



Energy Act: Feed-in Tariffs with Contracts for Difference (CfD)

Issue: Implementation of the Feed-in Tariffs with Contracts for Difference (CfD) mechanism to reduce revenue uncertainty and provide support to low carbon generation.

Policy commitment:

The Coalition Document set out the Government's intention to "establish a full system of feed-in tariffs in electricity" in order "to fulfil our joint ambitions for a low carbon and eco-friendly economy".

"Planning our electric future: a White Paper for secure, affordable and low-carbon electricity" published 12 July 2011 set out our intention "to deliver...a new system of long-term contracts in the form of Feed-in Tariffs with Contracts for Difference" (CfD). CfDs are contracts that provide long term electricity price stability to developers and investors in low carbon generation (e.g. carbon capture & storage, renewable and nuclear energy). Generators will receive the price they achieve in the electricity market plus a 'top up' from the market price to an agreed level (the "strike price"). Where the market price is above the agreed level, the generator would be required to pay back and thus ensure value for money and greater price stability for consumers.

A stable revenue level should in turn reduce investment risk and financing costs, and so drive innovation and development of low-carbon technologies. Competition will then bring down overall costs and, eventually, provide a level playing field where low-carbon generation without subsidy can compete with other technologies in the electricity market.



Legislative proposal:

The Energy Act will allow us powers to set out the detailed operation of the CfD mechanism in secondary legislation and in the CfD contracts which will be entered into pursuant to that legislation.

The proposed provisions set out high level details about the mechanism. This will include:

- Provision to enable the Secretary of State to designate a body to act as counterparty to CfDs (known as the CfD counterparty). That body will have powers to collect money from suppliers to meet its obligations to generators under the CfD;
- Identifying the national System Operator and the Secretary of State as responsible for determining eligibility and allocating contracts. The CfD counterparty will be under a duty to offer (and therefore enter into) those contracts;
- Setting out a duty to make regulations obliging electricity suppliers to make payments to the counterparty body, to enable it to make payments under CfDs;
- Providing for changes to transmission licenses to enable the national System Operator to carry out its functions in relation to CFDs; and
- Powers to set maximum costs and targets that have to be adhered to in delivering the mechanism.

Relationship to other legislative proposals:

The CfD is a fundamental part of the Government's proposals under the Electricity Market Reform package. The CfD will work in concert with the Capacity Market and the Emissions Performance Standard to deliver Government's aims and objectives of decarbonisation while minimising the cost to consumers and security of supply.

Background:

Further information can be found in the Operational Framework published alongside the Bill and in "Planning our Electricity Future: a White Paper for Secure, Affordable and Low Carbon Electricity"¹

¹http://www.decc.gov.uk/en/content/cms/legislation/white_papers/emr_wp_2011/emr_wp_2011.aspx.