



## Department for Business, Energy & Industrial Strategy

### **Draft Accompanying Note to the Draft Budget Notice for the third CfD Allocation Round**

1. The government is publishing today (20 November 2018) a draft of the Budget Notice that the Secretary of State is required to give to the EMR Delivery Body, National Grid, ahead of the third Contracts for Difference (CfD) Allocation Round.
2. The final Budget Notice will be issued no later than 10 working days before the commencement date of the Allocation Round.

### **Draft CfD Budget**

3. Table 1 in the Draft Budget Notice sets out the CfD budget (in monetary terms) for the third Allocation Round which is planned to open by May 2019. The CfD budget is also set in terms of capacity of electricity generation for this Allocation Round (Table 2 in the Draft Budget Notice)<sup>1</sup>. The content of the Draft Budget Notice is subject to change and will be confirmed ahead of the round. The available budget has been allocated to the less established technology group (“Pot 2”) and is presented by Delivery Year. The figures given are the total available for applications bidding into any Delivery Year in this Allocation Round. CfD contracts will be allocated to the cheapest eligible projects first, regardless of their start date, as long as they fit within the monetary budget profile provided and the overall capacity cap. If the monetary budget is exceeded in any Delivery Year or subsequent Valuation Year, the Delivery Year of the application that exceeded the monetary budget will close (subject to the consideration of flexible bids). If the overall capacity cap is exceeded the auction will close (subject to the consideration of flexible bids). The rules that will apply to the third Allocation Round will be published in the Allocation Framework in due course.
4. We intend to release budget as follows for the third Allocation Round:
  - Pot 2 (less established technologies): we intend to release £60million (in 2011/12 prices) for allocation in the third Allocation Round, for projects with Target Commissioning Dates in 2023/24 – 2024/25. An overall capacity cap of 6GW is planned to apply to this Allocation Round.
5. The Draft Budget Notice represents the government’s intention to release budget for the third Allocation Round. However, it is important to note that:

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<sup>1</sup> Overall capacity cap is subject to State aid approval, which is expected to be received by the start of the Allocation Round.



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- The final budget will be confirmed ahead of the Allocation Round, no later than 10 working days before commencement of the round; and
- The available budget for the Allocation Round may vary due to updates in the underlying assumptions (such as fossil fuel prices).

6. Bids can be made by CfD applicants with Target Commissioning Dates in Delivery Years 2023/24-2024/25.

### **Administrative Strike Prices**

7. Table 3 in the Draft Budget Notice sets out draft Administrative Strike Prices applicable to applications in the next Allocation Round.
8. They have been set to enable the cheapest 25% of projects within each technology included in Pot 2 to compete in the third Allocation Round. The methodological factors that determine these Administrative Strike Prices are set out in the Contracts for Difference Administrative Strike Price Methodology to be published in due course.
9. These are draft Administrative Strike Prices. Final Administrative Strike Prices will be published in the final Budget Notice.

### **Maxima and Minima**

10. No maxima or minima will be applied in this Allocation Round.

### **Reference Prices**

11. A 'reference price' is a measure of the average GB market price for electricity. Under the CfD scheme, payments are made to developers based on the difference between their strike price and the market reference price, which is a season-ahead price for baseload technologies (such as fuelled technologies) and a day-ahead hourly price for intermittent technologies (such as offshore wind). To calculate the budgetary impact of each application during an Allocation Round using the valuation formula, which is set out in the Allocation Framework to be published in due course, a forecast of the market reference prices must be used.



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12. The draft baseload and intermittent reference prices applicable to this Allocation Round are presented in Table 1. Final reference prices will be published in the final Allocation Framework.

**Table 1: Baseload and intermittent reference prices for future CfD Delivery Years**

Reference prices - £/MWh, 2012 prices	2023/24	2024/25	2025/26	2026/27
<b>Baseload technologies<sup>1</sup></b>	<b>49.46</b>	<b>52.09</b>	<b>52.89</b>	<b>52.52</b>
<b>Intermittent technologies<sup>2</sup></b>	<b>48.62</b>	<b>51.32</b>	<b>52.01</b>	<b>51.35</b>

<sup>1</sup>Baseload technologies include ACT, AD, Dedicated Biomass with CHP and Geothermal

<sup>2</sup>Intermittent technologies include Offshore Wind, Remote Island Wind, Tidal Stream and Wave

13. Reference prices have been taken from the BEIS 'reference case' underpinning the Department's forthcoming Energy and Emissions Projections, which is modelled using the Department's Dynamic Dispatch Model (DDM). These different price series are calculated using generation-weighted average prices captured across CfD Pot 2 intermittent and baseload plants modelled to deploy out to 2050 in the BEIS 'reference case'. For baseload technologies this uses the modelled season ahead price. For intermittent technologies, day ahead hourly prices are estimated based on intra-day half hourly prices.

### **Phased Offshore Wind Projects**

14. Offshore Wind CfD Units no greater than 1500MW of capacity may be delivered in multiple phases. Phases subsequent to the first phase may have Target Commissioning Dates up to two years after the start of the first phase in accordance with the Allocation Framework, which will be published in due course. The Delivery Body will undertake valuation of phased projects over the Valuation Years in addition to the Delivery Years. The total budget impact of such projects in the final Valuation Year shall be assessed as though those projects were fully operational, regardless of when in that year the Target Commissioning Date of their final phase is located.

**END**