



Department for Business, Energy & Industrial Strategy

13 September 2021

Accompanying Note to the Draft Budget Notice for the Fourth Contracts for Difference Allocation Round

1. The Government is today publishing a draft of the Budget Notice that the Secretary of State will be required to give to the EMR Delivery Body, National Grid, ahead of the Contracts for Difference (CfD) Allocation Round opening in December 2021. The requirement for a Budget Notice is set out in Regulation 11 'Budget Notices' of the Contracts for Difference (Allocation) Regulations 2014 (as amended). The regulations are available [here](#).

Draft CfD Budget

2. Table 1 in the Draft Budget Notice sets out the CfD budget (in monetary terms) for all three technology groups ("Pots"), for the fourth Allocation Round which will open in December. The CfD budget is also set in terms of capacity of electricity generation for Pot 1¹ of this Allocation Round (Table 2 in the Draft Budget Notice)¹.
3. The content of the Draft Budget Notice is subject to amendment and a final Budget Notice will be issued no later than 10 working days before the commencement date of the Allocation Round. The available budget has been allocated to three 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 2023/24 and 2024/25 as delivery years for Pot 1, and 2025/26 and 2026/27 as delivery years for Pot 2² and Pot 3³. 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 and, in Pot 1, the relevant maximum and the overall capacity cap. If the

¹ Onshore Wind (>5MW), Solar Photovoltaic (PV) (>5MW), Energy from Waste with CHP, Hydro (>5MW and <5MW), Landfill Gas and Sewage Gas

² ACT, AD (>5MW), Dedicated Biomass with CHP, Floating Offshore Wind, Geothermal, Remote Island Wind (>5MW), Tidal Stream and Wave

³ Offshore Wind

monetary budget (or, in Pot 1, the capacity cap) is exceeded in any Delivery Year or subsequent Valuation Year, the relevant auction will close⁴ (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), in contrast to previous allocation rounds where different clearing prices could be set in each delivery year.

6. The rules that will apply to the fourth Allocation Round will be published in the Allocation Framework. We are publishing a draft Allocation Framework alongside the draft Budget Notice.
7. The overall budget of £265m (in 2011/12 prices) is the maximum total amount of support available to be allocated in the fourth Allocation Round. Projects that are successful in the round will receive support for 15 years, subject to contract terms.
8. We intend to release budget as follows for the fourth Allocation Round:
 - Pot 1: £10m (in 2011/12 prices) for projects with Target Commissioning Dates in 2023/24 or 2024/25. A capacity cap⁵ of 5GW is planned to apply to this pot.
 - Pot 2: £55m (in 2011/12 prices) for projects with Target Commissioning Dates in 2025/26 or 2026/27. It is not currently planned that a capacity cap will apply to this pot.
 - Pot 3: £200m (in 2011/12 prices) for projects with Target Commissioning Dates in 2025/26 or 2026/27. It is not currently planned that a capacity cap will apply to this pot.

Maxima and Minima

9. In Pot 1, there is one maximum for onshore wind, and one maximum for solar PV. The maxima will cap how much capacity of either technology (up to 3,500 MW for onshore wind or up to 3,500 MW for solar PV) can be successful, within an overall capacity cap of 5,000 MW in the Pot 1 auction. If maximum only auctions need to be run for each technology, then the Delivery Body will run the solar PV auction first, followed by the onshore wind auction.
10. In Pot 2, there is one minimum for floating offshore wind. A minimum allows projects of the specified technology (totalling up to £24m in 2011/12 prices for floating offshore wind) first access to the total Pot 2 budget of £55m (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.

⁴ In previous allocation rounds, a single delivery year would close.

⁵ This will be applied as a hard constraint.

11. A detailed description of how maxima and minima will operate within the CfD allocation process is set out in the draft Allocation Framework, published alongside this note.

Administrative Strike Prices

12. Table 3 in the Draft Budget Notice sets out draft Administrative Strike Prices applicable to applications in the next Allocation Round.

13. 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 4' note published alongside this document.

14. These are draft Administrative Strike Prices. Final Administrative Strike Prices will be published in the final Budget Notice. 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

15. 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').

16. 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 fourth Allocation Round, we have applied five separate reference prices for use in the valuation formula (versus two in AR3), 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.

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