



Insights: How are CfD projects delivering?

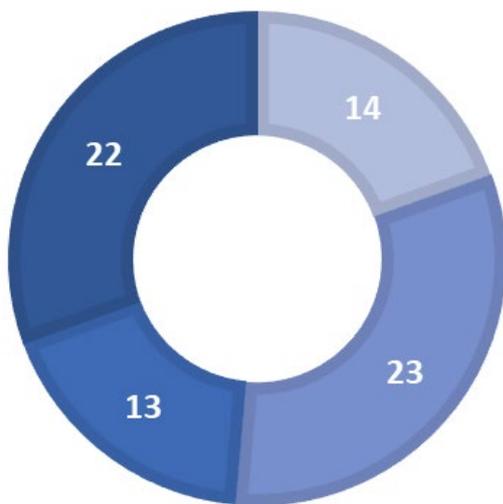
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With more than 20 years negotiating and managing contracts, when I joined LCCC back in early 2017 I knew that the CfD contracts would imply different challenges compared to any of my past roles. Luckily for me, and despite the obvious differences with an EPC or PPA contract, the CfD scheme proved to be well designed, with clear risk allocation and shared goals, promoting a collaborative approach between the parties. So the only missing ingredient in the recipe for success was the actual implementation: in simple terms, for LCCC to manage the CfD portfolio.

It started with 14 Investment Contracts transferred from DECC to LCCC in 2015. The three competitive Allocation Rounds have led to a total of 79 generic contracts being awarded. Of these, seven have been terminated, so there are a total of 72 live generic CfDs. There is also the bespoke contract for Hinkley Point C, but it is somewhat unique and is not considered in this paper.

There are two milestones that must be passed for a project to be considered complete under the CfD. The first one, Start Date (SD), is when a project starts generating electricity and receiving payments. The second milestone is the notification of the Final Installed Capacity (FIC), when a project is fully commissioned, and a payment cap is determined for the full term of the contract. A project is expected to achieve SD within a Target Commissioning Window (TCW) and to submit their FIC notice before the Longstop Date (LSD).



■ Investment Contract ■ Allocation Round 1
■ Allocation Round 2 ■ Allocation Round 3

Number of contracts per Allocation Round

1. A success story so far

As of the end of August 2020, 31 contracts have achieved SD (20 within their initial TCW, one within its adjusted TCW), with only three missing their TCW by more than two months. In terms of Installed Capacity (IC), almost 5.2GW have already been commissioned.

When it comes to the very final milestone, 16 projects due to submit their FIC notices on or before their LSD (by the end of August 2020) have done so; with a cumulative installed capacity of 96.5% of the initial installed capacity estimate.

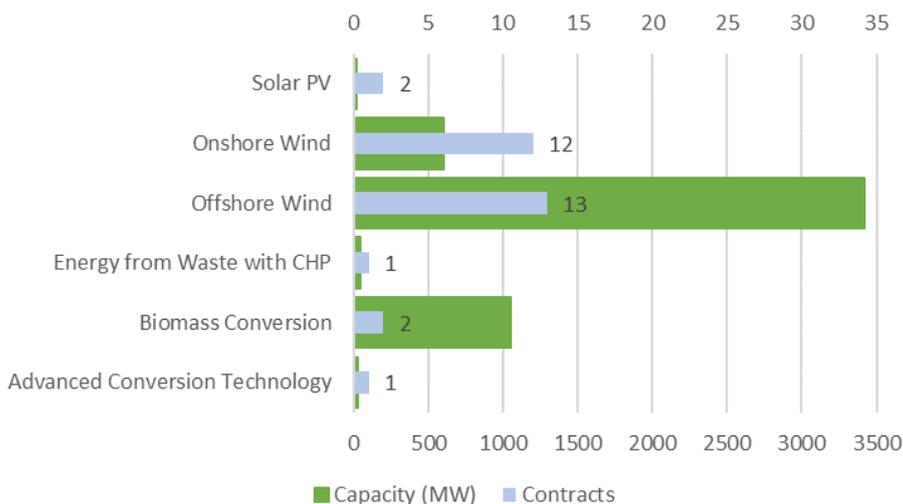
So far, a really positive picture.

2. Extension of time relief

The CfD terms and conditions include a common mechanism to protect projects against the risks of erosion of contract term and termination. In case of a Force Majeure (FM) or a delay to the grid connection, and if certain conditions are satisfied, a project may be entitled to a time extension of the end of the TCW and/or LSD.

Contracts	Total	Extension of time granted
Already in operation	31	3
In Development/Construction	41	25

For those of us with experience in power generation projects, it will not come as a surprise to see a project with a 2-3-year construction period suffering unforeseen delays outside their control. And the projects in the CfD portfolio have been no exception.



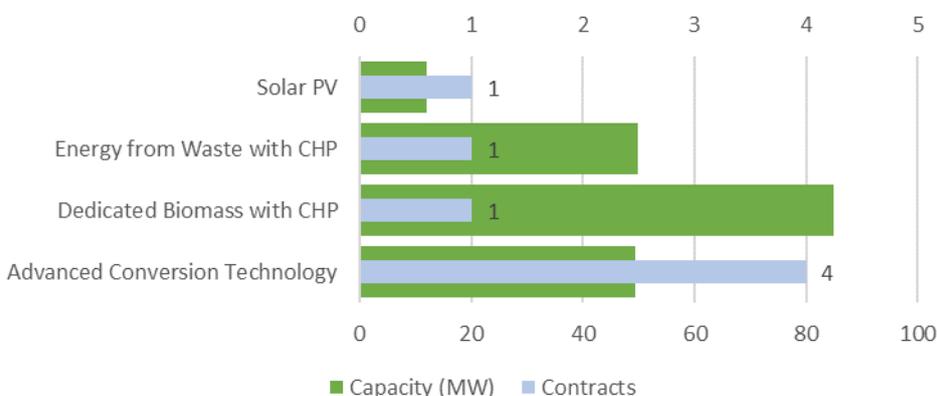
Total Contracts/capacity (MW) commissioned by August 2020

In most cases, the relevant CfD contractual provisions have worked well and provided the expected relief.

Apart from project-specific claims, we have also dealt with issues impacting several projects, like the Judicial Review process for AR3 and the (currently still evolving) Covid-19 situation. The focus of my Contract Management Team is to work collaboratively with all projects in order to ensure a consistent and fair implementation of these mechanisms, thus protecting the interests of both consumers and investors.

3. Size does matter... but not as much as technology

The project sizes (MW of IC) in our CfD portfolio show the distribution set out in the graph overleaf. Different technologies show very different size distributions.



Out of the 79 awarded contracts, 7 projects with original expected SD between March 2016 and July 2021, totalling less than 200MW, have been terminated either because they failed to achieve an intermediate milestone or it was clear that they would never be

Terminated contracts

able to be completed within the TCW and LSD.

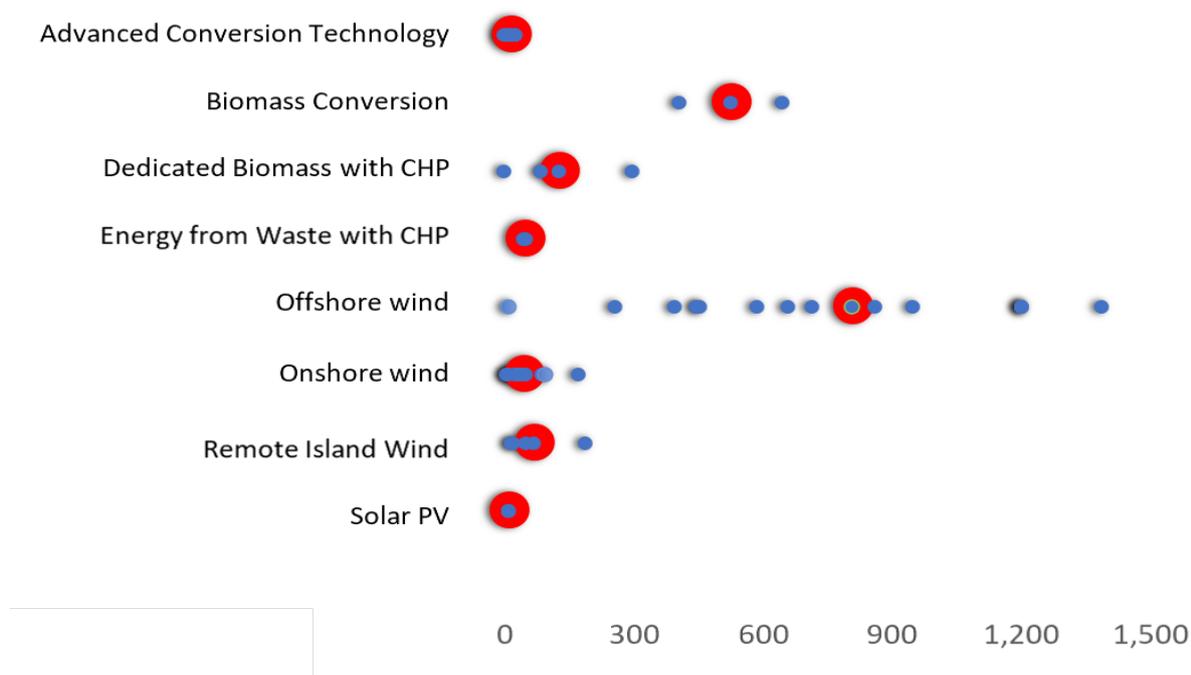
The performance of smaller projects, especially when coupled with thermal technologies, as measured by early terminations and delays, has not been as consistent as for the bigger projects. Of the seven projects that have been terminated so far, whilst there were several factors impacting those projects, technology risks and business models dependent on complex revenue stacking were common causes of non-delivery.

4. My crystal ball predictions

Based on past performance and considering a potential increase in the number of projects in Allocation Round 4 (planned in 2021), we can

expect most projects to be completed within their TCW and LSD. We know that technology risks should not be a key factor for more mature technologies (e.g. solar PV, onshore wind) but their absence from recent allocation rounds does mean we have less reliable information on their delivery performance under a CfD.

As my Contract Management Team continues to support projects during their development and construction stages, we are confident that the CfD scheme will continue to successfully underpin delivery of low-carbon power in GB. I would not be surprised to see similar schemes being adopted in other countries as well as in sectors beyond power generation.



Capacity (MW) of projects by technology.

Blue dots are individual project sizes, red dots are the average project size for that technology