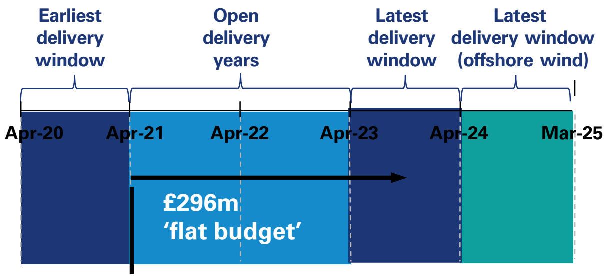
Second CfD Allocation Round

10 November 2016

- Government announced £290m of CfD budget will be made available for the 2021/22 and 2022/23 Delivery Years
- A 'maxima' of 150MW (or £70m) will apply to ACT, AD and Biomass CHP
- Remote Islands Onshore Wind are likely to be ineligible to bid in this allocation round
- Supply chain plan requirements remain ostensibly the same
- More information including wholesale prices and the Final Allocation Framework are yet to be published

A flat budget across two open delivery years…

On Wednesday 9 November the Department of Business, Energy and Industrial Strategy (BEIS) announced the draft details of the long awaited second Contract for Difference (CfD) Allocation Round for pot 2 'less established' technologies. The Budget made available will be £290m (2011/12 real), £296m 2012 real - a comparable basis to the strike prices, which eligible participants will be able to compete for across the 2021/22 and 2022/23 Delivery Years in the Allocation Round launching in April 2017.



BEIS affirmed the required cost trajectory announced in 'The Reset Speech' for offshore wind capping the Strike Prices of the Delivery Years at £105/MWh for 2021/22 and £100/MWh for 2022/23.Other technologies have different prices as set out below:

£/MWh, 2012 prices	*2018/19*	2021/22	2022/23
Offshore wind	*140*	105	100
Advanced Conversion Technologies[1]	*140*	125	115
Anaerobic Digestion[1]	*140*	140	135
Biomass with CHP	*125*	115	115
Wave	*305*	310	300
Tidal Stream	*305*	300	295
Geothermal	*140*	Under consultation	

Note: (1) With or without CHP | Source: BEIS

Using these Administrative Strike Prices (ASP), this would allow for 1-1.1GW of offshore wind to be allocated a CfD, enough for 1 large or 2 smaller offshore wind projects[(1)]. However, if offshore wind bids lower than its ASP, more capacity could be awarded a CfD.

BEIS also reaffirmed its commitment to spend £730m during the parliamentary period. However, questions remain over whether this will be spent over 3 auctions, as previously envisaged, given current timetables.

Maxima for 'fuelled' technologies…

In the first Allocation Round, just 62MW of Advanced Conversion Technology (ACT) and 0MW of Biomass CHP and Anaerobic Digestion (AD) were awarded a CfD. Despite this, and the ASP's of all 'fuelled' technologies being set higher than offshore wind, BEIS has opted to set a 'maxima' to limit the capacity of CfD awarded to fuelled technologies (Advanced Conversion Technology, Anaerobic Digestion and Dedicated biomass with CHP) to 150MW or £70m.

Given the size of the ACT and AD pipelines, this appears to be driven by two planned large scale biomass CHP plants in Wales: Port Talbot (350MW) and Anglesey (299MW) biomass CHP plants, owned by the Orthios Group, which would collectively need £308m of Budget to be awarded a CfD. Assuming the 'maxima' rules from the first Allocation Round still apply, it would now not be possible for either one of these projects to be awarded a CfD at their consented capacity.

More information on this, and confirmation of the auction rules will be available when 'The Final Allocation Framework' is published.

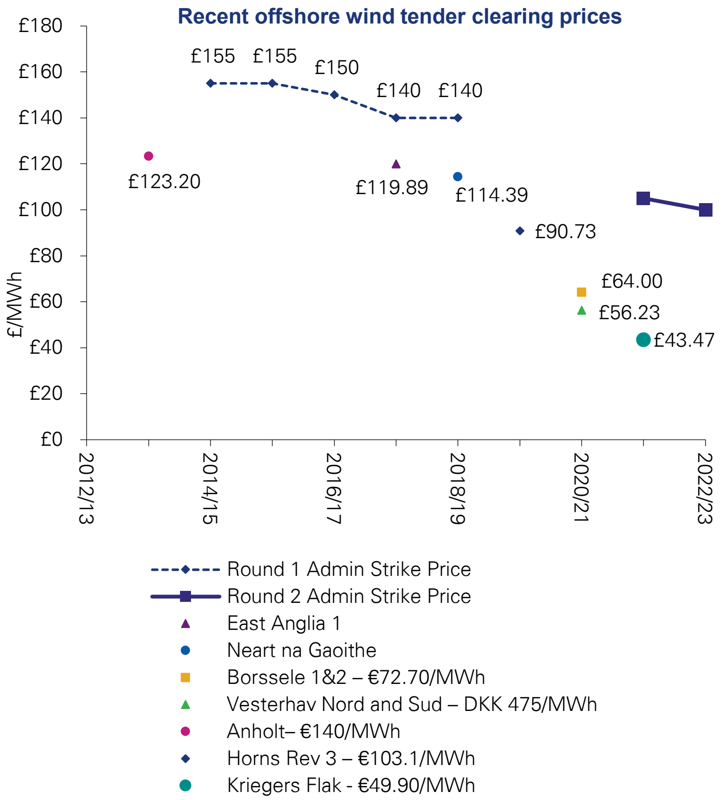
The future of Remote Islands is still uncertain…

In the Draft Budget Notice, Remote Islands, now re-framed as 'non-mainland GB onshore wind' are absent from the list of eligible technologies to participate in the 'less established' technologies pot (pot 2). The consultation published alongside on their future treatment, specifically whether they should be synonymous with onshore going forward, will likely dictate whether they will be reintroduced in the Final Budget Notice however KPMG view this as unlikely.

Notes:
(1) Assuming load factor: 47.7%, TLM: 0.0089, DECC 2015 UEP low projections
(2) Assuming affordable within budget and ignoring impact of other "non-fuelled" technologies

KPMG's view

KPMG expects that this Allocation Round will be heavily oversubscribed and will move to a competitive auction in late April. With an eye to the recent offshore wind cost trajectory in neighbouring European tenders, the cost of offshore wind is expected to be well below the ASP caps set by BEIS[(1)(2)]. However, the UK has opted to continue with the Supply Chain Plan requirement, in a manner which is almost identical to that of the 2014 round, which will place some upwards pressures on costs.



Fuelled technologies could play a role in this auction, however, costs will need to reduce substantially to compete with offshore wind. The role of the 'maxima' is expected to have limited impact in the auction.

Notes:

1. KPMG notes that there are different cost drivers between schemes across Europe including guaranteed transmission, auction of consented sites etc which will account for further differences.
2. No adjustment had been made to correct for the UK price basis being 2012 real whilst other jurisdictions auction on a nominal basis.

Indicative timetable

2016

CfD Draft Budget Notice + updated supply chain guidance issued	**9 Nov**
Allocation framework +Updated Energy Projections to be issued	**[Dec]**

2017

Supply Chain Plan Application Window 9 to 13 Jan 2017	**13 Jan**
Applicants to receive a response from BEIS	**24 Feb**
Last date for submission of revised supply chain plans	**10 Mar**
CfD Final Budget Notice deadline	**20 Mar**
Status summary sent to National Grid with accepted and rejected projects	**31 Mar**
CfD Allocation Round 2 Application Window opens (3-21 April)	**3 Apr**
CfD Sealed Bid Window Opens (subject to eligibility appeals)	**9 May**
Applicants notified of auction outcomes	**6 June**

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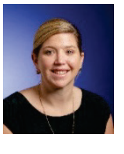

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