



Department  
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Climate Change

# Opening the CfD support scheme to non-UK renewables projects

European Commission workshop, Brussels, 5 November 2014



# Agenda

1. What is the CfD support scheme?
2. What may be the benefits of opening the CfD to non-UK projects?
3. What may be the risks of opening the CfD to non-UK projects?
4. What may be the challenges of opening the CfD to non-UK projects?
5. Next steps



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# What is the CfD support scheme?



# What are Contracts for Difference?

1

**Long-term (15 years) revenue stabilisation** to low-carbon plant (strike price) allowing investment to come forward at a lower cost of capital and at a lower cost to consumers

2

**Robust and reliable private law contractual arrangement** between a low carbon electricity generator and the CFD Counterparty

3

CfDs require plant to **sell into the market as usual** and receive a top-up from a market reference price to a pre-agreed 'strike price'

4

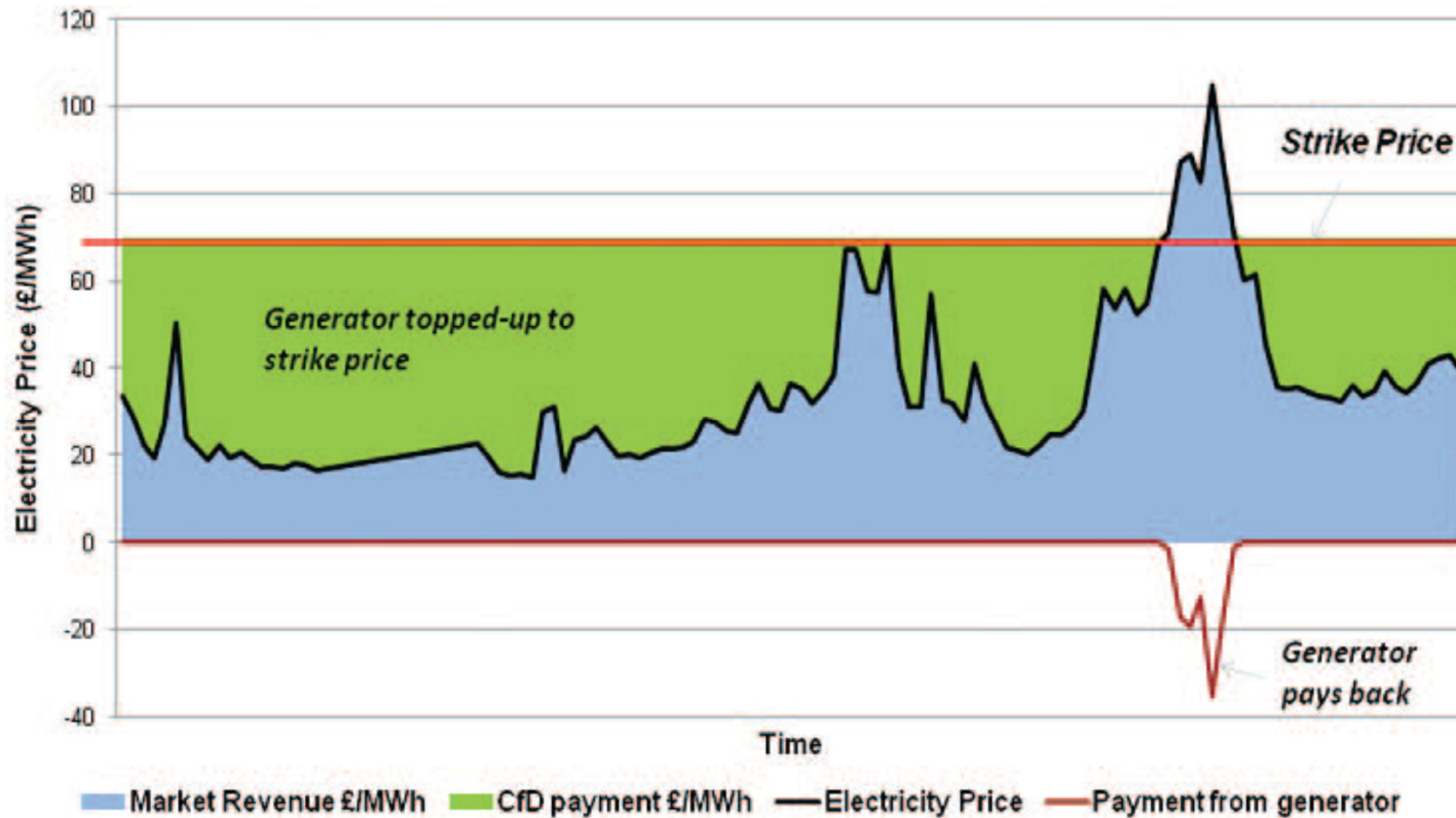
Where market prices are higher than strike prices, **generators pay back** the difference to the CFD Counterparty

5

**Contract** provides developers with a clear set of rights and obligations, and provisions that protect the value of the CFD to developers (e.g. change in law protection)

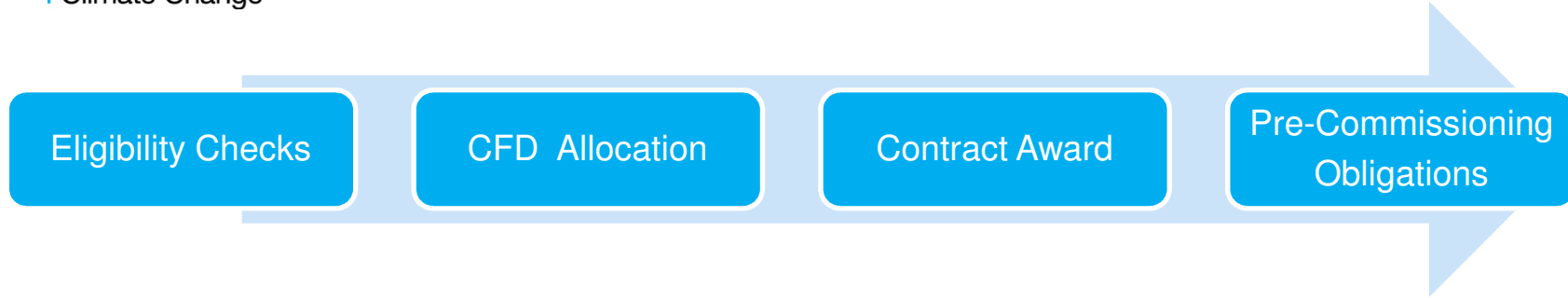


# Illustration of the operation of a CfD





# High level allocation process



State Aid clearance received	July
Allocation technology groupings published	July
Draft CFD budget published	July
Regulations enter into force	August
CFD contract and Allocation Round Notice published	August
Final CFD Allocation Framework published	October
Commencement of the allocation round	16 October
Application closing date	30 October
Auction notice	2 December
Sealed bids submission closing date	10 December *
CFD notifications sent to LCCC	5-6 January*
Low carbon contracts sent to successful applicants	7 – 20 January*

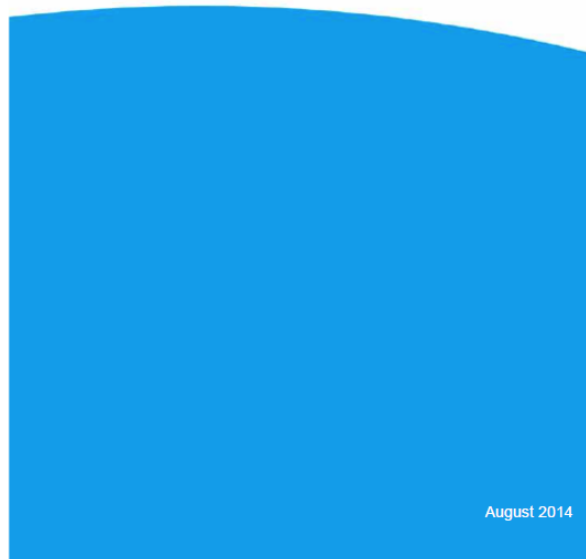
\* Dates are indicative from the auction notice date and based on no appeals.



# We set out Government position on CfD for non-UK RE projects in August 2014



## Contract for Difference for non-UK Renewable Electricity Projects



### Contents

- Background
- Non-UK CfDs Programme of Work
  - CfD allocation
  - CfD contract
  - CfD Institutional Framework
- Indicative timings



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What may be the benefits of opening the CfD to non-UK projects?





# Benefits for UK energy objectives

## 1 Affordability

Opening to non-UK projects with lower strike prices than UK projects can improve cost-effectiveness for UK consumers. Using competition for CfD allocation to non-UK projects can reduce the cost of investment in low-carbon technologies.

## 2 Security of supply

Physically importing the output from non-UK projects can improve the UK security of supply. Increasing physical imports from neighbouring non-UK projects can incentivise greater interconnectivity of the UK market.

## 3 Decarbonisation

Non-UK renewable electricity projects can support UK in achieving longer term carbon reduction objectives in a cost-effective way.



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What may be the risks of opening the CfD to non-UK projects?



# Risks for UK energy objectives

## 1 Affordability

Risk that non-UK projects displace domestic investments because of LCF budget constraint, so need detailed cost-benefit analysis that captures costs and benefits not included in the strike price to ensure value for money for UK consumers overall.

## 2 Security of supply

Opening CfD to non-UK projects can increase UK security of supply only if physical import of the electricity generated, so need to setup arrangements for securing and metering physical imports.

## 3 Decarbonisation

Risk that non-UK renewables project do not abide to same low carbon or additionality requirements as UK projects, so need to setup eligibility and monitoring arrangements. Need to secure imports of renewables credits to count toward UK target.

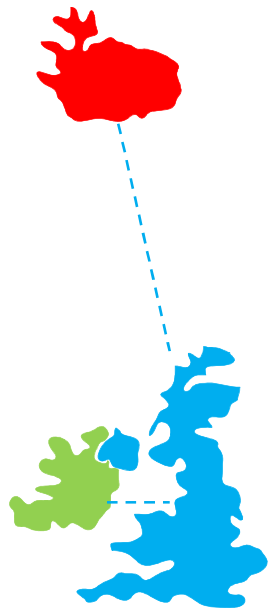


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What may be the challenges of opening the CfD to non-UK projects?



# Experience from existing MoUs on energy cooperation



**MoU with Iceland,  
May 2012**

- UK is potential destination for export of Iceland geothermal and hydro energy resources
- Project for new interconnector, would be longest sea cable ever built
- Detailed discussions with Icelandic government have not started yet

**MoU with Ireland,  
Jan 2013**

- UK is potential destination for export of Irish wind onshore and offshore resources
- Work programme: CBA, support mechanisms, options and regulation for connection assets, licensing of generation assets
- Steering group discussions deferred since no prospect of projects commissioning by 2020



# Challenges of opening CfD





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# Next steps



## Next steps

- DECC will consider how to develop policy on non-UK CfD that is aligned with the department's affordability, security of supply and decarbonisation objectives, but priority is implementation of CfD across the UK (with delay in Northern Ireland due to electricity market reform)
- Ambition to meet the UK's 2020 renewable energy target through domestic actions, but remain open to the fullest range of options available, including opportunities for statistical trading for later in the decade
- There may be a role for physical trading and opening the CfD to non-UK projects in the medium-to-longer term, although it appears unlikely that it would play a role in meeting the 2020 renewable energy target





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# Thank you for your attention

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