

Explanatory Note To Set Out The Wider Context Of The CFD Budget Notice

1. The Government today is publishing the budget notice that the Secretary of State is required to give to the EMR Delivery Body, National Grid, ahead of the first allocation round in October 2014. This requirement is set out in Regulation 11 'Budget Notices' of the Contracts for Difference (Allocation) Regulations 2014. The text of the whole regulations is available at: <http://www.legislation.gov.uk/ukxi/2014/2011/contents/made>

CFD Budget

2. Table 1 in the budget notice sets out the CFD budget for the Allocation Round starting on 16 October 2014. The overall budget is broken down by technology group ("pot") and delivery year. The figures given are the total available for any projects bidding into any year in this Allocation Round. CFDs will be allocated to the cheapest projects first, regardless of their start date, as long as they fit under the budget profile set out in the Budget Notice.
3. We are releasing budget as follows for the first allocation round commencing 16 October 2014:
 - *Pot 1 (established technologies)*: we intend to release for allocation in the 2014 allocation round £50m for projects commissioning in 2015/16 onwards, and an additional £15m for projects commissioning from 2016/17 onwards.
 - *Pot 2 (less established technologies)*: we intend to release for allocation in the 2014 allocation round £155m for projects commissioning in 2016/17 onwards, and an additional £80m for projects commissioning from 2017/18 onwards.
 - Pot 3: No budget released in 2014. Decisions on budget for the 2015 allocation round will be taken in 2015.
4. The projects that win the auction will receive 15 year contracts - meaning that the total spend **per year** for contracts allocated in the first allocation round this autumn will be up to £300m.
5. There are two basic shapes of budget profile – 'stepped' and 'flat'. A stepped budget profile has different amounts of budget in different delivery years. A flat budget profile has a single budget, which is available across all delivery years. The budget released for both pot 1 and pot 2 results in a stepped budget profile (with one 'step up' in 16/17 and 17/18 respectively). The auction rules remain identical, regardless of budget profile shape.

6. The Secretary of State is also publishing today the Government Response to the consultation¹ on changes to financial support for solar PV. The Renewables Obligation for the 2015/16 period was published on 1 October 2014. Other Government policy on the RO transition is set out in the Government response from 12 March 2014².
7. Budgets can be bid for by CFD applicants with Target Commissioning Dates in any delivery year in 2015/16-2018/19. This means that the budget release is the limit that may be spent in the relevant year; in practice, applications for CFDs may be successful which commission in later years.
8. All successful projects must be affordable within the budget released.³

Future allocation rounds and remaining budget

9. It is the Government's intention to hold a further allocation round from October 2015, with a draft budget notice published in July 2015 and a budget notice given in September 2015.
10. The indicative budget allocations that the Government is minded to release for the October 2015 allocation round, are as follows:
 - *Pot 1 (established technologies)*: we intend to release £50m for allocation in the October 2015 allocation round, for projects commissioning from 2016/17.
 - *Pot 2 (less established technologies)*: we have not yet decided on an indicative budget for this pot.
 - *Pot 3 (biomass conversion)*: we have not yet decided on an indicative budget for this pot.
11. The remaining LCF budget in each year from 2015/16 to 2020/21 is higher than we indicated in July, based on projected spend, even after the additional £95m allocated in the final budget. The remaining estimated LCF funds which could be

¹ <https://www.gov.uk/government/consultations/consultation-on-changes-to-financial-support-for-solar-pv>

² As we indicated in paragraph 7.12 of the Government Response to the consultations on the Renewables Obligation Transition and to Grace Periods, published on 12 March 2014. The Government continues to believe that a mechanism to increase stability across the biomass co-firing and conversion bands, and to ensure budgetary predictability and control within the RO, may be required, and that we may consult on proposals for such a mechanism later in the year: <https://www.gov.uk/government/consultations/transition-from-the-renewables-obligation-to-contracts-for-difference>

³ For phased offshore wind projects this means that all phases of the project must be fundable within the budget released. The first Phase's Target Commissioning Date must be no later than 31 March 2019, and the last phase Target Commissioning Date must be no later than 31 March 2021.

released for future CFD projects based on our medium estimates of expenditure will be set out in a full breakdown of spending for schemes in the LCF published later in the autumn in 'DECC's Consumer Funded Policies – a report to Parliament'.

Maxima and Minima

12. There are no maxima for any technology.
13. We are only introducing one minimum of 100MW for wave and tidal stream technologies (i.e. not including tidal lagoon or tidal barrage) across both the RO and CFD schemes for the duration of the first Delivery Plan period.
14. We estimate that a maximum of 30MW of capacity could commission under the RO before the end of 2016/17 and have therefore set a 30MW:70MW split between the RO and CFD. We will therefore set the minimum under the enduring regime from the outset at 70MW.
15. We will review deployment under the RO when the RO closes. If not all of 30MW portion allocated for the RO has been used, the minimum for CFDs will be increased proportionately.
16. Given the early development stage of the pipeline of wave and tidal stream projects, we only anticipate a limited number of eligible generators being able to bid in the 2014 allocation round. These eligible projects also have the opportunity to apply for support under the Renewable Obligations at this stage. We are therefore holding budget back for the 100MW minimum to be released in later allocation rounds in this Delivery Plan period (rather than be allocated to other technologies now). As a result we will allocate 10MW in this CFD allocation round.
17. A detailed description of how the minimum will work within the CFD allocation process was set out in the Allocation Framework for the first allocation round published on 1 September 2014.

Scottish islands onshore wind

18. State Aid approval has not yet been granted for Scottish islands onshore wind and we continue to further work with the European Commission to secure approval. The strike price for Scottish islands – onshore wind (>5MW) is therefore not included in table 2 in the budget notice, but the Government's policy long term intention in relation to Scottish islands onshore wind has not changed.

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