Department of Energy & Climate Change

Annex F: CFD Summary of key terms

December 2013

Summary of Key Terms

This section sets out for completeness the high level policy on key contract terms. Note that italicised text identifies those terms that have been amended significantly since August**.**

CfD Term	Description	Decision
Contract term	Length of the contract from the date the project starts generating	Contract length standardised, but flexibility to adapt to technology requirements • Renewables projects (under the 'standard' allocation mechanism) – 15 years of payments. • Biomass conversion – all contracts cease to pay in 2027 (regardless of start date), consistent with the approach under the Renewables Obligation and reflecting the transitional nature of the technology. • Flexibility for the Secretary of State to adjust contract term for projects where technology justifies a different duration (e.g. nuclear, CCS, tidal range and potentially large hydro projects).

Reference price	*The difference payments are based on the difference between the reference price (a measure of the electricity market price) and the strike price.*	*Payments based on a reliable measure of the market price* • *Intermittent technologies (e.g. wind) – hourly day-ahead price.* • *Baseload technologies (e.g. nuclear) – season-ahead price, moving to year-ahead price when conditions allow.* • *Mechanism built in to take account of changes to MRP.*
Change in law	Protections given to developers against certain changes in law.	Developers protected against changes in law that target a project, technology or the CfD: • Compensation available for unforeseeable changes in law that uniquely target specific technologies, individual projects or CfD holders as a group. • Protection also covers general changes in law that have discriminatory effects on costs without objective justification. • Compensation will be available for changes in law that result in increased operating costs, a proportion of capital costs (tapering over time) and for reduced output over the term of the CfD as well as for changes in law that prevent completion of construction and permanently prevent generation.

Capacity adjustment	*Amount by which a developer can reduce the project capacity (with and without penalty) between applying for a CfD and commencement of payment.*	*Developers provided with flexibility to vary their plans* • *Prior to the Milestone Developers will be able to reduce capacity by a specified amount below their original capacity estimate to account for changes in capacity as they optimise the site, without penalty without penalty. A limited amount of further flexibility is provided to reduce capacity delivered beyond the level set out at the SFC Milestone.* • *If by the Long Stop Date (LSD) a generator delivers less than the permitted final adjusted level of capacity, the Counterparty will have the right to terminate the contract.* • *Capacity can also be adjusted in circumstances where there is a 'Relevant Geological Issue'.*
Conditions precedent etc.	Parameters to ensure project delivery.	Developer flexibility to deliver within a 'commissioning window' • Payments commence once specified conditions are met relating to connection, metering, FMS, capacity instalment, and contract payment. • Satisfaction of conditions precedent outside of the target commissioning window leads to a reduction in the contract's payment term. Failure to satisfy by the long stop date may lead to

		termination.
Force Majeure	Criteria for when flexibility will be allowed on a developer's contractual obligations.	Protection against events outside of the control of the developer • Force Majeure will allow relief for circumstances beyond a developer's control (which will include a 'reasonable and prudent operator test'). • Additional flexibility where connection delays are caused by network operator.
Dispute resolution	Mechanism for resolving contractual disputes.	Clear process to resolve disputes in a timely manner, including with binding arbitration • Developer and CfD Counterparty will seek to agree resolution of disputes, but with access to external determination of disputes. • Government has no contractual right to impose settlements. • Metering disputes resolved separately through the Balancing and Settlement Code (BSC) Trading Disputes Mechanism.
Termination	Circumstances when contract can be terminated.	A proportionate approach to contract enforcement • Includes material breaches of contract by generators – such as non-payment, metering, fraud and non-delivery of capacity (subject to Force Majeure or delay to grid connection).

Metering Arrangements	*How low-carbon electricity generation is measured for the purposes of billing and payments.*	*Arrangements to support a wide-range of project types, using existing processes where possible* • *Loss adjusted net metered energy.* • *Application of a Renewable Qualifying Multiplier and/or Combined Heat and Power (CHP) multiplier, where appropriate* • *Making use of existing BSC arrangements, where possible.* • *Arrangements have been developed for transmission and distribution connections, exemptible embedded generation, dual scheme facilities and private wire generation.*
Changes to BSUoS and TLM	*Adjustment to Strike Prices where there are changes in BSUoS/TLM charges.*	*Arrangements to adjust strike prices where:* • *BSUoS and TLM costs change* • *There are changes in the regulatory procedure for calculating BSUoS/TLM costs.*
Generation Tax	*Adjustment to Strike Price*	*Arrangements to adjust strike price where:* • *a 'Generation Tax' has been levied and the CfD holder is unable to 'pass through' that cost to the consumer.*
Direct Agreement	*Makes it clear which types of funders the CfD Counterparty will enter into direct agreements with*	*Arrangements to:* • *Provide funders who have security over the Facility and the CfD with a right to temporarily step-in to the Generator's shoes under the CfD and/or permanently transfer the*

		CfD to a new suitable Generator. • *Provide funders with a right of step-in and/or novation where the Generator commits an event of default under the funder's credit facility agreement.*
Phasing	*Makes clear the process for phased off shore wind projects.*	*Arrangements to apply:* • *Subject to the key eligibility criteria being met (e.g. the first phase accounts for 25% per cent of total project capacity and the project will be built in no more than 3 phases) CfD support of up to 1500MW will be available for phased projects.* • *A Framework CfD will set out where cross-default across Phases applies e.g. for delivery of Phase 1 capacity, and will fall away leaving separate contracts for each Phase once sufficient capacity is delivered.* • *Other characteristics: Single Milestone date for the project. Single strike price for all phases based on Phase 1 Target Commissioning Date. Each phase receives its own 15 year term, Target Commissioning Date, Target Commissioning Window and Long Stop date.* • *Generic capacity rules to apply to each phase independently except: Termination due to non-delivery of capacity will not apply to Phase 2*

		& 3. . No capacity rules to apply to the project as a whole.
Fuel Measurement Procedures	*Procedures for measuring the renewable content and sustainability of renewable fuelled generators.*	*Commitment to implement procedures that are as consistent as possible with existing procedures under the RO.*
Curtailment	*Strike price adjustment for costs incurred by generator when impacted by curtailment.*	*Provides protection from a change in law that leads to curtailment of the export of electricity, in whole or in part, as a result of the national electricity transmission system no longer being planned and developed at least as an economical, efficient and co-ordinated system and in a manner that is not unduly discriminatory.*
Qualifying Shutdown Event	*Compensation for generator*	*Arrangement for compensation where:* • *There is a political decision to shut down a particular generation facility/type of generation facility*
Collateral	*Requirement for generator to provide collateral in certain events*	*Provision of generator collateral in the event that difference payments are payable to the Counterparty.* • *Where a Generator fails to pay by the Payment Date a "strike" is recorded. On the third such "strike" in any rolling 12 month period, the Counterparty will issue a collateral notice to the Generator which will set out the requirement to post collateral, the amount and the date on which the collateral would be returned.*

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