



# Department for Energy Security & Net Zero

16 March 2023

## Accompanying Note to the Budget Notice for the Fifth Contracts for Difference Allocation Round, 2023

1. The Government is today publishing the Budget Notice that the Secretary of State is required to give to the EMR Delivery Body, National Grid, ahead of the Contracts for Difference (CfD) Allocation Round opening in March 2023. The requirement for a Budget Notice is set out in Regulation 11 'Budget Notices' of the Contracts for Difference (Allocation) Regulations 2014 (as amended).

### **CfD Budget**

2. Table 1 in the Budget Notice sets out the CfD budget (in monetary terms) for both technology groups ("Pots"), for the fifth Allocation Round which will open in March 2023.
3. The available budget for this Allocation Round has been allocated to two technology pots and is presented by Delivery Year. The figures given are the total available for applications bidding into any Delivery Year in this Allocation Round.
4. We are opening 2025/26, 2026/27 and 2027/28 as delivery years for Pot 1 , and 2026/27 and 2027/28 as delivery years for Pot 2 . A Delivery Year is the year when a project can start receiving payments under its CfD contract.
5. A technology subject to a minimum (see paragraph 11) will have first access to the specified part of the budget, but if that is not used then it will be available to other technologies in that pot. CfD contracts will then be allocated to the cheapest eligible projects first, regardless of their start date, if they fit within the monetary budget profile provided. If the monetary budget is exceeded in any Delivery Year or subsequent Valuation Year, the relevant auction will close (subject to the consideration of flexible bids). At that point, a single clearing price would apply across the delivery window (subject to administrative strike prices rules).

<sup>1</sup> Energy from Waste with CHP, Hydro (>5MW and <50MW), Landfill Gas, Offshore Wind, Onshore Wind (>5MW), Remote Island Wind (>5MW), Sewage Gas and Solar Photovoltaic (PV) (>5MW).

<sup>2</sup> ACT, AD (>5MW), Dedicated Biomass with CHP, Floating Offshore Wind, Geothermal, Tidal Stream, and Wave.

<sup>3</sup> In previous allocation rounds, a single delivery year would close.

## Accompanying Note to the Draft Budget Notice for the Fifth CfD Allocation Round

6. The detailed rules about how the Allocation Round works are set out in the Allocation Framework, published alongside the Budget Notice.
7. The overall budget of £205m (in 2011/12 prices) is the maximum total amount of support available to be allocated in the fifth Allocation Round. Projects that are successful in the round will receive support for 15 years, subject to contract terms.
8. We will release budget as follows for the fifth Allocation Round:
  - Pot 1: £170m (in 2011/12 prices) for projects for which the relevant Delivery Year is 2025/26, 2026/27, or 2027/28. A capacity cap will not apply to this pot.
  - Pot 2: £35m (in 2011/12 prices) for projects for which the relevant Delivery Year is 2026/27 or 2027/28. A capacity cap will not apply to this pot.
9. Pursuant to regulation 12 of the Contracts for Difference (Allocation) Regulations 2014, the Secretary of State retains the option of increasing the budget following the commencement of the Allocation Round via a budget revision notice.

### **Maxima and Minima**

10. No maxima will be applied in this Allocation Round.
11. In Pot 2, there is one minimum for Tidal Stream. The minimum allows projects of Tidal Stream (totalling up to £10m in 2011/12 prices) first access to the total Pot 2 budget of £35m (in 2011/12 prices), protected from competition from other technologies. However, if the budget assigned to the minimum is not used fully, any remaining budget will be available to all technologies (including those subject to the minimum) in the general Pot 2 auction.
12. A detailed description of how the minimum will operate within the CfD allocation process is set out in the Allocation Framework, published alongside the Budget Notice.

### **Administrative Strike Prices**

13. Table 3 in the Budget Notice sets out Administrative Strike Prices applicable to applications in the fifth Allocation Round.

14. The methodology used to determine these Administrative Strike Prices is set out in the 'Methodology used to set Administrative Strike Prices for CfD Allocation Round 5' note published alongside the Core Parameters and Draft Allocation Framework in December 2022.
15. In line with the single clearing price explained above, a single Administrative Strike Price applies to each technology within its relevant applicable Delivery and Valuation Years.

### Reference prices

16. A 'reference price' is an estimate of the average GB market price for electricity captured by the relevant technology. Under the CfD scheme, payments are made to generators based on the difference between their strike price and the market reference price, the latter of which is calculated in-life by the Low Carbon Contracts Company (LCCC) as a season-ahead price for baseload technologies (such as fuelled technologies, the Baseload Market Reference Price, 'BMRP') and a day-ahead hourly price for intermittent technologies (such as solar PV, and onshore and offshore wind, the Intermittent Market Reference Price, 'IMRP').
17. Separately, a technology specific reference price is used in the valuation formula, set out in Appendix 2 of Schedule 2 in the Allocation Framework, with each price series of the technology applied set out in Schedule 3. These are estimates of future wholesale electricity prices and are used to calculate the estimated budgetary impact of each application during the Allocation Round. They do not influence the outturn reference prices calculated by the LCCC in-life (the BMRP and IMRP). For the fifth Allocation Round, we have applied five separate reference prices for use in the valuation formula (as we did in AR4), to better reflect the potential market price captured by different intermittent technologies given differing generation patterns. This approach has been introduced with the intention of improving the accuracy of our budget estimates during the Allocation Round.

**END**

<sup>4</sup> <https://www.gov.uk/government/publications/contracts-for-difference-cfd-allocation-round-5-core-parameters>

<sup>5</sup> <https://www.gov.uk/government/publications/contracts-for-difference-cfd-allocation-round-5-allocation-framework>