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CfD Allocation methodology and Contract clauses

Detailed Review

Overview of Allocation System

Balancing risks to Government developers and consumers

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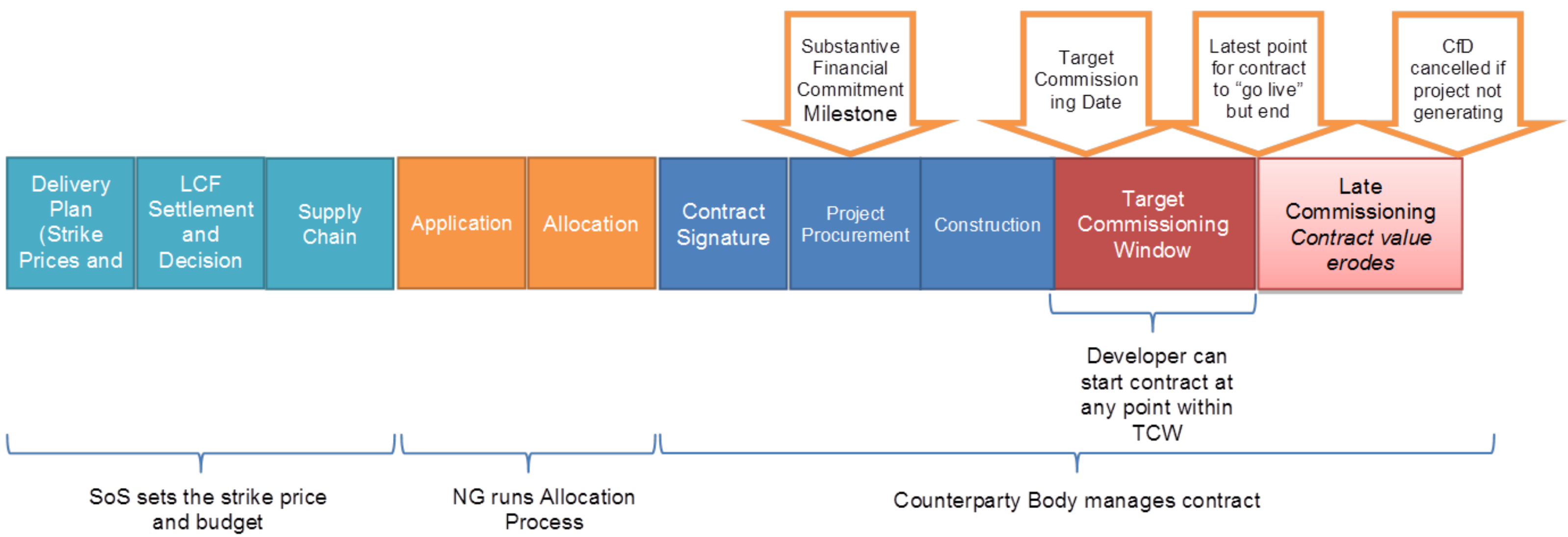
Allocation Methodology describes the journey a developer must go through in order to secure and then retain a Contract for Difference (CfD).

Key changes set out in document:

- Time-periods for Target Commissioning Windows and Longstop Dates for each technology;
- Greater flexibility for developers to adjust the capacity of their project after securing a CfD;
- Approach to phased offshore projects, including the use of a single strike price; and
- Inclusion of requirement for developers to submit an approved supply chain plan to Government.



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AMENDING CAPACITY

Context for allowing amendment of capacity

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- Government believes it is necessary to allow some ability to adjust capacity as it can be hard for Wind Developers to be precise about the capacity they will build at the point at which they may apply for the CfD.

- Wind developers often seek planning permission and a grid connection for the maximum possible capacity at a site then optimise their proposal as they select a turbine vendor and get a clearer understanding of the site (in part, reflecting the incentives under the RO).

- However while individual developers require a certain amount of flexibility, DECC needs to be able to:
  - maximise opportunity for market participants by minimising crowding out; and
  - manage both the Budget and delivery against targets.
- As a result, in order to efficiently run the system DECC cannot bear too much uncertainty.

- The November Document suggested that the final project be required to deliver at least 95% of the initial capacity. Failure to deliver 95% would be a Termination Event.

- Industry has argued that this requirement was too onerous- creating a cliff-edge where termination could occur where a project only delivers 94% of the initial capacity.

Capacity Amendment:
Offering greater flexibility

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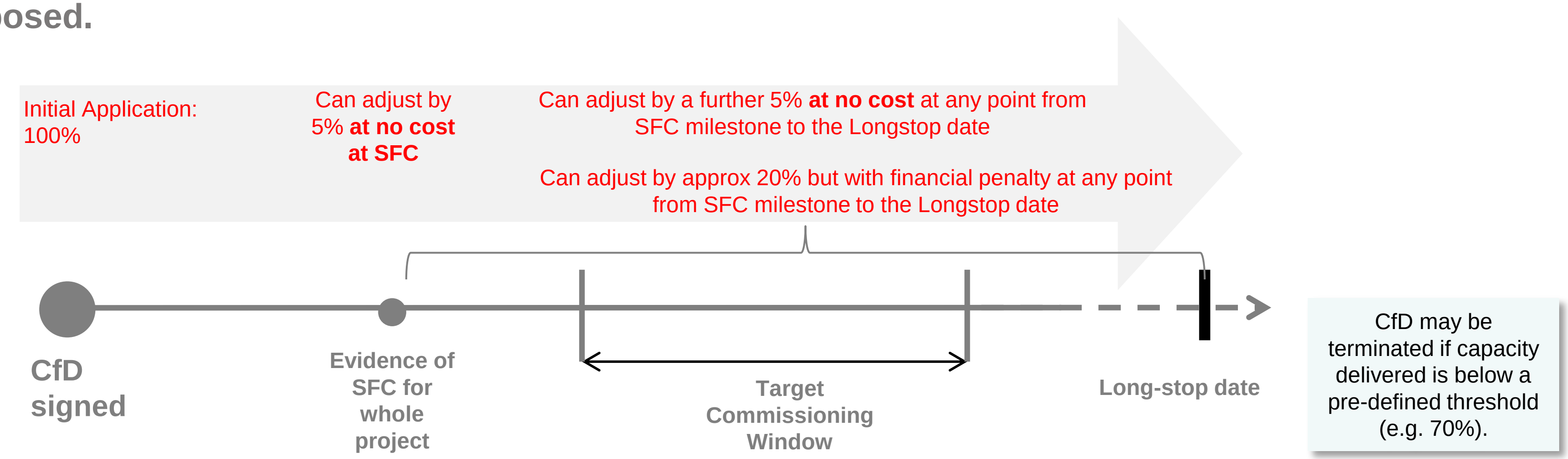
- We **now propose a more flexible, staged process** where developers can amend the capacity of the CfD at two different points:
  - At the Substantive Financial Commitment milestone, by a specified percentage (e.g. 5%); and
  - By Longstop Date, by a specified percentage (e.g. a further 5%)

- Delivering less than this adjusted level of capacity by the Longstop Date:
  - Leads to a reduction in the Strike Price linked to the degree of under-delivery reducing the Strike Price by 0.5% for each 1% of unpermitted reduction in capacity;
  - Lead to a right to terminate the CfD only when the unpermitted reduction in capacity is greater than a specified threshold (e.g. failing to deliver 70% of initial project capacity).
- **Terminating at circa 70% significantly reduces developer risk compared to the 95% value previously proposed.**



Questions

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- Is the structure appropriate?
  - Free adjustment at the Substantive Financial Commitment milestone,
  - Further free adjustment of capacity within specified parameters anytime from Substantive Financial Commitment milestone to the Longstop Date,
  - The ability to adjust down to the Condition Precedent at a cost, then Termination?
- Are the flexibilities on offer adequate for each technology?
- Would more flexibility at SFC reduce the need for further flexibilities?
- If a project has already exercised its ability to adjust its capacity is it appropriate to have a termination event at the Longstop Date if the adjusted level of capacity has not been achieved?
- Would the charge for the non-free adjustment need to be increased if the scope for free adjustment is increased?