

## **Accompanying Note to the Draft Budget Notice for the Second CFD Allocation Round**

1. The Government today is publishing a draft of the Budget Notice that the Secretary of State is required to give to the EMR Delivery Body, National Grid, ahead of the Contracts for Difference (CFD) Allocation Round opening in April 2017. This requirement is set out in Regulation 11 'Budget Notices' of the Contracts for Difference (Allocation) Regulations 2014. The regulations are available at:  
<http://www.legislation.gov.uk/ukxi/2014/2011/contents/made>.
2. The final budget notice will be issued no later than 10 working days before the commencement date of the Allocation Round.

### **Draft CFD Budget**

3. Table 1 in the draft Budget Notice sets out the CFD budget for the Allocation Round which will open in April 2017. This draft budget is subject to change and the final budget will be confirmed ahead of the round. The available budget has been allocated to the less established technology group ("Pot 2") and is split by delivery year. The figures given are the total available for successful applications bidding into any delivery year in this allocation round. CFDs will be allocated to the cheapest projects first, regardless of their start date, as long as they fit within the budget profile provided.
4. We intend to release budget as follows for the Allocation Round in April 2017:
  - Pot 2 (less established technologies): we intend to release £290M (2011/12 prices) per delivery year for allocation in the second allocation round, for projects delivering in 2021/22 – 2022/23.
5. The draft budget notice represents the Government's intention to release budget for the second Allocation Round. However, it is important to note that:
  - The final budget will be confirmed ahead of the Allocation Round, no later than 10 working days before commencement of the round; and
  - The available budget for the Allocation Round may vary due to updates in the underlying assumptions (such as fossil fuel prices).
6. Bids can be made by CFD applicants with Target Commissioning Dates in delivery years 2021/22-2022/23. This means that the budget released is the limit that may be spent in the relevant year.

### **Administrative Strike Prices**

7. Table 2 in the draft budget notice sets out draft Administrative Strike Prices applicable to applications in the next Allocation Round.
8. They have been set to enable the cheapest 19% of projects within each technology included in Pot 2 to compete in the second Allocation Round. This will help to ensure good value for money for consumers. The methodological factors that determine these Administrative Strike Prices are set out in the Contracts for Difference Strike Price Methodology.<sup>1</sup>
9. Although these are draft Administrative Strike Prices, at this stage we do not anticipate any significant changes to the methodology used to generate them, and as a result do not expect significant changes to the draft Administrative Strike Prices between now and the Allocation Round. Final Administrative Strike Prices will be published in the budget notice.
10. No Administrative Strike Price has yet been determined for geothermal technologies. Further information is being sought to improve the evidence base for a geothermal strike price via the Call for Evidence on Fuelled and Geothermal technologies in the Contracts for Difference scheme.<sup>2</sup>
11. No Administrative Strike Price has been determined for non-mainland GB Onshore Wind projects. A consultation on the treatment of non-mainland GB Onshore Wind projects has been launched.<sup>3</sup>

### **Maxima and Minima**

12. No minima will be applied in this Allocation Round. The EMR Delivery Plan<sup>4</sup> set out a 100MW minima for wave and tidal stream across the Renewables Obligation ('RO') and CFD, with a 10 MW project cap under the CFD until the end of the Delivery Plan Period (2018/19). This Allocation Round is open to projects commissioning from 2021/22, hence after the 2018/19 timescale in which this cap is applied. We do not intend to extend the minima as the expected costs for Wave and Tidal Stream remain high following their early development stage. Reserving a proportion of the budget for these technologies - at the expense of other potentially less expensive technologies in Pot 2 - does not represent good value for money for consumers. However, Wave and Tidal Stream projects are still eligible to compete in the allocation round.

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<sup>1</sup> <https://www.gov.uk/government/publications/contracts-for-difference-an-explanation-of-the-methodology-used-to-set-administrative-cfd-strike-prices-for-the-next-cfd-allocation-round>

<sup>2</sup> <https://www.gov.uk/government/consultations/call-for-evidence-on-fuelled-and-geothermal-technologies-in-the-contracts-for-difference-scheme>

<sup>3</sup> <https://www.gov.uk/government/consultations/consultation-on-treatment-of-non-mainland-gb-onshore-wind-projects>

<sup>4</sup> <https://www.gov.uk/government/publications/electricity-market-reform-delivery-plan>

13. A cumulative maxima of 150 MW (equivalent to a budget maxima of £70m in 2012 prices) will be applied in respect of the fuelled technologies: Dedicated Biomass with CHP, Advanced Conversion Technologies and Anaerobic Digestion (this maxima is for all the fuelled technologies combined). We will set out at or before issuing the final budget notice whether the maxima will be applied on a MW or £ basis. The Government is undertaking a review of fuelled technologies in the CFD, and as part of this review have launched a Call for Evidence on Fuelled and Geothermal Technologies in the Contracts for Difference Scheme.<sup>5</sup>
14. During the course of this policy review, the Government intends to limit the potential for committing to lengthy 15 year support for fuelled technology projects which will not deploy until 2021/22 or 2022/23. We therefore believe it is appropriate and proportionate to impose a temporary maxima, and to progress with the second Allocation Round with this maxima in place.

### **Phased Offshore Wind Projects**

15. Budget allocated to Phased Offshore Wind CFD Units in a given Delivery Year may be utilised in a period subsequent to that Delivery Year up to two years after 31st March 2023 in accordance with the Allocation Framework which will be published in due course. The Delivery Body will accordingly undertake valuation of phased projects up to two years subsequent to the last Delivery Year when assessing applications for phased projects, with the entire project value thus assessed allocated to the Delivery Year containing the Target Commissioning Date of the first phase of that project.

**END**

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<sup>5</sup> <https://www.gov.uk/government/consultations/call-for-evidence-on-fuelled-and-geothermal-technologies-in-the-contracts-for-difference-scheme>