

Allocation Round 4 Online Launch Event: Questions and Answers

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Disclaimer

This questions and answers (Q&A) document has been prepared by the Contracts for Difference (CfD) delivery partners¹ in response to attendees' questions at the Allocation Round 4 (AR4) online launch event on 23 September 2021.

These Q&A are subject to and provided on the basis of the following:

- The Q&A do not supersede or replace the relevant regulations or the provisions of the CfD and are not intended to and do not constitute legal, investment, commercial or operational advice and should not be relied upon as such. Readers of this document should not place reliance upon these Q&A and should refer to relevant regulations and the full terms of the CfD, and/or consult their professional advisors where they require information or advice on matters relating to CfDs generally and/or any CfD to which they are a party.
- The Q&A reflect the current thinking and approach of the delivery partners and should not be viewed in any way as binding.

Defined terms used in the Q&A but not defined therein have the meanings prescribed to them in the relevant regulations, Allocation Framework, the CfD (agreement and standard terms) and the Energy Act 2013.

Please note that the primary source and most reliable source of information are the regulations, Allocation Framework and statutory notices, which are either already available or will be shortly on legislation.gov.uk, [GOV.UK](https://gov.uk) and the [AR4 microsite](#).

¹ The Department for Business, Energy and Industrial Strategy, National Grid ESO, the Low Carbon Contracts Company and Ofgem.

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Auction parameters and operation

Pot 1

1. Will Allocation Round 4 (AR4) be the only opportunity for Pot 1 technologies commissioning in 2023/24 and 2024/25 to get a Contract for Difference (CfD)?

For AR4, 2023/24 and 2024/25 are the only delivery years for Pot 1 technologies, although this does not preclude non-CfD deployment.

The Government is committed to continuing a high level of renewable deployment, with the Contracts for Difference scheme being the Government's main mechanism for supporting new renewable electricity generation projects.

It is too early at this point to set out specific auction parameters and delivery years for the fifth allocation round; however, we will ensure that stakeholders are kept updated appropriately.

Maxima

N.B. Questions on maxima at the AR4 online launch event have been aggregated to provide the following questions and answers (as soft constraints will not be used in AR4, the answers assume that soft constraints do not apply to any maxima).

2. When would a maximum-only auction happen and how is that decided?

Rule 9 of the [AR4 draft Allocation Framework \(PDF, 515KB\)](#) sets out how the Delivery Body (National Grid ESO) determines which auctions it must hold and Rule 9.6 specifies which auction will take place in relation to maxima.

The Delivery Body values all qualifying applications at their Administrative Strike Price (ASP) to determine which auctions need to take place. A maximum-only auction only happens when: (1) all applications of all technologies can be accommodated within the monetary budget and without breaching any capacity cap, but (2) the applications that are subject to that maximum would exceed the maximum.

In AR4, this means that a maximum-only auction would only be held where all the qualifying applications from all technologies in Pot 1 could be accommodated at their ASP, but either the solar applications or the onshore wind applications exceeded their respective maxima. If the sum of all qualifying Pot 1 applications would exceed the monetary budget for that pot and/or breach the capacity cap, then a Pot 1 auction is held for all technologies in that pot and the maxima would be considered as part of that auction.

3. How would a maximum-only auction work?

Rule 18 of the AR4 draft Allocation Framework sets out how maximum-only auctions are run. In a maximum-only auction, bids are considered in ascending price order until the maximum is breached. When the maximum is breached, the breaching bid is

unsuccessful (no flexible bids are considered) and the maximum-only auction closes (no further applications subject to that maximum are considered in any auction).

4. How would different maximum-only auctions relate to each other?

Maximum-only auctions are held independently of each other, so what happens in one maximum-only auction cannot affect what happens in another.

In AR4, the two maxima are both set at 3.5GW, but there is a 5GW capacity cap across all technologies in Pot 1. This means that two maximum-only auctions cannot take place this round, because for both maxima to be exceeded, the capacity cap would also be exceeded, which would result in consideration of maxima in a pot auction and not in maximum-only auctions.

5. How are maxima considered in a pot auction?

Rule 17 of the AR4 draft Allocation Framework sets out how pot auctions are run, including the treatment of bids subject to maxima.

In a pot auction, all bids are considered in ascending price order (without giving priority to any technology) to see if a maximum, capacity cap or the monetary budget for the pot is exceeded. Where a bid results in a maximum being exceeded, that application is unsuccessful (no flexible bids are considered) and that maximum closes so that no higher-priced bids subject to that maximum are considered.

Where a maximum bid does not exceed its maximum limit but does result in the pot capacity cap or the monetary budget for the pot being breached, flexible bids may be considered. If such a flexible bid is successful without breaching the maximum, the auction will continue and the maximum will not close. It is possible in AR4 that the 5GW capacity cap could be breached before either of the 3.5GW maxima (for solar and onshore wind) were breached and certain that the capacity cap would be breached before both maxima could be breached given that the two maximum limits sum to more than the pot capacity cap.

6. How do the separate clearing prices for maxima work?

Rule 17.4(d) of the AR4 draft Allocation Framework sets out how separate clearing prices apply to maxima. In short, each maximum has its own clearing price, separate to the clearing price of the pot. These operate in the same way, whether a maximum is breached within an auction or not.

An application subject to a maximum can only have its clearing price raised by a bid from another application subject to that same maximum. Conversely, a maximum bid can only raise the clearing price of other lower bids subject to that same maximum and any lower bids of technologies not subject to any maximum.

For AR4, this means that an onshore wind application cannot raise the clearing price of a solar application, and vice versa. It also means that no other technology can raise the clearing price of either solar or onshore wind to a higher price.

7. Is the intention that only one maximum can be reached given they are both set at 3.5GW and the pot capacity cap is at 5GW?

The intention is that neither solar nor onshore wind can win contracts for more than 3.5GW of capacity in Pot 1. The exact ratio of these and other technologies among successful applications will depend on prices bid. It is possible that either solar or onshore wind may secure their full maximum capacity allowed but not both. It is also possible that neither technology will reach its maximum.

8. Can we see illustrative examples of the allocation process and clearing prices for Pot 1 under different scenarios in relation to the maxima?

The Delivery Body (National Grid ESO) presented visual representations of potential auction scenarios that could occur during AR4 at a webinar on 11 November 2021. A recording of the webinar will shortly be made available on the [AR4 microsite](#).

Minima

9. In the AR4 draft Budget Notice, there is a mention that other minima are being considered in addition to floating offshore wind. Is there the potential to introduce a minima for tidal stream energy?

Consideration of the case for introducing additional minima for other technologies is ongoing. We expect to set out any additional minima ahead of or in the final Budget Notice for AR4, published no fewer than 10 working days before the round commences.

Delivery years

10. Which date(s) need to fall within the specific delivery year applied for to qualify for that year?

The Target Commissioning Window Start Date determines the relevant delivery year (and where it falls before the first applicable delivery year, the relevant delivery year is the first applicable one). The Target Commissioning Date does not now necessarily have to fall within the relevant delivery year.

11. How do Target Commissioning Date (TCD) and Target Commissioning Window (TCW) tie up with a delivery year? Can a 12-month TCW start at the TCD even if that date is later in a delivery year?

See answer to question 10. The TCD can be at any point in the TCW, including at its start, and the TCW can start at any point in a delivery year.

12. What are the months for delivery years? Is it calendar year or tax year?

Delivery years run from 1 April to 31 March.

13. Regarding Target Commissioning Date (TCD), Target Commissioning Window (TCW) and delivery year notions, it has been commented during the event that ‘the TCD does not now necessarily have to fall within the relevant delivery year, and the whole TCW does not need to coincide with the delivery year.’ Which part of the regulations covers this topic? For sake of clarity, I would understand this means that, as far as a project is still not commissioned at the time of the initial application, it could intend to compete in the first delivery year which applies to it. For example, if a Pot 1 asset is under construction, with a commercial operation date in 2022, it can still apply with its TCD in 2022, its TCW in 2022–2023 (calendar), and its delivery year would be 2023/24. Could you confirm that, please?

TCD, TCW and delivery year are defined in the Contracts for Difference (Allocation) Regulations 2014 (as amended). Rules for their operation are set out in the AR4 draft Allocation Framework; in particular, ‘relevant delivery year’ is defined in Schedule 1:

“**Relevant Delivery Year**” means the Delivery Year in which the Target Commissioning Window Start Date specified in an Application falls, unless the Target Commissioning Window Start Date falls before the first applicable Delivery Year, in which case the Relevant Delivery Year will be the first applicable Delivery Year (applicable Delivery Years are set out in the Budget Notice and also at Schedule 4).

See answers to questions 10 and 11.

Administrative Strike Prices

N.B. Questions on Administrative Strike Prices (ASPs) and load factors at the AR4 online launch event have been aggregated to provide the following questions and answers.

14. If a CfD site is bidding into two separate delivery years, is an additional CPI indexation year considered when pricing the ASP for the later delivery year?

As of this allocation round, a single ASP applies across the two delivery years for each technology. This value is the same in each delivery year in real terms, using a 2012 price base.

15. The ASPs for some technologies are higher than others – does that put those technologies at a disadvantage in the competitive auction?

Where an auction is held, it is intended to be a competitive process, incentivising cost-effective projects to come forward, and balancing delivery of our decarbonisation commitments with potential impacts on consumer bills. More detail on the principles behind setting ASPs can be found in the [AR4 ASP methodology note \(PDF, 438KB\)](#), published alongside the [AR4 draft Budget Notice \(PDF, 185KB\)](#).

ASPs by technology are based on the Department for Business, Energy and Industrial Strategy (BEIS)'s view of potential project costs and future revenues, but BEIS does not have full information on individual projects and their associated costs. It is for individual developers to determine the price they are comfortable bidding at, based on their own assessment of potential future costs and revenues.

16. How was the operational expenditure calculated for wind projects? For offshore wind, are vessel costs included?

The ASP methodology note contains more information on the precise methodologies that underpin the ASPs. For offshore wind specifically, an assumption around vessel costs has been incorporated into the analysis, in line with [BEIS's published 2020 Generation Costs Report](#).

17. Will the proportion of supply targeted when setting ASPs need to be reassessed in light of Carbon Budget 6 commitments?

The approach underpinning ASPs is reviewed ahead of each round, and this includes consideration of the estimated supply curve. We are confident that, on balance, the ASPs for AR4 strike the right compromise between protecting consumers and enabling participation to achieve our decarbonisation commitments, including Carbon Budget 6.

18. Have the impacts of AR4 changes to the negative pricing rule been considered when setting parameters?

The potential impact of changes in the negative pricing rule has been factored into estimated reference prices and ASPs.

Price bases

19. Could you provide information on how applicants should change prices from 2012 to current prices (currently the draft Budget Notice has 2011/12 to 2012, and 2011/12 to current)?

Developers submit their priced bids in 2012 prices; however, the AR4 draft Budget Notice includes a reference to an Office for National Statistics CPI series. This represents one method that could be used to convert values between price bases. Using this metric, to convert from a 2012 price base to current prices, the inflator can be calculated by dividing the CPI value for the most recent month by the average 2012 CPI value.

Load factors

20. How have load factors in the AR4 draft Allocation Framework been derived?

The load factors presented in the AR4 draft Allocation Framework (Schedule 2, Appendix 3) have been derived using a methodology which is consistent with that used to derive load factors for use in calculating Administrative Strike Prices (ASPs). More detail on the

approach is set out in the AR4 ASP methodology note, published alongside the AR4 draft Budget Notice.

However, unlike ASPs, which apply a central load factor estimate, the load factors published in the AR4 draft Allocation Framework (used in the valuation formula only) represent a high estimate.

This is in line with the approach taken in the previous round. Valuing projects using high estimated load factors reduces the risk that in-life spend exceeds spend forecasted at the point of allocation. If CfD-supported projects generate more than expected, the support costs paid by consumers will be larger than initially forecast.

21. How have the load factors for offshore wind and floating offshore wind been calculated?

As detailed in the AR4 Administrative Strike Price (ASP) methodology note, load factors for offshore wind were derived using internal models, which generated power curves and were then combined with Met Office wind speed distribution data for the location of specific known projects in the AR4 pipeline.

A central estimate derived from this analysis is applied in the calculation of ASPs, but as noted above, load factors published in the AR4 draft Allocation Framework represent a high estimate. This is to mitigate against the risk that the support costs paid by consumers will be higher than initially forecast.

The approach applied for deriving the load factor for floating offshore wind is consistent with that used for offshore wind, with locational information based on potential AR4 floating projects.

Soft constraints

22. Is the use of soft constraints being considered for AR4?

The parameters for the fourth allocation round are set out in the draft Budget Notice and draft Allocation Framework.

Technologies

Offshore wind

23. What is the 'agreement to lease' requirement?

The agreement to lease requirement is related to Regulation 27 of the Contracts for Difference (Allocation) Regulations 2014 (as amended). This regulation applies where the relevant CfD unit is or is to be an offshore generating station or part of such a station. In this case, the applicant must demonstrate that a lease or an agreement for lease has been granted by the Crown Estate in respect of the location of the relevant CfD unit.

24. Without a capacity cap, and the capacity for Pot 3 (offshore wind) being very uncertain still, how is the budget envelope calculated? And could it change if more/less capacity is expected in the end?

The budget for Pot 3 has been set to bring forward what the Government considers is an appropriate amount of offshore wind capacity from this allocation round.

Regulation 12 of the Contracts for Difference (Allocation) Regulations 2014 (as amended) gives the Secretary of State the option to increase the budget following the commencement of the allocation round via a budget revision notice.

Onshore wind

25. How long is the Longstop Period for onshore wind? Twelve or 24 months?

The Longstop Period for onshore wind will be 12 months. This is the period immediately following the Target Commissioning Window end date. The Longstop Period for all technologies will be confirmed in the Standard Terms Notice, which will be published at least 10 working days before AR4 commences.

Floating offshore wind

26. In Pot 2, there is a hard minimum for floating offshore wind. Does this minimum auction clear separately, or can it be lifted by the other technologies in the pot competing for the remaining pot budget (thereby breaking the minimum)?

The minimum auction clears separately, but unsuccessful bids in that auction will go forward to the main pot auction, where they will be considered like any other bids. If they are successful there, they would raise the clearing price of the minimum auction. Similarly, if a bid of a different technology not subject to the minimum was successful in the general auction at a higher price than the bid that closed the minimum auction, then the clearing price of the technology subject to the minimum would be raised.

Eligibility

27. Are there any significant changes from Allocation Round 3 (AR3) regarding the eligibility criteria?

The Government consulted on [changes to the scheme for AR4](#), including eligible technologies, and published its response in November 2020. There are no further significant changes to eligibility criteria envisaged for AR4.

This topic is also addressed in the [FAQs on the AR4 microsite](#), specifically in the question titled 'What changes is the government making to the CfD scheme for the fourth allocation round?'

28. Would it be possible for a project to have already started construction before the auction takes place and before eligibility has been confirmed?

The Government has confirmed that part-built projects will be eligible to compete in AR4. Construction may have started on a project, but Rule 5 of the AR4 draft Allocation Framework clarifies that no application may be made where the CfD unit is or is part of a generating station that has been commissioned.

29. Do you automatically exclude projects where the energisation date in a grid connection agreement does not fall within a nominated Target Commissioning Window (TCW)?

Where a project's energisation date in the connection agreement does not fall within the nominated TCW, it will be given an outcome of not-qualified. Schedule 5 of the AR4 draft Allocation Framework states that the Target Commissioning Date (TCD) for the unit specified in the application has to be on or after the connection date specified in the connection agreement. While Schedule 5 does not require the connection date to be checked against the TCW, it is a requirement for the TCD to fall within the TCW.

30. If a developer was unsuccessful in Allocation Round 3, can they make an application for AR4?

Yes, if the project can meet the eligibility criteria for AR4.

31. Can you confirm bid bonds will not be required for AR4?

The Government consulted on [potential changes to the Non-Delivery Disincentive](#), including the possibility of introducing a requirement for bid bonds. Its response clarified that bid bonds will not be required for AR4.

32. Would being pre-qualified for the Capacity Market (CM) be considered being in receipt of subsidy and, therefore, ineligible? Or would you need to have a CM Obligation?

If an application is prequalified in the CM and an application is made to the CfD, it will be ineligible (unless or until a determination is made that the CM application is

unsuccessful). This is based on Regulation 14(10)(c) and the interpretation offered in Regulation 14(10A) of the Contracts for Difference (Allocation) Regulations 2014 (as amended).

33. Please explain the exclusion of current 'generating stations' under Regulation 14(14) – and what is the definition of 'generating station' in this respect?

Regulation 14(14) of the Contracts for Difference (Allocation) Regulations 2014 (as amended) allows for exclusions in the Allocation Framework beyond those in Regulation 14, which are set out in Rule 5 of the AR4 draft Allocation Framework. Rule 5 sets out that no application may be made in respect of a CfD unit where the CfD unit is or is part of a generating station which has been commissioned. Schedule 1 indicates that the definition of 'generating station' is provided in Regulation 2(1) of the Contracts for Difference (Definition of Eligible Generator) Regulations 2014 (as amended).

Application

34. Regarding whom holds the grid application and planning permission, is the application made in the name of the special purpose vehicle? Do the names have to be aligned? Can the application/award be transferred at a later date?

Where the company details stated on a connection agreement and/or applicable planning consents are not the same as those provided in the application, it would be necessary for the applicant to provide additional clarificatory evidence, for assurance purposes as part of the qualification assessment process.

Clarifications will be required for company details stated on connection arrangements and/or planning permissions in relation to the applicant company if different – e.g. if a connection agreement belongs to a different company, the link to the applicant company is explained.

Applicants would need to provide supporting evidence in the application process when uploading a connection agreement and/or applicable planning consents to demonstrate the link between the applicant CfD unit and the company who holds the grid application and planning permissions. Details of how to attach this to the application will be outlined in the Delivery Body (National Grid ESO)'s AR4 guidance document, to be published ahead of the round.

Where a CfD notification is given to the CfD counterparty (the Low Carbon Contracts Company) by the Delivery Body, the CfD counterparty must offer to contract with the eligible generator specified in the notification (Energy Act 2013 s.14(1)). Only that eligible generator can therefore enter into a CfD with the CfD counterparty. Should the generator decide to transfer the CfD to a different legal entity after having entered into the CfD, the process for obtaining the consent of the CfD counterparty for such transfer is set out in the CfD – see Condition 79 (Transfers) of the [draft CfD Standard Terms and Conditions for AR4 \(PDF, 4.47MB\)](#).

35. When ensuring that company details given on the registration form exactly match those on Companies House, does that mean that company details should be capitalised, like they are on Companies House?

This year the registration process has been simplified, and you can enter your Company Registration Number and the system will automatically copy your company data across, as it appears on Companies House. You can review the details and continue with the registration process. For further information on registration, see the Delivery Body (National Grid ESO)'s [CfD Company Registration and User Management Guidance \(PDF, 1.32MB\)](#).

36. Do Judicial Review periods need to have timed out for planning consents?

The Contracts for Difference (Allocation) Regulations 2014 (as amended) require that the applicant must provide copies of the applicable planning consents. They do not

stipulate in relation to eligibility of applications that any period for Judicial Review needs to have elapsed.

37. A qualification requirement for application is a demonstration of applicable planning consents for the relevant works to enable the proposed CfD unit. Does this include planning consent for the grid/cable route to the Distribution Network Operator's substation?

The requirements for applicable planning consents can be found under Regulation 23 of the Contracts for Difference (Allocation) Regulations 2014 (as amended). Regulation 23(2) states the applicant must provide copies of the applicable planning consents which apply to any works ("relevant works") which enable –

- (a) the relevant CfD unit to be established or altered;
- (b) electricity generated from the relevant CfD unit to be supplied, as applicable, to –
 - (i) the national transmission system for Great Britain;
 - (ii) the distribution system; or
 - (iii) a private network.

Further, Regulation 23(4) specifies that "relevant works" includes the alteration, installation or removal of any cable, line, pipeline or other service media.

For the application, you will need to include planning consent for the grid/cable route.

38. What are the rules around the capacity you can put in your application and the MW capacity in your grid agreement? How much of a difference is allowed between the two values? Is this the same for all technologies?

A reference to capacity means the Initial Installed Capacity Estimate (IICE). In accordance with Schedule 5 of the AR4 draft Allocation Framework, the MW capacity in the connection agreement must be at least 75% of the IICE of the CfD unit. Schedule 5 is applicable to all technologies, unless otherwise stated.

39. If a project has a specified grid connection route agreed under planning permission and is awarded a CfD, is this grid connection able to be changed at a later date, provided planning permission is agreed, without affecting the CfD agreement?

This is allowed but only if the grid connection route change is being initiated by the Distribution Network Operator or National Grid ESO and Force Majeure relief may be available. However, if the grid connection route is being moved and initiated by the generator, and the project ends up being delayed, contract erosion may apply.

40. Please explain how the Initial Installed Capacity Estimate (IICE) number is used in the application/evaluation process? Is IICE only relevant to the CfD contract?

The IICE means the generator's initial estimate of the installed capacity, as notified to the Delivery Body (National Grid ESO) in the application. This value is used when the Delivery Body checks:

- the capacity specified in the applicable planning consents is equal to or no more than the IICE specified in the application
- the capacity specified in the connection agreement is at least 75% of the IICE specified in the application

Therefore, the IICE is not only relevant to the CfD contract. More information about installed capacity can be found in the Low Carbon Contracts Company's [Installed Capacity and Final Installed Capacity Guidance \(PDF, 642KB\)](#).

41. Regarding the requirement for applicants to provide copies of applicable planning consents, does this include planning consent for transport-enabling works offsite, e.g. modifications to the highway to enable the transport of blades?

Regulation 23 of the Contracts for Difference (Allocation) Regulations 2014 (as amended) requires copies of planning consent to be provided for the relevant CfD unit to be established or altered and electricity generated from the relevant CfD unit to be supplied. This includes any associated works, which extends to works needed to allow the construction of the CfD unit itself (e.g. the construction or modification of a road) and, therefore, any planning needed to carry out these works.

42. Are we able to access the EMR portal in advance of each of the windows opening (application and sealed bids) to test how it works?

The application area of the portal will only be available during the AR4 application window, from 13 December 2021 until 14 January 2022. Depending on when the sealed bids will be required during the round, the sealed bid area of the portal will be available for eligible applicants during that window.

However, the Delivery Body (National Grid ESO) will provide support to applicants in the form of guidance documents, webinars and videos, where the application and sealed bid areas of the portal will be demonstrated. The Delivery Body will be publishing this support via the [AR4 microsite](#), and the information will also be accessible in the [document library sections of the EMR Portal](#).

Any specific questions related to the Delivery Body's in-round activities can be directed to its CfD team at box.EMR.CFD@nationalgrideso.com.

43. The CfD application requires the applicant to state the address of the CfD unit. What should this be for an offshore wind farm where the onshore substation is not yet constructed and hence does not have an address or postcode yet?

The connection agreement will specify the address of the onshore substation even if it hasn't been built yet; the prospective building works would be detailed in the connection agreement.

Allocation process

44. Do any of your sealed bids have to have the same capacity and/or Target Commissioning Window and Target Commissioning Date as the application?

Rule 11 of the [AR4 Allocation Framework \(PDF, 584KB\)](#) details the requirements for the submission of sealed bids. An applicant may submit up to four flexible bids in total.

None of the sealed bids are required to have the same capacity or Target Commissioning Window or Target Commissioning Date as the application, but Rule 11.2 in the Allocation Framework states that (subject to Rule 13), for each application, the applicant may submit only one sealed bid (and one strike price) for the same Target Commissioning Window Start Date and for the same capacity as specified in the original application.

[The answer to this question has been updated to clarify prior ambiguity in published information, including Rule 11.5 of the Allocation Framework, which may otherwise have been taken to require that one of the flexible bids must have the same capacity and/or Target Dates as the original application.]

45. Where is the Initial Installed Capacity Estimate (IICE) in the process of valuation or auction?

The IICE is one of the calculation factors used in the valuation process. The IICE is not used in the auction as the applicant submits their own IICE. It should be noted that any flexible bids submitted must have a capacity no greater than the IICE in the original application.

46. Could you explain how two bids could be submitted for the same site, as the grid energisation date is fixed in the connection agreement?

Under Rule 11.5 of the AR4 draft Allocation Framework, the applicant may submit up to four flexible bids (inclusive of the bid that has the same target dates and same capacity as specified in the original application) which are sealed bids with varying capacities and/or target dates, of which no more than two bids may have a Target Commissioning Window Start Date in the same delivery year.

Further, as per Rule 11.6, all flexible bids made by an applicant must have (subject to Rule 12.2) target dates, i.e. a Target Commissioning Date (TCD) and a Target Commissioning Window Start Date, that are no earlier than the target dates in the original application.

Thus, it is permissible to submit flexible bids with a TCD that falls after the energisation date in the connection agreement, as long as it remains within the Target Commissioning Window.

47. For an interleaving/flexible bid, does the Target Commissioning Date (TCD) need to be different from the applicant's lowest-price bid?

Requirements for the submission of sealed bids can be found under Rules 11.1–11.6 of the AR4 draft Allocation Framework. An applicant can submit up to four flexible bids (inclusive of the bid that has the same target dates and same capacity as specified in the original application) which are sealed bids with varying capacities and/or target dates. There is no specific requirement for the TCD to be different from the applicant's lowest-price bid.

48. Can all of your four flexible bids have different capacity to your application, or does at least one of your flexible bids have to have the same capacity as your application?

None of the sealed bids are required to have the same capacity or Target Dates as the application, so all four flexible bids may have different capacity and/or target dates, subject to Rule 11 of the AR4 Allocation Framework, which details the requirements for submission of sealed bids.

Rule 11.2 states that (subject to Rule 13), for each application, the applicant may submit only one sealed bid (and one strike price) for the same Target Commissioning Window Start Date and for the same capacity as specified in the original application.

Rule 11.6 states that:

All Flexible Bids made by the Applicant must—

- (a) be made at different Strike Prices;
- (b) subject to Rule 11.4, be expressed to be to the nearest £0.001;
- (c) subject to Rule 12.2, have Target Dates that are no earlier than the Target Dates specified in the Original Application;
- (d) subject to Rule 12.2, have a capacity that is no greater than the capacity specified in the Original Application; and
- (e) satisfy Rule 4 and Rule 5 if applicable.

[The answer to this question has been updated to clarify prior ambiguity in published information, including in Rule 11.5 of the Allocation Framework, which may otherwise have been taken to require that one of the flexible bids must have the same capacity and/or Target Dates as the original application.]

49. Irrespective of the delivery year, projects are valued across all valuation years?

Yes, that's correct.

50. Please may I confirm that if a project's Target Commissioning Window (TCW) is solely in the second delivery year, it would not be valued for the first delivery year, just the second year and two subsequent years?

Where a project's TCW falls only in the second delivery year, then the application is valued only for the second year and subsequent (two) valuation years. It would therefore not be valued for the first delivery year.

51. On interleaving bids, would these apply for both a budget cap breach and a capacity breach?

In a pot auction, where a bid causes the monetary budget for that pot and/or the pot capacity cap to be breached, the interleaving rule is triggered, unless the bid also exceeds a maximum (in which case flexible bids are not considered). Where interleaving is triggered, the breaching application's first flexible bid and any interleaving bids are considered in ascending price order to see if they all fit within the monetary and capacity budget. This is all set out in Rule 17 of the AR4 draft Allocation Framework.

In a minimum auction, flexible bids may be considered where a bid causes the monetary budget for that pot and/or the pot capacity cap to be breached, unless the bid also exceeds the minimum (in which case flexible bids are not considered). The interleaving rule does not operate in minimum auctions. This is set out in Rule 16.

52. Regarding the Target Commissioning Window and the Target Commissioning Date, which date is used to do the value assessment within the delivery year?

The Target Commissioning Window Start Date is used within the valuation formula to calculate the budget impact and to calculate the year 1 factor.

An example of how the valuation formula is applied to applications can be found in this [video of the valuation and allocation process breakout session](#) delivered at the AR4 online launch event (recorded after the event). Further guidance is provided in Schedule 2 (Valuation Formula) of the AR4 draft Allocation Framework.

53. In an interleaving loop, will bids from other generators trigger flexible bids or new interleaving loops?

Interleaving occurs when a bid breaches the budget and/or applicable capacity cap (when a hard constraint) and there are bids from the same applicant, whose bid caused a breach, present in the bid stack. In this scenario, the auction system looks for the next flexible bid from the same applicant and attempts to allocate it, along with any bids from other projects that lie between the flexible bid and the original breaching bid; this is known as the interleaving loop.

If any bids in the interleaving loop cannot be allocated, then interleaving is unsuccessful and the auction closes. If all the bids in the interleaving loop can be allocated, then interleaving is successful and the auction continues.

The interleaving bids process is described in full under Rule 17 of the AR4 draft Allocation Framework, and examples of successful and unsuccessful interleaving can be found in this [video of the valuation and allocation process breakout session](#) delivered at the AR4 online launch event (recorded after the event).

Appeals

54. Where will appeal guidance be published?

Ofgem published [updated dispute resolution guidance](#) on 22 October 2021, which is available via its website and the AR4 microsite.

55. Is it possible for the different technology pots to end up on different timescales? For example, if there are no appeals for a particular pot, could that pot progress faster than pots where there have been appeals/disputes submitted?

All pots will run to the same timeline.

Initial Conditions Precedent

56. When will you publish the example Know Your Customer templates?

The Know Your Customer process has changed for AR4. The Low Carbon Contracts Company will be outsourcing this activity to run the checks on its behalf. After you have signed your contract, you will need to engage with your Contract Manager. They will be assigned to you prior to contract signature and will be able to walk you through the process.

Non-delivery

57. When does the obligation to deliver arise and what penalties do you face for not delivering? For example, what happens if you decide not to go ahead for whatever reasons?

An applicant that is offered a contract and does not sign triggers the Non-Delivery Disincentive (NDD) (a non-signature case under Regulation 14A(1)(a) of the Contracts for Difference (Allocation) Regulations 2014 (as amended)).

A signatory of a CfD is bound to meet the various delivery stages set out in the contract. Where they enter into a CfD which is subsequently terminated before the Milestone Delivery Date (18 months after signature) or as a failure to meet the milestone requirement, this also triggers the NDD (a non-delivery case under Regulation 14A(1)(b)).

In either case, the NDD bars them from applying in respect of a CfD unit at the same site in the next applicable allocation round (Regulation 14A(2)) (subject to exceptions detailed at Regulation 14A(4) and (5)).

58. Where are the rules for the Non-Delivery Disincentive (NDD) set out?

The Contracts for Difference (Allocation) Regulations 2014 (as amended) set out the details of the NDD (see question 57 above for how this works).

The Government published a document in 2015, '[Non-Delivery Disincentive for Contracts for Difference](#)', setting out how the NDD originally worked. The nature of the associated exclusion has changed since then, with consultations taking place in 2016 and 2020. The Government responses to those consultations provide details of the amended policy in each case:

- [2016 Government consultation](#)
- [2020 Government consultation](#)

CfD payments

Negative pricing rule

59. Can you please expand on how CfD payments are affected during negative pricing periods?

For projects that are awarded contracts in AR4, CfD payments will not be made during periods where the intermittent market reference price is below £0/MWh.

60. Do you get a 'top-up' from £0 to the strike price during negative pricing?

No CfD 'top-up' payments will be made during any period of negative prices for projects winning contracts from AR4 onwards.

61. Could you confirm the 'top-up' during the negative pricing period? For example, if the market price is -£5/MWh and the strike price is £50/MWh, I understand you would not top up £55, but would the generator unit get £50?

In this case, there would be no CfD payment. From AR4 onwards, any periods of prices in the reference price market being below zero would result in the withdrawal of any CfD payment during those periods.

Curtailement

62. What are the implications on CfD payments if there is enforced prevention of dispatch by the network operator, e.g. constraint/curtailment?

There is a curtailment provision within the contract – see Part 11 of the [draft CfD Standard Terms and Conditions for AR4 \(PDF, 4.47MB\)](#).

Transmission Loss Multiplier

63. Please could you explain how Transmission Loss Multiplier adjustments will be calculated and passed through to generators?

Details on the Transmission Loss Multiplier calculation can be found on page 11 of the Low Carbon Contract Company's [Strike Price Adjustment Guidance \(PDF, 253KB\)](#).

Balancing Services Use of System

64. Ofgem has a minded-to position in relation to Balancing Services Use of System (BSUoS) charges, but that decision has not been made. How will that affect strike price adjustments and what BSUoS assumption should bidders make when deciding their bid price?

The Government is aware that Ofgem is reviewing the removal of BSUoS charges from generators and that it will issue a final decision in due course. The Government has recently consulted on proposals to change the CfD contract to ensure that generators are not compensated for BSUoS charges when they no longer have to pay them. The Government is currently analysing the consultation responses received and will publish its decision on this, along with other relevant information, before AR4 opens in December.

65. Can you describe the expected changes to the CfD contract regarding BSUoS adjustments in more detail?

See answer to question 64.

66. Can you outline the timetable for the Standard Terms Notice? The BSUoS adjustment made to Allocation Round 3 contracts is becoming very important in the context of ongoing reforms. If the mechanisms are the same for AR4, then it will be helpful to bidders to understand what BSUoS is assumed in the contract.

The Government is required to publish the statutory notices for AR4, including the Standard Terms Notice, a minimum of 10 working days before the allocation round commences. The round is scheduled to open to applications on 13 December 2021. The Standard Terms Notice will confirm the Initial Balancing System Charge applicable to AR4.

Allocation Round 5

67. Will Allocation Round 5 (AR5) be in 2023, with delivery windows 2026–2028 for onshore wind?

The Government is committed to continuing a high level of renewable deployment, with the CfD scheme being the Government's main mechanism for supporting new renewable electricity generation projects.

It is too early at this point to set out specific auction parameters and delivery years for the fifth allocation round; however, we will ensure that stakeholders are kept updated appropriately.

68. Is AR5 likely to come soon enough to give a further opportunity for Pot 1 projects commissioning in 2024/25, or is AR4 their only chance?

See answer to question 1.

Legislation

69. Where do I find the version of ‘The Contracts for Difference (Allocation) Regulations 2014 (as amended)’ applicable to AR4, and what is the cut-off for amendments?

If you look up the Contracts for Difference (Allocation) Regulations 2014 on [legislation.gov.uk](https://www.legislation.gov.uk) and select the ‘More Resources’ tab, you will find a list of changes affecting those regulations.

No further amendments are expected before AR4 opens.

Allocation Round 3 questions and answers

70. If still relevant, can questions and answers relating to Allocation Round 3 (AR3) be made available on the AR4 microsite?

Given the number of changes made to the scheme for AR4, and to avoid any confusion, it would not be helpful to include questions and answers relating to AR3 on the AR4 microsite.

This publication is available from: www.cfdallocationround.uk

If you need a version of this document in a more accessible format, please email BEISContractsforDifference@beis.gov.uk. Please state what format you need and what assistive technology you use.