below.

### A. Qualifying low-carbon generation

6. Qualifying low carbon generation broadly covers renewable technologies, CCS and nuclear<sup>3</sup>. This methodology explains how renewable technologies that are being offered a strike price through the standard CfD process go about securing a CfD. The technologies included in the process are set out in Table A and more detail can be found in Annex A.

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<sup>1</sup> Reference to incorporation in this case should relate to the formation of a business entity and should not be taken to refer only to companies.

<sup>2</sup> Biomass conversions do not require significant levels of planning permission and often do not require a grid connection agreement. Consequently, an additional eligibility requirement is appropriate for biomass conversion. Applicant projects would be required to provide one or multiple Letter(s) of Intent from feedstock providers for sufficient to support 100% of the intended nameplate capacity of the plant.

<sup>3</sup> Details regarding the eligibility of CCS and nuclear are not set out in this methodology. Government's intention is that future CfD allocation for nuclear and CCS projects takes place through competitive project selection processes, wherever practical and effective. Bilateral negotiation remains an alternative for nuclear and CCS CfD allocation where competitive processes are not practical. We will set out an updated position on nuclear and CCS allocation in December alongside the Final Delivery Plan

<b>Table 1. Qualifying forms of Low Carbon Generation</b>
Advanced Conversion Technologies (with or without CHP)
Anaerobic Digestion (with or without CHP)
Biomass Conversions
Dedicated Biomass CHP
Energy from Waste CHP
Hydroelectric Power
Geothermal with or without CHP
Landfill Gas
Offshore Wind
Onshore Wind
Sewage Gas
Solar PV
Tidal Range (including tidal lagoon and tidal barrage)
Tidal Stream (including tidal stream and tidal array)
Wave

**B. Planning Permission or Development Consent, plus Crown Estates Agreement for Lease where applicable**

7. A range of documents can be used to demonstrate that planning permission is in place. These vary depending on technology, project size and location. We currently propose that the following criteria are adopted:
- For onshore generating stations up to and including 50MW, “planning permission” means planning permission from the local planning authority<sup>4</sup> under the Town and Country Planning Act 1990.
  - For onshore generating stations over 50 MW, “planning permission” means either (a) a development consent order under the Planning Act 2008 from the Secretary of State<sup>5</sup>

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<sup>4</sup> Or on appeal from a Planning Inspector or Reporter or for call-ins and recovered appeals from the Secretary of State for Communities and Local Government, Welsh Ministers or Scottish Ministers.



or (b) consent under S36 of the Electricity Act 1989 from the Secretary of State or Scottish Ministers.

8. In the case of offshore renewable energy generating stations (e.g. wind farms) “planning permission” means:
- A development consent under the Planning Act 2008 from the Secretary of State; or
  - A consent under S36 of the Electricity Act 1989 from the Secretary of State or Scottish Ministers or Marine Management Organisation; or
  - An Order under the Transport and Works Act 1992 from the Secretary of State or Welsh Ministers; or
  - For offshore generating stations up to and including 1MW an Order under the Transport and Works Act 1992 from the Secretary of State or Welsh Ministers or a Marine Licence from the Marine Management Organisation;

and, in each case, planning permission for any onshore infrastructure associated with an offshore project.

9. The developer will provide the Delivery Body with a copy of the planning permission. Where a planning permission has conditions or requirements attached the developer must include a statement from the Designated Official, as defined below, that they consider that all of these conditions or requirements can be satisfied. In the event that, after the CfD has been awarded, the applicant determines that those conditions or requirements needing to be satisfied by the end of construction are no longer able to be satisfied during the construction period, the project’s Designated Official should inform the CfD Counterparty of this fact. The project will have an ongoing obligation<sup>6</sup> to inform the CfD Counterparty if the conditions or requirements are no longer satisfied or able to be satisfied during the lifetime of the contract.

### **C. Grid Connection Offer**

10. Generators who connect directly to the National Electricity Transmission System (NETS) are required to enter into a Bilateral Connection Agreement with National Grid in its System Operator role.
11. Applicants seeking to build projects connecting directly to the NETS must provide a copy of the signed Bilateral Connection Agreement to the Delivery Body.
12. Generators who connect directly to a distribution network are required to enter into a connection agreement with the relevant Distribution Network Operator. Applicants seeking to build projects connecting directly to a distribution network must provide a copy of this signed distribution connection agreement to the Delivery Body.

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<sup>6</sup> This is one of the undertakings which a generator must give within the contract.

13. In addition some generators connecting to a distribution network may choose to, or be required to, enter into either a Bilateral Embedded Licence Exemptible Large Power Station Agreement (BELLA) or a Bilateral Embedded Generation Agreement (BEGA) with National Grid as the System Operator. Applicants who choose to, or are required to, enter into either a BEGA or BELLA must provide a copy of the signed agreement to the Delivery Body.

#### **D. Evidence that the applicant is incorporated under the laws of the jurisdiction in which it is incorporated**

14. The applicant must be a validly incorporated entity in line with the requirements of the jurisdiction in which it is incorporated and exist for the purposes of tax payments. This could be evidenced through the provision of a valid VAT number and Company number in the case of a UK-based limited liability company.

15. The applicant's Governing Body should also provide:

- Detail of any board member(s), company official(s) or other designated representatives empowered to make representations or warranties, offer undertakings, participate in dispute resolution processes or sign CfDs on its behalf; and
- A copy of the authorisation appointing him/them to act in that capacity for the purpose of allowing the Delivery Body to communicate with the applicant and subsequently for the CfD Counterparty to offer a contract.

#### **E. Confirmation from DECC that a project has a valid supply chain plan**

16. The Government is keen to ensure that renewable investment supports the development of sustainable supply chains and increases the scope for competition between providers in order to lower costs to consumers. Therefore, any CfD applicant with a project capacity above a certain level (to be determined by Government) will be required to provide Government with a supply chain plan, setting out how their project and procurement strategy will support the development of a wide, diverse, robust supply chain and support innovation and the development of skills.

17. DECC will set out clear criteria that will enable Developers to prepare their plans in a manner that can be readily assessed, and will provide projects that have submitted acceptable plans with a letter certifying that they have met the appropriate standard. Developers will be required to include this certificate to the Delivery Body alongside the other eligibility documentation needed to support a CfD application.

18. Applicants whose supply chain plan fails to meet the required standard will have the opportunity to submit an improved plan to DECC but will not be able to enter the allocation process until the plan is deemed to meet the minimum standards.

19. DECC will develop guidance that will explain how to prepare and submit a supply chain plan and will set out the criteria that must be met in an application.

## F. Supporting information that enables the CfD to be drafted

20. In addition to providing information that enables the Delivery Body to assess whether an application is valid, applicants will need to provide a range of information that will enable basic parameters of each project's contract to be completed by the CfD Counterparty. The information that will be required is:

### Project Identity

- The name of the project;
- The geographical location of the project (identifying the unique location of the project), and the Ordnance Survey co-ordinate of the metering point; and
- Where applicable, additional information to enable the relationship between the Renewables Obligation (RO) and CfD to be properly structured.

21. This last condition would apply to applications for: additional capacity at existing RO-accredited stations; biomass co-firing plant fully converting to biomass fuel under a CfD; and RO-accredited offshore wind farms seeking a CfD for one or more of their outstanding phases.

### Project Capacity

- A statement of the installed capacity (in MW) that will be developed on the site.

### Project Commissioning Information

- Target Commissioning Date – Each developer will specify a target date by which it will commence generation of the total low-carbon generation capacity for which they have applied. The date provided will determine the strike price sought by the project. The strike price for each technology and each delivery year will be published in the Government Delivery Plan and is also expected to be set out in secondary legislation.
- Target Commissioning Window – Whilst the length of the Target Commissioning Window is determined by the project's technology type, the applicant can specify – at the point of application – the date on which the Window starts (providing that the Target Commissioning Date falls within the Target Commissioning Window).
- Developers will also notify the Delivery Body if their project is a phased project commissioning over a number of delivery years. Annex C sets out how phased projects are managed throughout the Allocation Process.

### Sealed Bid if Allocation Rounds are in use

22. Once allocation rounds are being used to manage the flow of CfD applications developers will have the option of providing a sealed bid containing the strike price they would accept if an allocation constraint is triggered. The bids will only affect the prices received in the specific allocation round if the budget limit for the round is reached. However, if the budgetary limits

are not reached then DECC will access the bid information and may use it to inform strike price setting for future allocation rounds.

### **The Mechanics of Applying**

23. The Delivery Body will publish guidance on the allocation process setting out:

- Where applications and supporting material should be sent;
- The detailed timetable for reviewing applications;
- How applicants will be notified of the receipt of their application;
- How applicants will be notified if they are deemed to be ineligible;
- The process for requesting a review by the Delivery Body of the way a project has been assessed including:
  - How long applicants have to request a review;
  - How long any review will take to be heard; and
  - How notification of the success or failure of a review will work;
- Detail of how any formal appeals may be lodged, if the applicant is unsatisfied with the outcome of the Delivery Body's own process review, how they are dealt with and how and at what point the wider allocation process continues; and
- The precise form of notification which will be used when the Delivery Body notifies an applicant of their success or failure of their application.

## Section 2 - Allocation

**The allocation process allows developers to secure CfDs while ensuring that the budget available to support decarbonisation is used effectively, supporting the delivery of low carbon objectives, and is managed in a way that preserves affordability and value for money.**

### Allocation

#### Principles

1. Government wants to meet its decarbonisation objectives and do so whilst minimising the costs to consumers. The strike prices set out in Electricity Market Reform Delivery Plan consultation document are set at a level that DECC believes will deliver outcomes that strike the appropriate balance between Government objectives.
2. The allocation process supports allocation at the strike prices, whilst sufficient budget remains, and should avoid gaming and unintended consequences. Initially, allocation will be on the basis of a 'First Come, First Served' process, while most of the budget is available. This will switch to allocation rounds, which are more suitable to managing the allocation of CfDs within the available CfD Allocation Budget.

#### The CfD Allocation Budget

3. The Department for Energy and Climate Change expects to publish a final Delivery Plan in December that will provide the Delivery Body with a budget it can allocate to CfD applicants. The CfD budget will be made up of a series of annual amounts that can be spent, providing support to CfD holders in each delivery year. The amount of annual support available will increase over the course of the decade. Annual updates to the Delivery Plan and other periodic updates may be used to refine strike prices or adjust the CfD budget.
4. Government may choose to define a limited number of minimum or maximum levels of deployment or spend for some technologies, or groups of technologies, whether for CfD allocation specifically or for the wider Levy Control Framework.<sup>7</sup> It may be appropriate to apply a minima to ensure that a particular technology is able to access the CfD, whilst a maxima might be appropriate where there is a particular risk that changing technology costs

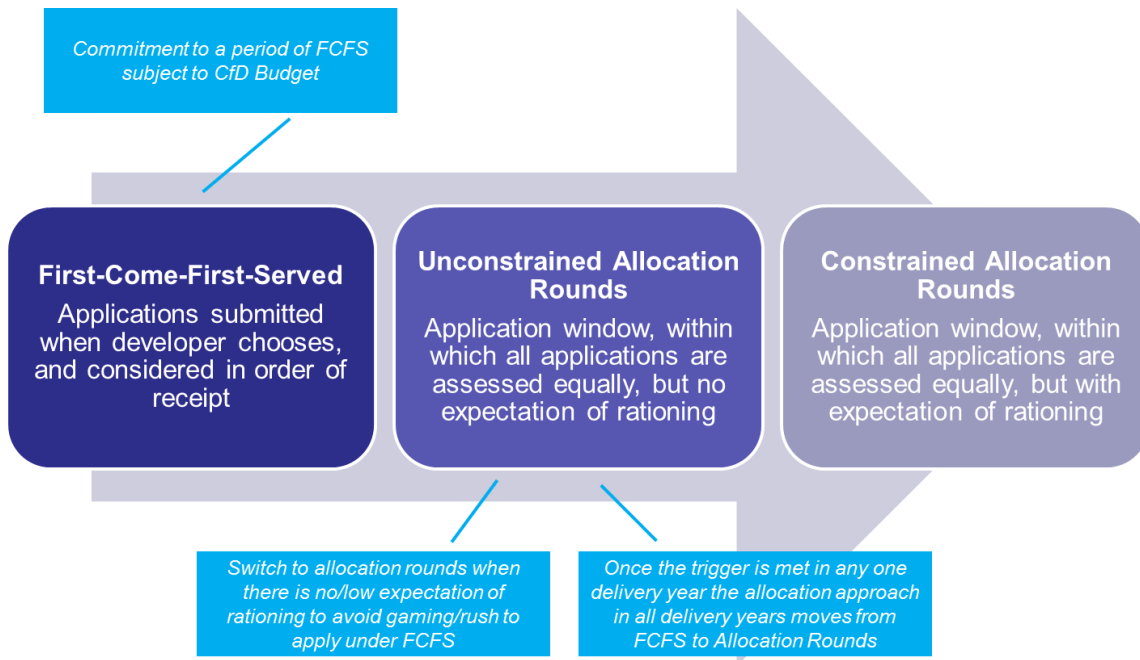
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<sup>7</sup> Decisions on whether any maxima or minima will be set have yet to be made, and will be subject to detailed analysis and discussions with industry, prior to an announcement in December. The Delivery Plan, Annual Updates and other periodic updates would provide information on any minima or maxima Government chooses to set.

means that relying on the strike prices alone might lead to unexpected levels of deployment (potentially at a higher overall cost to consumers).<sup>8</sup>

5. Market participants need to know how much of the CfD budget is available so that they can make informed choices about their project development spending. The Delivery Body and CfD Counterparty will need to ensure information is available to applicants during both the First Come, First Served stage of the allocation process and in Allocation Rounds. The Delivery Body will be able to estimate the value of the contracts it has told the CfD Counterparty should be issued, and the CfD Counterparty will be able to provide updates to the Delivery Body refining that information to reflect any contracts that were not signed, projects that chose to adjust the capacity they intend to develop, CfDs that were terminated or other events that could change the amount of CfD budget that has been committed.
6. The information needed by market participants is likely to vary depending on the phase of the allocation process that is in operation. During First Come, First Served developers may be primarily concerned about the proximity of the trigger that will cause the system to move to allocation rounds. Whereas once allocation rounds are underway developers will be interested in the budget for each delivery year. Furthermore, if any technology specific minima or maxima are in place then the utilisation of each of those budgets will need to be made available.

**Figure 1: The stages of CfD Allocation**



<sup>8</sup> Technologies with maxima will operate within the CfD Allocation Budget in the same way as uncapped technologies, but in the event that a maxima is breached they will no longer be eligible for allocation of new CfDs from the wider CfD budget.

## CfD Allocation Approaches

7. The contract allocation process will move from First Come, First Served to Allocation Rounds and then on to Constrained Allocation Rounds to ensure that overall budget is managed appropriately. The degree of budgetary control applied needs to increase over time as CfDs are issued, making use of the available budget.

## Transition to Competition

8. The Government is committed to delivering against its decarbonisation objectives and maintaining security of electricity supplies, and to do so at least cost to the consumer. For CfDs, this means supporting a diverse range of technologies, whilst progressively introducing more competition into the allocation and price-setting processes.
9. The CfD will offer broadly standardised terms, with support given to a wide range of eligible technologies. This will support the transition to competitive price discovery. We will also retain the flexibility to negotiate with projects that are particularly large or atypical. These projects might present specific technical issues that require a variation in terms, or might mean that the standard terms might not provide for value-for money.
10. Initially, most CfDs will be allocated with strike prices that are set administratively (i.e. set by Government), at levels that support investment in a range of different low-carbon technologies – both established and emerging – and that keep the costs of supporting each technology down to a reasonable level.
11. During this phase, administrative pricing still allows for a degree of (implicit) competition both within technologies (in that strike prices are set to allow only the more efficient projects to proceed) and between technologies (in that Secretary of State has control over Strike Prices of different technologies relative to each other).
12. The Government has clearly stated its intention to move to a competitive price discovery process for all low-carbon technologies as soon as practicable, and the allocation processes described in this document are designed to support a move to competitive price discovery as soon as this is appropriate.

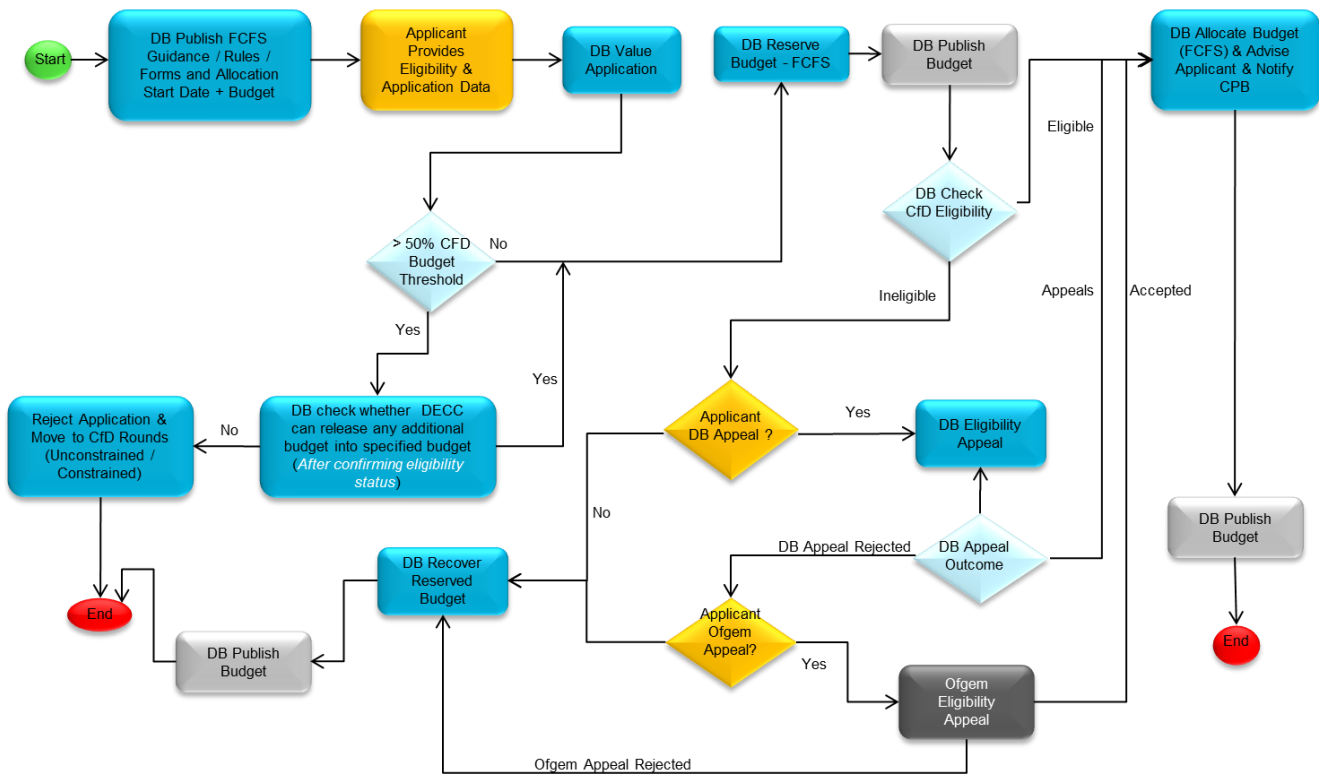
## First Come, First Served Allocation

13. First Come, First Served Allocation allows eligible projects to receive CfDs without undue delay or uncertainty.
14. As long as the developer satisfies the eligibility criteria and there is sufficient money in the CfD budget the Delivery Body will issue a direction to the CfD Counterparty to offer a contract to the eligible applicant.
15. Once the First Come, First Served process begins, developers will be able to submit their applications to the Delivery Body. Each application will be logged and given a unique identifying number. The arrival and progress of each application is logged and time/date stamped to allow definitive assessment of when an action is complete. This will support effective and timely administration and performance management of application processes; aid information flows between the Delivery Body, CfD Counterparty and DECC for the

purpose of determining take-up, and commitment of the CfD allocation budgets; as well as providing reliable information which could be used within any subsequent appeal process.

16. On receiving an application the Delivery Body will check the project’s eligibility, by checking that the required evidence has been provided (as set out in Section 1 and Annex A).
17. In the event that the eligibility check is failed the Delivery Body will notify the applicant of this and the reason for failure. The applicant will be free to reapply rectifying any fault. The project will not retain its place in the queue of projects – subject to any review and/or appeal – while it seeks to remedy deficiencies in its application.
18. Once an application is shown to be eligible and if there is sufficient budget the Delivery Body will direct the CfD Counterparty to offer a contract.
19. The First Come, First Served process is designed to be as mechanical and simple as possible. We anticipate that it is likely to take approximately 60 working days<sup>9</sup> from initial application through to the notification being sent that a project has been allocated a CfD.

**Figure 2: First Come, First Served Allocation Process Map**



**Triggering the Change to Allocation Rounds**

20. The Delivery Body will allocate contracts on a First Come, First Served basis until a significant proportion of the CfD budget has been used. The Delivery Body would cease allocating CfDs under the First Come, First Served process, and move to Allocation Rounds

<sup>9</sup> A project may take longer than 60 days to secure a CfD if an informal review and/or appeal is launched.



once 50% of the CfD Budget for a Delivery Year has been committed<sup>10</sup>. However, the Delivery Body will approach DECC before moving to rounds and the Department may release additional budget for the allocation of CfDs, and otherwise ensure that First Come, First Served allocation continues. The Department is likely to assess the wider budgetary pressures on the Levy Control Framework – which could be relieved to the extent that projects expected to proceed under the Renewables Obligation choose to enter the CfD scheme – in order to consider whether there is scope to maintain First Come, First Served allocation.

21. Information on the budget available will be updated frequently, with an appropriate level of financial data made public via a website.
22. The project which activates the 50% trigger will not be allocated a CfD through the First Come, First Served mechanism<sup>11</sup>. Any projects that have applied for CfDs after the project that has activated the trigger would also be prevented from receiving a CfD through the First Come, First Served Process. The trigger project and all subsequent applicants would be invited to enter the first application round alongside other market participants. The work carried out by the Developer to prepare a First Come, First Served Application would be largely transferable to the Application Round Process. However, additional information requirements would also need to be met as set out below.

### **Allocation Rounds**

23. Allocation Rounds allow for the orderly grouping of applications so that the CfD budget can be effectively monitored and managed.
24. If the value of the projects in the allocation round does not trigger any constraints specified for (i) individual technologies, or groups of technologies, or (ii) the budget constraint for any of the delivery years then, from the Developers' perspective, the process operates much like First Come, First Served with all projects receiving an offer of CfDs at the administrative Strike Price.
25. Contracts will be allocated at fixed points within the year. Once triggered, Allocation Rounds will take place twice a year. DECC currently anticipates that they will open in April and September and run for up to five to six months which would include the time needed to resolve any appeals.
26. In advance of an allocation round opening the Delivery Body will publish the following:
  - Guidance on the rules governing the Allocation Round Process;
  - The dates on which the upcoming allocation round will open and close; and
  - The amount of the CfD Allocation Budget committed in total and by delivery year.

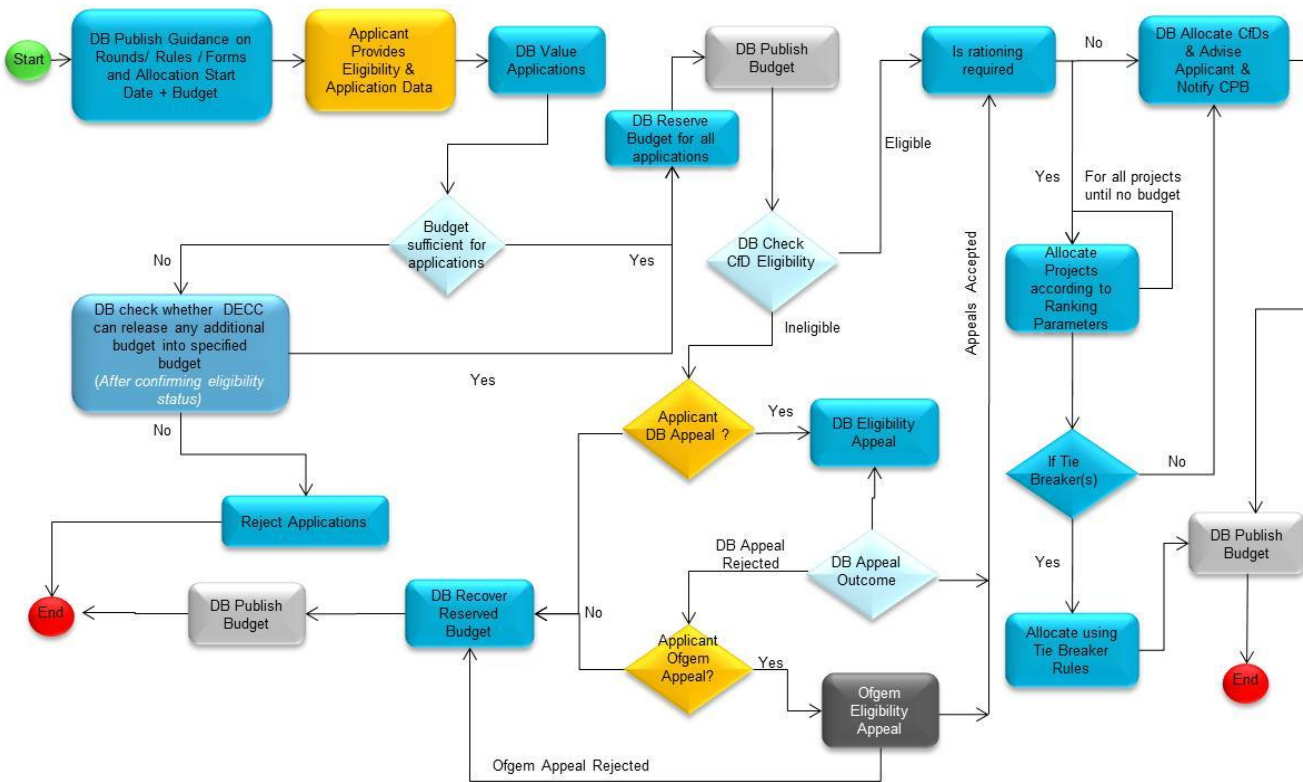
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<sup>10</sup> DECC will review this parameter in light of further work on the mechanisms which will govern the management of the Levy Control Framework Budget

<sup>11</sup> Note the trigger could also be reached due to a change in input assumptions, or a change in law event affecting the value of contracts already allocated.

27. At the point the Allocation Round opens, projects will have a set period of time to apply for a CfD and provide the Delivery Body with the information necessary for the Delivery Body to carry out its role with respect to eligibility. The Developer will also have the option of submitting a sealed bid containing a strike price for use if an allocation round budget limit is reached.
28. As with the First Come, First Served phase, once the developer has submitted their application, they will not be able to submit further information to demonstrate their eligibility. The Delivery Body will determine whether applications have met the eligibility criteria and will then notify applicants of their eligibility status. There will then be a window during which applicants can decide whether to request a review of the Delivery Body’s eligibility decision, and if necessary, make an appeal.
29. If appeals are brought forward, the allocation round will pause whilst the appeals are addressed. The process will resume once all appeals are resolved or in the event of appeals moving to Judicial Review. Work will be carried out to determine timescales for the informal and formal review stages<sup>12</sup>. More detail on the appeals process can be found in Section 3 below. If there are no appeals of the eligibility pre-qualification process, then the Delivery Body will proceed to allocate CfDs.

**Figure 3: Allocation Round Process Map**



<sup>12</sup> We anticipate that an informal review may take circa three weeks and a formal review may take circa six weeks. Timings remain to be determined.

30. The Allocation Round will take place as soon as possible following the completion of the eligibility verification.
31. The Delivery Body will firstly value all of the eligible projects to establish whether the constraint process applies. The metrics and methodology for valuing the budgetary impact of projects will be provided to the Delivery Body by Government.
32. If the value of the projects in the allocation round does not trigger (i) any maximum constraints for a specified technology or groups of technologies, or (ii) the budget constraint for any of the delivery years, then the Delivery Body will allocate CfDs. In this scenario the sealed bids will not be opened by the Delivery Body but will be passed to DECC and may be used to inform future administrative strike prices.
33. However, if the value of the projects does trigger a constraint then the constraint mechanism will be applied.

### **Allocation under Constraint**

34. If rationing is necessary, it will take place in line with specified rules published well in advance of first allocation. The Delivery Body will employ the objective criteria set by Government to manage the rationing process.
35. As with the move from First Come, First Served, prior to applying a constraint and using the sealed bid information to rank applications, the Delivery Body will check whether there is any additional budget for the allocation of CfDs which would relieve the budget constraint. In determining if there is additional budget the Department would assess the wider budgetary pressures on the Levy Control Framework.
36. However, once the move to allocation rounds has been triggered, rationing will take place for technologies or groups of technologies that are constrained. These constrained allocation rounds will be designed to ensure that the allocation of CfDs remains within the overall CfD Allocation Budget and that any additional constraints (such as any technology minima or maxima) are met. The structure of the rules for treating technology minima and maxima will be refined over the remainder of 2013 and finalised alongside the DECC Delivery Plan.
37. As part of their application developers are allowed to provide sealed bids containing the strike price they would be willing to accept for the project if an allocation constraint was triggered. Projects that do not submit a bid will be treated as if they have bid at the previously published strike price. If a constraint is triggered then bids will be accepted in price order with the projects with the lowest strike prices being awarded CfDs first, with prices being set no higher than the levels set out in the administratively-set strike prices.

### **Rationing rules**

38. Projects will be ranked according to the strike prices they offer, with the cheapest projects securing CfDs, and in a way that keeps within the overall budget and meets any other constraints. The rationing process will operate on a “pay-as-clear” basis for each technology or technology group. The Strike Price paid will be the lower of the administrative strike price for the technology or the clearing price established for the category.

39. Clearing prices are determined as follows:

- For categories that are subject to minima or maxima, the clearing price will be the most expensive accepted bid in each category (i.e. the last accepted bid required to meet a minimum constraint or the last accepted bid before a maximum constraint is reached);
- For categories which are not subject to minima or maxima, the clearing price will be equivalent to the most expensive accepted bid before the overall budget constraint for that delivery year is reached. However no technology will be allowed to receive a price higher than the administratively set strike price for that technology and delivery year.

### **Tiebreaker rules**

40. There may be instances where it is not possible to ration between projects on the basis of their strike price bid alone. In order to reduce this risk, strike price bids will be denominated in pence.

41. However in the event that projects cannot be separated on strike price there will be tiebreaker rules:

- Firstly, preference will be given to the combination of projects that makes best use of the available budget.
- If this fails to provide a clear allocation of projects, the next rule will be to give preference to those projects submitting their application earliest (Applications will be logged and time-stamped).
- In the unlikely event that projects are the same time and submitted at identical times then a random allocation will take place.

# Section 3 Award and Contract Agreement

## Direction to CfD Counterparty and offer of contract

1. Under both First Come, First Served and Allocation Rounds, once it has determined that a project is eligible and that there is sufficient CfD budget available, the Delivery Body will give a direction to the CfD Counterparty to offer a CfD to the applicant.
2. The CfD Counterparty prepares the contract. The CfD Counterparty would, however, have to have received the following relevant information from the Delivery Body:
  - Name of the project<sup>13</sup>;
  - The developer taking forward the project;
  - Relevant corporate information, e.g. VAT number, company number;
  - Size of project (MW);
  - Technology of project;
  - Target commissioning date;
  - Strike price; and
  - Any phasing arrangements which have been agreed for the project.
3. This will allow the CfD Counterparty to ensure that the right form of CfD is made available (e.g. Baseload or Intermittent).
4. At the same time the Delivery Body will confirm to the applicant that it has been successful in securing a CfD. It will provide the developer with a copy of the information that is being provided to the CfD Counterparty.
5. The CfD Counterparty will then send the developer a contract with the relevant project-specific details included within a reasonable time period (that will be specified in advance). The successful developer would then have a set number of days to complete the contract and return it. The applicant may not amend the CfD contract as the unsigned version issued by the CfD Counterparty should be interpreted as being the binding form. If there is an error in the contract the successful applicant should notify the CfD Counterparty so it can be rectified. Once the applicant has signed and returned the CfD contract it is signed by the CfD Counterparty.

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<sup>13</sup> Where the project is a dual scheme project receiving support for a part under the Renewables Obligation this information should also be provided.

6. The Initial Conditions Precedent will need to be met by the applicant within a set period of time (to be determined) after the signing of the contract. If the applicant fails to meet the Initial Conditions Precedent (e.g. through failing to submit, or incorrectly submitting the relevant information or evidence) the contract will not be deemed as entered into. The meeting of the initial conditions precedent constitutes the Agreement Date, the point when the contract comes into force.
7. If the designated person signing on behalf of the applicant fails to sign and return the contract within the allotted time then the CfD allocation entitlement would lapse. The CfD Counterparty would notify the Delivery Body and Government that the CfD has not been entered into and the Delivery Body would be free to reallocate the released budget either through the First Come, First Served process or through a future allocation round.

### Appealing the decision not to award a contract

8. The policy principles underpinning the CfD allocation appeals procedure are:
  - Disputes should be settled in a timely manner, informally between parties where appropriate and otherwise by an independent third party.
  - The process should be designed so as to otherwise minimise costs.
9. The system is being designed to minimise the scope for ambiguity in the contract allocation process so that there is minimal need for parties to lodge appeals.
10. However, if an appeal is lodged by an applicant who was refused a CfD we would anticipate the Delivery Body reserving an appropriate portion of the budget until the appeal is resolved.
11. If a developer seeks to Judicially Review an allocation decision made under First Come, First Served or Allocation Rounds it will no longer be possible to reserve that project's capacity (as lead times for Judicial Review may be lengthy).

### The scope for appeals

12. Clause 10(6) of the Energy Bill provides that the Regulations may make provision about appeals against a decision of the Secretary of State or the Delivery Body not to issue a direction to the CfD Counterparty to offer a CfD to a specified person. Such decisions are to be made 'in accordance with provision made by regulations'. Thus, the issue for appeal is whether the Delivery Body, when making a decision not to direct the CfD Counterparty to offer to contract with a generator, has made its decision in accordance with provision made by regulation.
13. There will be a two stage appeals process where a generator wishes to appeal a failure by the Delivery Body to direct the CfD Counterparty to enter into a CfD with that generation. This two stage appeal process will commence with a review of the original decision, conducted by the Delivery Body. If the relevant generator wishes to escalate the appeal, this would be followed by a formal review and determination in respect of the Delivery Body's decision. We expect this role to be carried out by Ofgem.
14. It is anticipated that the majority of disputes will be resolved at the first stage, with the Delivery Body reviewing the information provided for decision making or by identifying any

‘simple’ processing errors. This process will allow both parties to ensure the information provided to reach the decision is correct and comprehensive. The Delivery Body will have a specified number of days to complete this initial review of this decision.

15. Where the Delivery Body upholds its decision not to direct the CfD Counterparty to enter into a CfD with a generator, the generator will have the right to appeal this decision to Ofgem.
16. The appellant would provide a written submission to Ofgem and a copy of all documents provided to the Delivery Body with its application for a CfD. The Delivery Body would be entitled to provide a written submission to Ofgem in response to the appellant’s submission. The decision of Ofgem would be on these papers only.
17. To allow Ofgem flexibility to manage its workload and access any necessary expertise, it will have the discretion to refer the dispute to an expert or a panel of experts. The panel would review the decision and make a recommendation to the Ofgem for determination.
18. Ofgem would have approximately six weeks<sup>14</sup> to make a decision on the appeal. The limited time frame will allow a successful appellant to be included within the same CfD allocation round (if its appeal was successful) rather than have to wait until the next allocation round.
19. An unsuccessful applicant would also have recourse to Judicial Review. In practice, however, the Courts would require a party to exhaust all existing prescribed remedies before making an application to the Courts. Thus, the decision of the Delivery Body would already have been reviewed and therefore it would be the decision of Ofgem that would be the subject of a Judicial Review.
20. The allocation of a CfD is subject to a finite budget, and so the invitation to apply for a CfD does not constitute or create a future property right.
21. The dispute resolution procedure for the allocation rounds process is time sensitive. A dispute arising as a result of a CfD not being allocated must be resolved within two months if the relevant generator is to have the opportunity to be included in the same allocation round. The only people able to bring an appeal to the Delivery Body or Ofgem under the appeals process provided would be those people who had applied for a CfD.

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<sup>14</sup> Timing to be determined.

## PART 2

This Part sets out a narrative description of how the CfD Counterparty and the contract implement the allocation policy.

### Section 4 - Pre-Commissioning Contract Management

**All CfDs will include milestones at a relatively early stage in project development that will help identify projects that are not progressing towards commissioning in a timely manner. The potential for a Developer of a poorly-performing project to face potential termination of the CfD provides a protection against budget being allocated to ‘speculative’ projects and allows CfD Budget to be recycled to other viable projects. This helps to ensure that the CfD Budget is sufficient to meet Government’s renewables target and decarbonisation objectives.**

**Developers will be able to make reasonable adjustments to their projects and amend the capacity of their development, once more detailed site analysis and procurement processes are likely to have taken place.**

#### Milestones evidencing substantive financial commitment

1. To enable effective management of the costs of the CfD scheme, allow developers some flexibility in their project design and mitigate the risk of speculative or poorly managed projects failing to deliver, each project will be subject to a milestone where they have to provide ‘Evidence of Substantive Financial Commitment’ and, if they wish, update the project capacity. This Milestone is an obligation on the developer to demonstrate that they have made an investment in the project that suggests that there is a sufficient financial commitment to completion.
2. Due to the wide variation in project structure, technology types and spending profiles it is not possible to have the same milestones across all technologies or to impose a single milestone to all project of the same technology. Therefore we propose to allow developers to demonstrate that they have made a substantive financial commitment by providing evidence they have spent a (technology-specific) percentage of overall costs by the milestone date or by providing evidence they have spent a (technology-specific) percentage of overall costs by the milestone date.
3. The types of criteria that could be combined to demonstrate commitment would include:



- A letter certifying the Board's commitment to proceed (this would include authorisation to commit sums of money equalling the full value of the project in the case of a balance sheet financed project such as a letter or declaration from the board) ;
- Disbursements or Invoices demonstrating a significant percentage of project spend has been incurred;
- Submission of a number of material project contracts (EPC, generation engine orders, or fuel supply contracts) that show significant financial commitment with penalties for contract termination;
- A copy of a Power Purchase Agreement linked to the project;
- Copies of the Loan Agreements from a Project Finance Provider;
- Crown Estate Lease Agreement;
- Specified key environmental consents

4. The evidence that an appropriate combination of these criteria have been met will need to be provided to the CfD Counterparty at the 'Milestone Delivery Date' one year after CfD contract signature for all technologies. DECC will be working with industry to refine the Milestones over the coming months. Further detail on evidence of substantive financial commitment is included in Annex C.

5. Failure to provide evidence that the CfD Milestones have been met by the 'Milestone Delivery Date' will result in the CfD being terminated by the CfD Counterparty<sup>15</sup>. The process for handling disputes should developers disagree with the judgement of the CfD Counterparty is set out in the CfD contract.

6. If a developer disputes a decision to revoke a CfD as a result of the CfD Counterparty's determination that they have failed to meet a substantive financial commitment milestone then the applicant's capacity will continue to be reserved for that project while the dispute resolution process set out in the contract is followed. However, if the outcome of this dispute resolution process is that the applicant has failed to meet the substantial financial commitment milestone then the applicant's capacity will no longer be reserved for that project..

7. As mentioned above, the Delivery Body will publish updates to the amount of the CfD Allocation Budget which is newly available for reallocation as a result of the termination of the CfD.

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<sup>15</sup> See Clause 4 in the Contract Spine.

## Section 5 – Target Commissioning Window

**The Target Commissioning Window is the period of time within which a project must commission in order to enjoy the full value of the CfD for the full duration of the contract.**

1. DECC will set Target Commissioning Windows for each technology type. The length of the Target Commissioning Window reflects the technical challenges of constructing a generation project of each eligible generation type. The developer will be able to nominate the start of the Target Commissioning Window, so long as the Target Commissioning Date falls within the Target Commissioning Window. These dates will be included in the CfD entered into with the Counterparty.
2. Allowing Projects a penalty-free window in which they can deliver the capacity needed to trigger payments under the contract is an important flexibility that recognises that it is not possible for projects to be able to be absolutely confident that they will deliver on a specified delivery date.
3. The developer will need to build and commission the facility within this Target Commissioning Window (including achieving all the conditions precedent in the contract) in order to secure the full support of the CfD.
4. The Target Commissioning Window is not intended to replace effective project management or effective contractual arrangements with sub-contractors. Delays which are out of the developer's control and would genuinely frustrate the contract are dealt with through the CfD's force majeure provisions. The CfD Contract document published alongside this document provides more detail<sup>16</sup>.
5. Generators that meet the Further Conditions Precedent<sup>17</sup> and commence generation within or before their Target Commissioning Window, will be entitled to receive (or obliged to make, depending on the circumstances) payments under the contract for its full duration or 'payment term'. The duration of support will be 15 years for all renewable energy projects allocated CfDs through the generic CfD allocation process (other than those issued for biomass conversion projects). The generator will not be able to receive any top-up payments under the contract until the first day of the Target Commissioning Window, even if it commences generation before that date, but will be free to sell its power and generate revenues in the market in the normal way.
6. Where a project fails to either start generating or starts generating but fails to meet the Further Conditions Precedent before the expiry of the Target Commissioning Window, the payment term will start from the last day of that window. This means that the duration of the generator's CfD will reduce by an amount commensurate with the length of the delay up until the Longstop Date (See Section 6). However, the entitlement to receive payments will remain conditional on the generator building and commissioning the plant and satisfying the 'Further Conditions Precedent'.

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<sup>16</sup> See Schedule 2 (Target Commissioning Window and Longstop Date) in the Contract Spine

<sup>17</sup> See Schedule 1 (Conditions Precedent)

7. Target Commissioning Windows will differ by technology. We are currently proposing the following windows are applied to each of the eligible renewable technologies. However we will be testing these values with market participants over the coming months ahead of finalising them later in 2013.

<b>Table 2: Target Commissioning Window (in years)</b>	
Advanced Conversion Technology (ACT) (with or without CHP)	1
Anaerobic Digestion (with or without CHP)	1
Biomass Conversion	1
Dedicated Biomass (with/without CHP)	1
EfW with CHP	1
Geothermal (with or without CHP)	1
Hydroelectricity	1
Landfill Gas	0.5
Offshore Wind	1
Onshore wind	1
Sewage Gas	1
Solar PV	0.25
Tidal Range	1
Tidal Stream	1
Wave	1

8. When a project passes its Target Commissioning Date it must notify the CfD Counterparty as to whether it still believes it will deliver be able to deliver within the remainder of the Target Commissioning Window.
9. The CfD Counterparty will not necessarily warn the project that its target commissioning window is about to end. The Target Commissioning Window will be clearly specified in the Contract and the consequences of not delivering within the window will also have been clearly specified. It is the Developer's responsibility to take account of this.

## Section 6 – Late Commissioning

**Each project must commission by a Longstop Date. Failure to do so results in the CfD being terminated.**

1. DECC will define a Longstop Date for each technology eligible for CfDs, which applies for CfDs allocated by the Delivery Body. The Longstop Date will be a point beyond the end of the Target Commissioning Window after which a project that has failed to meet the contractual Further Conditions Precedent<sup>18</sup> will face having its CfD terminated. This ensures that the CfD budget is not permanently tied up by projects which are significantly under-performing and which may fail to commission in line with the obligations set out in the contract. This allows for the reallocation of the budget to new applicants.
2. The Longstop Date will vary by technology, reflecting the operational characteristics of each technology type, and set to reflect the timeline within which reasonably well-run projects would be able to commission. The Longstop Date will be set taking into account a desire to allow developers time to resolve delays which might normally occur in the construction process. The values in Table 3 set out our view on the appropriate values for the Longstop Date. We will continue to work with market participants over the coming months to test these values before finalising them later in the year.

**Table 3: Longstop Date (number of years following the end of the Target Commissioning Window)**

Advanced Conversion Technology (ACT) (with or without CHP)	1
Anaerobic Digestion (with or without CHP)	1
Biomass Conversion	1
Dedicated Biomass (with or without CHP)	1
EfW with CHP	1
Geothermal (with or without CHP)	1
Hydroelectricity	1
Landfill Gas	0.5

<sup>18</sup> Schedule 1 (Conditions Precedent)

Offshore Wind	2
Onshore wind	1
Sewage Gas	1
Solar PV	1
Tidal Range	2
Tidal Stream	2
Wave	1

## Section 7 – Amending Contract Capacity

**This is the process whereby a project may amend its capacity after securing a CfD.**

1. This section refers to amending the capacity as set in the original signed contract for a project.
2. In the Operational Framework we suggested an illustrative 95% delivery obligation. This meant that the Developer needed to deliver 95% of the capacity that was applied for, with failure to deliver that amount by the Longstop Date resulting in the CfD being terminated.
3. Following further discussion with industry, the approach to capacity adjustment will now provide greater flexibility and allow for reasonable adjustments in the capacity delivered. In particular, we are proposing that projects will be able to amend capacity by a prescribed amount at both the substantive financial commitment milestone and at the point of commissioning without incurring any financial penalty.
4. At the substantive financial commitment milestone<sup>19</sup> a project will have the opportunity to reduce their expectation of the amount of capacity they will deliver by up to 5%. The CfD Counterparty will notify the Delivery body of the quantity of capacity released so that the CfD budget available for other applicants can be adjusted.
5. The project will then be required to deliver no less than 95% of that adjusted contracted capacity figure by the Longstop Date in order to secure the full benefit of the CfD for its full duration. In total this allows for a circa 10% capacity adjustment at no cost to the developer.
6. In addition to the cost free adjustment to circa 90% of the initial project capacity the adjustment scheme will allow for a further adjustment before termination is triggered, albeit at a cost to the developer. If a project delivers less than the adjusted contracted capacity, the strike price which the project receives will be subject to a reduction in proportion to the extent of the under-delivery (e.g. a 0.5% reduction for each percentage point of under-delivery against the adjusted contract capacity).
7. Where the strike price is reduced, there will be a process whereby a developer can periodically revise their delivered capacity upwards, as later capacity additions commission. However, these variations can only take place before the Longstop Date, after which the capacity delivered cannot be increased.
8. In order to provide an incentive to apply only for the capacity that is likely to be commissioned (and thereby ensuring that the CfD Budget is used efficiently) – and, in

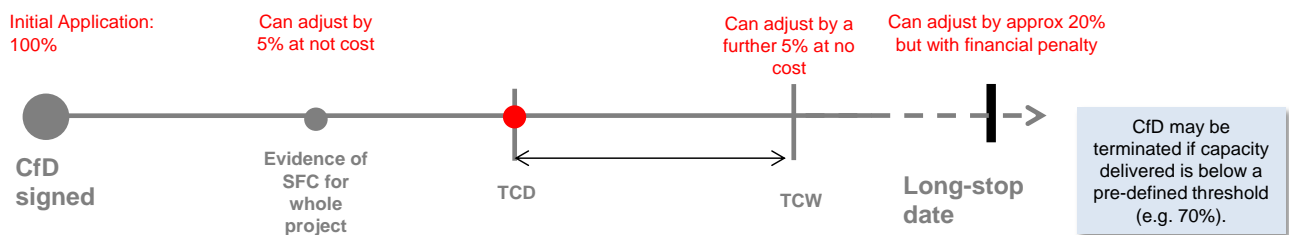
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<sup>19</sup> This is referred to as the “Milestone Delivery Date” in the CfD Contract Spine.

particular, to mitigate the risk of strategic over-bidding – if delivery falls short of 25 percentage points<sup>20</sup> less than the adjusted contract capacity agreed at the substantial financial commitment milestone the Counterparty will have the right to terminate that CfD.

9. In total, therefore, a Developer will be able to deliver circa 30% less than the initially agreed capacity for a 10% reduction in the strike price. This means that the Developer can take a decision when reaching financial close to vary the capacity delivered by up to this amount, without facing contract termination (albeit that to use all of the flexibility in this way would then mean that it was not available to cover unplanned reductions in capacity).
10. More detail on the Termination process is set out in the Further Conditions Precedent clauses of the Draft CfD Contract<sup>21</sup>.

**Figure 4: Capacity Adjustment Timeline**



<sup>20</sup> This comprises of the 5 percentage points of ‘cost free’ adjustment and the 20 percentage points of further flexibility.

<sup>21</sup> Clause 3, and Schedule 1 of the Draft CfD Contract





# Annex A – Detailed Eligibility Provisions

1. Fifteen renewable technologies are eligible for CfDs at present. We will set out detailed legal definitions for those technologies and for the associated fuels which can be used for fuelled renewable technologies. These definitions are expected to be based on those in the Renewables Obligation, adjusted to accommodate CfD requirements. Descriptions of each technology and of the associated fuels are given below for initial information.

Definitions		
Technology	Descriptor	Fuel
Advanced Conversion Technology (ACT) (with or without CHP)	Generation of electricity from either gasification and pyrolysis. The CfD strike price for Advanced Conversion Technologies covers both the 'standard' and 'advanced' gasification and pyrolysis bands offered under the Renewables Obligation.	Eligible fuels will be subject to detailed definition, but will include gaseous or liquid fuels produced from waste or biomass by means of gasification.
Anaerobic Digestion (with or without CHP)	Generation of electricity from gas formed from certain materials.	Gas from material which is neither sewage nor material in a landfill.
Biomass Conversion	Biomass conversions are units or stations which were fossil fuel generating stations and which have converted in order to generate electricity from 90-100% biomass instead of fossil fuels.	Biomass fuels, to be defined.
Dedicated Biomass (with or without CHP)	Dedicated Biomass CHP covers units or stations which have not previously been fossil fuel generating stations, which generate electricity from 90-100% biomass instead of fossil fuels, and which are also qualified combined heat and power stations.	Biomass fuels, to be defined.

Energy from Waste with CHP	Generation of electricity from the combustion of waste in a qualifying combined heat and power generating station.	Waste fuels, to be defined.
Geothermal (with or without CHP)	Generation of electricity using naturally occurring subterranean heat.	n/a
Hydroelectricity	Generation of electricity from water pressure at a hydroelectric power station.	n/a
Landfill Gas	Generation of electricity from gas formed by the digestion of material in a landfill site.	Landfill gas, to be defined.
Offshore Wind	Generation of electricity from wind at a generating station that is offshore.	n/a
Onshore wind	Generation electricity from wind at a generating station that is onshore.	n/a
Sewage Gas	Generation of electricity from gas formed from sewage (including sewage which has been treated or processed).	Sewage gas, to be defined.
Solar PV	Solar photovoltaic (PV) involves the direct conversion of sunlight into electricity.	n/a
Tidal Range	Tidal barrage and tidal lagoon both involve the generation of electricity via the release of water impounded behind a barrier using a difference in tidal levels.	n/a
Tidal Stream	The generation of electricity from the capture of the energy created from the motion of naturally occurring tidal	n/a

	currents in water.	
Wave	The generation of electricity from the capture of the energy created from the motion of naturally occurring waves on water.	n/a

### Technologies for which strike prices have not been published

2. There are several technologies which currently receive support under the Renewables Obligation, for which we are not currently setting a strike price or offering the option of bespoke negotiations. These technologies are:

- Biomass co-firing;
- Dedicated biomass;
- Standard bioliquids; and
- Geopressure.

3. The reason for this position is set out for each of these technologies below:

- **Biomass Co-firing.** We are not offering CfDs for co-firing plants because, as outlined in the Renewables Obligation Banding Review Government Response, our preference is for full biomass conversions. Conversions are more sustainable and provide higher levels of renewable generation. Significant support for biomass co-firing under CfDs could potentially destabilise the plans for those seeking to make full unit or plant conversions.
- **Dedicated Biomass.** We took the decision to constrain deployment of Dedicated Biomass in line with the conclusions of the 2012 UK Bioenergy Strategy; in the medium to long term, new build electricity-only biomass plant do not offer as cost-effective a means of decarbonising the electricity grid as other renewables technologies, including offshore wind. However, we were aware that several plans for projects were well advanced, having invested heavily in getting their projects “shovel-ready”. For this reason, we decided to provide a mechanism to allow those projects to come forward and introduced a 400MW non-legislative cap with a notification procedure. In line with the conclusions of the Bioenergy Strategy, we have decided not to offer a strike price for dedicated biomass. We are aware that several projects have asked for FID-enabling and are looking at the CfD route, but this would circumvent our policy intent to discourage electricity-only new build and to encourage more resource-efficient technologies such as CHP and heat.
- **Standard Bioliquids.** No strike price is being offered for bioliquids at this time, as we believe that sustainable waste oils, such as used cooking oil, are better suited to other

sectors such as transport. The UK is taking an active role in discussions on proposed amendments to the Renewables Directive to address sustainability issues such as indirect land use change. There is already a cap on the amount of support for bioliquids in electricity production under the Renewables Obligation, to direct sustainable biofuels into other sectors such as transport, where there are limited options for decarbonisation. As the Government does not see bioliquids playing an important part in our future renewable electricity mix, we have chosen not to offer a strike price for bioliquids at this time, rather than instituting a similar cap for CfDs. The strike price for Advanced Conversion Technologies will cover advanced bioliquids. None of the other strike prices will cover bioliquids.

4. The government recognises that CHP use of bioliquid produces the most energy per unit of input fuel leading to high levels of efficiency. However, bioliquids are one of the few sources of renewable fuel available for transport and to be consistent with the bioenergy strategy we must be mindful to not divert significant volumes of bioliquids from the transport sector. For this reason, the Renewables Obligation has a supplier cap to limit the amount of support for bioliquids and proposals for supporting bioliquid CHP in the Renewable Heat Incentive are to link support to the Renewables Obligation and its supplier cap.
  - **Geopressure.** Government is not offering a strike price for geopressure at this time as this technology is at an early developmental stage. Although geopressure is eligible for support under the Renewables Obligation, there are no geopressure projects currently receiving or seeking that support. On that basis, Government had no means to set a reliable strike price that will incentivise cost-effective deployment and had no clear basis on which to determine appropriate Target Commissioning Windows or Longstop Dates.

### Biomass Sustainability

5. Government will only provide support for low carbon electricity which is generated in a sustainable manner and which complies with relevant sustainability criteria. Consequently, there is a requirement to check that the plant built is indeed complying. The CfD Counterparty body or a body contracted to do this on its behalf such as Ofgem will verify sustainability as part of a retrospective audit, in a similar manner to that which occurs under the Renewables Obligation. It is anticipated that the same criteria which apply for the Renewables Obligation will apply for the CfD. So the sustainability criteria applied to biomass in the Renewables Obligation will also be applied to biomass plant in the CfD. There is not a clear rationale for placing different levels of compliance on generation within the two regimes.
6. These sustainability provisions are relevant only for fuelled stations, and do not apply to Solar PV.

### The project is not supported through another scheme

7. Projects will only be eligible to apply for a CfD if they are not in receipt of, or in the process of applying for, support from other schemes.
8. Projects will need to demonstrate that:
  - a. the project, or part, applying for a CfD is not in receipt of, or applying for, another low-carbon electricity generation support scheme (e.g. Renewables Obligation,

Small Scale Feed-in-Tariff, Non-Fossil Fuel Obligation, or Capacity Mechanism)  
They will need to provide written confirmation that:

- i. Renewables Obligation or Small Scale Feed-in-Tariff accreditation has not been received in respect of the station, or any part of it (except for biomass co-firers and offshore wind farms on the basis set out in the Renewables Obligation Transition consultation); or
- ii. an application for Renewables Obligation accreditation is not under consideration in respect of the generating station, or any part of it;

and written confirmation from Ofgem and/or the NFPA (Non-Fossil Purchasing Agency) that:

- i. the applicant has informed Ofgem or the NFPA (Non-Fossil Purchasing Agency) of its application for a CfD, and
- ii. the operator has not been offered Renewables Obligation or Small Scale Feed-in-Tariff accreditation, and/or is not in receipt of support under the Non Fossil Fuel Obligation in respect of the whole or any part of the generating station;

9. There are two exceptions to the above rule:

- Biomass co-firing stations or units accredited under the Renewables Obligation will be eligible to apply for a CfD as a Biomass Conversion and to leave the Renewables Obligation if successful. (Stations or units will be required to prove that they have not received Conversion or Dedicated Biomass level Renewables Obligation Certificates for that part subject to the application for the CfD in order to be eligible for this option.)
- Offshore wind generating stations accredited under the Renewables Obligation, which have not yet completed and registered all their phases, will be eligible to apply for a CfD for one or more of the remaining phases. They will be required to prove that they have not received the Renewables Obligation for that part subject to the application for the CfD.

10. Both these exceptions are covered in the Renewables Obligation Transition Consultation published on 17 July 2013, and are subject to the detailed provisions set out in that document.

11. The developer applying for a CfD will be required to provide a declaration that they are not in receipt of another form of support and this will need to be verified with the administrators of those schemes. The scheme and associated signatory are:

- Renewables Obligation – Ofgem;
- Small Scale Feed-in-Tariff – Ofgem;
- Non Fossil Fuel Obligation – NFPA (Non-Fossil Purchasing Agency); and
- Capacity Mechanism.

12. CFDs are primarily available to new generation e.g. stations that have not received support under the Renewables Obligation, Small Scale Feed-in-Tariff, or the Non-Fossil Fuel Obligation (NFFO). CfD's will also not be available to any plant in possession of a Capacity Mechanism Contract.
13. Eligibility for a CfD does not include stations built prior to the CfD scheme.
14. The CfD is not available to existing, low carbon facilities that have been developed under the Renewables Obligation, other support schemes or in the market, that undergo significant refurbishment. See the subheading on "Additional Capacity" below for a discussion of the treatment of CfD plant that upgrade their facility during the life of a CfD by adding additional plant or by refurbishing an existing facility to increase its capacity.
15. CfDs are available to plants or units converting from partial co-firing under the Renewables Obligation to 100% biomass. "New" generation has been accepted as including biomass conversion where existing coal fired stations which are accredited to co-fire under the Renewables Obligation move to 100% biomass. Plants or units which are currently converted under the Renewables Obligation will not be accepted for a CfD.

### **Additional Capacity**

16. New additional capacity at Renewables Obligation -accredited stations intending to opt for the CFD will need to meet the CFD eligibility requirements. This will include requirements to ensure that the capacity in each scheme is distinct, and the outputs can be measured separately. These requirements will also apply to biomass units converted under a CfD at Renewables Obligation -accredited stations (see above), and to later phases at Renewables Obligation -accredited offshore wind farms which take up the option to transfer to the CfD. Full details on these options are in the Renewables Obligation Transition Consultation published on 17 July 2013. Subject to meeting the eligibility criteria for the CfD scheme, operators putting in place additional capacity of more than 5 MW will be eligible to apply for a CfD in respect of that additional capacity.
17. Following the closure of the Renewables Obligation to new capacity on 31 March 2017, operators of Renewables Obligation -accredited stations will continue to have the option of applying for a CfD in respect of support for additional generating capacity of more than 5 MW at those stations, but will no longer be able to apply to register that additional capacity under the Renewables Obligation. In the event that the plant has capacity accredited under the Renewables Obligation the original accredited capacity at the station will remain within the Renewables Obligation.
18. Once an operator has applied for a CFD in respect of any additional capacity at an Renewables Obligation -accredited generating station, they will not be eligible to register any further additional capacity at that generating station under the Renewables Obligation, unless and until that application is rejected. The choice will be available only in the direction of Renewables Obligation to CfD, not the other way round. (This is intended to avoid the administrative complexity that would arise if stations were entitled to swap back and forth between the Renewables Obligation and the CfD on each element of additional capacity.)

## Annex B – Phased Projects

### **This sets out how Phased Projects are treated during Allocation.**

1. Government recognises that large offshore wind projects are likely to be built in a series of stages. Under the Renewables Obligation regime Government already allows offshore wind projects to structure their projects in a way that recognises that they deploy over a number of years. The CfD allocation methodology also needs to ensure that such projects are able to secure support.
2. The CfD allocation process will ensure that phased projects can secure a CfD and have clarity about strike prices. At the same time the system must also protect Government and consumers against risks of non-delivery, late delivery and gaming.
3. Reflecting this, the CfD will allow offshore wind projects to phase their commissioning under the CfD, subject to them adopting appropriate metering arrangements and complying with obligations (in the form of the Substantial Financial Commitment milestone, and commissioning windows) that reflect the phased deployment of their projects.
4. Government is currently minded to allow each phase of a multi-year project to receive the strike price available for the delivery year of the first phase. The CfD allocation process will also ensure that projects wishing to deliver in phases can be held to account against appropriately tailored Substantial Financial Commitment Milestones, Target Commissioning Dates, Longstop Dates (LSD) and Termination Provisions.
5. To qualify for phased CfD support, offshore wind projects must meet the following conditions:
  - The total capacity of the project must not exceed 1500MW. Any capacity above 1500MW will not qualify;
  - All phases of the project must be within the same Crown Estate lease area, i.e. offshore wind development with the same owner/operator which are in different parts of the country will not be eligible for phasing;
  - 35% of the capacity must be constructed in the first phase of the project;
  - The target commissioning date for the first phase must be no later than 31 March 2019;
  - The target commissioning date for the final phase must be the earlier of the two following points:
    - no later than two years after the target commissioning date of the first phase; and
    - no later than 31 March 2021.

6. As with a standard project, phased projects are subject to provisions ensure that support under CfDs is not permanently tied up by projects which fail to commission. For phased projects, we consider that termination rights for late/non-delivery should only be attached to the first phase of a project. Later phases will not be subject to potential termination for these reasons, reflecting that the project will, having commissioned at least 35% of its capacity, face very strong financial incentives to complete later phases.
7. In order to provide incentives under the contract to deliver each phase, and to reduce incentives for gaming and strategic over-bidding for capacity, all phases will be subject to similar provisions in respect of under-delivery of capacity. In the event that later phases of a project deliver less than 90% of the contracted capacity (by the Longstop Date for that phase) the strike price will be amended down in line with the capacity adjustment rules that apply to all CfD projects. However, the Developer will be able to reduce the overall capacity by up to 5% at the point of the Significant Financial Commitment milestone, and will be able to reduce the capacity of each phase by a further 5% without any adjustment to the strike price.
8. The protections against late delivery of projects will also apply to phased projects, with delivery outside of the Target Commissioning Window (for each phase) leading to a reduction in the duration of support available for that phase.



# Annex C – Detailed requirements for evidencing the achievement of the Substantive Financial Commitment Milestone by Technology

Metric for Substantive Financial Commitment Milestone	
Advanced Conversion Technology (ACT) (with or without CHP)	<ul style="list-style-type: none"> <li>• Construction contracts (Signed EPC contract covering the supply and installation of gasifier                             <ul style="list-style-type: none"> <li>○ or pyrolyser; or signed supply agreement for the gasifier or</li> <li>○ pyrolyser; or signed framework agreement for gasifier or</li> <li>○ pyrolyser supply and binding purchase order referencing the</li> <li>○ particular project.</li> </ul> </li> <li>• Environmental permit received and pre-operational conditions discharged</li> <li>• Financial Investment Decision (FID) / Financing secured</li> </ul>
Anaerobic Digestion (with or without CHP)	<ul style="list-style-type: none"> <li>• Construction contracts (Binding commitment for supply of major equipment i.e. Signed EPC contract covering the supply and installation of digester; or signed supply agreement for the digester; or signed framework agreement for digester supply and binding purchase order referencing the particular project.. )</li> <li>• Environmental permit received and pre-operational conditions discharged</li> <li>• Financial Investment Decision (FID)Financing secured</li> </ul>
Biomass Conversion	<ul style="list-style-type: none"> <li>• Construction contracts (Signed EPC contract covering the existing plant conversion contract; or signed supply agreement for the existing plant conversion; or signed framework agreement for plant conversion and binding purchase order referencing the</li> </ul>

	<p>particular project.)</p> <ul style="list-style-type: none"> <li>• Environmental permit received and pre-operational conditions discharged</li> <li>• Financial Investment Decision (FID) / Financing secured</li> </ul>
Dedicated Biomass (with/without CHP)	<ul style="list-style-type: none"> <li>• Binding commitment for supply of major equipment as evidenced by Signed EPC contract covering: <ul style="list-style-type: none"> <li>○ the supply and installation of furnace and boiler island; or</li> <li>○ signed supply agreement for the furnace and boiler island; or</li> <li>○ signed framework agreement for furnace and boiler island supply;</li> <li>○ and binding purchase order referencing the particular project</li> </ul> </li> <li>• Environmental permit received and pre-operational conditions discharged</li> </ul>
Energy from Waste with CHP	<ul style="list-style-type: none"> <li>• Financial Investment Decision (FID) Financing secured</li> <li>• Environmental permit received and pre-operational conditions discharged</li> </ul>
Geothermal (with or without CHP)	<ul style="list-style-type: none"> <li>• Financing secured, supporting the drilling of a project’s first well; and</li> <li>• A signed contract with a drilling contractor to drill the first well</li> </ul>
Hydroelectricity	<ul style="list-style-type: none"> <li>• Signed EPC contract covering the civil works for the major scheme components; or signed civil works contract for the major scheme components; or signed framework agreement for civil works and purchase order referencing the major scheme components for the particular project</li> <li>• Financial Investment Decision (FID) / Financing secured ( as evidenced by signed loan agreement)</li> </ul>

	<ul style="list-style-type: none"> <li>• Key project consents (50MW – 300MW) – DCO; and</li> <li>• Other key project consents as included in consents register not obtained at eligibility stage obtained to allowing the project to be constructed ;</li> <li>• &lt;50MW - Submissions to Local Planning Authority and</li> <li>• corresponding confirmation from regulator that conditions discharged</li> </ul>
Landfill Gas	<ul style="list-style-type: none"> <li>• Construction contracts (Signed EPC contract covering the supply and installation of engines; or signed supply agreement for the engines; or signed framework agreement for engine supply and binding purchase order referencing the particular project)</li> <li>• Environmental permit received and pre-operational conditions discharged</li> <li>• Financial Investment Decision (FID) Financing secured</li> </ul>
Offshore Wind	<ul style="list-style-type: none"> <li>• Major construction contracts signed (Signed EPC contract covering the supply and installation of the wind)</li> <li>• turbine groups; or signed supply agreement for the wind turbine groups; or signed framework agreement for wind turbine group supply and binding purchase order referencing the particular project]</li> <li>• Financial Investment Decision (FID) / Financing secured (as evidenced by signed loan agreement)</li> <li>• Crown Estate lease signed</li> <li>• Energy Yield Assessment</li> <li>• Key Project consents (DCO and other key project consents as included in consents register not obtained at eligibility stage obtained to allowing the project to be constructed)</li> </ul>
Onshore wind	<ul style="list-style-type: none"> <li>• Financial Investment Decision (FID)/Financing secured (as evidenced by signed loan agreement)</li> <li>• Major construction contracts signed covering 50% of build cost (turbine - i.e. turbine contracts, EPC contract covering supply and installation of the wind turbine groups ; or signed framework</li> </ul>

	<p>agreement for wind turbine group supply and binding purchase order referencing the particular project)</p> <ul style="list-style-type: none"> <li>• Key Project consents (DCO and other key project consents as included in consents register not obtained at eligibility stage obtained to allowing the project to be constructed)</li> </ul>
Sewage Gas	<ul style="list-style-type: none"> <li>• Construction contracts (Binding commitment for supply of major equipment i.e. Signed EPC contract covering the supply and installation of engines; or signed supply agreement for the engines; or signed framework agreement for engine supply and binding purchase order referencing the particular project.)</li> <li>• Environmental permit received and pre-operational conditions discharged</li> <li>• Environmental permit received and preoperational conditions discharged</li> <li>• Planning permission and Environmental permit reconstruction conditions discharged</li> <li>• Financial Investment Decision (FID)Financing secured</li> </ul>
Solar PV	<ul style="list-style-type: none"> <li>• Financial Investment Decision (FID)Financing secured</li> <li>• EPC contract signed covering supply and installation of PV panels; or signed framework agreement for PV panel supply and binding purchase order referencing the particular project.</li> <li>• Energy yield assessment</li> </ul>
Tidal Range	<ul style="list-style-type: none"> <li>• Financial Investment Decision (FID) / Financing secured ((as evidenced by signed loan agreement)</li> <li>• Signed EPC contract covering the civil works for the major scheme components; or signed civil works contract for the major scheme components; or signed framework agreement for civil works and purchase order referencing the major scheme components for the particular project</li> <li>• Energy yield assessment</li> <li>• Key project consents (DCO and other key project consents as included in consents register not obtained at eligibility stage</li> </ul>

	<p>obtained to allow the project to be constructed)</p> <ul style="list-style-type: none"> <li>• Crown Estate Lease signed</li> </ul>
Tidal Stream	<ul style="list-style-type: none"> <li>• Financial Investment Decision (FID) / Financing secured</li> <li>• Signed EPC contract covering the supply and installation of turbines; or signed supply agreement for the turbines; or signed framework agreement for turbine supply and binding purchase order referencing the particular project</li> <li>• Energy yield assessment</li> <li>• Crown Estate Lease Signed</li> <li>• Financial Investment Decision (FID) / Financing secured</li> </ul>
Wave	<ul style="list-style-type: none"> <li>• Financial Investment Decision (FID) / Financing secured</li> <li>• Binding commitment for supply of major equipment (e.g. Signed EPC contract covering the supply and installation of generation engines)</li> <li>• Energy Yield Assessment</li> </ul>

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