Frequently asked questions published on the Allocation Round 4 microsite as of 27 April 2022

Contents

Disclaimer

These frequently asked questions and responses ("FAQs") will be prepared by the relevant delivery partners[1] in response to queries raised by stakeholders in relation to the fourth allocation round of the Contract for Difference ("CFD") scheme.

These FAQs are subject to and are provided on the basis of the following:

- The FAQs 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. Users of this website should not place reliance upon these FAQs 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 FAQs reflect the current thinking and approach of the delivery partners and should not be viewed in any way as binding.
- It is our intention to keep the FAQs under review and to publish revised issues from time to time.

Defined terms used in the FAQs but not defined therein have the meanings prescribed to them in the relevant regulations, 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. These will be available on the gov.uk website and linked here in the 'Publications' section, as they are published.

[1] Department for Business, Energy and Industrial Strategy, Low Carbon Contracts Company Ltd ("LCCC"), National Grid Electricity System Operator ("NG ESO") and Ofgem.

General

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

Contracts for Difference (CfDs) are the government's main mechanism for supporting low-carbon electricity-generating projects whilst minimising costs to bill payers. CfDs are designed to attract new sources of finance and reduce the cost of capital by providing generators with future price revenue certainty in exchange for them bearing development and construction risks.

CfDs are private law contracts between a generator and the Low Carbon Contracts Company, in a standard template form published by the Department for Business, Energy and Industrial Strategy. The template CfD is divided into two parts: the front-end agreement (the 'CfD Agreement'), into which the project-specific details and variables determined by the allocation process are inserted (e.g., generator's name, facility description, installed capacity, strike price), and the standard terms and conditions (the 'Standard Terms'), which apply to all projects.

Once the project has satisfied all the Operational Conditions Precedents, the generator will be paid the difference between the 'strike price' and the 'reference price' for the electricity they produce over the course of the contract. The strike price is a price for electricity in £/MWh determined through a sealed-bid process during the allocation round and, therefore, should reflect the cost of investing in a particular low-carbon technology. The reference prices used (either Baseload or Intermittent, depending on the technology) represent the average market price for electricity at the relevant point in time.

2. How is the cost of CfDs met?

The cost of CfDs is ultimately met by electricity consumers via the CfD Supplier Obligation and the Operational Costs, which are levies imposed on all active GB electricity suppliers in accordance with The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014, as amended.

For more information on how the levy is managed,
visit the Low Carbon Contract Company's Transparency Tool,
available at: https://www.lowcarboncontracts.uk/resources (opens in new window).

3. What changes is the government making to the CfD scheme for the fourth allocation round?

Government consulted between March and May 2020 on a number of changes to the CfD scheme to ensure it continues to support the increase in ambition needed to deliver the 2050 net zero target, whilst minimising costs to bill payers. The consultation response (PDF, 542KB) published in November 2020 sets out the government's decisions on scheme changes to support these objectives. These are to:

- **Introduce a new separate auction 'pot' for offshore wind projects** in recognition of the falling costs of offshore wind and its strategic importance and long-term potential to deploy at scale to support the net zero target.
- **Implement the 2019 manifesto commitment to enable floating offshore wind farms** by introducing a separate definition and strike price for floating offshore wind within the scheme. **Floating offshore wind will compete in Pot 2**, along with other less-established technologies.
- **Exclude new coal-to-biomass conversion projects** from future allocation rounds as this was a transitional technology. Existing coal-to-biomass conversion projects currently supported by the CfD scheme are unaffected by this proposal, and their support will end in 2027 as planned.
- **Update the 2014 Community Benefits and Engagement Guidance for onshore wind projects in England** to ensure that local communities are effectively involved in the decision-making on such projects in their areas.
- **Strengthen the supply chain plan process** to align it more closely with the government's wider industrial priorities and enable the UK to reap the benefits of investment in renewables. The updated process will increase the clarity, ambition and measurability of developers' supply chain commitments, and ensure that those commitments are delivered.

We are also making several other adjustments to the scheme to improve its operation:

- **Amending the definition of delivery years** to allow us to set future delivery years up to 31st March 2035.
- **Projects awarded future contracts will not be paid when 'day ahead' electricity market prices are negative**, to provide better value for money for bill payers.
- **A series of changes to auction design and the operation of the scheme, including the simplification of delivery years**, to ensure that the scheme is better able to deliver the government's ambitions on deployment and ensuring value for money.
- **A series of changes to the CfD allocation regulations** to improve their clarity for government, delivery bodies and industry.

4. Why are you making these changes?

These changes are necessary to ensure that the CfD scheme continues to deliver low-carbon electricity at best value for bill payers and focuses subsidy on high-quality projects in order to drive innovation and bring down the cost of energy in the long term.

They will also enable the CfD scheme to play a key role in delivering on the prime minister's ambition, announced on 6th October 2020, to accelerate the UK's progress towards net zero emissions while making the UK a world leader in clean wind energy.

5. Will there be any stakeholder events, and if so, when?

On 23 September 2021, the Contracts for Difference delivery partners hosted an online event to launch Allocation Round 4. Events have also been held in April, July and November 2021. Resources from these events may be found in the 'Past events' section of the events page.

Details of any further events will be added to the events page once confirmed.

6. When will AR4 open to applications?

We have now published our full indicative timeline which confirms that the round will open to applications on 13 December 2021.

7. When will the closing date for applications be?

We have now published our full indicative timeline which confirms that the application window closing date will be 14 January 2022.

This is longer than we have previously allowed due to the application window falling over the Christmas period.

8. When will CfD notifications be issued? When will we know who the winners are?

Once the round opens it can run to a number of different timelines depending on whether there are appeals and so how long it takes to determine the eligible applicants. This means the date of the CfD notifications could be several different dates and we won’t know exactly until the round has progressed and all determinations of an applicant’s eligibility have concluded.

However, we have now published our full indicative timeline setting out the shortest and longest timings the round could run to. This confirms that the earliest we could see CfD notifications is April 2022 and the latest is around July 2022.

9. Could the timeline dates change?

While the indicative dates for Allocation Round 4 are not immovable, it is unlikely that there will be any significant changes to them. However, if there are any changes, the relevant delivery partner will endeavour to give potential applicants advance notice and will update the microsite timeline.

10. Where do I find the version of ‘The Contracts for Difference (Allocation) Regulations 2014 (as amended)’ applicable to Allocation Round 4?

If you look up the Contracts for Difference (Allocation) Regulations 2014 on legislation.gov.uk and select the ‘More Resources’ tab, you will find a list of changes affecting those regulations.

Eligibility/auction parameters

11. What technologies will be eligible to compete in the next allocation round?

Pot 1	Pot 2	Pot 3
Onshore Wind (>5MW)	Remote Island Wind (>5MW)	Offshore wind
Solar Photovoltaic (PV) (>5MW)	Floating Offshore Wind	
Energy from Waste with CHP	Wave	
Hydro (>5MW and <50MW)	Tidal Stream	
Landfill Gas	Advanced Conversion Technologies	
Sewage Gas	Anaerobic Digestion (>5MW)	
	Dedicated Biomass with CHP	
	Geothermal	

12. Are there any new technologies for Allocation Round 4?

Floating offshore wind has been added as a new technology to Pot 2 for Allocation Round 4.

13. Have any technologies been removed from the list of eligible technologies?

Biomass conversions have been removed from the scheme as an eligible technology from Allocation Round 4 onwards.

14. What is the capacity cap for this year's round?

The final Budget Notice explains that a capacity cap of 5000MW will apply to Pot 1. We have not set a capacity cap in Pots 2 or 3.

15. What are the auction parameters for the next auction?

A budget of £285m has been set for the fourth CfD round, comprising £10m for Pot 1, £75m for Pot 2 and £200m for offshore wind (Pot 3). Pot 2 includes a £24m minimum for floating offshore wind projects and a £20m minimum for tidal stream projects.

Pot 1 capacity will be capped at a maximum of 5000MW. Within the pot, two separate maxima will be applied to onshore wind and solar PV technologies, each set at 3,500MW.

Applicable delivery years for this year's round differ across the three auction pots. Delivery years for Pot 1 will be 2023/24 and 2024/25. Delivery years for Pot 2 and Pot 3 will be 2025/26 and 2026/27.

For further details, please see the following documents:

- Budget Notice (PDF,233KB)
- Accompanying note (PDF,129KB)
- Administrative strike price methodology note (PDF, 483KB)

16. How have load factors in the Allocation Round 4 Allocation Framework been derived?

The load factors presented in the Allocation Round 4 Allocation Framework (PDF, 584KB) (Schedule 2, Appendix 3) have been derived using a methodology which is consistent with that used to derive load factors for use in calculating Administrative Strike Prices (ASPs). More detail on the approach is set out in the Allocation Round 4 ASP methodology note (PDF, 438KB).

However, unlike ASPs, which apply a central load factor estimate, the load factors published in the Allocation Framework (used in the valuation formula only) represent a high estimate.

This is in line with the approach taken in the previous round. Valuing projects using high estimated load factors reduces the risk that in-life spend exceeds spend forecasted at the point of allocation. If CfD-supported projects generate more than expected, the support costs paid by consumers will be larger than initially forecast.

17. Would being pre-qualified for the Capacity Market (CM) be considered being in receipt of subsidy and, therefore, ineligible? Or would you need to have a CM Obligation?

If an application is prequalified in the CM and an application is made to the CfD, it will be ineligible (unless or until a determination is made that the CM application is unsuccessful). This is based on Regulation 14(10)(c) and the interpretation offered in Regulation 14(10A) of the Contracts for Difference (Allocation) Regulations 2014 (as amended).

18. Can you confirm bid bonds will not be required for Allocation Round 4?

The government consulted on potential changes to the Non-Delivery Disincentive, including the possibility of introducing a requirement for bid bonds. Its response clarified that bid bonds will not be required for Allocation Round 4.

19. Would it be possible for a project to have already started construction before the auction takes place and before eligibility has been confirmed?

The government has confirmed that part-built projects will be eligible to compete in Allocation Round 4 (AR4). Construction may have started on a project, but Rule 5 of the AR4 Allocation Framework (PDF, 584KB) clarifies that no application may be made where the CfD unit is or is part of a generating station that has been commissioned.

20. The Administrative Strike Prices for some technologies are higher than others – does that put those technologies at a disadvantage in the competitive auction?

Where an auction is held, it is intended to be a competitive process, incentivising cost-effective projects to come forward, and balancing delivery of our decarbonisation commitments with potential impacts on consumer bills. More detail on the principles behind setting Administrative Strike Prices (ASPs) can be found in the Allocation Round 4 ASP methodology note (PDF, 438KB).

ASPs by technology are based on the Department for Business, Energy and Industrial Strategy (BEIS)'s view of potential project costs and future revenues, but BEIS does not have full information on individual projects and their associated costs. It is for individual developers to determine the price they are comfortable bidding at, based on their own assessment of potential future costs and revenues.

21. Is the intention that only one maximum can be reached given they are both set at 3.5GW and the pot capacity cap is at 5GW?

The intention is that neither solar nor onshore wind can win contracts for more than 3.5GW of capacity in Pot 1. The exact ratio of these and other technologies among successful applications will depend on prices bid. It is possible that either solar or onshore wind may secure their full maximum capacity allowed but not both. It is also possible that neither technology will reach its maximum.

22. How do the separate clearing prices for maxima work?

Rule 17.4(d) of the Allocation Round 4 (AR4) Allocation Framework (PDF, 584KB) sets out how separate clearing prices apply to maxima. In short, each maximum has its own clearing price, separate to the clearing price of the pot. These operate in the same way, whether a maximum is breached within an auction or not.

An application subject to a maximum can only have its clearing price raised by a bid from another application subject to that same maximum. Conversely, a maximum bid can only raise the clearing price of other lower bids subject to that same maximum and any lower bids of technologies not subject to any maximum.

For AR4, this means that an onshore wind application cannot raise the clearing price of a solar application, and vice versa. It also means that no other technology can raise the clearing price of either solar or onshore wind to a higher price.

23. How are maxima considered in a pot auction?

Rule 17 of the Allocation Round 4 (AR4) Allocation Framework (PDF, 584KB) sets out how pot auctions are run, including the treatment of bids subject to maxima.

In a pot auction, all bids are considered in ascending price order (without giving priority to any technology) to see if a maximum, capacity cap or the monetary budget for the pot is exceeded. Where a bid results in a maximum being exceeded, that application is unsuccessful (no flexible bids are considered) and that maximum closes so that no higher-priced bids subject to that maximum are considered.

Where a maximum bid does not exceed its maximum limit but does result in the pot capacity cap or the monetary budget for the pot being breached, flexible bids may be considered. If such a flexible bid is successful without breaching the maximum, the auction will continue and the maximum will not close. It is possible in AR4 that the 5GW capacity cap could be breached before either of the 3.5GW maxima (for solar and onshore wind) were breached and certain that the capacity cap would be breached before both maxima could be breached given that the two maximum limits sum to more than the pot capacity cap.

24. How would different maximum-only auctions relate to each other?

Maximum-only auctions are held independently of each other, so what happens in one maximum-only auction cannot affect what happens in another.

In Allocation Round 4, the two maxima are both set at 3.5GW, but there is a 5GW capacity cap across all technologies in Pot 1. This means that two maximum-only auctions cannot take place this round, because for both maxima to be exceeded, the capacity cap would also be exceeded, which would result in consideration of maxima in a pot auction and not in maximum-only auctions.

25. How would a maximum-only auction work?

Rule 18 of the Allocation Round 4 Allocation Framework (PDF, 584KB) sets out how maximum-only auctions are run. In a maximum-only auction, bids are considered in ascending price order until the maximum is breached. When the maximum is breached, the breaching bid is unsuccessful (no flexible bids are considered) and the maximum-only auction closes (no further applications subject to that maximum are considered in any auction).

26. When would a maximum-only auction happen and how is that decided?

Rule 9 of the Allocation Round 4 (AR4) Allocation Framework (PDF, 548KB) sets out how the Delivery Body (National Grid ESO) determines which auctions it must hold and Rule 9.6 specifies which auction will take place in relation to maxima.

The Delivery Body values all qualifying applications at their Administrative Strike Price (ASP) to determine which auctions need to take place. A maximum-only auction only happens when: (1) all applications of all technologies can be accommodated within the monetary budget and without breaching any capacity cap, but (2) the applications that are subject to that maximum would exceed the maximum.

In AR4, this means that a maximum-only auction would only he held where all the qualifying applications from all technologies in Pot 1 could be accommodated at their ASP, but either the solar applications or the onshore wind applications exceeded their respective maxima. If the sum of all qualifying Pot 1 applications would exceed the monetary budget for that pot and/or breach the capacity cap, then a Pot 1 auction is held for all technologies in that pot and the maxima would be considered as part of that auction.

27. Will Allocation Round 4 be the only opportunity for Pot 1 technologies commissioning in 2023/24 and 2024/25 to get a CfD?

For Allocation Round 4, 2023/24 and 2024/25 are the only delivery years for Pot 1 technologies, although this does not preclude non-CfD deployment.

The government is committed to continuing a high level of renewable deployment, with the CfD scheme being the government’s main mechanism for supporting new renewable electricity generation projects.

It is too early at this point to set out specific auction parameters and delivery years for the fifth allocation round; however, we will ensure that stakeholders are kept updated appropriately.

Allocation Framework

28. What is the Allocation Framework?

The Allocation Framework is a technical document that sets out the rules that will apply to a specific allocation round. It also sets out how applications will be considered against the eligibility requirements and includes a list of checks that the Electricity Market Reform Delivery Body (National Grid ESO) carries out when assessing CfD applications.

It is initially published in draft form to give industry and investors sight of the rules and auction parameters earlier than if we only published the final version.

The final version of the Allocation Round 4 Allocation Framework was published on 25 November 2021.

Temporary site exclusions

29. What are the grounds for which a generator can apply for an exemption from a temporary site exclusion?

There are several grounds for which the Secretary of State may grant an exemption certificate to an eligible generator. These are listed in full in regulation 14B of the Contracts for Difference (Allocation) Regulations 2014 (as amended).

30. How do you know which sites are excluded?

The Low Carbon Contracts Company must maintain a register of every site that a temporary site exclusion applies to. The register showing the current excluded sites can be found here: https://www.lowcarboncontracts.uk/register-of-temporary-site-exclusion

31. Why do sites receive temporary site exclusions?

A temporary site exclusion is a function of the Non-Delivery Disincentive, which aims to incentivise applications to be made only by projects likely to be delivered, and therefore ensures that projects that are awarded a contract in a Contracts for Difference (CfD) allocation round are incentivised to sign that contract and to make their best efforts to meet the milestone requirements.

An exclusion applies to the site of a project that was awarded a CfD but where (i) the applicant in respect of that project failed to sign, or (ii) the CfD was terminated prior to, or due to a failure by the project to meet the milestone requirements by its Milestone Delivery Date. As a result of being excluded, such sites would not be eligible to apply to the next CfD round.

Supply Chain Plans

32. What criteria you are using to assess Supply Chain Plans?

The Supply Chain Plan Guidance and Questionnaire sets out what is required of an Applicant to pass their Supply Chain Plan and the basis on which plans are assessed and scored.

Marks will be awarded based on the quality of information provided, specifically for the ambition, feasibility and quantifiable outcome/measurable metrics contained in the responses and supporting evidence, including how delivery will be ensured (e.g., through contractual commitments, details of a company's internal measurement/monitoring processes (including reporting) and obligations).

We have clearly shown the available marks next to each question to aid transparency and assist Applicants.

An Applicant whose Supply Chain Plan has failed will receive feedback on why it has failed and will be invited to submit a revised Supply Chain Plan for assessment.

33. What happens if I fail my Supply Chain Plan application?

In the event that a Supply Chain Plan is rejected, BEIS will notify the Applicant of that rejection and will provide a written explanation of the reasons for the rejection and the further steps which may be available to the Applicant (a Statement of Rejection).

BEIS will consider revised Supply Chain Plans submitted in response to a Statement of Rejection. However, it is important to note that while BEIS will endeavour to notify Applicants as to whether or not their revised Supply Chain Plan has passed the assessment process before the Fourth CfD Allocation Round Application Window opens, no guarantee is made that BEIS will be able to do so. Applicants are strongly encouraged to submit revised Supply Chain Plans at the earliest opportunity following receipt of a Statement of Rejection.

Applicants can, if they wish, discuss their Supply Chain Plan with BEIS before resubmission.

34. How will an application for a Supply Chain Implementation Statement be assessed?

BEIS will assess the evidence provided for each commitment made in a Supply Chain Plan (including amendments made during the monitoring process) and rescore the Supply Chain Plan similarly to the CfD application stage, taking into account the initial level of ambition committed to, to determine the extent to which the Generator has implemented or is on track to implement the commitments made. If a Generator over-delivers on a commitment, it is possible to receive a higher mark than originally awarded.

35. Once the CfD has been awarded, what happens if a developer does not then deliver on the Supply Chain Plan commitments they made?

Once a CfD has been awarded, a developer will be held accountable to the commitments they have made in their Supply Chain Plan, taking into account the level of ambition they committed to at the application stage. Therefore, a developer with a low-level of ambition in their original commitments will not score very highly overall, even if they have met all their commitments. Conversely, a developer who has set original commitments with a high level of ambition, but has not delivered on all of them, could still receive a high score.

If a developer has implemented their commitments and can obtain at least the 50% pass mark per section, then they will be on course to receive their Supply Chain Implementation Statement regardless of their performance on any individual question, such as UK content.

If a developer fails to implement enough of their commitments to meet the 50% pass mark in a section (regardless of their performance on any individual question), they could face termination of their CfD contract. Developers will be given multiple opportunities to discuss the implementation of their commitments, make adjustments or amend their plans at each stage of the process. These measures provide ample opportunities for developers to adjust their plans to secure a Supply Chain Implementation Statement.

36. What if I disagree with BEIS's assessment?

The aim of the monitoring meetings is to ensure that there are no surprises for either party relating to the implementation of commitments and the issuing of the Supply Chain Implementation Statement. Monitoring meetings are there to support the implementation of commitments, discuss any issues as they arise and agree on alternative approaches if necessary. The meetings will also agree what evidence is required to demonstrate a commitment has been fulfilled.

Application

37. What are the rules around the capacity you can put in your application and the MW capacity in your grid agreement? How much of a difference is allowed between the two values? Is this the same for all technologies?

A reference to capacity means the Initial Installed Capacity Estimate (IICE). In accordance with Schedule 5 of the Allocation Round 4 Allocation Framework (PDF, 584KB), the MW capacity in the connection agreement must be at least 75% of the IICE of the CfD unit. Schedule 5 is applicable to all technologies, unless otherwise stated.

38. A qualification requirement for application is a demonstration of applicable planning consents for works to enable the proposed CfD unit. Does this include planning consent for the grid/cable route to the Distribution Network Operator's substation?

The requirements for applicable planning consents can be found under Regulation 23 of the Contracts for Difference (Allocation) Regulations 2014 (as amended). Regulation 23(2) states the applicant must provide copies of the applicable planning consents which apply to any works ("relevant works") which enable –

(a) the relevant CfD unit to be established or altered;

(b) electricity generated from the relevant CfD unit to be supplied, as applicable, to –

(i) the national transmission system for Great Britain;

(ii) the distribution system; or

(iii) a private network.

Further, Regulation 23(4) specifies that "relevant works" includes the alteration, installation or removal of any cable, line, pipeline or other service media.

Appeals

39. Where will appeal guidance be published?

Ofgem published updated dispute resolution guidance on 22 October 2021, which is available via its website and this website.

Allocation process

40. Can all of your four flexible bids have different capacity and/or Target Dates to your application, or does at least one of your flexible bids have to have the same capacity and Target Dates as your application?

None of the sealed bids are required to have the same capacity or Target Dates as the application, so all four flexible bids may have different capacity and/or target dates, subject to Rule 11 of the Allocation Round 4 Allocation Framework (PDF, 584KB), which details the requirements for submission of sealed bids.

Rule 11.2 states that (subject to Rule 13), for each application, the applicant may submit only one sealed bid (and one strike price) for the same Target Commissioning Window Start Date and for the same capacity as specified in the original application.

Rule 11.6 states that:

All Flexible Bids made by the Applicant must—

(a) be made at different Strike Prices;

(b) subject to Rule 11.4, be expressed to be to the nearest £0.001;

(c) subject to Rule 12.2, have Target Dates that are no earlier than the Target Dates specified in the Original Application;

(d) subject to Rule 12.2, have a capacity that is no greater than the capacity specified in the Original Application; and

(e) satisfy Rule 4 and Rule 5 if applicable.

[The answer to this question has been updated to clarify prior ambiguity in published information, including in Rule 11.5 of the Allocation Framework, which may otherwise have been taken to require that one of the flexible bids must have the same capacity and/or Target Dates as the original application.]

41. In an interleaving loop, will bids from other generators trigger flexible bids or new interleaving loops?

Interleaving occurs when a bid breaches the budget and/or applicable capacity cap (when a hard constraint) and there are bids from the same applicant, whose bid caused a breach, present in the bid stack. In this scenario, the auction system looks for the next flexible bid from the same applicant and attempts to allocate it, along with any bids from other projects that lie between the flexible bid and the original breaching bid; this is known as the interleaving loop.

If any bids in the interleaving loop cannot be allocated, then interleaving is unsuccessful and the auction closes. If all the bids in the interleaving loop can be allocated, then interleaving is successful and the auction continues.

The interleaving bids process is described in full under Rule 17 of the Allocation Round 4 (AR4) Allocation Framework (PDF, 584KB), and examples of successful and unsuccessful interleaving can be found in this video of the valuation and allocation process breakout session delivered at the AR4 online launch event (recorded after the event).

42. Which date is used to do the value assessment within the delivery year?

The Target Commissioning Window Start Date is used within the valuation formula to calculate the budget impact and to calculate the year 1 factor.

An example of how the valuation formula is applied to applications can be found in this video of the valuation and allocation process breakout session delivered at the Allocation Round 4 (AR4) online launch event (recorded after the event). Further guidance is provided in Schedule 2 (Valuation Formula) of the AR4 Allocation Framework (PDF, 584KB).

43. On interleaving bids, would these apply for both a budget cap breach and a capacity breach?

In a pot auction, where a bid causes the monetary budget for that pot and/or the pot capacity cap to be breached, the interleaving rule is triggered, unless the bid also exceeds a maximum (in which case flexible bids are not considered). Where interleaving is triggered, the breaching application's first flexible bid and any interleaving bids are considered in ascending price order to see if they all fit within the monetary and capacity budget. This is all set out in Rule 17 of the Allocation Round 4 Allocation Framework (PDF, 584KB).

In a minimum auction, flexible bids may be considered where a bid causes the monetary budget for that pot and/or the pot capacity cap to be breached, unless the bid also exceeds the minimum (in which case flexible bids are not considered). The interleaving rule does not operate in minimum auctions. This is set out in Rule 16.

44. If a project's Target Commissioning Window was solely in the second delivery year, would it not be valued for the first delivery year, just the second year and two subsequent years?

Where a project's Target Commissioning Window falls only in the second delivery year, then the application is valued only for the second year and subsequent (two) valuation years. It would therefore not be valued for the first delivery year.

Contract operation

45. What happens after I sign a CfD?

After the successful applicants sign a contract with the Low Carbon Contracts Company (LCCC) and have passed the Initial Conditions Precedent, they need to work towards meeting the Milestone Requirement, which requires them to demonstrate their commitment to the project within 18 months of signing the CfD. As a minimum, a generator needs to prove that they have either: a) spent 10% or more of the total project pre-commissioning costs on the project or b) met the Project Commitments set out in the CfD.

The CfD also requires the generator to provide the LCCC with monthly progress reports towards their Estimated Start Date. The LCCC is required by regulation to publish updated Estimated Start Dates on a quarterly basis in the CfD register. The LCCC has the right to terminate the contract if the generator fails to meet the Milestone Requirement or, subsequently, if the generator fails to commission 80% of the installed capacity by the Longstop Date.

46. How are CfD payments affected during negative pricing periods?

For projects that are awarded contracts in Allocation Round 4, CfD payments will not be made during periods where the intermittent market reference price is below £0/MWh.

Non-delivery

47. Where are the rules for the Non-Delivery Disincentive set out?

The Contracts for Difference (Allocation) Regulations 2014 (as amended) set out the details of the Non-Delivery Disincentive (NDD).

The government published a document in 2015, 'Non-Delivery Disincentive for Contracts for Difference', setting out how the NDD originally worked. The nature of the associated exclusion has changed since then, with consultations taking place in 2016 and 2020. The government responses to those consultations provide details of the amended policy in each case:

- 2016 Government consultation
- 2020 Government consultation

48. When does the obligation to deliver arise and what penalties do you face for not delivering? For example, what happens if you decide not to go ahead for whatever reasons?

An applicant that is offered a contract and does not sign triggers the Non-Delivery Disincentive (NDD) (a non-signature case under Regulation 14A(1)(a) of the Contracts for Difference (Allocation) Regulations 2014 (as amended)).

A signatory of a CfD is bound to meet the various delivery stages set out in the contract. Where they enter into a CfD which is subsequently terminated before the Milestone Delivery Date (18 months after signature) or as a failure to meet the milestone requirement, this also triggers the NDD (a non-delivery case under Regulation 14A(1)(b)).

In either case, the NDD bars them from applying in respect of a CfD unit at the same site in the next applicable allocation round (Regulation 14A(2)) (subject to exceptions detailed at Regulation 14A(4) and (5)).

This publication is available from: www.cfdallocationround.uk.

If you need a version of this document in a more accessible format, please email BEISContractsforDifference@beis.gov.uk. Please state what format you need and what assistive technology you use.