Phasing

Expert group 13th May

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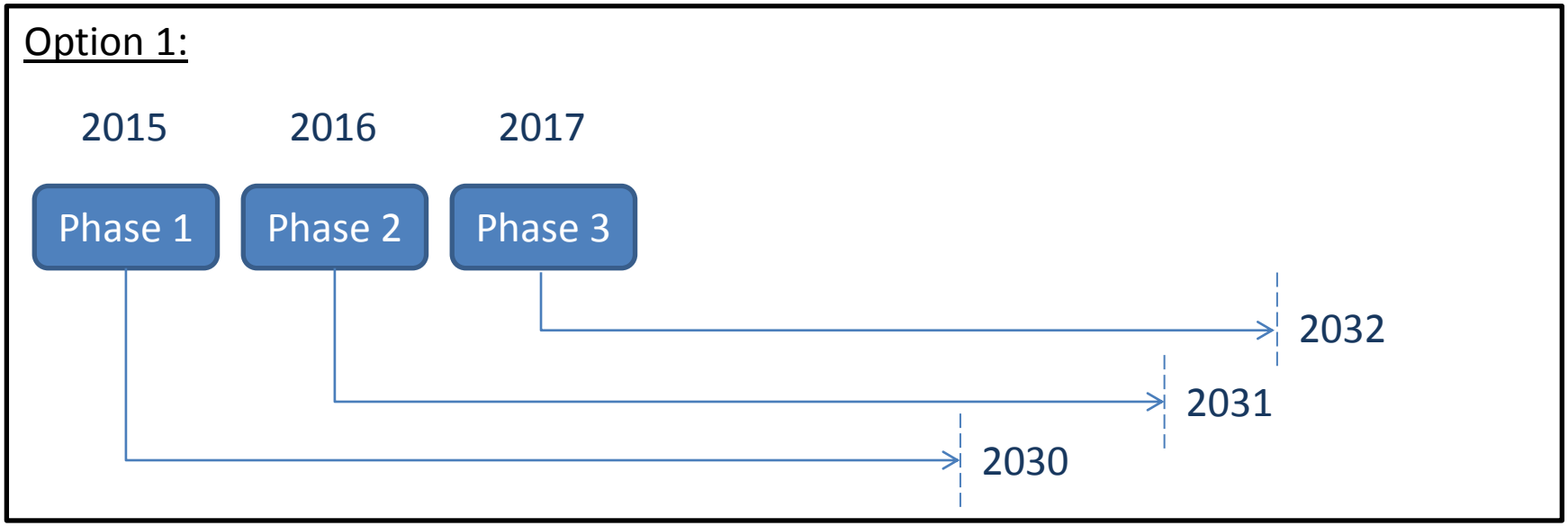
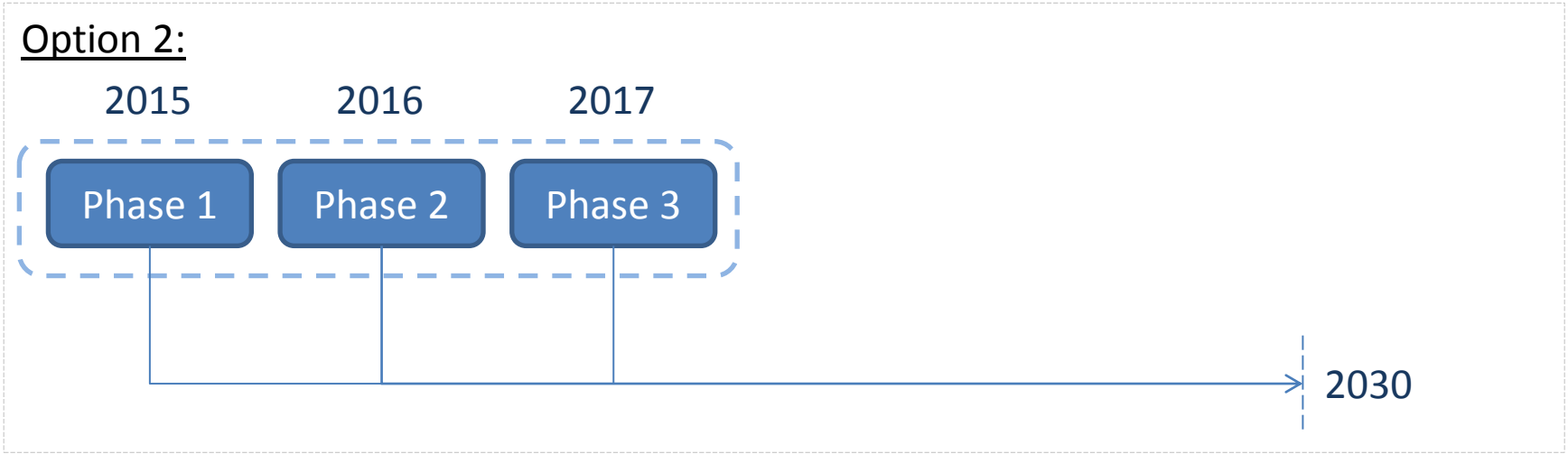
Models for phasing

- Two broad approaches to phasing have been considered:
  - Option 1: the developer submits a single application for a number of separate CfDs, with each CfD covering an individual phase of the project, with a different TCD, and the strike price that relates to each of these TCWs/phases.
  - Option 2: the developer applies for a single CfD which covers the whole of the capacity from all of the different phases of the project. The developer then nominates a TCD that reflects the developer's own view of the TCW within which they would be able to commission the project's capacity.
- The option we are developing here (Option 1 above) provides investors with the flexibility they need to shape their project development while delivering value for money by preserving price digression (as reflected in the profile of announced strike prices) over time and maintains delivery incentives for each phase.

Phasing options 1 & 2





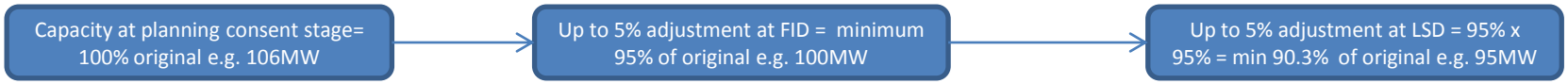
Process for developers

Step (general CfD)	Additional info (phases)
Contract application • Planning consent • Grid connection agreement	• Each phase will have its own CfD, which will be considered individually as well as part of the wider project. The benefit of multiple CfDs per project is evident here, where it makes the decision-making easier hence enabling timely communication. • The developer will submit an additional form stating that it is a phased project (this will be indicated in individual CfDs as well). This application will contain a summary of proposed phases, capacity and start dates. • This form will also require the developer to list alternative configurations of phases it would accept if the preferred option is unavailable. So for example, if the preferred option is a five-phase project, the developer would also indicate what subset of these phases he would accept.
Eligibility assessment	Developer gets informed by SO whether they have succeeded in securing CfDs for their phased projects and what combination of CfDs they secured.
Contract Award	CfDs for all phases awarded by CPB simultaneously with each of the below per CfD phase: • TCW start date • TCW end date • Long Stop Date • Strike Price listing, as per latest Delivery Plan
Milestone Delivery Date/FID adjustment process	Developer will submit the following information to SO: • Evidence that milestone has been met for each phase e.g. FID or turbine order • Statement of final project Capacity

Payments and delays: options under consideration

– Payments start to flow to a project phase when the developer nominates, provided that 90% is built before the end of the TCW.

Figure: Capacity requirements



– If a phase of a project is delayed (for reasons other than Force Majeure) then:
  - It will miss its Target Commissioning Date and may overrun beyond the period allowed for by the Transmission Connection Window.
  - In the event it overruns its window then it will be treated like all other CfDs – the CfD will be activated even though payments are not yet being made under it. This effectively acts as a financial penalty as the period in which support is provided under the CfD is reduced.
  - Should the phase over run the Long Stop Date then we are considering

Table: What to do if a phase fails to deliver 95% of capacity agreed at FID by LSD

Option 1	Option 2
Same as general CfD – terminate	Flexibility up to final LSD with possibility of revising later milestones if one is missed – complex and poor incentives.

Flexibility

- We also propose allowing flexible capacity between phases – up to 5% can be carried over to the subsequent phase (but does not roll over). Hence maximum delivery will be the capacity at FID plus amount carried over from previous phase (capped at 5%).
- Developers are free to apply for a new CfD if a phase is over-delivering.

Table: Mechanism for flexibility between two adjacent phases

Phase	Capacity at FID (see example on previous slide)	Min delivery (95% of capacity at FID – see previous slide)	Actual delivery	Amount carried over one phase only (max 5% of capacity at FID)
Phase 1 – 100MW	100MW	95MW	95MW	5MW
Phase 2 – 100MW	100MW	95MW	105MW	0MW

Relinquishment

- Further to flexibility, the Department is considering the option of relinquishment of capacity prior to FID 1.
- Industry have indicated that the amount of capacity for which they seek consent and a grid connection agreement often represents the maximum technical capacity which a project site or zone can support rather than an accurate reflection of the ultimate size of the project they wish to construct. This means that the size of project for which they seek consent and connection is often markedly greater than the total amount of capacity that they end up delivering. This can lead to a project receiving an allocation greater than that the project ultimately requires. Within the process of site optimisation, a developer may discover a problem which may mean they no longer wish to build the full number of phases they originally intended. Any approach to addressing this issue should not be so flexible that it effectively grants a developer a free option. However, it is also potentially suboptimal for the CPB and the Delivery body to only discover what quantity of support can be reallocated later on in the development process, implying that we need a process that provides an incentive to apply for volume under a CfD that more closely matches the expected deployment.
- Consequently, there may be an argument for allowing the project to amend its contract capacity in such circumstances, striking an appropriate balance between certainty for Government and flexibility for developers. This concept requires further development as part of the general approach to contract allocation. The principles we agree for the standard CfD will be mapped across to phased projects.
- In the context of phasing one approach might be to allow a developer to relinquish one (or more) phases of the CfD at or prior to FID for the 1st phase of the project (phase one FID) and treat it as capacity adjustment at FID 1.; another option would be to allow adjustment of the size of each phase of the project if the project anticipates taking a number of separate FID decisions.
- As with a standard project there is the potential to game by deliberately bidding for capacity in a year earlier than commissioning is expected if there is a financial incentive to do so e.g. considerable strike price difference. There is a need to balance the risk of bedblocking (by having too soft a penalty for relinquishment) and scaring off investors (by being too strict).

Communication

- There is a need for clear signalling and publication of information. Developers will need to know the remaining LCF budget in every delivery year in order to prepare for allocation rounds. This means that despite the potentially commercially sensitive nature of information relating to the construction of phases, this information will be indirectly revealed through regular publication of the remaining LCF budget. Hence changes in LCF budget for all years will need to be published frequently, to give potential bidders the opportunity to correctly structure their bids.
- When a phase triggers a round, this will need to be communicated to the market immediately.

Table: Publication and communication regarding budget

Communications	Parties
Considerations: • At regular intervals, SO will need to publish the amount of capacity delivered as well as implications on LCF budget. Interested parties can glean from this which projects have delivered and which have not. • CPB will inform the SO about which phases have been successful or delayed. SO will recalculate the impact of this on the budget and disclose budgetary information only. • There is the need to recognise what information is commercially sensitive in a phased scenario. It will be at the discretion of the developer and companies involved to disclose any information regarding the successful or delayed construction of a phase.	SO, CPB, companies