



9 November 2016

Draft Budget Notice for the Second CFD Allocation Round

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

To: National Grid, EMR Delivery Body

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

This notice applies to the second Contracts for Difference (CFD) Allocation Round opening in April 2017. 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.

CFD Budget allocation

The budget which is available for each delivery year of this CFD Allocation Round is set out in Table 1:

Table 1: CFD Budget Release for the second Allocation Round (Figures are total support payments available in a given year)

£M (2011/12 prices)	Delivery Year ¹	
	21/ 22	22/ 23
Overall Budget to be allocated to Pot 2 (less established technologies)	290	290

The “less established” technologies included in this Pot 2 allocation round are:

- Offshore Wind
- Advanced Conversion Technologies (with or without CHP)
- Anaerobic Digestion (with or without CHP)
- Dedicated Biomass with CHP

¹ Delivery Year as defined in Regulation 2 of the Contracts for Difference (Allocation) Regulations 2014 as amended - see paragraph 4 in accompanying note to this Draft CFD Budget Notice.



- Wave
- Tidal Stream
- Geothermal

Administrative Strike Prices

The Administrative Strike Prices applicable to this allocation round are:

Table 2: CFD Administrative Strike Prices (£/MWh, 2012 prices)

Technology	2021/22	2022/23
Offshore wind ²	105	100
Advanced Conversion Technologies (with or without CHP)	125	115
Anaerobic Digestion (with or without CHP) (>5MW)	140	135
Dedicated Biomass with CHP	115	115
Wave	310	300
Tidal Stream	300	295
Geothermal ³	-	-

Use of Maxima or Minima

No minima will be applied.

A cumulative maxima of 150 MW (equivalent to a budget maxima of £70M)⁴ will be applied in respect of the fuelled technologies: Dedicated Biomass with CHP, Advanced Conversion Technologies and Anaerobic Digestion.

² For information on phasing of offshore wind projects see para 15 of the accompanying note.

³ The Department is seeking more evidence on geothermal project costs in order to inform strike price setting via the Call for Evidence on Fuelled Technologies and Geothermal available at: <https://www.gov.uk/government/consultations/call-for-evidence-on-fuelled-and-geothermal-technologies-in-the-contracts-for-difference-scheme>

⁴ In 2012 prices. We will set out at or before issuing the final budget notice whether the maxima will be applied on a MW or £ basis.



Re-basing CFD Budgets

The budgets presented here have 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^{5,6} 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:

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

This results in a budget of £295M⁷ in £2012 values.

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

$$CPI\ Adjustor_{\text{£2011/12} \rightarrow \text{£current}} = CPI_{current} / AverageCPI_{2011/12}$$

For stakeholders to convert the £2011/12 budget into the most recently available price base (September 2016 at time of publication) – the following inflator should be used – 1.0730.

⁵ Please note that CPI index values are subject to the ONS CPI Revisions Policy and may change in the future.

⁶ Published by the Office of National Statistics (ONS)
<https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7bt>

⁷ Rounded to the nearest £5M.



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.

(5) A budget notice must—

(a) be given to the delivery body;



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- (b) identify the allocation round to which the budget notice applies; and
- (c) be given no later than 10 working days before the commencement date of the allocation round.

END