



Department  
of Energy &  
Climate Change

# Phasing approach

21 October 2013



## Aim of meeting

- Feedback from consultation responses.
- Present and discuss a revised proposal on Phasing.
- To discuss pros and cons of approach and identify any issues with implementation.



## Objectives of approach

- Allow large offshore wind projects which commission in multiple phases over several years to potentially have access to a CfD.
- Ensure consistency with other projects and technologies, so that phased projects do not deviate from the standard model unless there is a good justification.
- Support the effective use of the CfD Budget by:
  - Limiting incentives to over-bid for capacity
  - Providing incentives to deliver in line with commissioning dates included in CfD application (reducing any 'gaming' of strike prices)
  - And, allow for the timely reallocation of budgets in event of a failure to deliver
- And, thereby, give Government confidence of progression towards hitting binding decarbonisation and renewables targets.



## August Publication: Approach to Phasing (1 of 2)

- The total capacity of the project must not exceed 1500MW. Any capacity above 1500MW will not qualify.
- All phases of the project must be within the same Crown Estate lease area, i.e. offshore wind development with the same owner/operator which are in different parts of the country will not be eligible for phasing.
- 35% of the capacity must be constructed in the first phase of the project.
- Each phase of a multi-year project receives the strike price of the delivery year for the first phase.
- Termination rights for the project are only attached to the late/non-delivery of the first phase of a project.



## August Publication (2 of 2)

- The target commissioning date for the first phase must be no later than 31 March 2019.
- The target commissioning date for the final phase must be the earlier of the two following points:
  - no later than two years after the target commissioning date of the first phase; and
  - no later than 31 March 2021.



# Stakeholder Feedback

- Main asks from responses were:
  - Phase 1 cap to be less than 35%. Significant number suggested Phase 1 should be circa 25%.
  - Extension of phasing to other technologies: onshore >100MW and Marine.
- Other comments included:
  - Allow for more than three phases;
  - Don't require separate metering;
  - Ability to split project;
  - Allow for greater flexibility in Capacity Adjustment; and
  - Allow early delivery of capacity prior to TCD at no penalty.



## Overview of Revised Proposal (1 of 2)

- One application for a single contract covering all phases.
- One strike price for all phases based on either (i) TCD for first phase or (ii) Constrained Allocation process.
- Capacity for Phase 1 has to be at least 35% of Total Capacity for project.
- All Phases must be [contiguous] in same Crown Estate zone
- Termination only applies to first Phase. Triggered if fail to deliver set amount of the capacity for Phase 1 in the original CfD application by Phase 1 LSD.



## Overview of Revised Proposal (2 of 2)

- 15 year Term for each Phase starts at the earlier of Payment Start Date or end of TCW.
- Each Phase treated separately for purpose of Payment Start, Strike Price Adjustment, and Capacity Adjustment.
- Strike Price Adjustment for late delivery and the ability to remedy the strike price before the LSD is applied to each Phase separately.
- Any capacity undelivered, by the LSD for the Phase it is part of, is forfeited.
- Each Phase must be separately metered.





# Application

Applicants will be required to provide a single application for a single contract which should include:

- Total Capacity for whole project;
- Individual capacities for all phases. Phase 1 at least 35% of Total Capacity;
- TCD, TCW and LSD dates for each of phases applied;
- Sealed Bid for Constrained Allocation Rounds; and
- Evidence that all Phases are contiguous within the same Crown Estate zone.



## Application Questions

Q. There were a number of requests for 35% cap to be reduced but little evidence supporting that request. Can we discuss this parameter and can developers provide supporting evidence?

Q. Are there projects where the Phases wouldn't be contiguous within same Crown Estate zone?

Q. Are there any other concerns with the application process?



## Constrained Allocation

- Phased projects will be treated as a single project which delivers over a number of years.
- Key features are:
  - A single sealed bid for all phases
  - Whole project either receives or does not receive a CfD under constrained allocation
  - Allocation will need to have regard to the different budget constraints and any minima/maxima that will apply across different years.

Q. Any views on this approach?



# Capacity Adjustment Design

- Phased projects will be able to adjust the capacity they apply for.
- The structure of adjustment proposed in August for normal projects was:
  - Up to 5% adjustment can be used by SFC.
    - If this is not used at this stage then this portion of the flexibilities on offer is sacrificed
    - If SFC is not achieved the project is terminated.
  - A further 5% can be used at any time between SFC and LSD; and
  - Finally a further 20% adjustment can be made but with an impact on the strike price for the project
  - Adding capacity between contract payment beginning and the LSD will lead to upward adjustment to the SP
  - Therefore failure to deliver at least 20% of the capacity originally applied for by the LSD results in contract termination unless there has been a valid FM event or other permissible contractual event (geological cover).

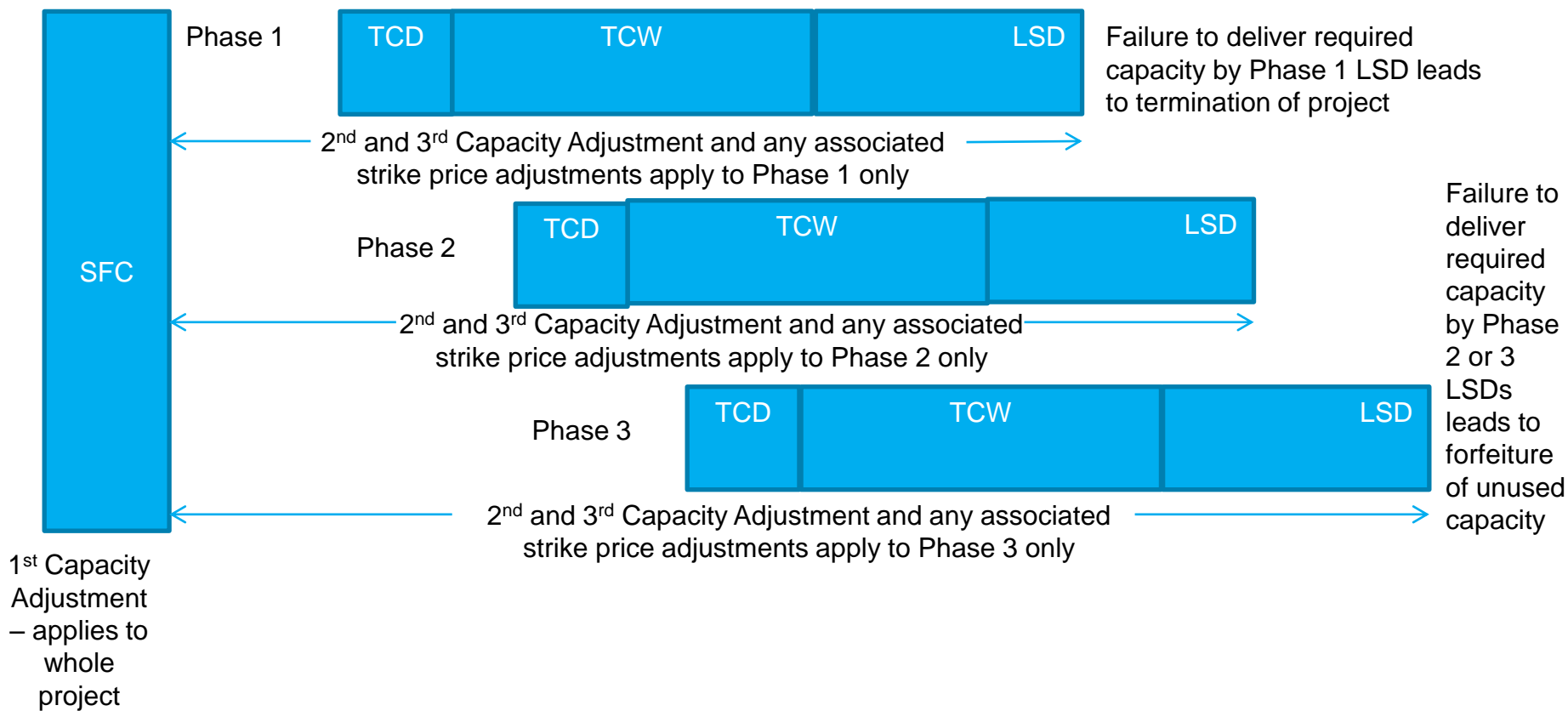
We have received a significant amount of feedback that the structure of capacity adjustment proposed in August should be adjusted to frontload more flexibility to SFC rather than in the period to LSD.



# Capacity Adjustment for Phased Projects

- Each phase will be able to adjust its capacity in a way that largely mirrors the standard system from August.
- The whole project can adjust by 5% on a use it or lose it basis at SFC. If SFC is not met then whole CfD is terminated.
- Each phase can adjust by a further 5% at any time from SFC to LSD at no cost.
- Finally each phase can adjust by a further 20% at a cost of 10% of SP.
- Adding capacity between contract payment beginning and the LSD will lead to upward adjustment to the SP.
- Because each Phase can make separate adjustments this could theoretically lead to each phase receiving a different strike price. (which makes it increasingly important to separately monitor and meter the capacity that has been delivered in each phase).
- In the event that required capacity is not delivered by:
  - LSD for Phase 1 – Termination of the whole CfD applies; whereas
  - LSD for Phase 2 and 3 – CfD is retained but undelivered capacity is forfeited.

# Capacity Adjustment Diagram





# Capacity Adjustment questions

HMG's objectives are to:

- Support the effective use of the CfD Budget by:
  - Limiting incentives to over-bid for capacity
  - Providing incentives to deliver in line with commissioning dates included in CfD application (reducing any 'gaming' of strike prices)
  - And, allow for the timely reallocation of budgets in event of a failure to deliver
- And, thereby, give Government confidence of delivery of low-carbon electricity in time to meet binding targets.

Bearing those objectives in mind:

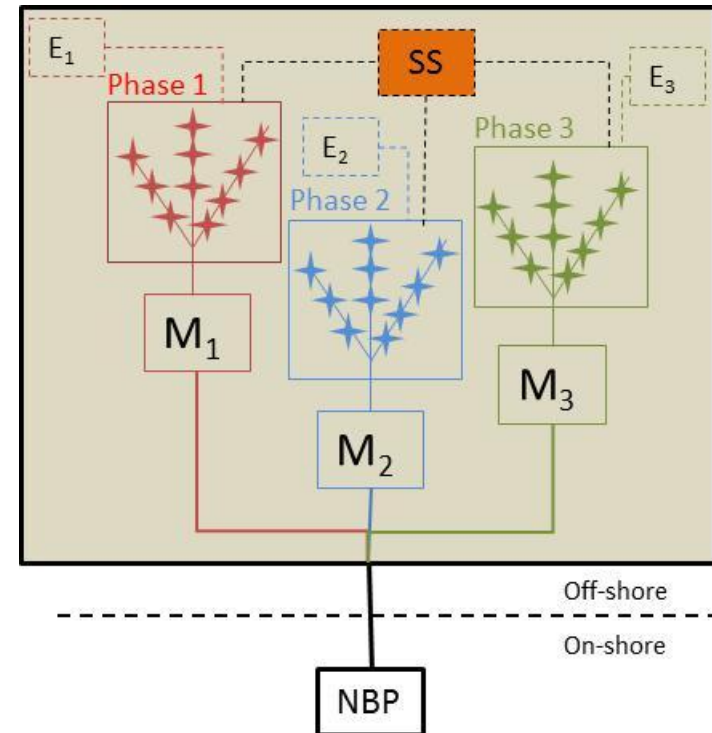
Q. What are your thoughts on the way capacity adjustment is being applied to phases?

- SFC adjustment is common to all phases
- Later adjustments are on a phase by phase basis
- Termination only linked to 1<sup>st</sup> phase
- SP for each phase can be different due to different final capacities for each phase but can be increased between payments for a phase commencing and the LSD.



# Metering

- CPB has right to require BSC metering
- Each Phase will be required to be separately metered.
- Each phase provides a generation reading ( $M_i$ )
- Notional Balancing Point (NBP) data takes into account transmission losses
- $M_i$  as a ratio of total generation across the project is used to proportionally allocate the NBP and Shared Service input electricity across phases.
- This figure is the “Metered output” for each phase – used to calculate the difference payment
- Suggestion in the consultation responses is that this cuts across installation approach. Is this the case? Is there evidence of this? And if so, how might it be addressed?







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# Any other questions?