

## Contracts for Difference – Allocation Rounds and Notifications

17<sup>th</sup> October 2013

### 1. Introduction

#### Introduction – Ronan O'Regan

- The workshop sessions aim to provide all stakeholders with an understanding of how EMR can be implemented in practice: the workshops will be concerned with process rather than practice
- The workshops should also help organisations set up in time and participate in EMR
- The process maps aim to allow people to understand the interfaces between different stakeholders
- Outcomes: detailed minutes and question log
- Any feedback from industry on data flows and these processes would be helpful
- PwC are to provide a detailed Operating Model, process maps and customer journeys
- Following the workshops, the process maps will be updated to reflect the points from the workshops
- DECC also aim to provide a clear view of governance arrangements and what outline what is expected of each participant within the process
- No comments will be attributed to individuals and this is an open discussion. Detailed notes are on the website
- DECC are also running a live CfD question log which will be available in due course. This will inform the market on how issues raised will be dealt with

### 2. Allocation: Unconstrained and Constrained Rounds – Vikram

#### Policy Overview

- Provides context on the vision DECC have set out for the first stage of 'first-come, first-serve' allocation and the following allocation rounds that take place twice a year
- The generic allocation process is designed to support the longer-term transition to competitive allocation
- This process can be divided into 4 main stages that aim to meet the 2050 decarbonisation target:
  - o 1. Current arrangements (RO) alongside new Contracts for Difference with prices for most renewable technologies set administratively. Rationing process used if needed to live within budget constraints
  - o 2. Technologies mature (but at different rates) and some are able to enter competitive, technology-differentiated auctions
  - o 3. Inter-technology competition. Technologies have matured and are able to compete on price.
  - o 4. Technologies are mature enough and the carbon price is high and sustainable enough to allow all generators to compete without intervention.
- Government will specify a 'CfD allocation budget' available to the Delivery Body
  - o Decisions on the level of the CfD allocation budget will be made in the context of wider Levy Control Framework spend, and will have regard to (amongst other factors):
    - Spend on other policies (e.g. Renewables Obligation, small-scale Feed-in-Tariffs)
    - Other spend on CfDs / Investment Contracts under FID-enabling (e.g. renewables falling outside process, CCS, nuclear, etc...)
- The mechanics of allocation rounds work much like FCFS if no constraints are triggered. The allocation rounds can be divided into 5 processes:
  - o Firstly, the Delivery Body will verify the eligibility of the applicant
  - o Secondly, the Delivery Body will complete a valuation of the eligible projects
  - o There will then be a comparison between the cost of the eligible projects against the budget available and any other constraints
  - o If a constraint is triggered, the Delivery Body will check whether there is any additional budget for the allocation of CfDs which would relieve the constraint
  - o Finally an auction will be run to address constraints
  - o If there are appeals on eligibility or allocation outcome, the round will be paused while the appeal is addressed
- Under constrained allocation, CfDs will be allocated via an auction mechanism to the cheapest

projects, subject to any constraints

- Projects subject to rationing will be ranked according to the strike prices they offer, with the cheapest projects securing CfDs
- Subject to overall budget and potential minimum and maximum constraints on “categories” (i.e. technologies or groups of technologies)
- Proposing that the rationing process is a “pay-as-clear” auction
- Clearing prices would be determined as follows:
  - For categories that are subject to binding minima or maxima, the clearing price would be the most expensive accepted bid in each category
  - For categories which are not subject to binding maxima, the clearing price would be equivalent to the most expensive accepted bid before the overall budget constraint (for that delivery year) is reached
- The Strike Price paid to a project would be the lower of:
  - the administrative strike price for the technology; or
  - the clearing price established for the category
- DECC provided an overview of the rationing process by talking through some graphical examples. All graphs represented the allocation for different technologies within a delivery year

#### **Process Map Details (numbers refer to individual points on process maps)**

- **1.** DECC will define the budget: between the technology pots, strike price and minima/maxima. DECC will also confirm the valuation rules for the CfD allocation round
- **2.** DECC may want to change the budget/starting position. There will be notifications on the initial budget position and this cannot change mid round
- **3-8.** The Delivery Body will publish the rules and guidance around the allocation round and Generators will submit their applications. The Delivery Body will log these applications, check eligibility and perform initial valuations
- **9.** The Delivery Body will assess the available headroom to determine what budget is available
- **10.** If a constraint does occur, DECC will re-evaluate the budget and publish any changes
- **11.** The market will be informed on the ‘applied for’ budget for all eligible applicants, which will inform them that rationing may occur
- **17.** Represents the opportunity to re-evaluate/re-confirm the available headroom given any constraints
- **18.** Decisions will be made on whether rationing is required. This will be subject to policy and decisions on which technologies are rationed and which aren’t
- **19-20.** If no rationing is required the budget will be allocated and successful and unsuccessful applicants will be notified
- **21-22.** If rationing is required, the Delivery Body will apply the rationing rules, such as minima/maxima/phasing etc... and tie breaker rules will be applied if required. From this rationing process successful and unsuccessful projects will be identified and the applicants will be informed.

#### **Questions/Issues**

- **Policy Summary**
  - Stakeholders asked whether the cheapest project that meets the criteria has the most chance of winning a CfD contract. DECC responded that this was true in principle
  - Concern from industry that if a large amount of the budget went to technologies that are protected, there would be no budget left for the other technologies. DECC responded that the minima and maxima should provide protection and that industry would be kept informed of how much budget will be left
  - Industry asked if the budget allocation will be voted upon by Parliament? DECC responded that this was under consideration
  - Will the determination of the minima or maxima on a technology be under administrative control or political? This is yet to be confirmed and DECC to clarify.
  - Confirmation is needed on the setting of the minima. i.e. if it will be made on an annual or monthly basis. DECC noted that policy on minima/maxima was still under development.
  - Industry asked if there is an opportunity to change the original bid during the application process and if generators could re-submit the bid nearer the real time to more accurately reflect the price of the bid? DECC to consider.
  - If a project that puts in a low strike price in order to win the project but it is not viable, how will this be investigated? DECC will look at this issue. DECC want to make sure that the people who submit a bid are serious about signing up to obligations and meet the requirements of the

contract

- Issue from industry on the problem of the process of rewarding the lowest cost projects. As for some new technologies, they will be more expensive up front but will be better at meeting the needs of UKs renewable targets in the long run. But the allocation process seems to lead Generators to stick with existing technologies, as they are cheaper and therefore will be more likely to win a contract. DECC will consider this.
- Industry questioned whether DECC are open minded to changes on the type of auction used (e.g. descending clock auction) DECC is considering feedback received following the publication of the August 2013 Allocation Methodology document.
- Industry concerned on the differences in the process between Stage 1 and Stage 2 as it may not allow generators to plan ahead and manage development expenditure risk. Request for an understanding on what stage 2 will look like, especially if it is different in terms of price determination (e.g admin strike price vs market rate). Industry needs clarity and certainty on the auction process up to 2020. Otherwise this increases risk and makes it difficult to build in project timelines. DECC to clarify on the auction process.
- Stakeholders asked about how auction design and the setting of minima/maxima would accommodate large/"lumpy" projects. DECC noted that policy on minima/maxima was still under development and that it would consider the auction design issues.
- Stakeholders asked about whether auction design would allow bidders flexibility to adjust volumes and/or phasing. DECC to consider.
- Industry asked about the different technologies and the fact that they will be competing for different gestation periods. E.g. the budget could be gone by 2017 and would not accommodate offshore wind technologies. DECC stated that the maxima and minima could protect this along with particular policies on certain technologies.
- Industry stated that some key people are missing from the CfD Expert Group who would be able to provide input. DECC state that they will look to provide means for interested stakeholders to engage in policy development..
- Industry wanted confirmation on the delivery plan timing. DECC stated that the CfD delivery plan is scheduled for the end of the year. The allocation technical framework (ATF) will also be published in January

#### - Process map

- **19.** Need to add when the applicant is informed of the outcome
- Confirmation is needed on what information is public and what is private, and what will go on the Delivery Body website. DECC stated that is most likely that information on clearing prices and who is successful in the allocation process will go on the website but confirmation is needed on what information will be included.
- **11.** Change 'reserved' to 'applied for'
- **1.** The process needs to be completely visible to industry on what budget is available and on wholesale price assumptions, etc. Box 1 should reflect the mechanics of the calculation of the valuations. Industry feels that these decisions (in particular Government decisions) need to be transparent to allow challenge. DECC will consider.
- Industry noted there was a lack of clarity about how long an allocation round will take. As industry needs to factor in the project timescales. In particular, a developer will need to nominate a target commissioning date and window on applying for a CfD, in advance of knowing when it would get a contract (if successful), due to the uncertainty on how long an allocation round would take. DECC to consider.

### 3. Notification

#### Overview

- DECC will look to provide clear notification at various points so the market knows what is going on in the allocation process. In the notification process:
  - Where the Delivery Body determines that a project can be allocated a contract.
  - They will inform the project that they have been successful.
  - Notification will include all details to be included in "skeleton" contract, e.g. name of project, developers details, technology, capacity, strike price (including where amended due to

<p>constrained Allocation Round), TCD, TCW, LSD, SFC Milestone date.</p> <ul style="list-style-type: none"> <li>○ The Developer will be able to check details are correct ahead of receipt of contract from Counterparty.</li> <li>○ At same time the Delivery Body will provide those details to the Counterparty Body in a direction to offer the applicant a contract.</li> <li>○ Counterparty Body will prepare and issue the contract to the successful project</li> <li>○ The project will need to return a signed copy of the contract to the Counterparty Body within set time period.</li> <li>○ If a signed copy is not returned the CfD would fall away, and the project would need to reapply.</li> </ul>
<p><b>Process Map Details (numbers refer to individual points on process maps)</b></p> <p><i>Successful application</i></p> <ul style="list-style-type: none"> <li>- <b>5.</b> Applicants will be informed of their CfD allocation</li> <li>- <b>7.</b> The Delivery Body will publish the current budget position</li> <li>- <b>6/8.</b> The Counterparty will be informed of the CfD allocations and the applicant data. The Counterparty will then produce the contract that will reflect generator and eligibility data</li> <li>- <b>10.</b> The Delivery Body will publish the current budget position once all contracts have been confirmed and update the CfD register</li> </ul> <p><i>Unsuccessful application</i></p> <ul style="list-style-type: none"> <li>- <b>3.</b> The applicant will make a decision on whether to appeal the decision. If they choose not to appeal, the Delivery Body will update this information to the registry and it will be reflected in any publish budget positions</li> <li>- <b>4.</b> If the applicant chooses to appeal they will go through a review process that is TBC. Current DECC are considering an audit of the process as a possible option</li> </ul> <p><b>Questions/Issues</b></p> <ul style="list-style-type: none"> <li>- Industry queried what the process will be if a Generator decides to not sign a contract? Will this be allocated to someone else? Will the budget roll forward to next time? DECC need to come back to industry on this.</li> <li>- Confirmation needed on the appeal process</li> <li>- How long will Generators get to sign the contract? DECC stated that this would be a relatively short period of time (2-3 weeks estimate)</li> <li>- In the event of a delay or dispute what will happen with the application? Need confirmation on the time limit for appeals, what affect this will have on the other applicants and if a successful applicant is overturned, what will happen to the remaining budget (i.e. will previously unsuccessful applicants be rewarded a contract?) DECC will take this back and confirm with industry.</li> <li>- 'Application(s) Successful' line to be removed from the process map</li> </ul>