



Allocation Round 5 Online Launch Event: Questions and Answers

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Disclaimer

This questions and answers (Q&A) document has been prepared by the Contracts for Difference (CfD) delivery partners¹ in response to attendees' questions at the Allocation Round 5 (AR5) online launch event on 23rd February 2023.

These Q&A are subject to and provided based on the following:

- The Q&A do not supersede or replace the relevant regulations or the provisions of the CfD and are not intended to and do not constitute legal, investment, commercial or operational advice and should not be relied upon as such.
- Readers of this document should not place reliance upon these Q&A and should refer to relevant regulations and the full terms of the CfD, and/or consult their professional advisors where they require information or advice on matters relating to CfDs generally and/or any CfD to which they are a party.
- The Q&A reflect the current thinking and approach of the delivery partners and should not be viewed in any way as binding.
- Defined terms used in the Q&A but not defined therein have the meanings prescribed to them in the relevant regulations, Allocation Framework, the CfD (agreement and standard terms) and the Energy Act 2013.
- Please note that the primary source and most reliable source of information are the regulations, Allocation Framework and statutory notices, which are either already available or will be shortly on legislation.gov.uk, [GOV.UK](https://gov.uk) and the AR5 microsite.

¹ The Department for Energy Security and Net Zero, National Grid ESO, the Low Carbon Contracts Company and Ofgem.

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Non-Delivery Disincentive

1. Can you explain when the Non-Delivery Disincentive (NDD) applies?

The NDD applies when: (1) a successful applicant does not sign a CfD which is offered; or (2) a CfD is entered into and is then terminated, (a) before the Milestone Delivery Date, and/or (b) for failure to meet the Milestone Requirement. The NDD does not apply when an application or sealed bid is withdrawn where permitted during the allocation process.

When the NDD applies, a generator may not make a CfD application for a generating station at the same site in the next two allocation rounds.

2. Is it possible to withdraw a bid during the Qualification Assessment Window (25 April – 24 May) without incurring the Non-Delivery Disincentive?

An applicant may not withdraw an application during the Qualification Assessment Window. An application may only be withdrawn up to and including the “application closing date”, i.e. the last date for submitting an application to AR5 (which is currently expected to be 24 April 2023), or, where there is to be an auction (i.e. a constrained allocation), after National Grid have issued a Notice of Auction and before the closing date for submitting sealed bids. An application cannot be withdrawn at any other time during the allocation process. A constrained allocation/auction occurs where the total value of all qualifying applications exceeds the available budget for the allocation round.

3. If an applicant is offered a contract in the event of an unconstrained allocation, i.e. where an auction is not required, can the applicant decline to sign the contract without incurring the NDD?

No, the NDD applies whether a successful applicant declines a contract offer after an auction (i.e. constrained allocation) or an unconstrained allocation. An unconstrained allocation occurs where an auction is not required because the value of all qualifying applications in a pot is equal to or less than the budget for that pot. In an unconstrained allocation, all qualifying applicants are offered a contract at the relevant ASP for their technology.

Applications/Withdrawal

4. Can projects be eligible for AR5 if they were unsuccessful in AR4?

Yes, applications that were unsuccessful in AR4 may apply to AR5 provided they satisfy the eligibility requirements for AR5.

Floating Offshore Wind

5. Has 'Floating Offshore Wind' been further defined?

No, the definition of “floating offshore wind” in regulations is unchanged since Allocation Round 4 (AR4). Government has sought views in a consultation on whether the legal definition should be amended to reflect technological developments. The Consultation can be viewed [here](#). Any changes to the definition of ‘floating offshore wind’ are not expected to be implemented before AR7 in 2025.

Publications

5. When will details relating to the AR5 budget be announced?

The provisional AR5 timeline on the CfD microsite states that the AR5 budget will be published on 16 March. Any changes to the advertised dates will be communicated via the CfD microsite and stakeholder bulletins.

Administrative Strike Prices (ASPs)

6. How are ASPs set?

The published Administrative Strike Price (ASP) methodology document sets out the methodology used to determine the administrative strike prices for the fifth Contracts for Difference Allocation Round.

ASPs by technology are based on the Department for Energy Security and Net Zero (DESNZ)'s latest view of potential project costs and future revenues, which are consistent with cost assumptions in the upcoming 2023 Electricity Generation Costs report. ASPs are set to encourage participation in the allocation round, and set using an approach which ensures value for money, whilst being consistent with government's policy and deployment ambitions. ASPs are the maximum amount per MWh government is willing to pay for each technology. Their purpose is to act as a backstop to protect consumers overpaying in the instance of unintended auction outcomes.

Other factors are also considered including changes to the wider electricity system, assumed technology learning and an understanding of the projects in the pipeline which could participate in the round.

7. Why are some AR5 ASPs lower than in AR4?

ASPs by technology are based on the Department for Energy Security and Net Zero (DESNZ)'s latest view of potential project costs and future revenues. This evidence base can develop between Allocation Rounds. Other factors can also have an impact including changes to the wider electricity system, assumed technology learning and an understanding of the projects in the pipeline which could participate in the round.

The AR5 ASPs for the majority of successful AR4 technologies remain at least 30% above their effective AR4 clearing prices, after accounting for the Ofgem decision to remove Balancing Services Use of System (BSUoS) charges from generators. Further information on the adjustment to strike prices to account for BSUoS can be [found on the microsite](#).

More detail on the methodology used to determine ASPs can be found in the published ASP methodology document.

8. Has the current economic environment been considered when setting ASPs?

The CfD scheme provides generators with protection from inflation through indexing the strike price to the Consumer Price Index (CPI). This compares favourably to other schemes. No system can fully account for the impact on every individual project, but this approach offers broad protection to generators throughout the contract life. Generators' strike prices are adjusted annually on 1 April using CPI from January of the relevant year. Details of how the CPI adjustment is made are set out in the Standard Terms and Conditions.

Budget Revision

9. Can the AR5 budget be increased during the Allocation Round?

After the application window has closed, National Grid assesses applications and gives the department the value of eligible applications. This is when the Secretary of State can consider whether to increase the budget.

Target Commissioning Windows

10. When is the earliest date that the Target Commissioning Window Start Date can fall?

From AR5, Schedule 1 of the Allocation Framework clarifies that the start date of the Target Commissioning Window can be set up to one year ahead of the first day of the delivery year selected by the applicant.

11. Can the CfD contract Start Date be set before the first day of the first delivery year?

Yes, the earliest date that the CfD contract can begin is the first day of the Target Commissioning Window (TCW). It is possible for the TCW to start before the first delivery year, if the TCW overlaps with the first delivery year (see answer to question 10). The specific requirements are set out in the CfD Standard Terms and Conditions.

12. What are the changes to the Target Commissioning Window Start Date from previous rounds?

For AR4, changes were made to the Allocation Framework so that the Target Commissioning Window Start Date (TCWSD) is used instead of the Target Commissioning Date (TCD) to determine an application's or bid's impact on the budget. For AR5, the Allocation Regulations have been amended in line with the AR4 change so that flexible bids may not have a TCWSD earlier than that in the original application, though the constraint on having an earlier TCD has been removed as the need for this no longer applies.

Following the update to Regulation 51 of those regulations, clarification has been added to the Allocation Framework for AR5 on the earliest date the TCWSD can fall.

13. How long is the Target Commissioning Window for [solar]?

As with previous allocation rounds, the Target Commissioning Window for each technology will be confirmed in the Standard Terms Notice, which is planned to be published on 16 March.

14. If your project connects in 2024, can you still apply for the CfD with later delivery years?

Yes, although you will not be able to set the CfD Start Date until the start of the Target Commissioning Window at the earliest and would operate on a merchant basis until the CfD Start Date.

15. Can the CfD Start Date fall before the Target Commissioning Date?

Yes. The Target Commissioning Date (TCD) must be set within the Delivery Years, and within the Target Commissioning Window (TCW). However, the CfD Start Date can occur before the TCD date if it is within the TCW.

16. When should the grid connection date fall?

The grid connection date specified in the connection agreement should be no later than the Target Commissioning Date. See Schedule 5 of the Allocation Framework.

Appeals

17. If there is an appeal in one Pot only, will the other Pot still proceed on the shortest timeline?

No, both pots will run to the same timeline if there are reviews or appeals in one pot only. This is in accordance with the allocation process set out in the Contracts for Difference (Allocation) Regulations 2014, as amended.

Contract/Merchant

18. Is it possible for projects to delay the start date of their CfD and generate on a merchant basis?

The government consulted on this matter. The government response is planned to be published on 16 March 2023.

Phasing

19. Does phasing mean that a Phase 1 of a project will receive a CfD for more than 15 years?

No, each phase of a phased offshore wind project receives a separate contract, each with a 15-year term.

Solar Installed Capacity

What initial installed capacity estimate values should be used for solar projects on the NG ESO application portal?

Solar projects should use AC values when inputting their initial installed capacity estimates onto the National Grid ESO application portal. Further guidance for this can be found in LCCC guidance [here](#).

Application Parameters

21. With regards to drawing maps and supplying co-ordinates, should this be based on the extent of an Option area in a land agreement? Or with reference to fixed equipment (e.g., turbines and roads)?

Applicants are required to provide the coordinates of the Northerly, Easterly, Southerly and Westerly extreme coordinates of the site where the CFD Unit is located, in the application form. The applicant is also required to provide a Map of the site where the CFD Unit is located. The Map is defined in schedule 1 of the Allocation Framework.

“Map” means a map showing the scale, name, shape of the CFD Unit and the Longitude and Latitude (in WGS84 format to 3 decimal places) of the Northerly, Easterly, Southerly and Westerly extreme coordinates of the site where the CFD Unit is located. The Ordnance Survey Grid Reference(s) in question B2 of the Application should be for the centre of the site where the CFD Unit is located.

22. Is the accepted grid offer sufficient?

Applicants must provide a copy of the Connection Agreement applicable to the CFD Unit as a part of the application.

Regulation 25 of the CFD Allocation Regulations 2014 (as amended) states that a “connection agreement” means an agreement (including a countersigned offer) to connect to—

- a. the national transmission system for Great Britain; or
- b. the distribution system,
entered into by the operator of the relevant system.

23. Should the capacity input to the budget impact calculation be the nameplate installed capacity or the capacity at the CFD meter taking account of losses?

The capacity provided at the application stage would be the Initial Installed Capacity Estimate (“IICE”). The definition of the IICE can be found in Schedule 1 of the Allocation Framework. “Initial Installed Capacity Estimate” means the Generator’s initial estimate of the Installed Capacity as notified to the Delivery Body in an Application or Flexible Bid. The “Installed Capacity” has the meaning given in the most recently published version of the CFD Standard Terms and Conditions.

The method of calculation for determining the monetary Applications Valuations (including valuation of Applications to which Minima and/or Maxima that are stated in pounds sterling apply) will be set out in Schedule 2 (“Valuation Formula”) of the final Allocation Framework. The Valuation Formula considers the project’s capacity, adjusted using the technology specific load factors, to calculate the capacity output more accurately across each Delivery Year.

24. Can a project apply part of its installed capacity for a CfD e.g. 70% rather than 100%?

An applicant can apply for part of the generating assets overall installed capacity that has been secured in the planning stage. This will then be the CFD unit for purpose of the CFD Allocation Round.

“CFD Unit” has the meaning given in Regulation 2(1) of the CFD Allocation Regulations 2014 (as amended) and is defined as: “CFD unit” means the whole or part of an eligible generating station.

The Delivery Body will then undertake the checks on the CFD Unit details, and the Initial Installed Capacity Estimate provided in the application form, as stated in Schedule 5 of the Allocation Framework.

If the project is successful in the Qualification Assessment process and an auction is required, the capacity entered for the sealed bid should be for the capacity of the CFD Unit. The sealed bid must have a capacity figure that is no greater than the capacity specified in the Original Application. Further information on the submission of sealed bids can be found in Rule 11 of the Allocation Framework.

25. Is there a video explaining the scenarios, interleaving bids available to view?

The content delivered at the Launch Event, explaining the interleaving process, is available to view on EMR Delivery Body’s portal in the [Round 5 Document area](#). The interleaving bids process is further explained in Rule 17.6 of Allocation Framework.

The Delivery Body will also be producing an updated guidance video reflective of the Allocation Round 5 Budget Notice to support Applicants in the Round. This will then address any Maxima, Minima or soft constraints that are applicable.

26. What if the first bid (lowest bid) breaches the capacity or budget constraint and don’t have a flexible bid?

The scenario where “the first bid (lowest bid) breaches the capacity or budget constraint and doesn’t have a flexible bid” is not a valid scenario. There is a provision in Rule 16, 17 and 18 of the Allocation Framework which states that the Delivery Body must determine that:

- any bid that would exceed the Monetary Pot or Monetary Budget is unsuccessful.
- any bid that would exceed any applicable Pot Capacity Cap or Overall Capacity Cap is unsuccessful, unless the Budget Notice specifies that a Soft Constraint applies to the applicable Pot Capacity Cap or Overall Capacity Cap.
- any bid which would exceed any applicable Maximum (in terms of capacity or monetary value) is unsuccessful, unless the Budget Notice specifies that a Soft Constraint applies to the Maximum.
- any bid which would exceed the Minimum (in terms of capacity or monetary value) is unsuccessful, unless the Budget Notice specifies that a Soft Constraint applies to the Minimum.

Therefore, as shown above, before the auction is run and the bid stack is formed, any bids that would exceed the Monetary Pot or Monetary Budget, any applicable Pot Capacity Cap or Overall Capacity Cap, any applicable Maximum would be unsuccessful (subject to any soft constraints).

27. Can you confirm how clearing prices change where you have maxima/ or minima in the Pot? i.e. do only projects of the same technology clear one another?

All technologies in the same Pot will clear to the same Pot Clearing Price, subject to any Administrative Strike Prices, and Maxima specific clearing prices. This information can be

found in Rules 16, 17 and 18 of the Allocation Framework. A summary of these rules has been provided below:

The Delivery Body must use the Strike Price of the bid under consideration as the provisional clearing price for that Qualifying Application and any relevant Qualifying Application(s) that the Delivery Body has already determined to be Successful Application(s), capped at the relevant Administrative Strike Price.

Should a Qualifying Application be cleared at a higher price than the clearing price of any relevant Minimum auction(s), then the Qualifying Applications from that/those Minimum auctions should also be cleared at this price.

Maximum bids are also cleared to a separate Maximum only clearing price for each Maximum, rather than the provisional clearing price of the bid under consideration, unless that bid is subject to the same Maximum.

28. Does a site need to be secured and planning in place before an application can be made for a CfD?

The Applicant must provide a copy of all applicable planning consent(s), including a signed and dated planning decision notice (where relevant) with the Application. Therefore, the Planning must be secured before applying to the Contracts for Difference Allocation Round.

Further information taken from Schedule 5 of the Allocation Framework states that in the Application, the Applicant must demonstrate that either the applicable planning consents do not apply, or that the applicable planning consents obtained for the relevant works enable:

- the proposed CFD Unit to be established or altered; and
- electricity generated from the proposed CFD Unit to be supplied to the national Transmission System, the Distribution System, or a Private Network

29. If connecting to a test centre with a grid connection, should a connection agreement be submitted with the test centre, and / or the test centre's connection agreement with the Distribution Network Operator?

The Delivery Body would advise that applicants provide all connection agreements that are applicable to the CfD Unit and allow for such connection to the relevant Transmission or Distribution system, or a Private Network.

- i. In the application where the applicant selects Direct connection, the Applicant must provide a copy of the Connection Agreement applicable to the CfD Unit which allows for such connection to the relevant Transmission System or Distribution System.
- ii. In the application where the applicant selects a Partial connection, the Applicant must provide a copy of the Connection Agreement applicable to the CfD Unit which allows for such connection to the relevant Transmission System or Distribution System. In addition, the applicant must provide a copy of the Private Network Use Agreement applicable to the CFD Unit which allows the CFD Unit to connect to the Private Network (unless the owner of the CFD Unit is also the owner of the Private Network).
- iii. Where a Private Network connection applies or is to apply, unless the owner of the CFD Unit is also the owner of the Private Network, a copy of the Private Network Use

Agreement applicable to the CFD Unit which allows the CFD Unit to connect to the Private Network.

Further information can be found in Schedule 5 of the Allocation Framework and Regulation 25 of the CFD Allocation Regulations 2014 (as amended).

Generation

30. Where can conditions that need to be fulfilled for the ICP and OCP be found?

These conditions are set out in Schedule 1 to the Standard Term CfD – Part A covers the ICPs and Part B the OCPs. There are also guidance documents that detail the specific evidence required for the ICP Milestone and OCP Milestones (commissioning requirements) for solar, wind and thermal [here](#).

31. Is it possible to grant extension to the timeline in exceptional circumstances, where the project start date is delayed due to changes in the regulation?

There are limited provisions for time extensions in the CfD for events outside a generator's reasonable control (force majeure) and delays to a generator's grid connection. Generators should review the detail of these provisions to understand the circumstances in which they may apply and the requirements on a generator to be able to use such provisions.

32. Would a CfD be invalidated if a project switches from Distribution to Transmission connection, for instance as the project grows?

The CfD awarded will specify whether the project is transmission or distribution connected. We would not expect a project to change its connection type during the life of the CfD. The installed capacity of the CfD is fixed and would not grow.