

## **Explanatory Note To Set Out The Wider Context Of The Draft CFD Budget Notice**

1. The Government today is publishing a draft version of the budget notice that the Secretary of State is required to give to the EMR Delivery Body, National Grid, ahead of the first allocation round in October 2014. This requirement is set out in Regulation 11 'Budget Notices' of the Contracts for Difference (Allocation) Regulations 2014. The draft of the whole regulations is available at: <http://www.legislation.gov.uk/ukdsi/2014/9780111117316/contents>

### **Indicative CFD Budget**

2. Table 1 in the budget notice sets out the indicative CFD budget for the Allocation Round starting on 14 October 2014. This indicative budget in the draft budget notice is subject to change (e.g. if expected LCF spend changes significantly) and the final budget will be confirmed on 29 September. The overall budget is broken down by technology group ("pot") and delivery year. The figures given are the total available for any projects bidding into any year in this Allocation Round. CFDs will be allocated to the cheapest projects first, regardless of their start date, as long as they fit under the budget profile set out above.
3. We intend to release budget as follows for the first allocation round commencing 14 October 2014:
  - *Pot 1 (established technologies)*: we intend to release £50m for allocation in the 2014 allocation round, for projects commissioning from 2015/16 onwards.
  - *Pot 2 (less established technologies)*: we intend to release £155m for allocation in the 2014 allocation round, for projects commissioning from 2016/17 onwards.
4. The indicative budgets represent Government's intention for budget release in the 2014 allocation round. However, it is important to note that:
  - final budgets will be confirmed by 29 September 2014. The Secretary of State intends to announce on the same day the Renewables Obligation for the 2015/16 period;
  - the available budget for the allocation rounds may vary due to updates in the underlying assumptions (such as fossil fuel prices); and
  - the level of the indicative draft CFD budget for all years is drafted on the assumption as set out in the recent consultation<sup>1</sup> on changes to financial support for solar PV that we will close the RO to new solar capacity above 5MW from 31 March 2015, but could change once a final decision has

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<sup>1</sup> <https://www.gov.uk/government/consultations/consultation-on-changes-to-financial-support-for-solar-pv>

been made on that matter. We expect to confirm our decision on changes to the RO in respect of large scale solar PV in September. Government policy on the RO transition is set out in the Government response from 12 March 2014<sup>2</sup>.

5. Budgets can be bid for by CFD applicants with Target Commissioning Dates in any delivery year in 2015/16-2018/19. This means that the budget release is the limit that may be spent in the relevant year; in practice, applications for CFDs may be successful which commission in later years.
6. All successful projects must be affordable within the budget released.<sup>3</sup>

### **Relationship with Final Investment Decision (FID) Enabling for Renewables (FIDeR)**

7. In the event that one or more projects withdraw from their Investment Contracts awarded through the FID Enabling for Renewables process we could reallocate budget. For example:
  - should any of the successful offshore wind or dedicated biomass with combined heat and power projects terminate their Investment Contract then their budget allocation could be reallocated to pot 2; and
  - should any of the successful biomass conversion projects terminate their Investment Contract, then funding could be allocated to a biomass conversion pot (pot 3) .
8. Therefore, developers of projects 300MW or greater who might wish to apply for these pots should consider preparing supply chain plans (where relevant) as, in the event that budget is increased, it will only be possible for applications to be successful if supply chain plans have been submitted.
9. **Biomass Conversion:** Should budget be allocated to a pot 3 in the budget notice given in September or in subsequent rounds, any application for a CFD in respect of a biomass conversion plant which is successful in an auction under the enduring regime will be subject to individual State Aid notification (a condition of the CFD scheme approval decision). Should a plant then not receive State Aid

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<sup>2</sup> As we indicated in paragraph 7.12 of the Government Response to the consultations on the Renewables Obligation Transition and to Grace Periods, published on 12 March 2014. The Government continues to believe that a mechanism to increase stability across the biomass co-firing and conversion bands, and to ensure budgetary predictability and control within the RO, may be required, and that we may consult on proposals for such a mechanism later in the year: <https://www.gov.uk/government/consultations/transition-from-the-renewables-obligation-to-contracts-for-difference>

<sup>3</sup> For phased offshore wind projects this means that all phases of the project must be fundable within the budget released. The first Phase's Target Commissioning Date must be no later than 31 March 2019, and the last phase Target Commissioning Date must be no later than 31 March 2021.

approval through the individual notification process, the results of the auction would not change retrospectively. The budget allocated to these projects will be returned to DECC by National Grid. These funds could be released to Grid before the following allocation round, held back for future rounds or used to manage spend under other support schemes in the Levy Control Framework (LCF). This decision does not imply that DECC would not release budget in future rounds for biomass conversions. Our current decision is made purely for overarching budgetary control reasons.

### **Future allocation rounds and remaining budget**

10. It is the Government's intention to hold a further allocation round from October 2015, with a draft budget notice published in July 2015 and a budget notice given in September 2015.
11. The indicative budget allocations that the Government is minded to release for the October 2015 allocation round, are as follows:
  - *Pot 1 (established technologies)*: we intend to release a further £50m for allocation in the October 2015 allocation round, for projects commissioning from 2016/17.
  - *Pot 2 (less established technologies)*: we have not yet decided on an indicative budget for this pot.
  - *Pot 3 (biomass conversion)*: we have not yet decided on an indicative budget for this pot.
12. Table 1 below shows the remaining estimated LCF funds which could be released for future CFD projects based on our medium estimates of expenditure under the Levy Control Framework including in an allocation round in autumn 2015. This includes potential budget for new build large-scale low carbon generation up to the LCF cap.

**Table 1. Indicative CFD Budget Release for 2015 Allocation Round and indicative additional budget available for future allocations**

	15/ 16	16/ 17	17/ 18	18/ 19	19/ 20	20/ 21
<b>£m (2011/12 prices)</b>						
<b>CFD Budget (2015 release)</b>	-	50	50	50	50	50
Pot 1 (established technologies)	-	50	50	50	50	50
Potentially remaining budget against the LCF Upper Limits for new build large-scale low carbon generation	38	5	238	302	525	947

Notes: Budget can be taken up in any delivery year. The remaining budget line above includes budget for renewables and CCS, including CCS competition projects

13. These figures are indicative only and do not represent a commitment to future allocation; the level of funding that is available in future will be dependent on a range of factors, including changes to actual and forecast spend e.g. the level of the RO for future years, and may be higher or lower than set out below. The remaining budget estimates above are based on a medium scenario for future RO deployment.

14. The Government intends to set out further detail on these estimates alongside the budget notice for the first allocation round in September.

### **Maxima and Minima**

15. There are no maxima for any technology.

16. As confirmed in the Government Response on the use of technology groupings, minima and maxima also published today, we are only introducing one minimum of 100MW for wave and tidal stream technologies (i.e. not including tidal lagoon or tidal barrage) across both the RO and CFD schemes for the duration of the first Delivery Plan period.

17. We estimate that a maximum of 30MW of capacity could commission under the RO before the end of 2016/17 and have therefore set a 30MW:70MW split between the RO and CFD. We will therefore set the minimum under the enduring regime from the outset at 70MW.

18. We will review deployment under the RO when the RO closes. If not all of 30MW portion allocated for the RO has been used, the minimum for CFDs will be increased proportionately.

19. Given the early development stage of the pipeline of wave and tidal stream projects, we only anticipate a limited number of eligible generators being able to bid in the 2014 allocation round. These eligible projects also have the opportunity to apply for support under the Renewable Obligations at this stage. We are therefore holding budget back for the 100MW minimum to be released in later allocation rounds in this Delivery Plan period (rather than be allocated to other technologies now). As a result we will allocate 10MW in this CFD allocation round.

20. A detailed description of how the minimum will work within the CFD allocation process is set out in the Allocation Framework for the first allocation round.

### **Scottish islands onshore wind projects**

21. The Government has received State Aid approval for the Contract for Difference, including the proposals to use technology groupings as set out in the Government Response, with one exception. In one case – Scottish islands onshore wind – State Aid approval has not yet been granted and we will be doing further work with the European Commission to secure approval. The Government's policy intent in relation to Scottish islands onshore wind has not changed.

22. The strike price for Scottish islands – onshore wind (>5MW) is therefore included in table 2 in the draft budget notice, but the title and definition of this technology could change as a result of our work with the Commission to achieve State Aid approval.

**END**