



Contracts for Difference: Stakeholder Bulletin

2nd March 2018

General Data Protection Regulation

To continue to receive these updates after the 24th May 2018, you will need to **opt in** to remain on this stakeholder list. To opt in and for your name and e-mail address to remain on this list after 24th May, send a blank e-mail with the subject line '**opt in**' to BEISContractsForDifference@beis.gov.uk.

Purpose & scope of this list: This list is managed by the Department for Business, Energy and Industrial Strategy (BEIS) (and any successor departments), and will be used to inform interested parties of policy developments relevant to the Contract for Difference scheme for renewable energy projects (and any direct successor schemes). It is not used for any other purposes.

Duration of opt-in: You can withdraw your consent to opt in at any time. We will normally keep your address on the list until (a) you withdraw your consent to opt in, (b) the scheme closes without any successor, (c) we receive reports your e-mail address is no longer operational, or (d) you do not respond to a periodic request from us to reconfirm your desire to opt in.

Alternatives to opting in: We currently issue these stakeholder bulletins as a convenience to interested parties, however it is not in any way essential to be on this list to participate in major consultations or allocation rounds. If you do not wish to remain on this list, updates are regularly found on the BEIS website at www.gov.uk/beis.

Developing policy on Advanced Conversion Technologies

We are planning a discussion which will focus on methods to ensure compliance with ACT criteria in the CfD scheme. This is part of our ongoing and more informal stakeholder engagement as we continue to develop policy in this area. This event will take place some time after the closure of the current CfD consultation, likely towards the end of March in London (details are yet to be confirmed).

The meeting would be open to anyone with an interest in the area, though it is anticipated to be mainly of interest to developers. Numbers will be limited, if there is a lot of interest places may have to be offered on a first come first served basis. If you are interested in taking part in this discussion, please respond to BEISContractsForDifference@beis.gov.uk.

Update on questions raised in relation to the consultation on proposed amendments to the Contract for Difference scheme

A consultation is currently underway on changes to the Contracts for Difference (CfD) scheme. As part of this consultation, events have been held in Glasgow, Cardiff and London. Various questions and points of clarification on the proposed changes were raised during these events, and the department has also received some questions directly.

The rest of this bulletin includes answers to questions raised that may be of interest to a wider audience – grouped by chapter of the consultation. There is still time to respond to the consultation, which closes on the 9th March. For any enquiries the consultation team can be contacted by email on BEISContractsForDifference@beis.gov.uk

The consultation & impact assessments are on the gov.uk website:
www.gov.uk/government/consultations/contracts-for-difference-cfd-proposed-amendments-to-the-scheme

Wind on remote islands

Will you set a minimum for remote island wind in the next allocation round?

It is not intended to set a minimum for remote island wind for the next allocation round.

Mitigating load factor risk

How will BEIS calculate the load factors that will be used in the third allocation round? Will the generation costs report be updated?

The proposals are to use the most up to date evidence BEIS holds at the time of setting administrative strike prices to set the load factor assumptions that will be used in the third allocation round. This evidence will be informed by industry information and internal modelling.

The load factors that will be used in the third allocation round will be set out in the Allocation Framework, which will be published closer to the opening of the allocation round. A decision on the publication of the revised generation costs used to inform the setting of the updated load factors will be taken in due course.

Combined Heat & Power (CHP)

Does all heat produced by a CHP scheme get included in the calculation of the schemes' overall efficiency?

As set out in the CHPQA standard¹, the Qualifying Heat Output is the registered amount of useful heat supplied annually from a CHP Scheme. This excludes any heat rejected to the environment without any beneficial use. For example, heat lost from chimneys, exhausts, condensers and radiators cannot be included in the calculation of overall efficiency for schemes participating in the CfD.

Are there plans to remove the need to gain certification from the CHPQA in future CfD allocation rounds?

Technologies that are only eligible to take part in the CfD scheme where they deploy with CHP (energy from waste and dedicated biomass) will continue to be required to hold a CHP certificate. BEIS intends to consult further on changes to contract terms later this year.

Can a CHP scheme be subsidised under the CfD and Renewable Heat Incentive (RHI)?

Whether a CHP project which is accredited under the RHI scheme is eligible to make an application in respect of a CfD round will depend on the terms of the Allocation Framework published in respect of that round. The Allocation Framework which will apply in respect of the third CfD allocation round will be published in due course. However, the budget for the RHI has only been confirmed up to 2021, with consultation planned for later this year on a successor policy.

Greenhouse gas criterion for solid and gaseous biomass

Will these limits apply to existing CfD contracts / to contracts in the most recent allocation round?

No, these will only apply to projects that are offered a CfD from the third allocation round onwards and should initially be set for commissioning years between 2021/22 and 2025/26. It would apply to the same technologies as the ones to which the current greenhouse gas (GHG) criterion applies.

Can further detail be provided on the methodology used to determine the numbers in options 1 and 2 / what the data source was used and how the calculation was made?

The consultation proposes two options for the new GHG criterion: limits of 40 kg CO₂e per MWh and 25 kg CO₂e per MWh (11.1 gCO₂e/MJ and 6.9 gCO₂e/MJ, respectively). The first option corresponds to the mean of GHG emissions reported by existing plants using solid and gaseous biomass feedstocks that have been reporting GHG emissions to Ofgem since 2011/2012. The second option corresponds to the 30% percentile of GHG emissions reported by existing plants using solid and gaseous biomass feedstocks that have been reporting GHG emissions to Ofgem since 2011/2012.

To derive these two options, five annual Biomass Sustainability Datasets published by Ofgem since 2011/2012² were used. These datasets contain GHG emissions reported by generators against the current criterion on a monthly basis, in accordance with the prescribed methodology.

This analysis took GHG emissions from technologies eligible to compete in the scheme as set out by the regulation³, which were then filtered with the fuelling criteria that these technologies need to comply with⁴, and excluded reporting from liquid biomass feedstocks.

A simple average was then calculated of GHG emissions by plant, and the mean (first option) and the 30% percentile (second option) of these simple average GHG emissions was determined.

¹ Combined Heat and Power Quality Assurance, October 2016,

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/569406/CHPQAStandardIssue6.pdf

² "Biomass Sustainability Dataset", 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, available on the ofgem.gov.uk website.

³ "The Contracts for Difference (Definition of Eligible Generator) Regulations 2014", available on the legislation.gov.uk website.

⁴ "CfD Generic Agreement", Annex 4, published on 13 March 2017, available on the gov.uk website.

It's worth noting that in this calculation, all emitting plants were weighted equally, rather than awarding a stronger weight to the plants with larger volumes of feedstock, or producing larger volumes of electricity. This simple average arguably allows the range of plant types that can feasibly be developed to be more effectively reflected in the resulting criterion than would be the case with some form of weighted average (which could be dominated by larger plants). We do, of course, welcome views on all aspects of this approach.

Requests for further clarity on the method used to determine that the approaches provide a GHG saving

The consultation set out three alternative ways in which to demonstrate that these levels deliver GHG savings. To ascertain the GHG savings that the new criterion would bring, the type of electricity generation that would be displaced by new biomass plants subject to the new criterion was considered.

The first scenario considered is that new biomass plants will displace electricity generated by fossil fuels excluding coal from the electricity network. Coal is excluded from this scenario, as the Clean Growth Strategy confirmed unabated coal is to be phased out by 2025⁵. GHG savings presented in the consultation paper are the difference between the new criterion and average GHG emissions from electricity generated by fossil fuels excluding coal over the period 2013/2014 to 2015/2016, calculated from figures published in *Energy Trends* and *Digest of UK Energy Statistics* and internal BEIS analysis of Final 2015 UK GHG gas emissions⁶.

The second scenario considered is that new biomass plants will displace electricity generated by all electricity generating technologies excluding coal from the electricity network, so including renewables which are assumed to have zero carbon dioxide emissions (which is consistent with the UK GHG Inventory methodology). The approach used to calculate GHG savings is the same as for the first scenario: they are the difference between the new criterion and average GHG emissions from electricity generated by all electricity generating technologies excluding coal over the period 2013/2014 to 2015/2016, calculated from figures published in *Energy Trends* and *Digest of UK Energy Statistics* and internal BEIS analysis of Final 2015 UK GHG gas emissions.

The third scenario makes the same assumption as the second one in that biomass plants will displace electricity generated by all electricity generating technologies from the electricity network. However, to ascertain GHG savings the government compared the new criterion with average GHG emissions from electricity projected to be generated by all technologies over the period 2023/2024 to 2037/2038, as forecast in the Clean Growth Strategy⁷. This approach reflects the decarbonisation of the electricity network expected to happen over the duration of contracts offered to new biomass plants commissioning in 2023/2024 (the midpoint of the commissioning years for which the new criterion would initially be set).

While the consultation sets out proposed changes to the emissions criterion, the way the requirements relating to GHG operate will remain the same.

Changes to improve the operation and clarity of the CfD contract terms

It would be helpful for examples of Force Majeure to be included in the guidance

Unlike some commercial contracts, which do specify the nature of events that qualify as Force Majeure, the CfD does not do that as it is inherently difficult to capture all eventualities. The CfD sets out the principles by which Force Majeure is determined.

Will changes – for example on installed capacity – be applied to existing contracts?

The changes proposed in this consultation will apply to contracts awarded as a result of future allocation rounds.

You will be removed from this list by 25th May unless you actively opt-in to receive future stakeholder bulletins.

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⁵ "Clean Growth Strategy", Key Policies and Proposals in the Strategy, published on 12 October 2017, available on the gov.uk website.

⁶ "Energy Trends: September 2017", Section 5 - Electricity, Fuel used in electricity generation and electricity supplied (ET 5.1), published on 28 September 2017, available on the gov.uk website; "Digest of UK Energy Statistics (DUKES) 2017", Chapter 5 (Electricity), Table 5D, published on 27 July 2017, available on the gov.uk website; "Final 2015 UK greenhouse gas emissions", published on 7 February 2017, available on the gov.uk website.

⁷ "Clean Growth Strategy", Figure 25, published on 12 October 2017, available on the gov.uk website.