



Department for  
Business, Energy  
& Industrial Strategy

# CONTRACTS FOR DIFFERENCE

Contracts for Difference: Consultation on  
treatment of non-mainland GB onshore  
wind projects

November 2016



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# CONTRACTS FOR DIFFERENCE

## November 2016

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# Introduction

1.1. The Contracts for Difference ('CFD') scheme was introduced through the Energy Act 2013<sup>1</sup>. CFDs provide long-term price stabilisation to incentivise investment in low carbon electricity generation. The first CFD Allocation Round was launched in October 2014 and successfully allocated 2.1GW of capacity, significantly driving down costs in respect of a number of technologies.

## Overview of CFDs

1.2. A CFD is a private law contract between a low carbon electricity generator and the CFD Counterparty, the Low Carbon Contracts Company ('LCCC'), which is an independently operated government-owned company. Under a CFD a generator is paid the difference between the 'strike price', a price for electricity reflecting the cost of investing in a particular low carbon technology, and the 'reference price', a measure of the average market price for electricity in the market of Great Britain. Where the 'reference price' is above the 'strike price' the generator will pay the difference back to the LCCC.

1.3. The CFD gives greater price stability to generators by reducing their exposure to volatile wholesale prices, whilst protecting consumers from paying for higher support costs when electricity prices are high. In this way, CFDs provide efficient long-term support for low carbon electricity generation. Full background and details on how CFDs are intended to operate, including the detail of contract terms and conditions can be found on the GOV.uk website<sup>2</sup>.

1.4. The costs of CFDs are met by electricity consumers via the supplier obligation, which is a levy on electricity suppliers in Great Britain.

1.5. The process for allocating CFDs is overseen by the CFD Delivery Body (National Grid), who notifies the LCCC of the projects that have been successful in an Allocation Round. The LCCC then offers a CFD based on a set of standard terms, with some limited scope to make minor and necessary modifications to these terms. The government retains a power to direct the LCCC to enter into CFDs outside of this procedure.

1.6. The powers to introduce CFDs can be found under Part 2 of the Energy Act 2013. Subsequent to the Energy Act 2013 receiving Royal Assent in December 2013, several statutory instruments implementing secondary legislation for the CFD scheme entered into force in 2014 (and which have subsequently been amended):

- Contracts for Difference (Definition of Eligible Generator) Regulations 2014

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<sup>1</sup> <http://www.legislation.gov.uk/ukpga/2013/32/contents/enacted/data.htm>

<sup>2</sup> <https://www.gov.uk/government/collections/electricity-market-reform-contracts-for-difference>

- Contracts for Difference (Allocation) Regulations 2014, as amended by the Contracts for Difference (Allocation) (Amendment) Regulations 2015 and 2016
- Contracts for Difference (Standard Terms) Regulations 2014, as amended by the Contracts for Difference (Standard Terms) (Amendment) Regulations 2015
- Electricity Market Reform (General) Regulations 2014, as amended by the Electricity Market Reform (General) (Amendment) Regulations 2015
- The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 and the Electricity Supplier Obligations (Amendment & Excluded Electricity) Regulations 2015
- The Power Purchase Agreement Scheme Regulations 2014, as amended by the Power Purchase Agreement Scheme (Amendment) Regulations 2015
- The Contracts for Difference (Miscellaneous Amendments) Regulations 2016.

1.7. Further amendments to this legislation are currently being progressed, including amendments to the Non-Delivery Disincentive.

## Non-mainland GB onshore wind projects

1.8. In 2013, the previous Government issued a *Consultation on additional support for island renewables*<sup>3</sup>. This consulted on a proposal to provide a separate strike price for onshore wind projects located on the Scottish islands of Orkney, Shetland and the Western Isles within the Contracts for Difference scheme. It was suggested that these island groups were identified as exhibiting a particular set of unique characteristics which could justify a different support level to that set for onshore wind on mainland Great Britain, as well as placing it in the less established technology pot.

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<sup>3</sup> <https://www.gov.uk/government/consultations/additional-support-for-scottish-island-renewables>

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# General information

## Purpose of this consultation

The Government is seeking views on its position that non-mainland GB onshore wind projects should not be classified as a separate technology nor allowed access to Pot 2 (less established technologies), but should continue to be treated as onshore wind. This consultation is to seek evidence on this issue from respondents. Should this result in, for example, new evidence or strong justification being provided, the Government is open to considering the possibility of distinct treatment for non-mainland GB onshore wind projects.

**Issued:** 9 November 2016

**Respond by:** 31 January 2017

**Enquiries to:**

CFD Allocation

Department of Business, Energy and Industrial Strategy,

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3 Whitehall Place,

London, SW1A 2AW

Tel: 0300 068 6148

Email: [beiscontractsfordifference@beis.gov.uk](mailto:beiscontractsfordifference@beis.gov.uk)

Consultation reference: Contracts for Difference: Consultation on treatment of non-mainland GB onshore wind projects

**Territorial extent:**

England, Scotland and Wales

## How to respond

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Please provide responses to the Email address above marked Non-mainland GB onshore wind.

### **Additional copies:**

You may make copies of this document without seeking permission. An electronic version can be found at <https://www.gov.uk/government/consultations/consultation-on-treatment-of-non-mainland-gb-onshore-wind-projects>.

Other versions of the document in Braille, large print or audio-cassette are available on request. This includes a Welsh version. Please contact us under the above details to request alternative versions.

## Confidentiality and data protection

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses and place this summary on the [GOV.UK website](#). This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

## Quality assurance

This consultation has been carried out in accordance with the [Government's Consultation Principles](#).

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

BEIS Consultation Co-ordinator  
3 Whitehall Place

## General information

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London SW1A 2AW

Email: [enquiries@beis.gov.uk](mailto:enquiries@beis.gov.uk)



# Catalogue of consultation questions

## Consultation Question

1.	Should non-mainland GB onshore wind be considered a separate technology from onshore wind more generally?
2.	We would be interested to hear if you believe there are specific barriers/costs/issues associated with non-mainland GB onshore wind? If you believe there are, please provide evidence.
3.	If you have set out any specific challenges for non-mainland GB onshore wind projects, do you consider there to be other measures outside of the CFD scheme that could be adopted by the Government, or others, to remedy those challenges? What would these measures be?

## Non-mainland GB onshore wind projects

### Should non-mainland GB onshore wind projects be treated differently to onshore wind projects more generally?

2.1. Government remains committed to driving down costs and has therefore today announced details of draft strike prices for less developed technologies for the second Allocation Round which is for Pot 2 Technologies.

2.2. In the Manifesto publication on 14 April 2015<sup>4</sup>, the Conservative Party made a clear commitment to end any new public subsidy for onshore windfarms if elected. The subsequent New Direction for UK Energy Policy Speech by the then Secretary of State for Energy and Climate Change in November 2015<sup>5</sup> made clear that subsidy should be temporary, not part of a permanent business model and that we would therefore consider carefully any new subsidies. We have also made clear that we have enough onshore wind in the pipeline to meet our 2020 targets, and that we intended to focus any support on driving future cost reductions for scalable technologies, in particular identifying offshore wind as a technology with potential to deliver at scale and deliver significant cost reduction over time.

2.3. In the Budget on March 2016 we announced that three Allocation Rounds would offer up to £730m annual support with £290m of annual support for the first round. We also set out the cost reductions offshore wind will need to achieve to secure ongoing support so the industry has longer term visibility. These are key measures which will deliver the best deal for bill payers.

2.4. Given this clearly stated position and the objectives announced, the Government considers it necessary to examine whether there is a sufficient case to differentiate non-mainland GB onshore wind projects from onshore wind projects more generally. We would appreciate views from respondents as to whether they consider there to be any new evidence or justification for treating non-mainland GB onshore wind projects as distinct from onshore wind generally.

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<sup>4</sup> <https://www.conservatives.com/manifesto>

<sup>5</sup> <https://www.gov.uk/government/speeches/amber-rudds-speech-on-a-new-direction-for-uk-energy-policy>



