



Department for Business, Energy & Industrial Strategy

13 September 2021

Contracts for Difference (CfD): Draft Budget Notice for the fourth allocation round, 2021

From: Secretary of State for Business, Energy and Industrial Strategy

To: National Grid Electricity System Operator Limited, EMR Delivery Body

This notice is given pursuant to Regulation 11 of the Contracts for Difference (Allocation) Regulations 2014 (as amended). A copy of that regulation is included in the schedule to this notice.

This notice applies to the fourth Contracts for Difference (CfD) Allocation Round, which will open in December 2021. It should be read in conjunction with the accompanying note. A final budget notice will be issued no later than 10 working days prior to the commencement of the Allocation Round.

Technology Groups

The technology groups ('pots') are as follows:

- Pot 1: Onshore Wind (>5MW), Solar Photovoltaic (PV) (>5MW), Energy from Waste with CHP, Hydro (>5MW and <50MW), Landfill Gas and Sewage Gas.
- Pot 2: ACT, AD (>5MW), Dedicated Biomass with CHP, Floating Offshore Wind, Geothermal, Remote Island Wind (>5MW), Tidal Stream, Wave.
- Pot 3: Offshore Wind

CfD Budget allocation

The overall budget¹ applicable to this CfD Allocation Round, and its division amongst the technology groups ('pots'), is set out in Tables 1 and 2. The overall budget, in monetary terms, for the Allocation Round is the value given in respect of each Delivery Year² and subsequent Valuation Years. A project has a budgetary impact (in monetary terms) in the Delivery Year in which its Target Commissioning Window

¹ Overall budget as defined in Regulation 2 of the Contracts for Difference (Allocation) Regulations 2014 as amended.

² Delivery Year as defined in Regulation 2 of the Contracts for Difference (Allocation) Regulations 2014 as amended.



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Start Date falls (or the first applicable Delivery Year if that is later) and all subsequent Delivery and Valuation Years.



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Table 1: CfD Budget, in monetary terms, for the fourth Allocation Round, 2021

	Delivery and Valuation Years					
	2023/4	2024/5	2025/6	2026/7	2027/8	2028/9
Overall budget (£ million in 2011/12 prices)	10	10	265	265	255	255
Pot 1	10	10	10	10	-	-
Pot 2	-	-	55	55	55	55
<i>Inclusive of:</i>						
- Minimum for Floating Offshore Wind	-	-	24	24	24	24
Pot 3	-	-	200	200	200	200

Table 2: CfD Budget, in capacity terms (MW), for the fourth Allocation Round, 2021

	Delivery and Valuation Years					
	2023/4	2024/5	2025/6	2026/7	2027/8	2028/9
Pot 1	5,000 MW	5,000 MW	5,000 MW	5,000 MW	-	-
<i>Inclusive of:</i>						
- Maximum for Onshore Wind	3,500 MW	3,500 MW	3,500 MW	3,500 MW	-	-
- Maximum for Solar PV	3,500 MW	3,500 MW	3,500 MW	3,500 MW	-	-
Pot 2	-	-	-	-	-	-
Pot 3	-	-	-	-	-	-

Key:

	Delivery Year
	Valuation Year



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Use of Maxima or Minima

Two separate maxima of 3,500 MW each will be applied to onshore wind and solar PV, both in Pot 1. Both maxima will be applied on a capacity (MW) basis, to operate as 'hard' constraints. In the event that maximum only auctions need to be run for both technologies, the Delivery Body will run the solar PV auction first, followed by the onshore wind auction.

A minimum of £24 million will be applied in respect of floating offshore wind in Pot 2. The minimum will be applied on a monetary budget (£ million) basis, to operate as a 'hard' constraint. Consideration of the case for introducing additional minima is ongoing. Any additional minima will be set out ahead of, or in, the final budget notice.

Administrative Strike Prices

The Administrative Strike Prices applicable to technologies in this allocation round are:

Table 3: CfD Administrative Strike Prices (£/MWh, in 2012 prices)

Technology Type	Administrative Strike Price
Advanced Conversion Technologies (ACT)	190
Anaerobic Digestion (> 5MW)	128
Dedicated Biomass with CHP	163
Energy from Waste with CHP	121
Floating Offshore Wind	122
Geothermal	133
Hydro (>5MW and <50MW)	93
Landfill Gas	62
Offshore Wind	46
Onshore Wind (> 5MW)	53
Remote Island Wind (> 5MW)	62



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Sewage Gas	151
Solar PV (> 5MW)	47
Tidal Stream	211
Wave	258



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Re-basing CfD Budgets

The overall monetary budget presented has been calculated in real terms on the basis of a 2011/12 price level. To convert this into a more recent price base, a CPI index can be used.

Given that strike prices have been published in 2012 values, the government will inflate the budgets presented here by a CPI inflator^{3,4} to a 2012 price base, before National Grid values the bids (which will be submitted in 2012 values) against the available budget.

The inflator which we will use is 1.0193. This has been derived using the following formula:

$$CPI\ Adjustor_{\text{£}2011/12 \rightarrow \text{£}2012} = \text{AverageCPI}_{2012} / \text{AverageCPI}_{2011/12}$$

This results in a total budget of £270 million⁵ in 2012 values.

It is also possible to convert the budgets into current monthly prices. An illustration of this formula is provided below.

$$CPI\ Adjustor_{\text{£}2011/12 \rightarrow \text{£}current} = \text{CPI}_{current} / \text{AverageCPI}_{2011/12}$$

For stakeholders to convert the 2011/12 budget into the most recently available price base (July 2021 at time of publication), the following inflator should be used: 1.1812.

³ Please note that CPI index values are subject to the ONS CPI Revisions Policy and may change in the future.

⁴ Published by the Office of National Statistics (ONS)
<https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7bt>

⁵ Rounded to the nearest £5 million



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Schedule to the Draft Budget Notice for CfD Allocation Round

The Contracts for Difference (Allocation) Regulations 2014 Regulation 11.

Budget notices

11. (1) The Secretary of State must by notice (“a budget notice”) specify—
- (a) the overall budget which is available for each delivery year applicable to an allocation round; and
 - (b) the administrative strike prices applicable to applications in an allocation round.
- (2) The Secretary of State may in a budget notice specify any of the following—
- (a) budgets which are reserved for the descriptions of applications specified in the notice (“minima”);
 - (b) maximum budgets which apply to the descriptions of applications specified in the notice (“maxima”);
 - (c) a division of the overall budget such that a different part (“pot”) of the overall budget applies to the description of applications specified in the notice.
- (3) Where maxima or minima are specified, they may be expressed as—
- (a) a sum of money;
 - (b) an amount of capacity of electricity generation; or
 - (c) a combination of (a) and (b).
- (4) Where—
- (a) the overall budget is expressed as a sum of money; and
 - (b) that sum is stated by reference to a price which is not current at the date of the budget notice,
- the budget notice must include a factor which, when applied to that sum, converts that sum into a price which is current at that date.
- (4A) Where any budget referred to in paragraph (1)(a) or (2) (that is to say, the overall budget, a minimum, a maximum or a pot) is expressed as an amount of capacity of electricity generation, the Secretary of State may specify in the budget notice that a “soft constraint” applies to that amount; and in such a case, the amount of capacity of electricity generation may be exceeded, but only in accordance with the provisions of the allocation framework that applies to that allocation round.
- (5) A budget notice must—
- (a) be given to the delivery body;
 - (b) identify the allocation round to which the budget notice applies; and



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(c) be given no later than 10 working days before the commencement date of the allocation round.

END