

Paper for CfD Expert Group: Proposed values of Target Commissioning Windows and Long Stop Dates

1. Introduction

- 1.1. DECC published values for the proposed Target Commissioning Window (TCW) and Long Stop Date (LSD) for renewable energy technologies in the Allocation Methodology for Renewable Generation and the Draft Contract for Difference in August 2013. These values were informed by experience of developers and took into account the challenges of particular technologies, issues around the effective administration of the system and the incentives on developers for timely delivery. DECC's proposed values are broadly aligned to a document produced by Mott MacDonald providing technical design support, findings of which were presented to the Expert Group in May.
- 1.2. DECC's intention is that the TCW reflects the reality recognises that it is not always possible for projects to be absolutely confident that they can deliver on a specified date. The TCW is intended to provide an appropriate, technology-specific window which the developer will be able to nominate the start of, provided that the Target Commissioning Date falls within the TCW.
- 1.3. The LSD is a point beyond the end of the TCW after which a project that has failed to meet the contractual Further Conditions Precedent 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 reallocation of the budget to new applicants. The duration between the end of the TCW and the LSD is technology specific.
- 1.4. The proposed values are set out in the Annex at the end of this document.
- 1.5. It should be noted that two inconsistent values for the LSD of wave powered generation were erroneously published in the August documents. The correct proposed value for the wave LSD is 2 years.

2. Target Commissioning Window (TCW) values

Stakeholder feedback

- 2.1. Respondents were generally neutral towards the majority of our proposed values for technology-specific TCWs, with some providing positive and some negative feedback on the values for particular technologies.
- 2.2. The TCW which provoked the most discussion was offshore wind, for which DECC proposed a 1 year TCW. Some industry stakeholders with interest in offshore wind welcomed this as reasonable provided the Force Majeure and geological issue protection that we set out would be included in the contract. One prospective developer went further and stated that a one year

TCW for offshore wind is necessary to prevent gaming through applications against unrealistic timescales.

- 2.3. A number of respondents disagreed with the proposed offshore wind TCW, generally citing project complexity and technology-specific risks such as unpredictable weather windows as necessitating greater flexibility. Some developers drew attention to the differing technological challenges between onshore wind and offshore wind, and argued that this should be reflected in the length of the latter's TCW.
- 2.4. These respondents suggested alternative TCW values for offshore wind, ranging from 18 months to 3 years. One respondent suggested that an offshore wind TCW of 1 year is acceptable, but only if top-up payments began with the first generation rather than when 70% of capacity came online, whereas another suggested that the length of TCW should be negotiated on a case-by case basis in order to reflect the circumstances of a particular project.
- 2.5. Other respondents also provided the following feedback:
 - The TCW for large onshore wind should be 2 years rather than 1 year, citing build and grid connection issues. A respondent provided the example of a project which was delayed by 14 months due to internal difficulties of a lender.
 - For tidal stream and wave generation the TCW should be 18 month rather than 1 year, to take account of high exposure to weather conditions and risks associated with innovative technology.
 - For tidal lagoon the 1 year TCW may be too short and should be determined by bespoke negotiations to accommodate weather and technological constraints.
 - For solar PV the 3 month TCW should be extended to 1 year in line with most other technologies, particularly to work around the particular seasons during which Distribution Network Operators (DNOs) allow connection.
 - One response welcomed the biomass conversion TCW of 1 year as being challenging but feasible.

Discussion

- 2.6. Across the majority of technologies stakeholder feedback was neutral or in some cases supportive. These include ACT (with or without CHP), anaerobic digestion (with or without CHP), biomass conversion, dedicated biomass (with or without CHP), EfW with CHP, geothermal (with or without CHP), hydroelectricity, landfill gas and sewage gas. The views we have received from stakeholders have not suggested that these values are inappropriate or impractical and DECC is therefore minded to retain these technology-specific values.
- 2.7. Where stakeholders have proposed longer TCWs for particular technologies they generally cite concern that the duration provides insufficient flexibility to accommodate the challenges of construction in the offshore environment. While we do not dispute that these factors have a strong bearing on projects, it is our view that enabling developers to set their own TCD (and commencement of TCW) allows them to manage risk by factoring in sufficient time for unexpected contingencies. Indeed, a minority of responses appear to misunderstand this point – suggesting that all commissioning need take place within that window. On the contrary, the TCD

is intended as the window in which commissioning may be completed so as to provide the capacity required to trigger CfD payments and enjoy the full length of the CFD.

- 2.8. The flexibility provided allows developers to draw on their previous experience in order to aim to commission by a date at which they can be reasonably certain of project completion. Increasing the length of TCW, for offshore wind for example, is likely to encourage developers to bid for an earlier delivery year as a longer TCW would allow for a lower degree of certainty of delivery by the agreed date.
- 2.9. The responses that we have received provide very limited evidence in support of the view that the flexibility provided in determining onset of the TCD and TCW would be an unworkable method of managing the risk of delay in offshore wind projects. One respondent submitted that a recent onshore wind development was delayed by 14 months due to the internal difficulties of a lender. They noted that if 6 months had been set aside to reach financial close then it would mean 8 months of lost support. They draw comparison to the Renewables Obligation (RO), stating that under that scheme the duration and level of support would be a certainty.
- 2.10. Our initial view is that this example does not imply that the proposed TCW is too short merely that the CfD differs from the RO. The CfD regime is structured in such a way that it requires certainty as to the capacity and timings of the generation it supports. It is therefore necessary to ensure that developers accurately gauge the capacity they can provide in a given timeframe. As discussed above, it should be possible to set project timescales in a way that takes into account and mitigates the risk of delayed financial close and other project risks. Indeed it wasn't clear from the example provided whether the TCW would have been a constraint for that project or whether the SFC would have been triggered by the developer's failure to reach financial close.
- 2.11. We would be interested to see and discuss any further evidence that may suggest our proposed TCWs would cause problems for developers which could not be addressed by varying the commencement of the TCW.
- 2.12. With regards to the comments on solar PV set out above, it is noted that solar PV generation can be deployed extremely quickly when compared to the majority of renewable technologies for which proposed TCWs have been published.
- 2.13. Our view is further supported by positive feedback received in relation to several technologies, including onshore and offshore wind and biomass conversion. In view of all of these considerations, DECC is not minded to increase the TCW values for these technology types (offshore wind, onshore wind, tidal stream, wave, tidal lagoon, solar PV).

Questions for Expert Group

- 2.14. There is a balance to be struck between giving developers more time than required to bring their capacity online (resulting in less efficient use of the LCF budget) on the one hand, and forcing them to set onerous project timescales (thereby increasing risk and cost) on the other.

A. Are there delay risks which could be managed by introducing a longer TCW for a given technology which the developer could *not* manage by setting a later commencement

date for the TCW? If so why? Can any evidence be provided to support these arguments?

- B. If TCW values were increased for a given technology, how could DECC ensure that the longer window is used to manage legitimate risks rather than to access higher strike prices for relatively straightforward projects that could never have been delivered in the proposed delivery year?**

3. Long Stop Date (LSD) values

Stakeholder feedback and discussion

- 3.1. The majority of respondents were neutral with regards to the published LSD values for most technologies. Some stakeholders gave conditional support to the proposed offshore wind LSD value, depending on other aspects of the contract (for example if projects are able to amend capacity after securing a CfD), while others welcomed the proposed length as appropriate and acceptable.
- 3.2. One respondent suggested that the offshore wind LSD should be raised to three years in phased projects only, while another suggested raising the LSD for Advanced Conversion Technology (ACT) from 1 year to 2 years. One respondent submitted that all LSDs should be determined by bespoke negotiations.
- 3.3. A respondent welcomed the biomass conversion LSD of 1 year as challenging but feasible, LSD of 1 year for onshore wind as appropriate and supported the LSD of 2 years for wave (clarified at paragraph 1.5 above) and tidal stream.
- 3.4. We are not minded to set individual LSDs in bespoke negotiations. This would both pass aspects of the management of routine projects on to Government. As the feedback on technology-specific values was largely neutral or balanced we are minded to maintain the proposed values for the LSDs for all technologies.
- 3.5. A number of stakeholders submitted that termination of contract at LSD introduces an unacceptable level of risk for developers. The issue of termination will be addressed at a separate/later forum.

Questions for Expert Group

- 3.6. We need developers to make accurate assessments of the capacity and timescales of the generation supported by CfDs. As well as missing out on any capacity not delivered, the budget will be reserved – locking other potential developers out – until it is reallocated.

- C. Are there any respects in which the proposed LSD values do not represent a reasonable cut-off point for a given technology?**

Annex: proposed values (published in August)

Target Commissioning Window (in years)	
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

Long Stop Date (in years following end of TCW)	
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
Offshore Wind	2
Onshore wind	1
Sewage Gas	1
Solar PV	1
Tidal Range	2
Tidal Stream	2
Wave	2