

03 August 2022

Press release

All AR4 contracts set to proceed in most ambitious round yet of UK's CfD scheme

All 99 contracts offered through the fourth Allocation Round (AR4) of the UK government's Contracts for Difference (CfD) scheme have now been signed and returned to Low Carbon Contracts Company (LCCC).

A total of 93 individual projects across Britain will now proceed to work closely with LCCC to meet the contractual milestones specified in the CfD, supporting projects' development and the delivery of almost 11GW of clean energy. The first AR4 projects are due to come online in 2023-24.

The variety of technologies supported through AR4 – including tidal stream and floating offshore wind for the first time, as well as established solar, onshore and offshore wind technologies – mean this round is the CfD scheme's most diverse yet, as well as its largest. Projects supported range in size from solar PV developments with an average capacity of 33.48MW, to Ørsted's 2,852MW megaproject, the Hornsea 3 offshore wind farm. Partners in the Hornsea 3 CfD from LCCC and Ørsted came together to mark the AR4 milestone with the UK Business and Energy Secretary, Kwasi Kwarteng.

Increasing the diversity of GB's energy mix has been a central aim of the CfD scheme, thereby supporting the development of a reliable and clean energy supply whilst maintaining price stability for both investors and consumers. The development of new generation capacity has also brought investment in communities through the skilled jobs and infrastructure needed to support delivery of new power projects.

The addition of AR4 projects will see:

- A 60% increase to overall CfD capacity, with projects due to power around 12 million homes;
- A 145% increase in the number of CfD projects in the scheme's portfolio; and
- An 80% increase to the number of CfD project stakeholders with whom LCCC engages.

AR4 projects' total estimated notional monetary budget impact will be less than zero in the first three delivery years, with an increase in 2027-28 matching the steep rise in generation capacity coming online. While money flows under the CfD are always subject to actual prices at the time of generation, the AR4 portfolio would return money to the CfD scheme at current market prices. For more detail, refer to the table in Figure 1 at the end of this press release.

Given the size and diversity of AR4, LCCC automated the process used to produce, distribute and receive signed contracts. Whilst the manual process used in previous allocation rounds saw 16 contracts produced and returned within ten days in AR3, this year's process has seen all 99 contracts issued and returned within a shorter time period. With allocation rounds set to occur annually from March 2023, this process will save time and resources for stakeholders across the scheme.

Projects must now pass their Initial Conditions Precedent within twenty working days. This contractual milestone is the first step on CfD projects' journey to construction and operation.

George Pitt, Chief Financial Officer at LCCC said:

“We’re delighted to welcome these projects to the CfD portfolio and can’t wait to get to work, whether that’s with our established CfD partners or new stakeholders. 2022 has been a landmark year for the CfD scheme, and the diversity and scale of AR4 projects proceeding is a huge mark of confidence in it. Amidst unprecedented times, this new generation of power projects stands to benefit communities and businesses across the length and breadth of the country, as well as well as protecting the long-term health of our environment, economies and societies.”

Kwasi Kwarteng, UK Business and Energy Secretary, said:

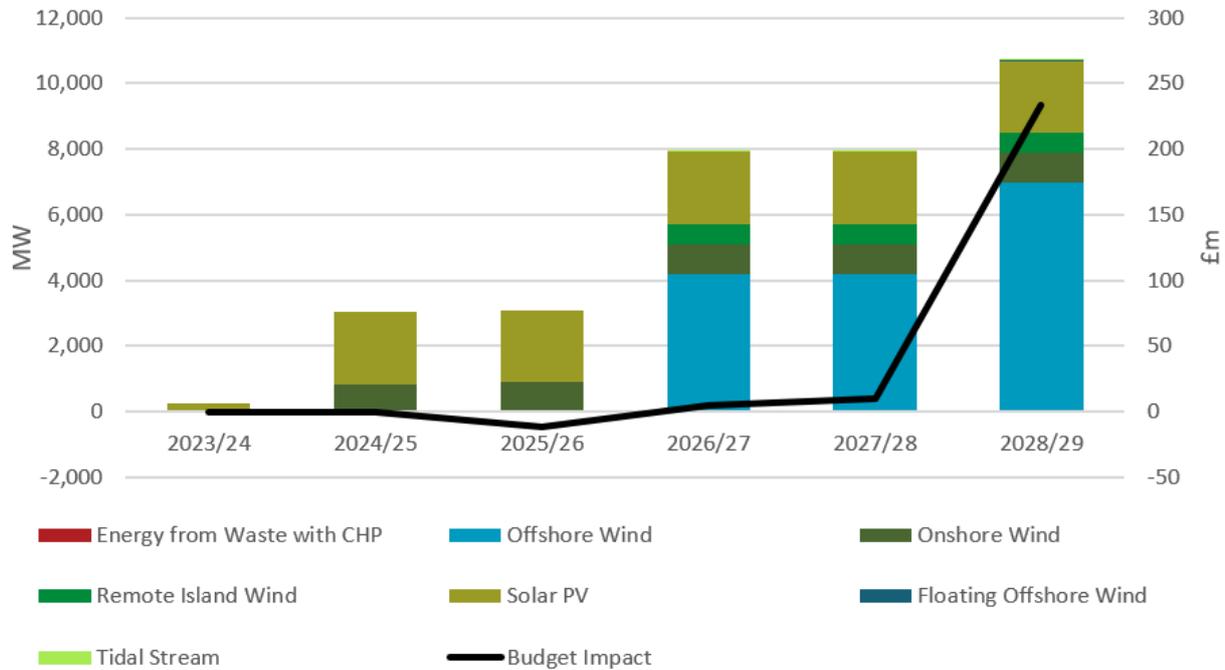
“Our renewable energy auction scheme has been an outstanding success, with the latest round securing enough clean energy to power twelve million British homes and the price of clean energy plummeting even further.

“Getting contracts signed means projects can push on and deliver jobs and opportunities across the country. This will help to secure our homegrown supply of cheaper renewables and bring down the price of energy for millions of British families as we shift away from expensive fossil fuels.”

Benj Sykes, Vice President at Ørsted, said:

“The offshore wind industry success story continues to deliver great value to the UK economy and Hornsea 3 represents another significant step forward. The project demonstrates how far the industry has come in terms of cost and scale and, crucially, in bringing forward projects that will deliver low cost, clean energy to households and businesses across the country. Ørsted expects to invest a further £14billion in the UK by the end of this decade, supporting the delivery of thousands of high-quality jobs and strengthening the UK supply chain. We look forward to working with government and industry colleagues to accelerate the deployment of offshore wind.”

Figure 1: Successful capacity and budget used in CfD Allocation Round 4 (MW and £m [£2012])
Source: LCCC



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Notes to editor:

- On 7 July 2022, the Department for Business, Energy & Industry Strategy (BEIS) announced the results of Contracts for Difference Allocation Round 4 (see gov.uk). The auction has delivered 10.8GW of new clean energy to be added to the grid by 2029.
- The 93 projects proceeding with CfDs include three offshore wind projects, which each consist of three phases and hold a CfD for each phase.
- Pictures of the Hornsea 3 contract signing are available from the Communications team at LCCC.
- More data on the CfD portfolio can be found on our live dashboards (www.lowcarboncontracts.uk/dashboards). AR4 projects will be added to these dashboards once they have passed the Initial Conditions Precedent in the CfD contract.
- LCCC is the designated CfD Counterparty to Contracts for Difference (CfDs) and Investment Contracts awarded to generators under the government’s CfD scheme.
- The CfD scheme delivers outcomes in support of the government’s objectives of ensuring the UK has reliable, affordable, and clean electricity.
- For more information, please visit www.lowcarboncontracts.uk or email info@lowcarboncontracts.uk.