

CfD Allocation Round 3 Results – a briefing

20/9/2019

Introduction

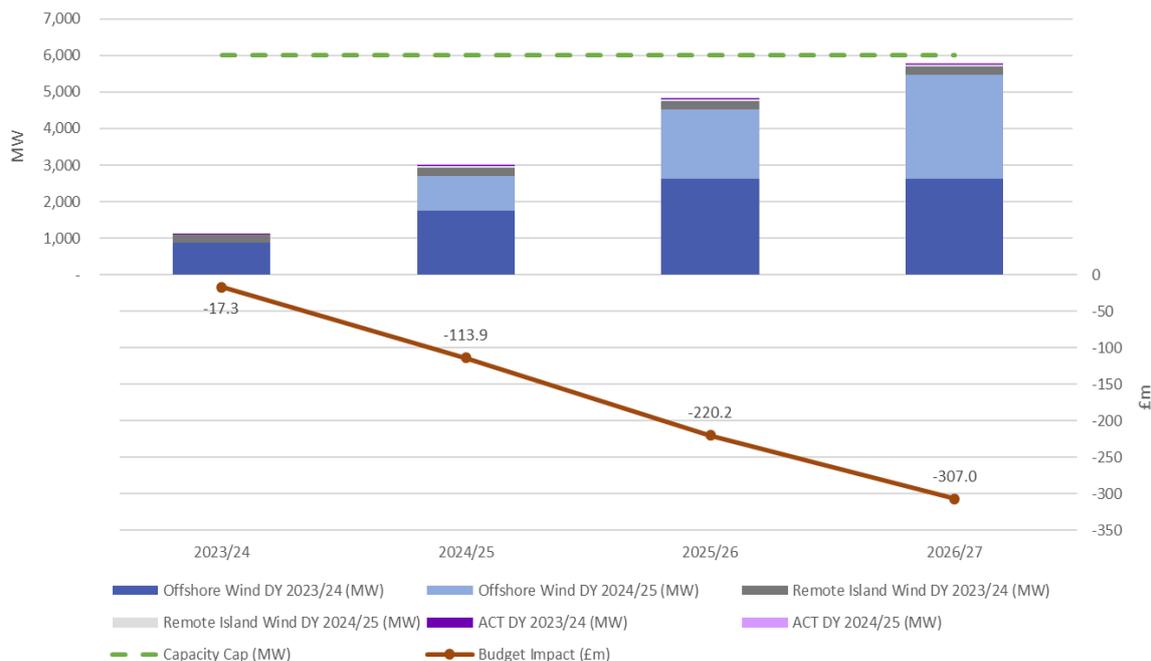
The results of the third competitive Allocation Round (AR3) for the Contract for Difference (CfD) were released by the Department for Business, Energy and Industrial Strategy today. The role of the Low Carbon Contracts Company (LCCC) is to manage CfDs, in particular enabling generators to deliver CfD projects in accordance with the milestones set out in the contract, and to manage payments to and from the generator once the projects are operational.

Following today's notification from the EMR Delivery Body, LCCC will now offer CfDs to the successful applicants, and once they have signed those contracts and passed their Initial Conditions Precedent, the projects will be officially added to the CfD portfolio. This briefing has been produced by LCCC, the CfD Counterparty, to illustrate these results and their expected impact on the CfD portfolio, once contracts with the successful applicants are signed.

New low carbon capacity in the mid-2020s

The total generation capacity of projects successful in the allocation round was 5.77GW. Figure 1 shows the expected CfD capacity from the successful projects based on their Target Commissioning Dates across the delivery years 2023/24 and 2024/25 (and beyond for phased projects). This has assumed that phased offshore wind projects, which can deliver their capacity in up to three phases, are installed in three equally-sized yearly additions. Also marked on this graph is the amount of the available budget that the awarded projects are expected to use. Figure 1 shows that the 6GW capacity cap was the limiting factor on successful projects, not the budget cap of £65m. Indeed, since the strike prices are significantly under the reference prices set for this auction, budget usage is actually negative, with the total impact amounting to -£307m from 2026/27 onwards, for the duration of the contract.

Figure 1: Successful capacity and budget used in CfD Allocation Round 3 (MW and £m [£2012])

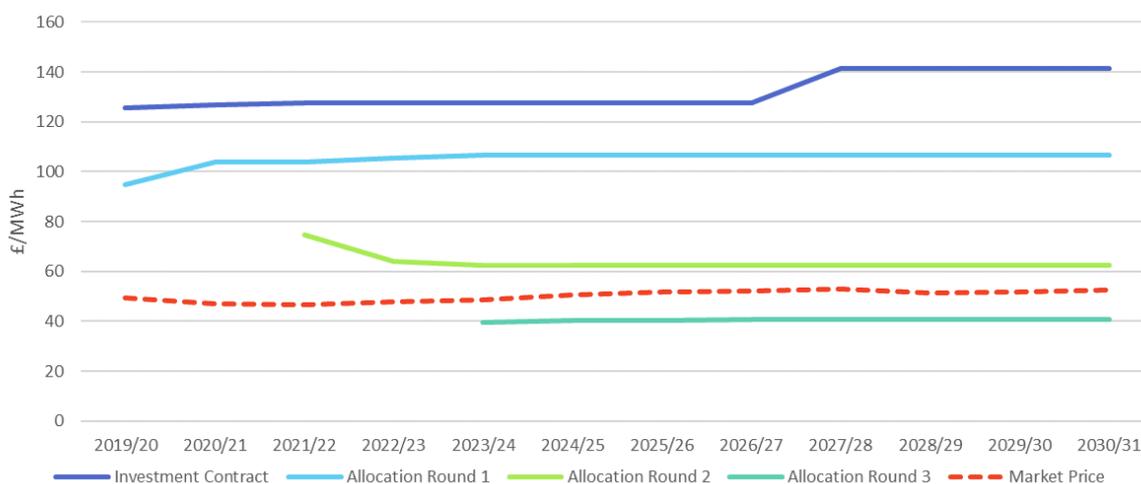


Source: LCCC

Lower CfD costs benefit consumers

The strike prices achieved in this round are on average about £17/MWh below the £57.50/MWh level that was seen in AR2. Figure 2 shows the weighted average strike prices of the AR3 projects, with the Final Investment Decision Enabling for Renewables (FIDER)/AR1/AR2 strike prices and the BEIS reference scenario forecast market prices¹ shown for context. The reason for the negative budget usage noted above is the fact that strike prices are below the forecast market power prices. Consequently, as the AR3 projects become operational, if power prices develop as expected by BEIS, consumers can expect to pay up to £250m less per year than if the AR3 projects had not been awarded contracts.

Figure 2: Weighted average strike prices for the CfD portfolio and BEIS forecast market prices (£2012)



Source: LCCC

Note: The weighted average strike price is calculated as the sum of the product of the CfD forecast generation and the strike price of each project in a given allocation round, divided by the total CfD forecast generation of the same projects. The process is repeated for each allocation round.

¹ <https://www.gov.uk/government/publications/updated-energy-and-emissions-projections-2018>

Offshore wind to make up 84% of the renewable CfD portfolio

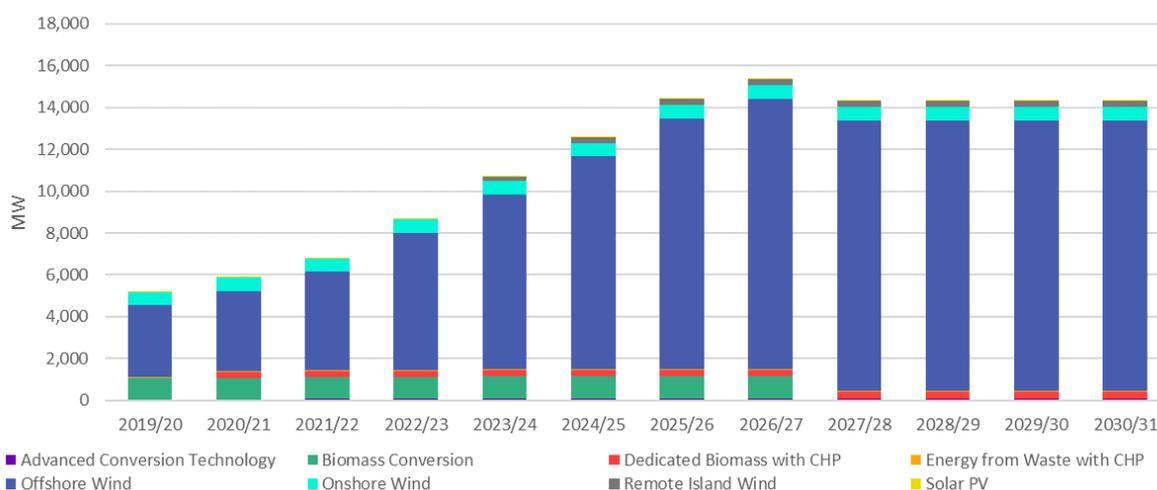
The 5.77GW of capacity awarded today will increase overall renewable CfD capacity by 60%, assuming all projects go ahead. Offshore wind was the big winner in this round, with the 5.47GW of this technology resulting in a 73% increase in the offshore wind capacity supported by the CfD. The dominance of offshore wind in the CfD portfolio is increased, with 84% of the total renewable portfolio being from this technology. Figure 3 shows how the portfolio is expected to start generating under the CfD up to 2030, separated out by which allocation process it was awarded under: the FIDER non-competitive process, and the three competitive rounds held since 2015. Figure 4 shows the same data, but separated out by technology².

Figure 3: Expected capacity of the CfD portfolio up to 2030 (in MW), by allocation process



Source: LCCC

Figure 4: Expected capacity of the CfD portfolio up to 2030 (in MW), by technology



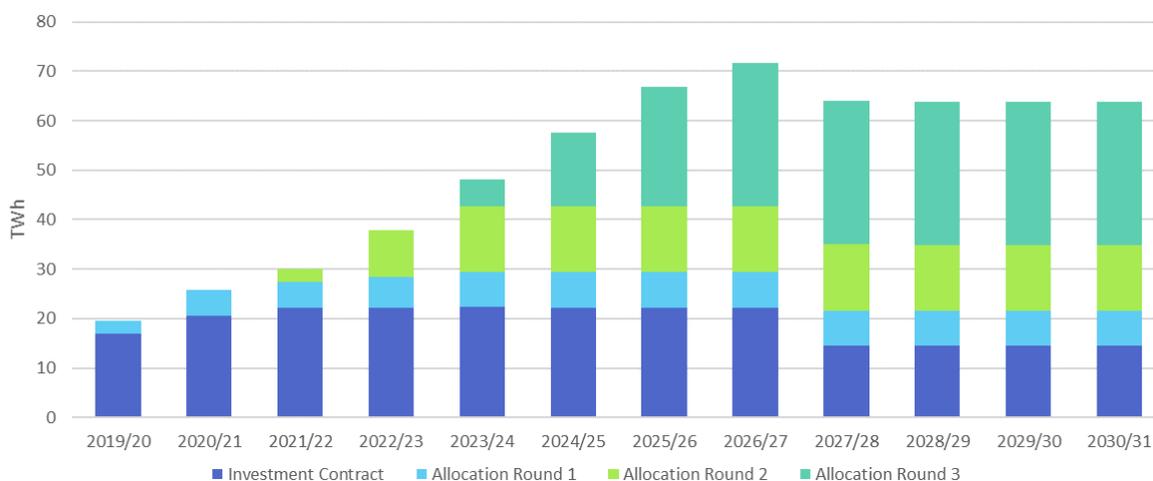
Source: LCCC

² The bespoke contract for Hinkley Point C (HPC) is excluded from this analysis.

Forecast renewable CfD generation up nearly 70%

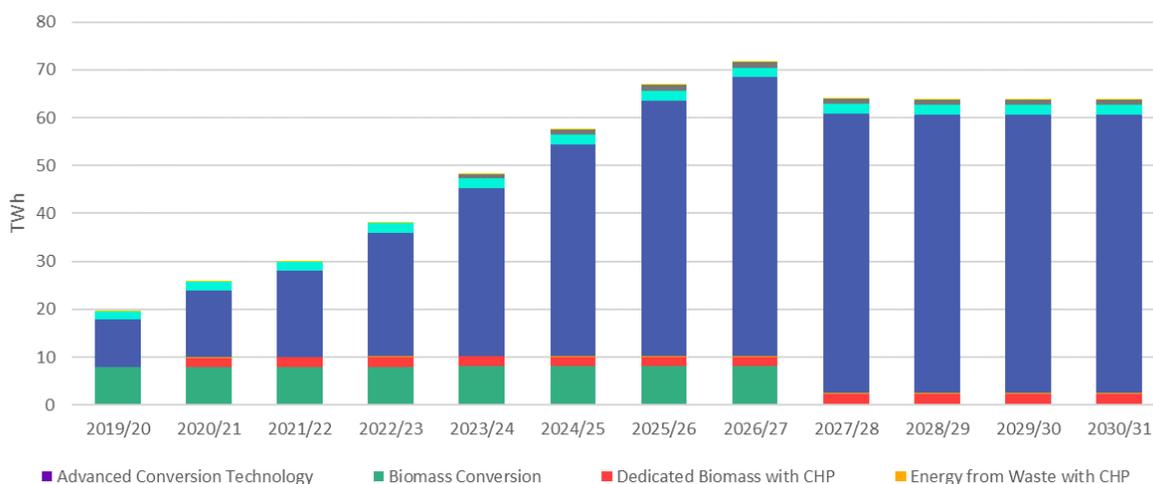
The capacity awarded under AR3 will increase the low-carbon energy delivered by the CfD portfolio considerably, and since the strike prices are below forecast market prices, this is expected to be a significant benefit to the consumer, offsetting the cost of the whole portfolio. Figure 5 shows the expected energy generation of the portfolio, separated out by allocation process, while Figure 6 shows the same data separated out by technology (both excluding HPC). The 5.77GW of capacity successful in this round would be expected to generate about 29TWh annually, which would increase the renewable CfD portfolio output by 68%.

Figure 5: Expected generation up to 2030 of the current CfD portfolio and successful AR3 bidders, separated by allocation process (TWh)



Source: LCCC

Figure 6: Expected generation up to 2030 of the current CfD portfolio and successful AR3 bidders, separated by technology (TWh)



Source: LCCC



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Notes

- BEIS' results announcements can be found at <https://www.gov.uk/government/news/clean-energy-to-power-over-seven-million-homes-by-2025-at-record-low-prices> and [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/832924/Contracts for Difference CfD Allocation Round 3 Results.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/832924/Contracts_for_Difference_CfD_Allocation_Round_3_Results.pdf)
- All material in this briefing is free to be reproduced, but we ask that any reproduction is credited to LCCC.
- Further queries on the CfD and LCCC's role in the system can be directed to Gordon Edge (07468 614 029) or Patricia Ockenden (07941 369 810), or the email address info@lowcarboncontracts.uk.
- Background materials on the CfD and how it operates can be found at www.lowcarboncontracts.uk/the-cfd-scheme
- More data on the CfD portfolio can be found on our live dashboards (www.lowcarboncontracts.uk/dashboards). AR3 projects will be added to these dashboards once they have passed the Initial Conditions Precedent in the CfD contract.