



Department
of Energy &
Climate Change

Contract for Difference: Allocation Process High Level Process

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Allocation Process: High Level Summary

DECC intends to instruct the CfD Counterparty to offer contracts for difference (“**CfDs**”) to eligible generators through a competitive allocation process.¹ This document provides a high level summary of the allocation process and an indicative timeline of the allocation process is set out in the Schedule at the end of this document.

The details of the allocation process² [are /will be] contained in the following documents which will operate in conjunction with each other:

- the Contracts for Difference (Allocation) Regulations 2014 (the “**Allocation Regulations**”);
- the Contracts for Difference (Definition of Eligible Generator) Regulations 2014 (the “**Eligibility Regulations**”); and
- the Allocation Framework applicable to an allocation round. The Allocation Framework applicable to the first allocation round will be published 10 working days in advance of an allocation round opening for application.

Each of the key stages in the allocation process are summarised below:

Announcement of allocation round and budget

In accordance with Part 2 of the Allocation Regulations, the Secretary of State will establish an allocation round by a notice. The Secretary of State will also (i) set out in a framework notice the Allocation Framework which applies to that round, and (ii) set out in a budget notice the budget which applies to that round

¹ Some contracts for difference will be offered to eligible generators outside of the competitive allocation process described in this document.

² These documents are to be made under powers contained in Part 2 of the Energy Act 2013.

and how it is to be divided. The budget notice is to be issued no later than 10 working days before an allocation round opens for application.

The budget may be divided into one or more parts [or 'pots'] in respect of particular groups of technologies (for example, established technologies and less established technologies). The budget may also be subject to minima and/or maxima, set by reference to budget or capacity levels, for particular technology types. The budget will be divided (not necessarily equally) for each delivery year of the allocation round.

Eligibility

Only an eligible generator may be awarded a CfD. The Eligibility Regulations define who is an eligible generator. DECC is currently consulting on some aspects of this definition.³

In accordance with Part 4 of the Allocation Regulations, the Delivery Body will determine whether an application made by an eligible generator can take part in the allocation process applicable to the type of application. The Allocation Regulations and Framework set out what information must be supplied in support of an application. Applications made in accordance with the Allocation Regulations and Allocation Framework will be qualifying applications i.e. qualify to take part in the process.

Where an application is determined to be not a qualifying application, an applicant may request the Delivery Body to review a non-qualification determination. The evidence to be submitted by an applicant on a review must relate directly to the information supplied at application. If unsuccessful, an applicant may appeal to Ofgem and then the High Court.

Applications

The general and additional requirements for applications are set out in Part 4, Chapters 2 to 4 of the Allocation Regulations. In summary, an applicant must have in respect of an application the relevant planning consents and a grid connection agreement. Any supplementary requirements will be contained in the Allocation Framework.

³ EMR: Contracts for Difference Regulations, Consultation on Directions to Offer Contracts for Difference, March 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/295033/consultation_directions_offer_contracts_for_difference.pdf

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Information to be submitted in support of a CfD application is to cover all the CfD Unit specific information required for a CfD contract to be issued by the CfD Counterparty. This includes the expected capacity in megawatts of the facility (referred to as Initial Installed Capacity Estimate in the CfD) and the expected target commissioning dates (referred to as Target Commissioning Date and Target Commissioning Window in the CfD) for electricity generation once the generating station has been established or altered.

An allocation round will remain open for applications for a period no shorter than 10 working days.

Valuation

The Delivery Body will value all qualifying applications for each delivery year using the valuation formula set out in Schedule 1 of the Allocation Framework. Additional variables that may be required to be used in the valuation formula e.g. indexation, will be provided by DECC prior to the start of the allocation round.

The Delivery Body will then determine whether or not the valuation exceeds the relevant part of the budget and/or any minima or maxima capacity thresholds. If a part of the budget or a minimum or maximum are exceeded, the Delivery Body will proceed to hold an auction for the relevant part, minimum and/or maximum. If no auction is necessary, the relevant Applications will be offered CfDs at the administrative strike price, as published in in the EMR Delivery Plan by DECC on 19 December 2013⁴.

Notice of auction and submission of sealed bids

If an auction is necessary, the Delivery Body will, in accordance with the Allocation Framework, issue a notice of auction inviting all qualifying applicants to submit a sealed bid. Sealed bids must contain the proposed strike price, denominated in sterling that the applicant is willing to accept for each megawatt hour of electricity it generates. The bid can be no higher than the administrative set strike price for the technology and the delivery year in respect of which the application is made.

⁴ <https://www.gov.uk/government/publications/electricity-market-reform-delivery-plan>

Auction(s)

The Delivery Body will run an auction (or auctions) to ration the available budget between qualifying applicants. Detailed rules on the auction process [are/will be] set out in the Allocation Framework.

(i) Minima

The Delivery Body will first consider any relevant minima. If the total capacity of Minima technology projects does not exceed the Minima, each project will be offered a CfD at its Administrative Strike Price. If the total capacity of Minima technology projects does exceed the Minima, Delivery Body will rank the bids subject to a minimum from lowest to highest. Those with the lowest strike prices are offered a CfD, up to but not including the project which exceeds the minimum (and any projects with higher strike prices).

Projects accepted under a minimum will be offered a CfD at the strike price of the most expensive accepted bid (the clearing price) under the minimum for their year of delivery or the clearing price under the auction in relation to the budget for their year of delivery, whichever is the highest. This is capped by the administrative strike price for each technology for the year of delivery.

(ii) Overall budget

All applications which are not successful under the minimum auction and all applications not subject to a minimum will be included in the general auction for the relevant part of the budget, as appropriate). The Delivery Body will rank the bids subject to a minimum from lowest to highest. Those with the lowest strike prices are offered a CfD, up to but not including the project which exceeds the budget in each delivery year (and any projects in the same delivery year with higher strike prices).

Projects which have been accepted under the auction are offered a CfD at the clearing price for a project delivering in that year, capped at the administrative strike price for that technology for the year of delivery.

Once the budget has been breached for all available delivery years, or there are no further bids, the auction ends.

(iii) Maxima

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Projects subject to a maximum are considered as part of the auction in relation to the relevant part of budget if there is one. If there is no auction in relation to a budget because the budget is unconstrained, but the maximum is constrained, an auction in relation to a maximum is carried out in the same way an auction in relation to a minimum, except that any applications which are not successful under the maximum are rejected.

Audit

The calculations carried out by the Delivery Body will be subject to an independent audit. The result of the audit together with the auditor's recommendation will be supplied to the Secretary of State. The Secretary of State will have a discretion to request that an allocation round is re-run. The Secretary of State will have the power to terminate an allocation round before CfD notifications are given.

Notification

The Delivery Body will give a CfD notification in respect of a successful application, which under the terms of the Energy Act is also notification to the CfD Counterparty. The CfD Counterparty will issue contracts for signature to the successful applicants.

Allocation Delays

An applicant will be able to get altered the target commissioning date and target commissioning window specified in its application where there is a delay in the auction start date or where there is a delay which applies to all qualifying applicants after the auction has been run.

The period by which the target commissioning date and target commissioning window will be extendable is to be based on a day for day calculation for each day of delay. The allocation framework sets out a series of trigger dates from which such delay will be calculated.

Withdrawal & Contract Signature & Performance Incentive Scheme

An applicant may validly provide notice to withdraw its application during the application window or prior to being considered in an auction process where an allocation round is constrained. Where an applicant has been allocated a CfD but then fails to sign a CfD when offered one by the counterparty body or where an applicant unilaterally terminates its CfD between contract signature and Milestone Delivery Date (which occurs 1 year after contract signature) certain consequences will apply.

The CfD regime will prevent an application in respect of the particular generating unit which was the subject of the original CfD application, from being considered in future allocation rounds up until the actual or theoretical MDD. This provision may be included at a later date.

A waiver of this penalty may apply where an applicant finds itself unable to sign through no fault of its own. In this case a provision allowing the Secretary of State or CfD Counterparty to deem an applicant exempt from the Contract Signature and Contract Performance Incentive scheme may be appropriate.

Schedule Timeline: allocation process

Note – all timescales are indicative and not binding on the Delivery Body or DECC. They are set out here purely for illustrative purposes.

Milestone	Expected Date ⁵	Expected date with appeals ⁶	Explanation
Budget notice published	30 Sep 2014	30 Sep 2014	Confirmation of the allocation round budget
Commencement date of the first allocation round	14 Oct 2014	14 Oct 2014	The first date that an application can be submitted to National Grid
Application closing date	28 Oct 2014	28 Oct 2014	Last date that an application can be submitted
Notices of determination	11 Nov 2014	11 Nov 2014	Grid informs applicant whether or not they are a qualifying applicant
Applicant requests review of a non-qualification determination	18 Nov 2014	18 Nov 2014	Last day that an applicant can request a review of a non-qualification determination
Non-qualification review notification	18 Nov 2014	02 Dec 2014	Grid informs applicant of the result of the review
Applicant makes appeal in respect of a non-qualification determination	18 Nov 2014	09 Dec 2014	Last day that an applicant can make an appeal in respect of a non-qualification determination
Ofgem completes appeals	18 Nov 2014	23 Jan 2015	Ofgem aims to complete appeals within 30 working days
Auction notice	27 Nov 2014	03 Feb 2015	Eligible applicants invited to submit sealed bids
Sealed bids submission closing date	04 Dec 2014	10 Feb 2015	Last date that an applicant can submit a sealed bid
CfD notifications sent to Counterparty and applicants	30 Dec 2014	04 Mar 2015	Eligible applicants informed whether they are successful or not. Grid provides the Counterparty with all information required to prepare contracts

⁵ Expected date of milestone in the event that no applicants appeal or request a review of a non-qualification determination. These dates are indicative and are not binding on National Grid or Ofgem.

⁶ Expected date of milestone in the event that any applicant appeals a non-qualification determination. These dates are indicative and are not binding on National Grid or Ofgem.

Milestone	Expected Date⁵	Expected date with appeals⁶	Explanation
Counterparty sends contracts to successful applicants	07 Jan 2015	11 Mar 2015	

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