



Department
of Energy &
Climate Change

AMENDMENT TO THE CONTRACTS FOR DIFFERENCE (ALLOCATION) REGULATIONS (2014)

Consultation

July 2016

AMENDMENT TO THE CONTRACTS FOR DIFFERENCE (ALLOCATION) REGULATIONS (2014)

Consultation

The consultation can be found on DECC's website:

<https://www.gov.uk/government/consultations/amendment-to-the-contracts-for-difference-allocation-regulations-2014>

Amendment to the contracts for difference (allocation) regulations (2014)

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Any enquiries regarding this publication should be sent to us at DECCContractsForDifference@decc.gsi.gov.uk.

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General information

Purpose of this consultation

This consultation is intended to seek views on the amendment of the Contracts for Difference (Allocation) Regulations (2014) in order to extend the Delivery Years specified in those regulations to the 31st of March 2026, enabling further Allocation Rounds to be undertaken.

Issued: July 4th 2016

Respond by: August 8th 2016

Enquiries to:

Contracts for Difference Allocation, Strategy & Programme Team
Department of Energy & Climate Change,
4th Floor Area D,
3 Whitehall Place,
London, SW1A 2AW
Tel: 0300 068 6710
Email: DECCContractsForDifference@decc.gsi.gov.uk

Territorial extent:

This consultation is applicable to Great Britain.

How to respond

Your response will be most useful if it is framed in direct response to the question posed, though further comments and evidence are also welcome. Please respond via email to the address given above.

Additional copies:

You may make copies of this document without seeking permission. An electronic version can be found at [link].

Other versions of the document in Braille, large print or audio-cassette are available on request. This includes a Welsh version. Please contact us under the above details to request alternative versions.

Confidentiality and data protection

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses and place this summary on the [GOV.UK website](#). This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the [Government's Consultation Principles](#).

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator
3 Whitehall Place
London SW1A 2AW
Email: consultation.coordinator@decc.gsi.gov.uk

Amendment to the Contracts for Difference (Allocation) Regulations (2014)

Introduction

The Contracts for Difference ('CFD') scheme was introduced through the Energy Act 2013¹. CFDs provide long-term price stabilisation to incentivise investment in low carbon electricity generation. The first CFD allocation round was launched in October 2014 and successfully allocated 2.1GW of capacity, significantly driving down costs in respect of a number of technologies. The Secretary of State has announced an intention to hold the next allocation round in late 2016 for 'less established' technologies (Pot 2).

Overview of CFDs

A CFD is a private law contract between a low carbon electricity generator and the CFD Counterparty, the Low Carbon Contracts Company ('LCCC'), which is an independently operated government-owned company. Under a CFD a generator is paid the difference between the 'strike price', a price for electricity reflecting the cost of investing in a particular low carbon technology, and the 'reference price', a measure of the average market price for electricity in the market of Great Britain. Where the 'reference price' is above the 'strike price' the generator will pay the difference back to the LCCC.

The CFD gives greater price stability to generators by reducing their exposure to volatile wholesale prices, whilst protecting consumers from paying for higher support costs when electricity prices are high. In this way, CFDs provide efficient long-term support for low carbon electricity generation. Full background and details on how CFDs are intended to operate, including the detail of contract terms and conditions can be found on the GOV.uk website².

The costs of CFDs are met by electricity consumers via the supplier obligation, which is a levy on electricity suppliers in Great Britain.

The process for allocating CFDs is overseen by the CFD Delivery Body (National Grid), who notifies the LCCC of the projects that have been successful in an allocation round. The LCCC then offers a CFD based on a set of standard terms, with some limited scope to make minor and necessary modifications to these terms. The government retains a power to direct the LCCC to enter into CFDs outside of this procedure.

¹ <http://www.legislation.gov.uk/ukpga/2013/32/contents/enacted/data.htm>

² <https://www.gov.uk/government/collections/electricity-market-reform-contracts-for-difference>

The powers to introduce CFDs can be found under Part 2 of the Energy Act 2013. Subsequent to the Energy Act 2013 receiving Royal Assent in December 2013, several statutory instruments implementing secondary legislation for the CFD scheme entered into force in 2014 (and which have subsequently been amended):

- Contracts for Difference (Definition of Eligible Generator) Regulations 2014
- Contracts for Difference (Allocation) Regulations 2014, as amended by the Contracts for Difference (Allocation) (Amendment) Regulations 2015 (“the Allocation Regulations”)
- Contracts for Difference (Standard Terms) Regulations 2014, as amended by the Contracts for Difference (Standard Terms) (Amendment) Regulations 2015
- Electricity Market Reform (General) Regulations 2014, as amended by the Electricity Market Reform (General) (Amendment) Regulations 2015
- The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 and the Electricity Supplier Obligations (Amendment & Excluded Electricity) Regulations 2015
- The Power Purchase Agreement Scheme Regulations 2014, as amended by the Power Purchase Agreement Scheme (Amendment) Regulations 2015.

Under the Allocation Regulations, allocation rounds and their associated budgets can only be made available for projects commissioning in set periods, known as Delivery Years. The Regulations³ currently define Delivery Years as:

- a) the period from [1 August 2014] on which [the Contracts for Difference (Allocation)] Regulations come into force and ending on 31st March 2015; and
- b) the 12 month periods commencing on 1st April 2015 and each anniversary of that date and ending with the 12 month period ending on 31st March 2020;

To enable the Government to undertake Allocation Rounds for projects commissioning subsequent to the 31st of March 2020 and accordingly provide investors with long-term foresight of our delivery framework, an amendment to these regulations is necessary.

As announced in the 2016 Budget⁴, the Government intends to auction up to £730m of support under the Contracts for Difference framework for offshore wind and other less established renewable generation technologies for projects commissioning in the period 2021-2026. We therefore propose to extend Delivery Years to cover the period up to 31st March 2026, and are seeking your views on this proposal. If we did not make this amendment, we would be unable to open up allocation rounds for delivery years after 31 March 2020.

³ Regulation 2(1): <http://www.legislation.gov.uk/ukxi/2014/2011/regulation/2/made>.

⁴ Section 2.337: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508193/HMT_Budget_2016_Web_Accessible.pdf.

Consultation Question

- | | |
|----|--|
| 1. | Should the Government amend the Contracts for Difference (Allocation) Regulations (2014) in order to extend the Delivery Years specified in those regulations to the 31 st of March 2026? |
|----|--|

In responding, please provide any appropriate evidence that has bearing on this question.

Better Regulation Compliance

This regulatory proposal is not subject to the requirement for an Impact Assessment, the One in Three Out rule, or Common Commencement dates as:

- It does not impact on costs to business, and;
- As it relates to policies undertaken under the Levy Control Framework it is not subject to the oversight of the Reducing Regulation sub-Committee.

