



## Contracts for Difference: Stakeholder Bulletin

14 May 2020

### Contracts for Difference Allocation Round 4 Consultation

#### 1. Extension to Consultation Period

The Department has received a number of requests for an extension to the current consultation deadline of 22 May. We recognise that many stakeholders may be occupied with the current response to the COVID-19 emergency and we have therefore decided to extend the consultation closing date by one week. The consultation will now close at 11:45pm on **Friday 29 May**. The website will be updated to reflect this change as soon as possible. You can access the consultation [here](#). We are committed to the aim of opening the next Allocation Round in 2021 (AR4) and are therefore keen to ensure that wherever possible the policy development process ahead of this remains on track. We therefore strongly encourage you to submit material by 29 May.

The consultation period for the separate consultation on proposed changes to the Electricity Supplier Obligation Regulations is unaffected by this extension.

#### 2. Postal Submissions

Regrettably due to current restrictions we are not able to access responses sent by post to 1 Victoria Street, but if you would like to make a postal submission – or have already done so – please contact the team at [BEISContractsforDifference@beis.gov.uk](mailto:BEISContractsforDifference@beis.gov.uk) or on 020 7215 5000. Responses can still be submitted online [here](#).

#### 3. Consultation Events

The Department for Business, Energy & Industrial Strategy (BEIS) held a series of online stakeholder webinars between 30 April and 6 May, on proposals to make changes to the Contracts for Difference scheme for new renewable projects in Great Britain. The events were well attended by participants including renewable energy developers, trade associations and consumer and environmental groups. Participants at these events raised various questions on some of the proposals. For transparency, and for the benefit of those who may not have been able to attend the events, this bulletin includes some of the questions with BEIS' responses.

#### 4. Issues Raised in the Consultation Events, and BEIS Responses

##### **How does BEIS intend to treat applications in AR4 for 'hybrid' offshore wind projects which include both floating and fixed-bottom turbines?**

The consultation includes a proposal to introduce a new, separate definition for floating offshore wind. If this proposal is implemented as described, then hybrid projects – those that contain both fixed-bottom and floating turbines – would be free to apply for a single CfD as an offshore wind site. The proposal as laid out in the consultation would not support a hybrid project that contains both floating and fixed-bottom seeking a CfD as a floating offshore wind CfD unit. The proposed definition makes clear that to qualify for support as a

floating offshore wind CfD unit, all the turbines which form part of the eligible generating station would need to meet this definition. We encourage consultees to respond and provide views on this approach.

**When will auction parameters for AR4 be made available (including budget, capacity caps, administrative strike prices and delivery years)?**

BEIS aims to publish allocation round parameters for Allocation Round 4 in draft form ahead of the round opening, typically 4-6 months before the round commences.

**Is BEIS considering any further movement of technologies amongst different pots for AR4, e.g. moving remote island wind into Pot 1?**

No, we are not considering further changes to pot structure for Allocation Round 4 beyond the proposals set out in the consultation, but we will of course consider any responses which touch on pot structure.

**Could you clarify the proposal to simplify the role of delivery years in the auction?**

The proposal is intended to amend the way that delivery years affect the dynamics of an auction, in particular the consequences of the monetary budget being breached in any delivery year for the conduct of the auction and for the resulting clearing prices. It does not seek to alter the existence of separate delivery years into which bidders may bid and in which successful projects deliver. Currently, if the monetary budget is breached in one delivery year, that delivery year is closed to further bids and the auction continues only for bids bid into other delivery years. The result of this is that different clearing prices are set for each delivery year. This design is helpful when many delivery years are being auctioned in parallel, as it allows the auction to continue in other years when the budget in one year is exceeded and facilitates smooth deployment over time.

However, the benefits of this design reduce when only two delivery years are auctioned as was the case for Allocation Rounds 2 and 3. We anticipate continuing to open more than one delivery year for each Allocation Round and, whilst no decisions have been taken yet, it is possible that AR4 will also have two delivery years. Accordingly, we are proposing that we might exercise discretion in any given allocation round to close the whole auction when the budget is breached in any delivery year and to apply a single clearing price across the delivery window. This would mean that delivery years would not close independently but instead the whole auction would close, and there would be one clearing price across the different delivery years (subject to administrative strike prices and the potential use of maxima). We consider that this proposal could simplify the operation of the auction, reducing strategic complexity, and increase value for money for consumers by helping bidders to focus on delivering their lowest achievable price.

**Does BEIS intend to permit 'aggregate' bids to compete in AR4, i.e. multiple developers coming together to submit one CfD bid?**

No. This change is not one being considered for AR4. It would require a number of complex changes to how the allocation round operates and our focus is on the changes outlined in the consultation.

**Will the CfD scheme be opened up to sub-5MW projects?**

The scheme is already open to some <5MW technologies, including energy from waste with CHP, landfill gas, sewage gas, ACT, dedicated biomass with CHP, geothermal, offshore wind, tidal stream and wave. BEIS are not currently considering opening the scheme to any

further <5MW projects such as solar or onshore wind as there are other avenues to encourage deployment of micro- and small-scale low carbon electricity generation, such as the Smart Export Guarantee.

**Is the intention behind Q46 to allow BEIS to revise down the overall budget before the Allocation Round begins?**

This question refers to budget revision notices. Budget revision notices only become relevant once a final budget notice has been published, which is usually a few weeks before a round commences and cannot be less than 10 working days before the round commencement.

We are not proposing to change Regulation 12 of the Allocation Regulations which state that we cannot decrease a budget once we are 10 working days or closer to commencement of an allocation round.

The definition of “a budget revision” in Regulation 12 refers back to Regulation 11(2), which lists minima, maxima and the division of the overall budget that applies to a pot as details that can be amended using a budget revision notice. We are looking to clarify that we can also vary by increase the overall budget using a budget revision notice, in accordance with Regulation 12 as otherwise presently drafted. This function is not explicitly provided for and we feel it would be a useful addition to improve clarity.

**Is the government considering allowing CfD beneficiaries to participate in capacity market auctions given decreasing strike prices?**

We are not currently considering changing the rules to permit projects to receive both CfD and Capacity Market payments in the upcoming allocation round. However, BEIS continues to consider how current policies and the market structures they operate in, over the long-term can support the transition to net zero. We recognise the benefits that different types of plant bring to the system, including generated power as well as security of supply.

**Is there a risk of slippage in the CfD timeline owing to COVID-19?**

Allocation Round 4 is scheduled to open in 2021. The detailed timeframes for AR4 will be announced in due course and will be driven in part by stakeholders’ responses to the consultation. We are also actively monitoring the COVID-19 situation to ensure that the its potential implications on developers’ ability to participate are taken into account.

**Regarding the proposal to extend the current delivery years to 2030, can BEIS not commit to extending these beyond 2030?**

How policies continue to support low carbon technologies over the long term will be considered in the future.

**Would the proposal to create a new third offshore wind-only pot include floating offshore wind?**

No, the proposal for a new, third pot would include only offshore wind. If a separate definition for floating offshore wind projects is introduced as proposed, this would be situated in Pot 2.

**Do BEIS expect to deploy minima in Pot 2 for AR4?**

BEIS aims to publish allocation round parameters – including any minima and maxima – for Allocation Round 4 in draft form ahead of the round opening, typically 4-6 months before the round commences.

### **Will BEIS consider the introduction of more frequent CfD auctions?**

We remain open to suggestions for more frequent CfD auctions in future, but do not currently believe that there is sufficient evidence that this would result in improved auction outcomes. We welcome representations from stakeholders if they have evidence otherwise.

### **Could you give specific examples of how Supply Chain Plans might be strengthened for AR4?**

BEIS welcomes views from consultees on what a strengthened Supply Chain Plan process might look like. The consultation sets out objectives for strengthening the process for Allocation Round 4, including more closely aligning it with the Industrial Strategy and improving powers to fail Supply Chain Plans.

### **What is the reason for the suggested 60 metre minimum depth in the definition of floating offshore wind sites?**

Again, BEIS welcomes views on this particular proposal and encourages the submission of evidence to support responses. The objective behind a minimum depth for floating offshore wind is that deployment of (fixed-bottom) offshore wind in the UK has typically been seen in waters of 60m or less. One of the noted benefits of floating offshore wind deployment is that it can deploy in much deeper waters. We want the CfD scheme to support low carbon electricity generation which harnesses these benefits.

### **The Clean Growth Strategy talked about £557m for future CfDs - is this figure still valid?**

Yes. In 2017 the Clean Growth Strategy announced up to £557m of annual support for future CfDs.

### **Are there any plans to award contracts on the basis of ‘pay as bid’ as opposed to ‘pay as clear’?**

We are not currently planning to change the ‘pay as clear’ approach to auctions, as we consider them to have been successful in supporting significant cost reduction in low carbon electricity technologies.

### **How do BEIS see hydrogen projects fitting into the CfD scheme in future?**

The government is committed to exploring the development of low carbon hydrogen as a strategic decarbonised energy carrier, alongside electricity and other decarbonised gases. We are developing sustainable business models to support a range of hydrogen production methods and drive investment through:

- Exploring the role hydrogen could play as part of a hydrogen chapter in the CCUS business models consultation
- Conducting extensive engagement on business model design, including through the launch of hydrogen expert groups.

Alongside our work on business models, we are;

- investing in innovation, with up to £108m supporting a range of projects to explore and develop the potential of low carbon hydrogen across the value chain;
- driving towards deployment through the new £100m Low Carbon Hydrogen Fund announced in August 2019.

### **What are the proposed next steps that will lead on from this consultation?**

The consultation will close on 29 May. After this BEIS will analyse consultation responses and will set out the outcome of the consultation in a Government Response document which we will look to publish in the summer.

#### **General Data Protection Regulation**

This stakeholder bulletin is being circulated to people who have opted in to the Contract for Difference stakeholder contact list. We 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.

**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.

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