Department for
Business, Energy
& Industrial Strategy

Department of Business, Energy and Industrial Strategy – updated 10 April 2017

Contracts for Difference FAQs

Contents

BASICS

1. What is a Contract for Difference (CFD)?

- Contracts for Difference (CFDs) are 15 year private law contracts between low carbon generators and the Low Carbon Contracts Company (LCCC) (a Government-owned private limited company) awarded in competitive allocation rounds.
- The CFD scheme works by stabilising revenues for generators at a fixed price level known as the “strike price”. Government originally sets the strike prices to attract a given level of investment in a particular technology and act as a cap for sealed bids in the event of a competitive allocation.
- The CFD is an agreement to pay the difference between the strike price awarded at Notification (as amended over the life of the contract) and the “reference price”– a measure of the average market price for electricity.
- Generators receive revenue from selling their electricity into the market as usual. However, when the market reference price is below the strike price they receive a top-up payment for the additional amount. Conversely if the reference price is above the strike price, the generator must pay back the difference.

2. How does it differ from the Renewables Obligation (RO)?

- The CFD provides for earlier certainty of support levels than the RO and greater stability of revenue streams by providing a fixed strike price.
- This means that investors in low carbon plant are protected from wholesale price volatility and should therefore reduce the cost of capital, making the development of low carbon generation cheaper for both investors and consumers.

3. Which technologies are eligible in the second allocation round?

- The second allocation round is open to the less established (also known as Pot 2) technologies.
- Technologies currently included in Pot 2 are Offshore Wind, Wave, Tidal Stream, Advanced Conversion Technologies, Anaerobic Digestion, Dedicated Biomass with Combined Heat and Power and Geothermal.
- In designating technologies in the less established group, we considered which technologies could have a significant long-term role in the UK energy mix, and where there remains significant potential for future cost reduction.
- The list of eligible technologies in each Pot is kept under review.

4. How long does it take to apply for a CFD?

- The Low Carbon Contracts Company (LCCC) has published the implementation plan, setting out key indicative dates in relation to the second allocation round
- The round is open for applications between April 3rd and April 21st.
- The plan includes the shortest and longest likely duration from the allocation round opening to when contracts are awarded. This is approximately between 4 and 6 months depending on whether or not there are any reviews and appeals through the process.

5. **Does the announcement that the Levy Control Framework will be replaced mean that there will be no further Contracts for Difference allocation rounds?**

- A: No - we remain committed to Contracts for Difference allocation rounds this Parliament and have confirmed there will be up to £730m of annual support for these. The second allocation round, with a budget of up to £290m of annual support, is open for applications from 3 April-21 April 2017. See the Budget Notice and accompanying note for further information on the budget.
- At Budget we announced that the Levy Control Framework will be replaced by a new set of controls and these will be set out later in the year.

6. **Please clarify the meaning of 2012 and 2011/12 prices in relation to the figures quoted in the Budget Notice i.e. should the budget be £295m rather than £290m?**

- Administrative Strike Prices (ASPs) were calculated using a £2012 price base. The budget for the second allocation round of £290m was originally set in £2011/12 price terms so to ensure consistency with the ASPs the budget is recalculated using a £2012 price base. This gives a budget of £295m (rounded to the nearest £5m). National Grid will use the budget set in £2012 price terms (i.e. £295m) when valuing bids in the allocation round.

7. **What happens to all the unused budget that there may be?**

- The objective of the allocation round is to ensure that the budget is allocated in the most efficient and cost-effective way. This could result in some of the budget not being allocated. No decision has been made on what should happen to any budget surplus remaining at the end of the round.

OVERALL POLICY

8. Do I need to meet eligibility criteria?

- The eligibility criteria are a set of upfront requirements that all applicants must satisfy in order to apply for a CFD.
- All projects must have:

  1. A signed grid connection offer
  2. Any applicable planning consents (these depend on location and type of the project)
  3. A Supply Chain Plan (if the project is 300MW and over)

- Meeting these requirements is calculated to cost between 4% and 8% of total projects costs. This is a low but meaningful hurdle that plays a critical role in helping ensure that only credible projects secure CFDs and:
  - prevents speculative projects from disrupting the CFD allocation process;
  - provides a consistent foundation for an auction – ensuring a minimum, comparable level of development/investment for all applicants;
  - reduces the risk of "bed-blocking" to ensure the budget is used as efficiently as possible.

9. How are CFDs allocated?

- The Delivery Body (National Grid) determines the eligibility of all applications received.
- The Delivery Body then assesses the value of the applications using the Administrative Strike Price (ASP) against the available applicable budget (taking into account technology pots and any minima or maxima).
- If all of the qualifying applicants can be satisfied within the budget, under the constraints of any minima and maxima (i.e. the allocation round is "unconstrained") then all of the applicants are allocated a CFD at the ASP.
- If there is insufficient budget to satisfy all the qualifying applicants' budget demands, or if the qualifying applicants would result in maximum constraints being exceeded, then an auction ("constrained allocation") applies to the relevant applicants. The auction operates on a "pay-as-clear" basis and the strike price paid to projects is the lower of the ASP for the technology or the clearing price established through the auction.

10. Who is the counterparty to the CFD?

- The Low Carbon Contracts Company ("LCCC") has been designated as the CFD Counterparty. It is responsible for managing the CFDs and payments thereunder.
- The LCCC's role is set out in the Energy Act 2013 and resulting regulations.
- It operates under the corporate and company law framework, and is registered as a private, limited company.
- LCCC's primary role is to manage CFDs with low carbon generators throughout their lifetime, which involves management of the contracts as well as the supplier obligation levy that funds CFD payments.
- Critical to these functions is power price forecasting and settlement activities.
- LCCC also runs Capacity Market settlement operations on behalf of the Electricity Settlements Company ("ESC").

11. How is a generator paid? / What do I need to do to start receiving payments?

- A generator will sell electricity into the market, through usual commercial means. The LCCC then pays the difference between the market reference price and the strike price. Further details can be found on the LCCC website.

12. What if I can't get a PPA in the market?

- The Offtaker of Last Resort scheme is intended as a last resort for generators who cannot get a Power Purchase Agreement (PPA) through usual commercial means. It is only available for eligible renewable CFD generators.
- The scheme facilitates a backstop PPA (BPPA) between a generator and licensed supplier through a competitive process.
- The licensed supplier will purchase electricity from the generator under the BPPA at a specified discount below the CFD market reference price.
- This scheme is administered by Ofgem, and further information can be found on their website.

13. How does the Renewable Qualifying Multiplier (RQM) relate to the cap on fuelled technologies and geothermal?

- A: The RQM applies to output, not capacity, and is therefore not relevant to the cap.

14. Who should I speak to if I have a question on…..

a) How the contract works?

- LCCC have responsibility for all contract-related processes, including Minor & Necessary Modifications, contract production, contract signing and ongoing contract management for the duration of the term. You can contact LCCC at cfdpreparations@lowcarboncontracts.uk with any relevant queries.

b) How the allocation process works?

- National Grid is the designated Delivery Body. It runs the application, qualification and allocation processes for CFDs. For FAQs related to the aforementioned processes, please refer to National Grid's website.

ELIGIBILITY

15. What level of financial commitment is needed for eligibility?

- The eligibility requirements are set out in the Allocation Framework and Allocation Regulations and include demonstrating a number of criteria have been met. For example, applicants are required to evidence all applicable planning consents have been granted, a grid connection agreement is obtained, and all supporting information has been provided. Aside from applicants meeting these criteria, no specific level of financial commitment is required for the relevant project (at the application stage).

16. If my project is outside the UK am I still eligible? Is my project in Northern Ireland eligible?

- No, projects in Northern Ireland and those outside of the UK are not currently eligible for the CFD scheme.
- Projects are required to provide relevant planning permission granted by Great Britain authorities, and in addition, offshore projects are defined by reference to their situation in the offshore waters of the UK and in respect of which a lease or an agreement for lease has been granted by the Crown Estate.
- The Allocation Regulations do not extend to Northern Ireland.

17. Does the Delivery Body have the ability to check errors in application data rather than exclude automatically?

- The Delivery Body will be reviewing applications and verifying associated documentation. However, no error rectification mechanic has been built in to the application window to allow applicants or the Delivery Body to correct errors in submitted applications. This is to ensure the Delivery Body is fair and consistent in its assessment across all applications, and to maintain the tight eligibility window timelines. Applicants do, however, have the ability to withdraw an application and re-submit before the application window closing date, should they choose to correct any errors themselves.
- In order to minimise the exclusion of valid applications with minor errors, the Delivery Body has designed the application form to have system protections and in-built checks –
- Ultimately, the onus is on applicants to ensure the data is correct on submission and we encourage applicants to review the Allocation Framework and eligibility requirements and start to compile their evidence now.

18. Under the RO a certificate of lawfulness was required for permitted developments. Is that required under the CFD?

- Applicants are required to provide all applicable planning consents which are relevant to the CFD unit, but are not obliged to evidence the reasons for which consents and permissions are not applicable (e.g. there is no requirement to provide a certificate of lawfulness if permitted developments are relevant).

19. Is it possible for a CFD CHP project to receive support from both the CFD and RHI?

- CFD CHP technologies, except for energy from waste with CHP, are not prevented from applying for both CFD and RHI support (subject to meeting the eligibility requirements for each scheme). Energy from waste with CHP stations may receive support from either the CFD or RHI (subject to meeting the eligibility requirements for the relevant scheme), but not both. Energy from waste with CHP is not eligible for CFD support in the second allocation round.

20. Should I select the 'with CHP' option when making my application?

- Unless your project is a Dedicated Biomass or Energy from Waste plant, applicants are not required to identify as being 'with CHP' at the application stage, whether or not in practice they intend to deploy with CHP. Applicants may choose to identify as being 'with CHP' at the point of application to the extent that they intend to operate as a CHP plant throughout the period during which their project will be eligible to receive CFD support payments. However, applicants are strongly encouraged to take note of the CHP specific contract terms before making their application.

21. What happens if I decide to operate as CHP partway through my contract?

- Our expectation is that generators liaise with LCCC whenever they are considering making engineering amendments to their project, including in relation to CHP. In those circumstances LCCC will expect generators to be prepared to enter into constructive discussions regarding the information which the LCCC might require in order to allow them to continue to operate the CFD. However, for the purposes of this Allocation Round it is not our current intention that projects that begin to operate as CHP partway through their contract will be made subject to the CHPQM or other CHP-specific terms in particular.

22. Am I eligible for a CFD with quashed planning consent?

- No. See Regulation 23 of the CFD (Allocation) Regulations 2014 for the planning consent requirement. A quashed planning consent would not enable an applicant to build their CFD unit, and therefore does not meet the requirement.

23. If you have a CFD contract can you bid for the Capacity Market?

- A: No. A project with a CFD, or which has applied for a CFD (and not withdrawn its application or had its application determined), will not be eligible to bid for a capacity agreement. See Regulation 16 of the Electricity Capacity Regulations 2014.

  Similarly, a project with a capacity agreement, or which has applied for a capacity agreement (and not yet been determined), will not be eligible for a CFD. See Regulation 14(10) of the CFD (Allocation) Regulations 2014 (as amended).

ALLOCATION

24. Is there any limit (upward or downward) on the amount by which a project's sealed bids may vary from details submitted at the point of application?

- All bids made by an applicant must have a capacity that is no greater than the capacity specified in the original application and must still meet the minimum capacity requirements to be an eligible generator (e.g. be above 5MW for Anaerobic Digestion(with or without CHP).
- All bids made by an applicant must have a TCD that is no earlier than the TCD specified in their original application submitted to the Delivery Body prior to the Application Closing Date.
- All bids must be less than equal to the relevant ASP for that technology.

25. What is the allocation timeline, how does it change with appeals, and what notifications will BEIS issue to applicants during allocation?

- The Low Carbon Contracts Company (LCCC) has published the implementation plan, setting out key indicative dates in relation to the second allocation round.
- The plan includes the shortest and longest likely duration from the allocation round opening to when contracts are awarded. This is approximately between 4 and 6 months depending on whether or not there are any reviews and appeals through the process.
- After the window for CFD applications has closed, the Delivery Body will then determine whether each applicant is a qualifying applicant. Any applicant that the Delivery Body has determined to be a non-qualifying will then have the opportunity to dispute that decision - firstly via submitting a non-qualification review to the Delivery Body and secondly (where Delivery Body uphold their original determination) via a Qualification Appeal to Ofgem. The Delivery Body will assess whether a competitive allocation process is necessary, and if it is will invite the qualifying applicants to submit a sealed bid.
- Under a CFD allocation process with no disputes, if an auction is required we would expect that sealed bids would be submitted just over a month after the application window closed with the outcome of the auction being communicated to participants around a month after that.
- Resolution of any disputes is expected to take up to 36 working days. The Secretary of State may decide to commence the allocation process before all appeals are resolved. Alternatively, in a circumstance where the allocation process does not start until all disputes are resolved, sealed bids (if necessary) could be submitted up to four months after the application window closed. No interim decisions or notifications on allocation would be sent to applicants.
- A delay to the commencement of the allocation process may also delay the deadline for submitting sealed bids, however this would not extend the time between submission of sealed bid and contracts being offered.

26. Are all projects capped at their Administrative Strike Price?

- Yes, projects will be paid the relevant clearing price or Administrative Strike Price, whichever is lower.

27. How will the auction cope with different delivery years?

- The allocation process invites bids from qualifying applications in all the relevant delivery years. The bids are ranked in order of lowest to most expensive, irrespective of their delivery years. Subject to the cap on the budget in each delivery year applications are awarded a CFD starting with the application with the lowest bid price, and the auction continues up the stack until the budget cannot satisfy any other bids, or until there are no more bids to assess.
- Each delivery year will close when the next lowest strike price bid project in that year would exceed the available budget, and any applicable interleaving processes have been completed. Bids in other delivery years (i.e. not yet closed) will continue to be assessed. This may lead to different clearing prices for each delivery year.

28. What does a flat budget profile mean for the auction mechanic?

- The budget profile is flat (a single amount is released for all delivery years, as in the draft budget), the auction mechanic will work in the same way as set out in the Allocation Framework. All delivery years will close when the next lowest strike price bid project in that year would exceed the available budget, and any applicable interleaving processes have been completed.

29. What is the NDD?

- The Non-Delivery Disincentive (NDD) aims to ensure that applicants which are awarded a contract in a CFD allocation round are incentivised to sign that contract and to make their best efforts to meet the Milestone Delivery Date (MDD).
- This is provided for by an exclusion applying to the site of a project that was awarded a CFD but where (i) the applicant in respect of that project failed to sign it before the offer lapsed, or (ii) the CFD was terminated within 13 months of the CFD notification or due to a failure to meet the stages for delivery required in the CFD (i.e. the CFD was terminated prior to MDD or due to a failure to meet the MDD).
- The exclusion applies to the site and ends on the date which is 24 months, after the date of CFD notification. The aim is that such sites are excluded from being used for an application for the next CFD round.

30. How does the Delivery Body verification process for flexible bids work?

- The Delivery Body must verify that all flexible bids submitted by applicants comply with the rules set out in the relevant Allocation Framework.
- The Delivery Body has to verify all flexible bids are no greater than the relevant ASP for that technology, and no earlier than the dates set out in the application prior to the close of the application submission window. This means that, in practice, applicants need to ensure that their earliest and largest applications fall under the eligibility requirements.

31. What will the private wire generation market reference price be? Can it be the PPA price?

- No it will be same as for other CFD holders.

CONTRACT

32. Contract definitions – where will these be found?

- All contract definitions are contained within the CFD Standard Terms and Conditions (version 2) and the relevant front-end CFD Agreement, which we published on 13 March 2017 - https://www.gov.uk/government/publications/contracts-for-difference-standard-terms-and-conditions-version-2-march-2017.