



CfD Market Readiness Working Group – Route-to-market information provision ahead of the first allocation round

Monday 7 July 2014, 14:00-15:00

Minutes and actions

Attendees:

DECC attendees:

Matt Coyne (chair)

Tim Warham

Helena Crow

Group members:

Andy Peyman EDF

Stuart Noble, Scottish Power

Rebecca McDonald, Centrica

Chris Granby, Infinis

Terry Ballard, RWE

James O’Meara, SSE

Matt Hayball, RES

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| 1. | Introduction | | Matt Coyne | |
| <p>MC thanked the group for its input to date.</p> <p>He then introduced the key questions that DECC hoped to cover in the meeting:</p> <ul style="list-style-type: none"> - How much certainty do generators need on their route-to-market costs in order to place bids in the first allocation round, by 3 December 2014 at the latest? - Are suppliers able to provide this certainty ahead of the first allocation round? - How might things change for future allocation rounds? - What, if anything, can DECC do to make this process as smooth as possible? <p>MC reminded the group that the meeting should be conducted in full accordance with competition regulations.</p> | | | | |
| 2. | Overview of the CfD Allocation Process and | | Matt Coyne | |

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| | Timeline | | | |
| <p>MC summarised the key dates in DECC's indicative timeline for the first allocation round. This is expected to commence on 14 October 2014, with an application closing date of 27 October 2014. The closing date for the submission of sealed bids is expected to be 3 December 2014, with successful applicants receiving their contracts between 29 December 2014 and 13 January 2015.</p> <p>MC also summarised what generators will need to do in order to submit bids and how the auction process will work. The process will be a sealed bid, pay-as-clear auction. It will rank all generators' bids and accept the cheapest first, until the budget for that delivery year is used up. All projects will be paid the price of the most expensive project which has been accepted. Bids submitted will not be shared with DECC and will only be used by National Grid to determine the clearing prices and which applications are successful.</p> | | | | |
| 3. | Feedback from Generators | | Generators | |
| <p>Generators said that, in order to fully participate in the allocation round, they would need a firmer idea of their route-to-market arrangements and costs than that provided by indicative PPA terms alone. Their preference was, generally speaking, for conditional PPAs (ie: a signed contract with all the terms locked down, conditional on them successfully obtaining a CfD), rather than the offer of a PPA in principle. Generators argued that a PPA in principle would require them to negotiate the remaining (and significant) details with offtakers and leave them in a weak negotiating position after the allocation round.</p> <p>Some generators also emphasised that they did not want a PPA that was purely conditional on a CfD, as this could leave it highly exposed to the risk of that CfD falling away for some reason. They argued that the PPA should also allow them to continue developing the project under the Renewables Obligation should they be unsuccessful in obtaining a CfD.</p> <p>Generators added that they would need a conditional finance strategy alongside a conditional PPA, given the risk of their bank falling away and rendering the conditional PPA unviable.</p> | | | | |
| 4. | Feedback from Suppliers | | Suppliers | |
| <p>Suppliers highlighted that it would take a lot of negotiating effort and cost to work up a conditional PPA and that this presents risks for both parties in terms of the time and resource wasted if the generator's bid is then unsuccessful in the CfD allocation round or the CfD then falls away. As an example they referenced the cost of securing a Parent Company Guarantee. Suppliers highlighted that the responsibilities for these costs (i.e.: who should reimburse whom) should be made clear from the start.</p> <p>Suppliers also highlighted the challenge of supplying conditional PPAs at short notice to allow generators to factor into their bidding strategies for the first CfD allocation round, given that Generators would need a fairly firm idea of the terms and conditions by 27 October and a final contract by 3 December. They explained that whether this approach is feasible in the longer-term would depend partly on whether they had a pre-existing relationship with the Generator, as well as how many Generators were approaching them for conditional PPAs at the same time.</p> <p>Some suppliers also flagged their preference for supplying a conditional PPA as late as possible in the allocation round process, when there would be less uncertainty over whether the project would go ahead.</p> | | | | |
| 5. | Timings ahead of the first allocation round | | Group discussion | |
| <p>Suppliers and generators agreed that the timescale in which to work up conditional PPAs ahead of the first allocation round is very tight.</p> | | | | |

Suppliers pointed out that it is likely that conditional PPAs will be easier to negotiate in subsequent allocation rounds, once both parties have learnt from the first round and, in many cases, binding heads of terms have already been agreed to.

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| 6. | DECC's role | | Group discussion | |
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MC summarised the trade-off that generators would need to make, between getting enough certainty over their route to market costs and doing this in time for the first allocation round.

The group agreed that, to help make this process as smooth as possible, some additional information could be included in DECC's Best Practise Guidance for negotiating CfD-compatible PPAs, particularly in the indicative timeline they have worked up for the process. MC explained that this indicative timeline is designed to be a beginners guide for parties with no previous experience of negotiating PPA terms together and would be most helpful for generators who have not had the chance to fully consider the CfD yet.

The group agreed that providing indicative PPA terms could be included in step two of the indicative timeline, where DECC recommends dialogue begins between generators and offtakers. They agreed that these terms would help both parties to clarify whether they are on the same wavelength.

The group agreed that an exclusivity agreement between the parties would also need to be made early on in the process, so that the offtaker can be sure the generator has decided to go with them and no one else before the Offtaker releases their indicative PPA terms and negotiations get fully underway.

The group agreed that, if required, a finalised conditional PPA would only be possible towards the end of the process, as the process for when offtakers would have the most certainty of a project going ahead.

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| 7. | Next Steps | | Matt Coyne | |
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DECC agreed that amend the indicative timeline in their Best Practise Guidance and circulate this round the group as soon as possible.

DECC then stated their intention to send this Guidance out for endorsements, from stakeholders and Trade Associations.

DECC asked the Group's permission to add their names to the list of endorsements, which they gave.

DECC highlighted their intention to publish the guidance as soon as possible, in order to maximise its usefulness ahead of the first CfD allocation round.