

Accompanying Note to the Budget Notice for the Second CFD Allocation Round

1. The Government today is publishing the Budget Notice that the Secretary of State is required to give to the Delivery Body, National Grid, ahead of the second Contracts for Difference (CFD) Allocation Round opening on 3 April 2017. This requirement is set out in Regulation 11 of the Contracts for Difference (Allocation) Regulations 2014 (as amended)¹.

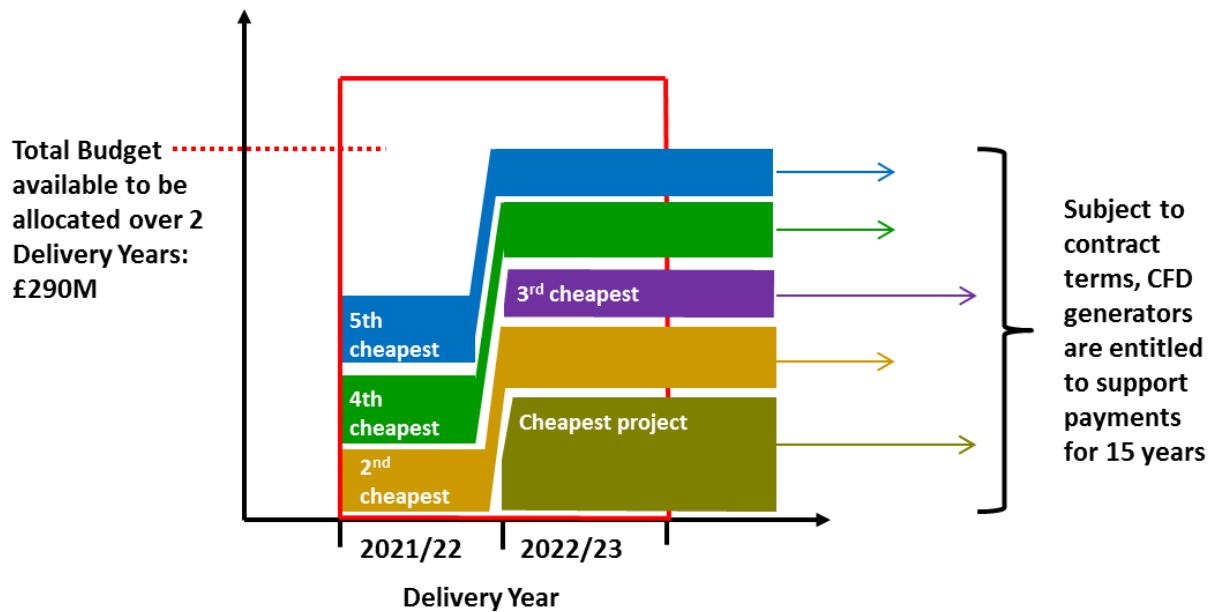
CFD Budget and Delivery Years

2. Table 1 in the Budget Notice sets out the budget for the second CFD Allocation Round which will open on 3 April 2017. The available budget has been allocated to the less established technology group (“Pot 2”).
3. The overall budget of £290m (2011/12 prices) is the maximum total amount of support available to be allocated in the second CFD Allocation Round. Projects that are successful in the round will receive support for 15 years, subject to contract terms – meaning that the total spend per year for contracts allocated in the second CFD Allocation Round will be up to £290m.
4. We are opening two delivery years – 2021/22 and 2022/23. A delivery year is the year when a project will start generating electricity. Projects must also specify the estimated date within that year when they will start generating electricity, known as the ‘Target Commissioning Date’.
5. CFDs will be allocated to the cheapest projects first, regardless of the delivery year within which their Target Commissioning Date falls. The detailed rules about how the allocation round works are set out in the Allocation Framework².
6. The chart on page 2 is a highly simplified illustration of how the budget could be allocated in the round. It shows that the available budget of £290m is a maximum that could be allocated across both delivery years of the round.

¹ <http://www.legislation.gov.uk/uksi/2014/2011/contents/made>

² <https://www.gov.uk/government/publications/contracts-for-difference/contract-for-difference>

Chart illustrating how the budget could be allocated across the two delivery years (example only):



Administrative Strike Prices

7. Table 2 in the Budget Notice sets out Administrative Strike Prices for applications in the second CFD Allocation Round. They have been set to enable the cheapest 19% of projects within each technology included in Pot 2 to compete in the second CFD Allocation Round. This will help to ensure good value for money for consumers. The methodological approach used to determine these Administrative Strike Prices is set out in the Contracts for Difference Strike Price Methodology published in November 2016³.
8. An Administrative Strike Price was set for Geothermal technologies following a call for evidence on fuelled and geothermal technologies in the Contracts for Difference scheme⁴.

Maxima and Minima

9. No minima will be applied in this Allocation Round. The EMR Delivery Plan⁵ set out a 100MW minima for Wave and Tidal Stream across the Renewables Obligation ('RO') and CFD. That Wave and Tidal Stream minima has not been extended to the second CFD Allocation Round as the expected costs for this technology remain high following their early development stage. Reserving a

³ <https://www.gov.uk/government/publications/contracts-for-difference-an-explanation-of-the-methodology-used-to-set-administrative-cfd-strike-prices-for-the-next-cfd-allocation-round>

⁴ <https://www.gov.uk/government/consultations/call-for-evidence-on-fuelled-and-geothermal-technologies-in-the-contracts-for-difference-scheme>

⁵ <https://www.gov.uk/government/publications/electricity-market-reform-delivery-plan>

proportion of the budget for these technologies - at the expense of other potentially less expensive technologies in Pot 2 - does not represent good value for money for consumers. However, Wave and Tidal Stream projects are eligible to compete in the allocation round.

10. A cumulative maxima of 150 MW will be applied in respect of the fuelled technologies: Dedicated Biomass with CHP, Advanced Conversion Technologies (with or without CHP) and Anaerobic Digestion (with or without CHP). This maxima is for all the fuelled technologies combined. The Government is currently undertaking a review of these fuelled technologies in the CFD, and as part of this review is considering stakeholder responses to the call for evidence on fuelled and geothermal technologies in the Contracts for Difference scheme which closed in December 2016⁶.
11. While this policy review is ongoing, the Government considers it appropriate to limit the potential for committing to 15 year support for fuelled technology projects which will not deploy until 2021/22 or 2022/23. We have therefore imposed a temporary cumulative 150 MW maxima for the second Allocation Round.

END

⁶ <https://www.gov.uk/government/consultations/call-for-evidence-on-fuelled-and-geothermal-technologies-in-the-contracts-for-difference-scheme>