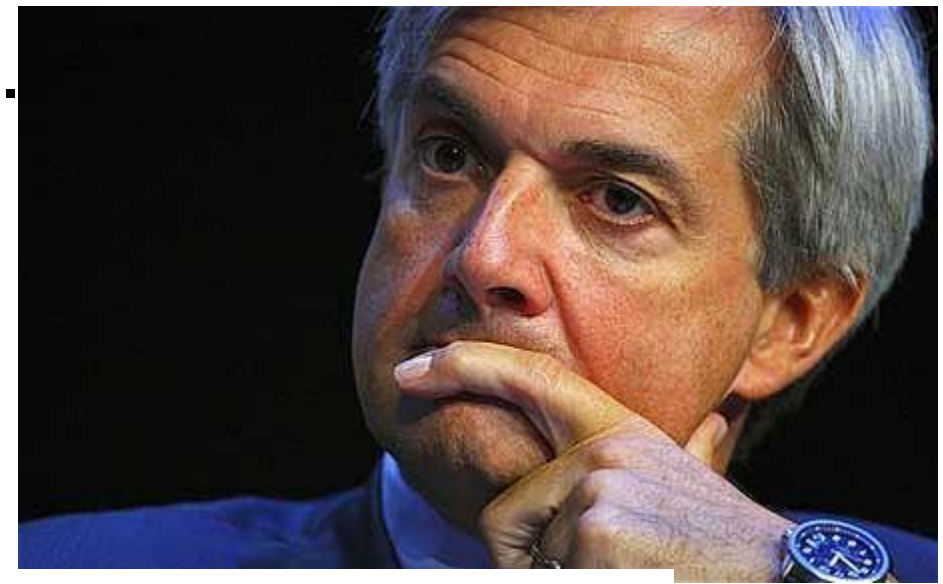


Contracts for Difference and clean energy projects

Presentation to UiO market design series

2 May 2023

When EMR was first proposed....



Announcement

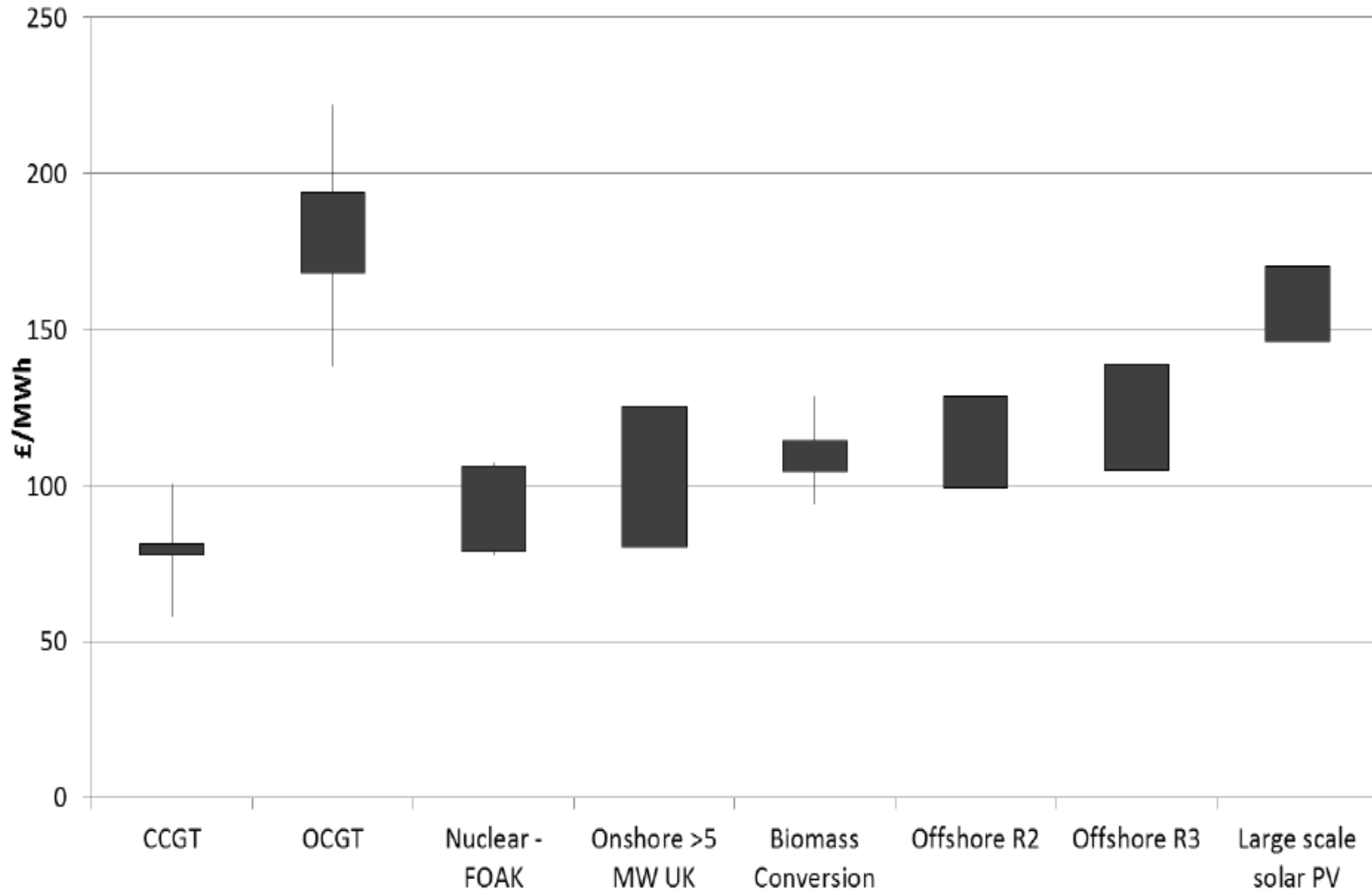
Coalition announces transformation of power market

Organisation: [Department of Energy & Climate Change](#)
Page history: [Published 16 December 2010](#)
Policies: [Helping households to cut their energy bills + 1 other](#)
Topics: [Energy and Climate change](#)
Minister: [The Rt Hon Chris Huhne MP](#)

Four reforms to provide long-term certainty for electricity investors New market to have built-in level playing field for low ...

Chart 4: Levelised Cost Estimates for Projects Starting in 2013, 10% discount rate, sensitivities³³

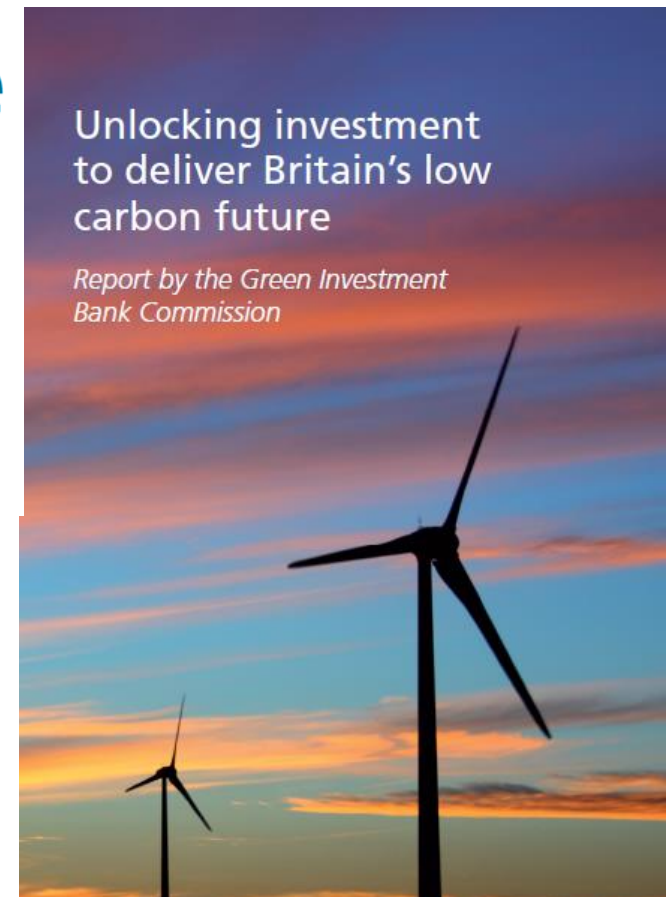
Case 1: Project Start 2013, FOAK/NOAK, 10% discount rate



£100 billion of investment needed



This investment need is the consequence of decades of underinvestment and is driven by the imperative to create a low carbon economy



The problem we face is akin to trying to build substantial new housing stock without the existence of a 20-25 year mortgage market



The Prime Minister and Edward Davey, Secretary of State for Energy, view plans for the new nuclear site at Hinkley.

Source: DECC

SSE: “stopping all investment in offshore wind and new power plants until the 2015 election because of the acute political uncertainty around energy” - Alistair Phillips-Davies, SSE in Telegraph, 10 October 2013

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“For now I’m giving it my stamp of let’s wait and see.”

Levy Control Framework and Draft CfD Strike Prices

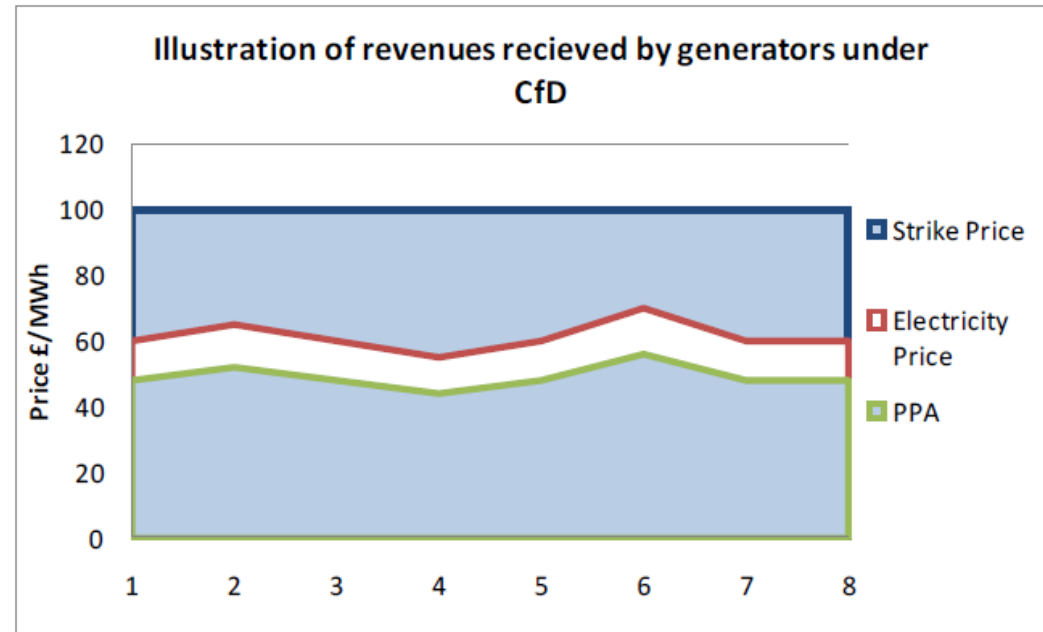
Levy Control Framework – Upper Limits on Spend (£m) (2011/12 prices) ¹						
2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
3,300	4,300	4,900	5,600	6,450	7,000	7,600

Renewable Technology	Draft Strike prices (£/MWh) (2012 prices)					Potential 2020 Deployment Sensitivities (subject to VfM and cost reduction) (GW) ¹
	2014/15	2015/16	2016/17	2017/18	2018/19	
Biomass Conversion ²	105	105	105	105	105	1.2 – 4
Hydro ³	95	95	95	95	95	c. 1.7
Offshore Wind	155	155	150	140	135	8 – 16
Onshore Wind	100	100	100	95	95	9 – 12
Large Solar Photo-Voltaic	125	125	120	115	110	2.4 – 3.2

Source: DECC

1. Overview of CfDs

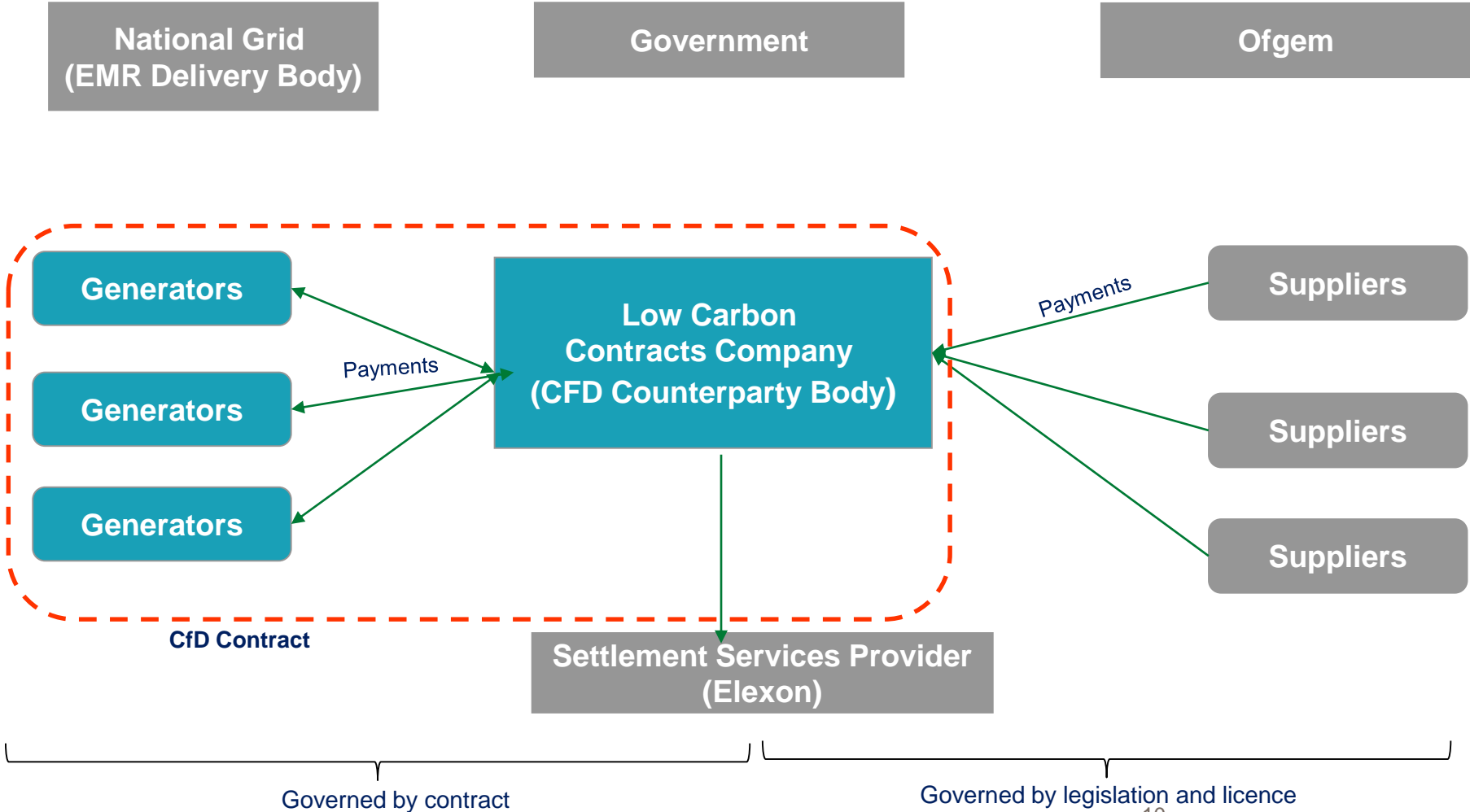
- Entered into between Generator and CfD Counterparty
- Strike Price (CPI-linked)
- Methodology for calculating Reference Price
- May involve payment to or by the Generator



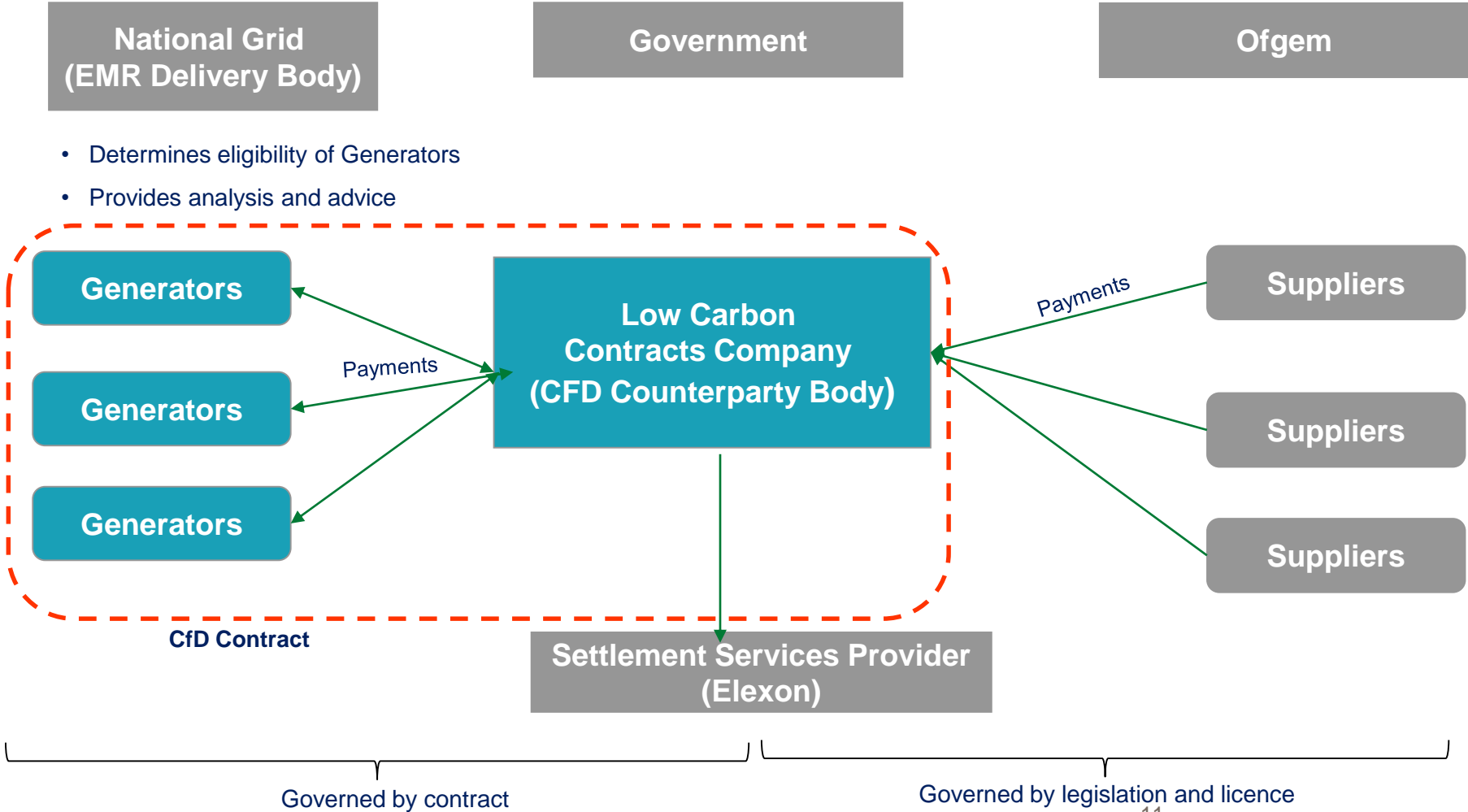
Notes:

1. Risks of not achieving Reference Price and divergence of OPEX from CPI
2. Continuing need for PPAs as a route to market

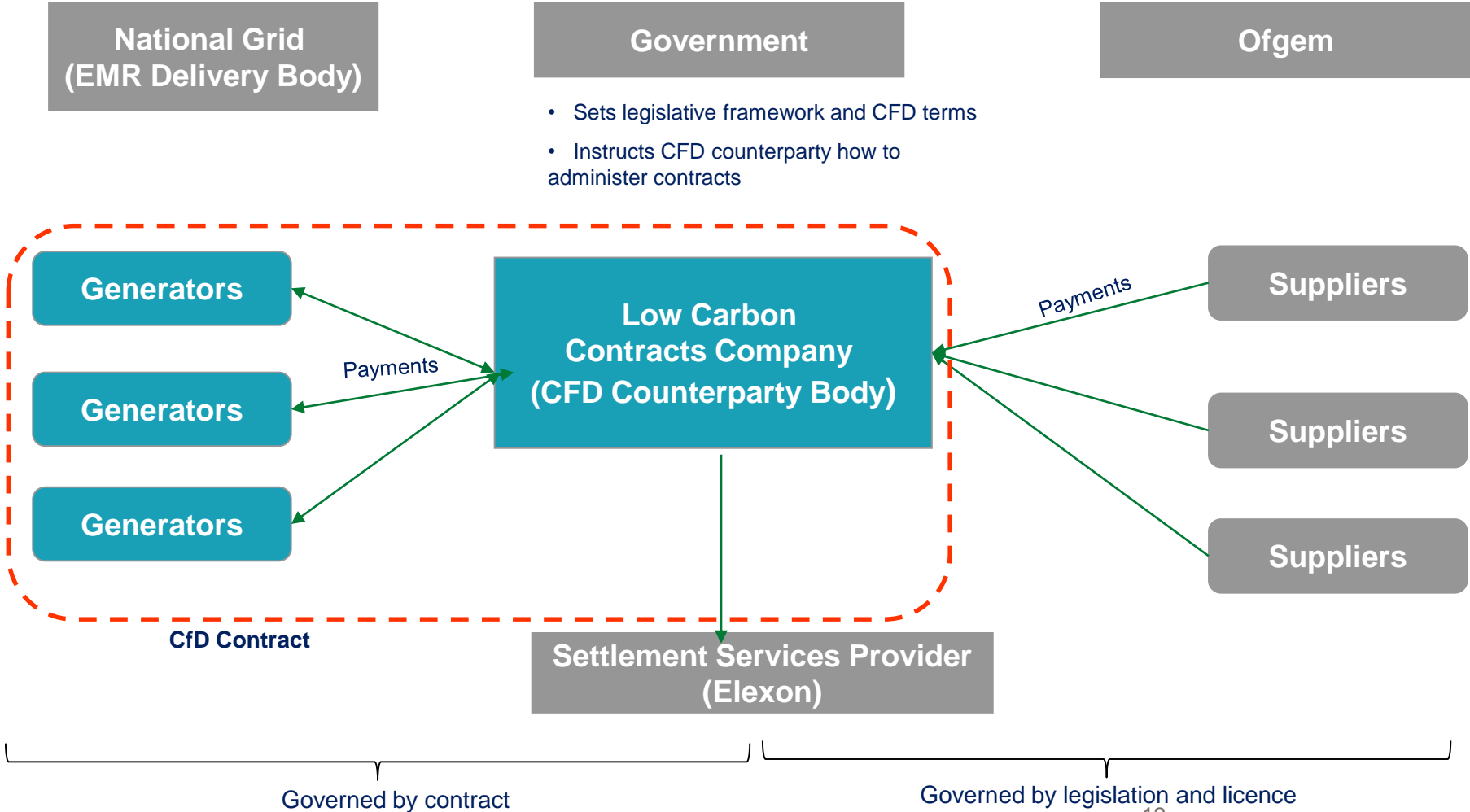
CfDs: entities and roles



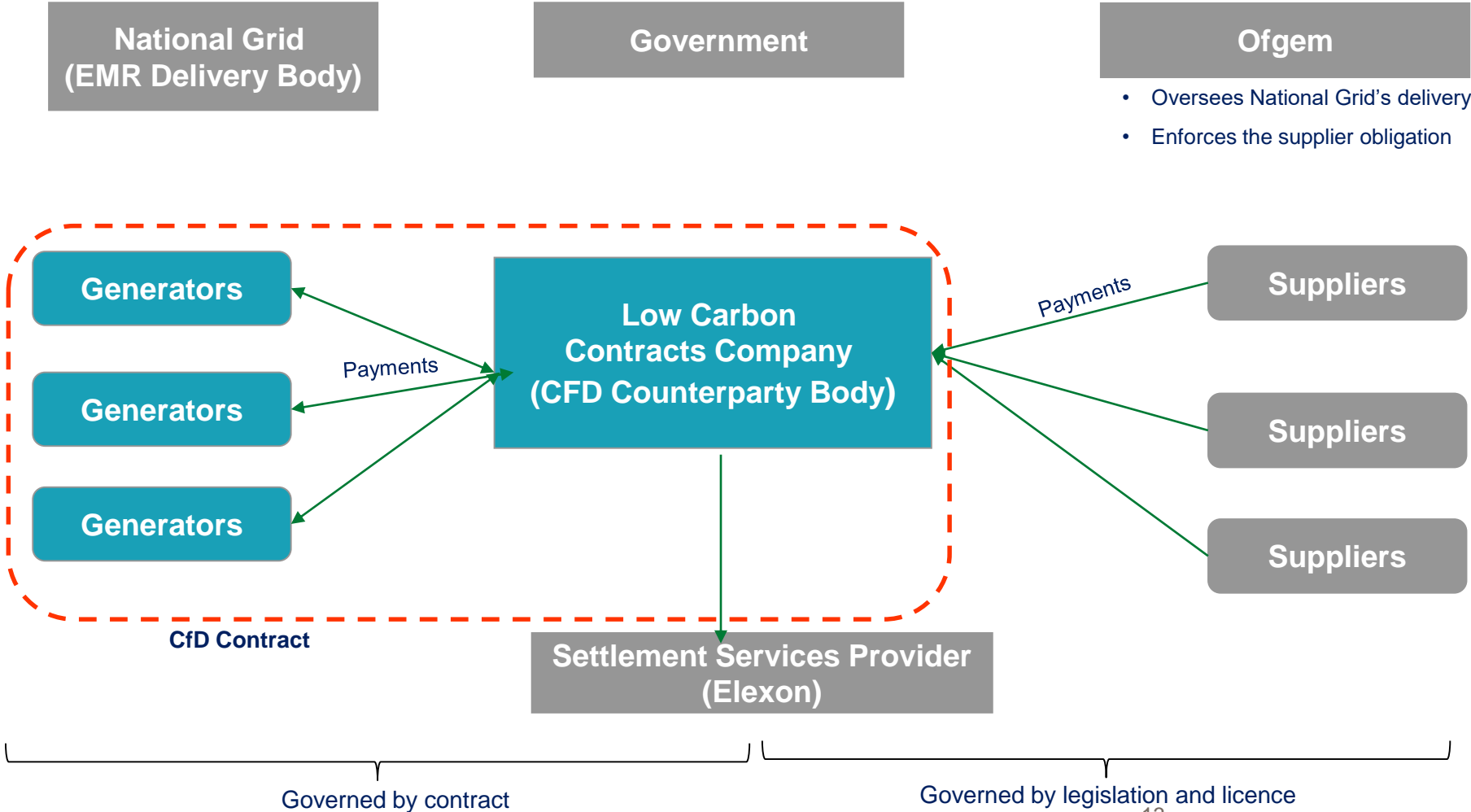
CfDs: entities and roles



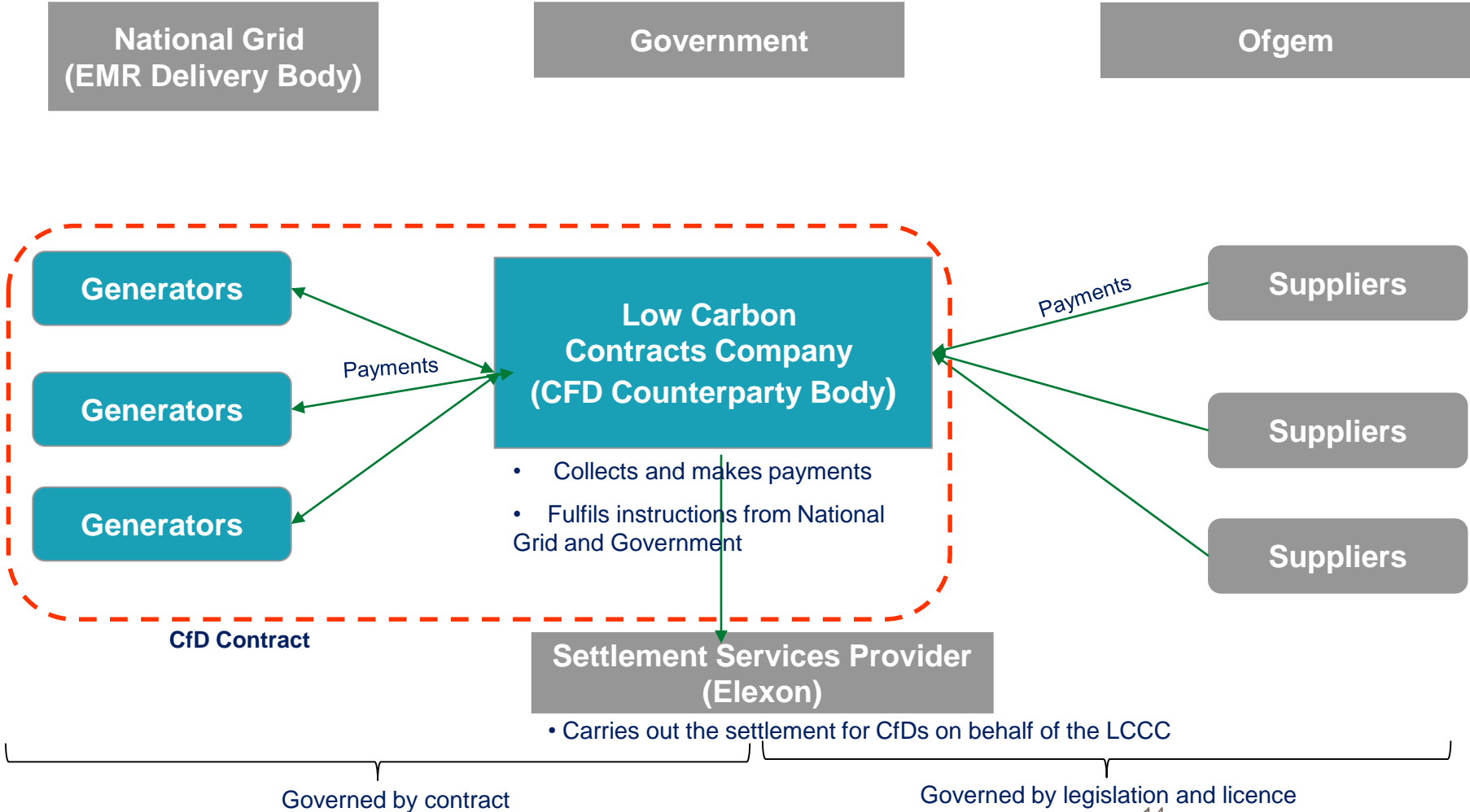
CfDs: entities and roles



CfDs: entities and roles



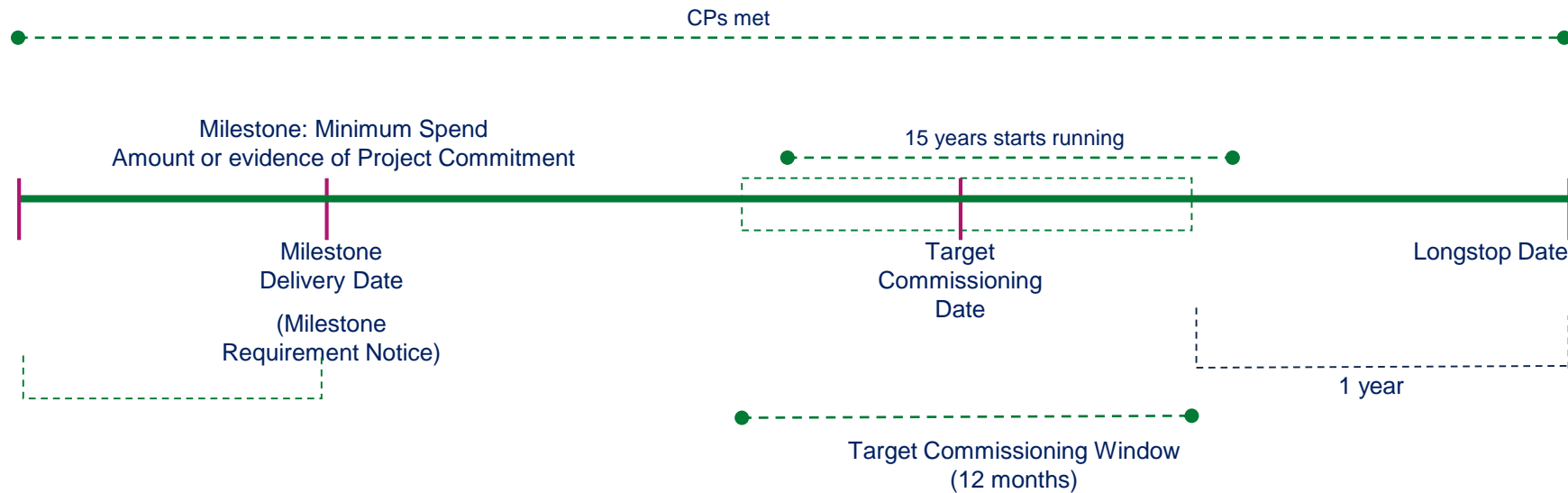
CfDs: entities and roles



Key differences from the RO

	RO	CfD
Access	Open – statutory entitlement if eligibility criteria met	First-come, first-served for non-established technologies (if enough in the budget) or Allocation rounds based on Allocation methodology
Who assesses application?	Ofgem	Delivery Body
When secured?	When accredited, i.e. when commissioned	Planning permission granted and accepted grid offer accepted Payments start once CPs satisfied
When paid?	Once accredited based on ROCs issued against electricity generated	Once achieve Start Date (i.e. when meet the Required Installed Capacity)
Duration	20 years of support (with deadline of 31 March 2037)	15 years of support
Pricing	Administrative price setting	Competitive Price setting for established technologies Administrative price setting for less established technologies with view to competition in future
Terms	Set out in secondary legislation and guidance	Standard form agreement with standard terms, subject to some project specific information and limited variation between technologies.
Delivery obligation	No minimum capacity requirement	Target commissioning dates/capacity Payment begins after delivery of Required Installed Capacity
Contractual reopeners	Grandfathered, so limited scope changes (e.g., change of law, force majeure, change in wholesale power prices)	Anticipates contractual adjustments (e.g. Change in law explicit protection (limited))

CfD terms: key dates and deadlines

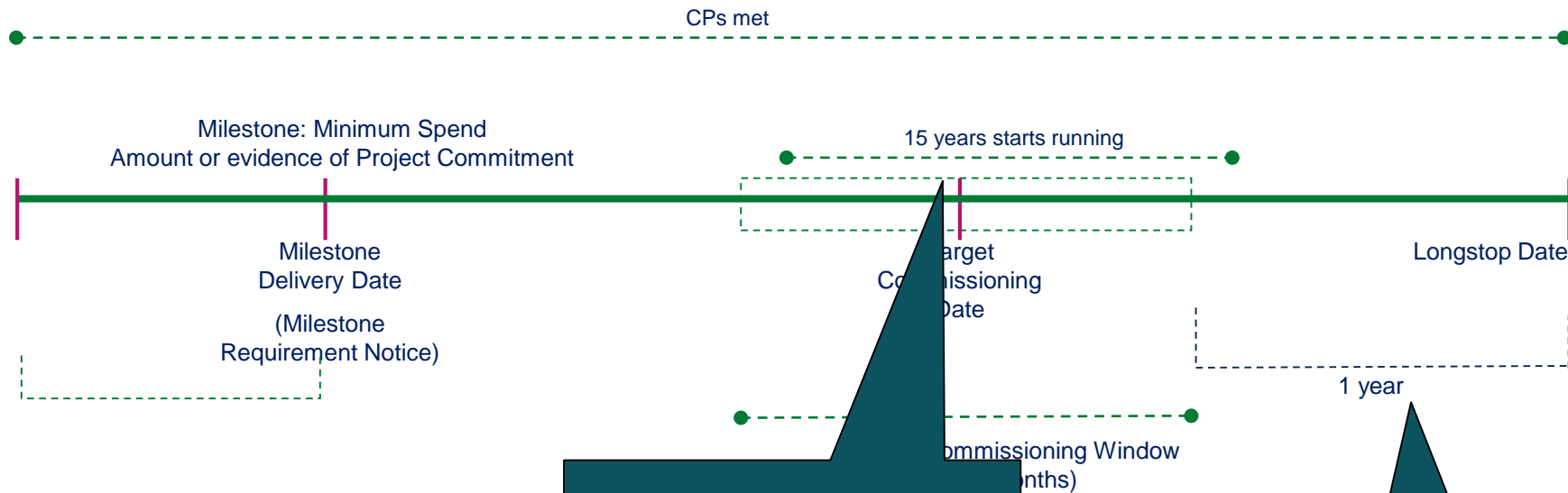


- Milestones:
 - 10% project costs; or
 - evidence of project commitments
- TCW/TCD
- Longstop Date
 - Capacity adjustments
 - Up to 25% reduction by Milestone Delivery Date

To start payments:
Meet CPs – i.e. commission 80%

Then: must commission at least 95%
of capacity estimate met within TCW

CfD terms: key dates and deadlines



- Milestones:
 - 10% project costs; or
 - evidence of project commitments
- TCW/TCD
- Longstop Date
 - Capacity adjustments
 - Up to 25% reduction by Milestone Delivery Date

Offshore wind

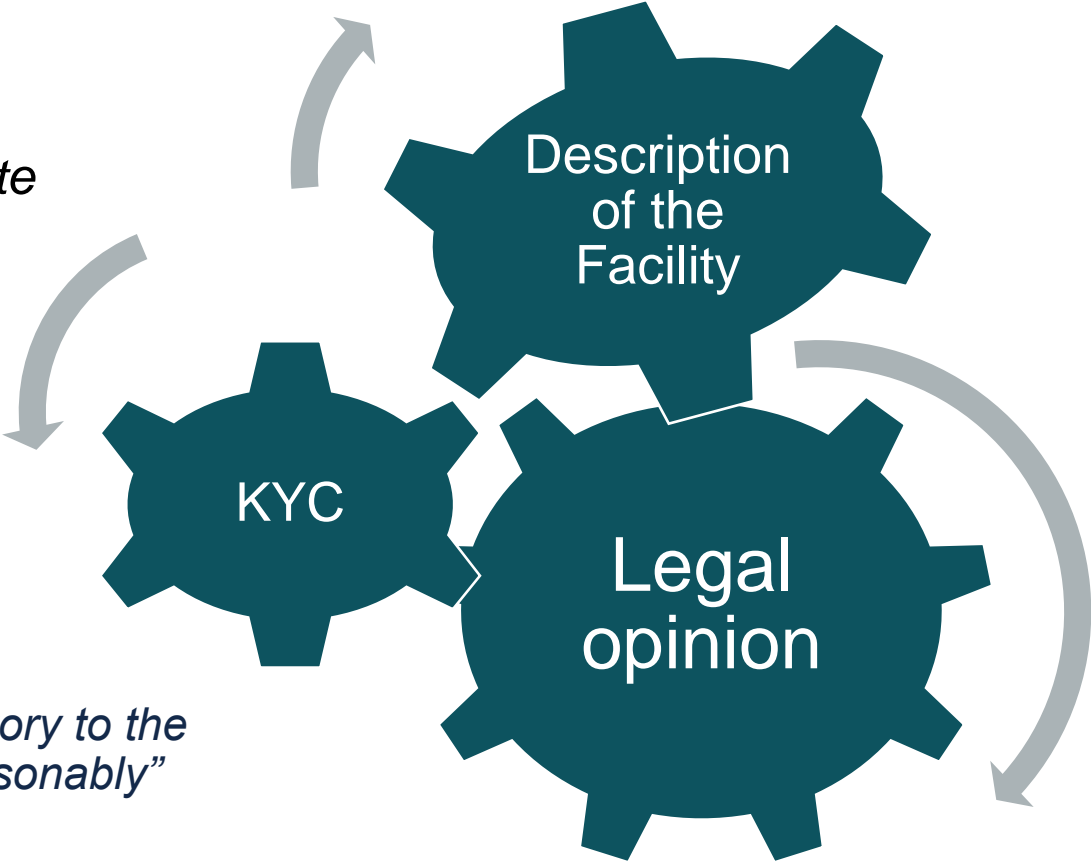
To start payments:
Meet CPs – i.e. commission 80%

Then: must commission
least 85%
of capacity estimate

2 years for offshore wind

CfD terms: Conditions Precedent (cl 5 and condition 3)

*Due within 10
business days of
CfD agreement date*



*“In form and content satisfactory to the
CfD Counterparty, acting reasonably”*

CfD terms: Conditions Precedent (cl 5 and condition 3)

Conditions Precedent - Operational

“evidence, in form and content satisfactory to the CfD Counterparty, acting reasonably”

“before the Longstop Date”

- **not less than 80%** of the Installed Capacity Estimate has been Commissioned
- diagram, **certified as being correct and up to date by a director or company secretary** showing the locations of the Facility Metering Equipment
- **compliance with the Metering Compliance Obligations;**
- **Communications Equipment relating to the Facility Metering Equipment being compliant with the BSC.**
- **confirmation from Elexon that Generator is set up to provide the CfD Settlement Required Information**
- **an Interim Operational Notification from the TSO**

Milestone Requirements (clause 5 and condition 4)

- 10% or more of Total Project Pre-Commissioning Costs spent; or
- Fulfilment of the Project Commitments (Annex 5 of the CfD Agreement)
 - include the size or anticipated estimated size (expressed in MW) of each of the Facility's [turbines]/[generation engines]
 - Subject to CfD Counterparty being satisfied
- Milestone Requirement Notice
 - to be given within 12 months after the Agreement Date, subject to extensions for
 - FM
 - Transmission system reinforcement or connection works related delays (where not due to the fault or negligence of the Generator or its Representatives)

Target Commissioning Window and Longstop Date

- Duration of TCW is 1 year for onshore and offshore wind
- Longstop Date is 1 year for onshore wind; 2 years for offshore wind.
- Generator specifies:
 - a Target Commissioning Date in its CfD application.
 - when it wants the Target Commissioning Window to commence (it must start before the TCD and end after the TCD)
- If commissioning is completed after the end of the TCW, CfD term is reduced.

Default termination (condition 51.6, 52.4 and 53.1)

- Limited Generator “defaults”:
 - Insolvency
 - Non-payment
 - Breach of key obligations
 - Fraud
 - Transfer
 - Failure to provide credit support
 - Failure to meet Required Installed Capacity or to give Final Installed Capacity Notice
 - A Technical Compliance Termination Event or a Metering Access Termination Event.
- No concept of CfD Counterparty “default”

Consequences of default termination

- 52.4 If the CfD Counterparty terminates the Contract for Difference pursuant to Condition 51.6 (other than where such termination has resulted from the occurrence of a Termination Event falling within Condition 53.1(D)), the CfD Counterparty shall:
- (A) calculate the Termination Amount; and
 - (B) give a notice to the Generator (a “**Termination Amount Notice**”). A Termination Amount Notice shall specify the amount of the Termination Amount along with the principal inputs used by the CfD Counterparty to calculate such Termination Amount.
- 52.5 The Generator shall no later than thirty (30) Business Days after notification of the amount of the Termination Amount, pay to the CfD Counterparty (or such person as the CfD Counterparty may direct) the Termination Amount and no dispute by the Generator as to the amount of the Termination Amount shall relieve it of its obligation pursuant to this Condition 52.5.
- 52.6 Subject to Conditions 52.1, 52.4 and 52.5, if the CfD Counterparty terminates the Contract for Difference pursuant to Condition 51.6:
- (A) no payment shall be payable by either Party to the other Party as a consequence of such termination;
 - (B) all rights and obligations of the Parties under the Contract for Difference shall end; and
 - (C) neither Party shall be entitled to make any claim against the other Party under or in respect of the Contract for Difference.

Counterparty risk: limited recourse (condition 71)

- CfD Counterparty is only liable to make payment to the extent amounts are received from Licensed Suppliers

but

- Obligations on CfD Counterparty to:
 - enforce payment obligations through the supplier obligation (including issuing notices, prosecution)
 - notify the Secretary of State and the Generator if it believe that it will have insufficient funds available
- No right to bring claims against the CfD Counterparty for non-payment unless gross negligence or wilful misconduct by the CfD Counterparty – although default interest does apply
- No recourse to the Secretary of State

71.6 Without prejudice to Condition 71.7, the maximum liability of the CfD Counterparty in respect of breach by it of Condition 71.2, 71.3 or 71.4 shall be limited to an amount equivalent to the Default Interest on the amount which has not been paid by the CfD Counterparty to the Generator pursuant to the Contract for Difference by reason of the relevant breach for the period from what would have been the date of payment but for such breach to the date of actual payment, provided that the limit of liability in this Condition 71.6 shall not apply where the breach is caused by the gross negligence or wilful misconduct of the CfD Counterparty.

Limited recourse

71.7 Notwithstanding any other provision of the Contract for Difference:

- (A) the liability of the CfD Counterparty pursuant to the Contract for Difference shall not exceed the aggregate of:
 - (i) the amounts from time to time received and held by the CfD Counterparty, and allocated to the Contract for Difference, pursuant to the Supplier Obligation Regulations; and
 - (ii) any other funds of the type referred to in Condition 71.3(E) from time to time received and held by the CfD Counterparty, and allocated to the Contract for Difference, whether pursuant to the Supplier Obligation Regulations or otherwise; and
- (B) the CfD Counterparty shall not be in default pursuant to the Contract for Difference in not making any payment that is due and owing if and to the extent that it shall not have received the amounts and other funds referred to in Condition 71.7(A) which are necessary to make such payment, but if and to the extent that such payment is not made, the CfD Counterparty shall continue to owe an amount equal to the amount of the payment due and owing but not paid and shall make such payment promptly (and in any event within two (2) Business Days) after and to the extent of its receipt of such corresponding and allocated amounts and other funds.

Contract re-openers: Qualifying Change in Law (conditions 33-38):

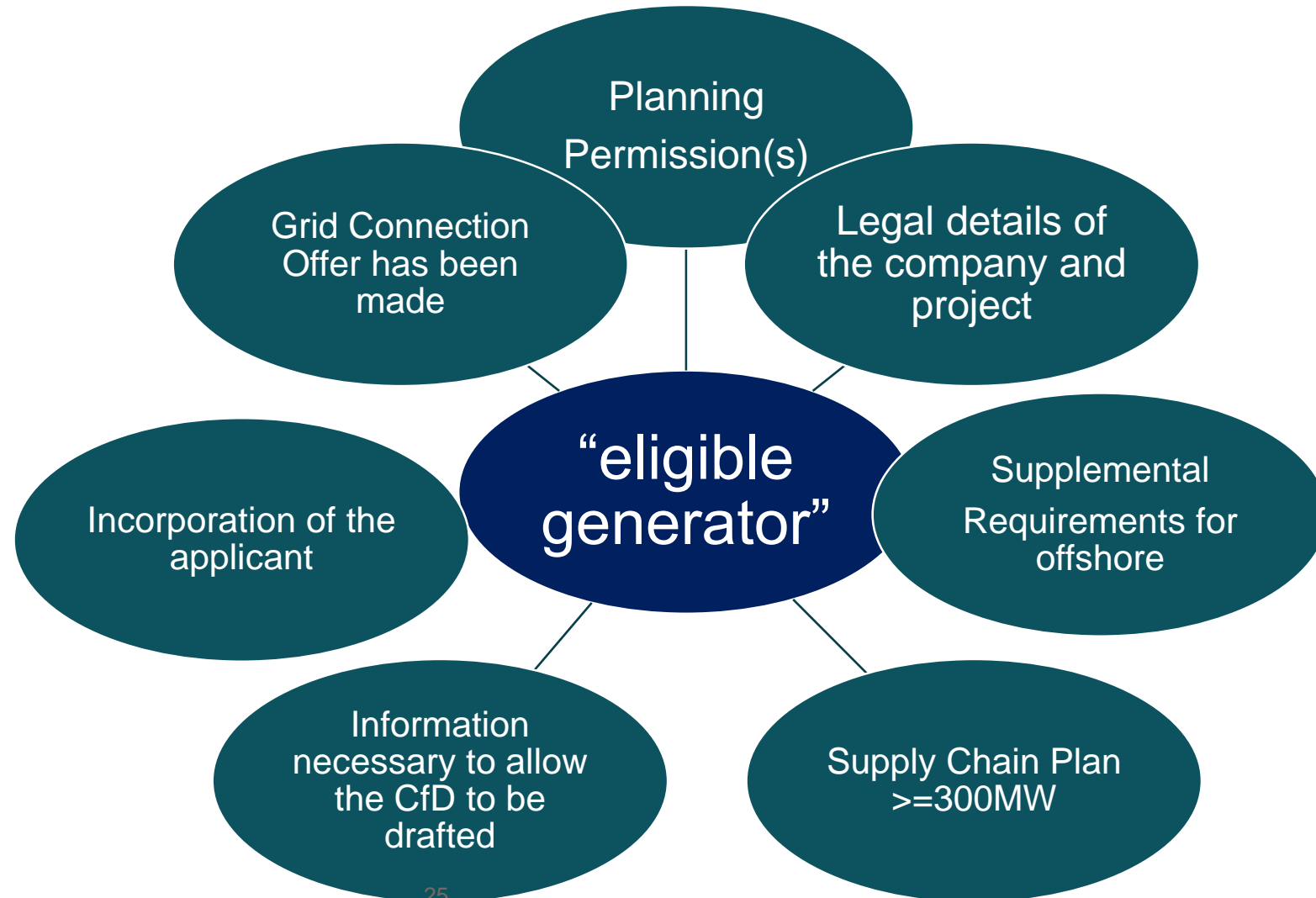
- Qualifying Change in Law (QCIL):
 - Discriminatory / Other: discriminates against the particular project, generator or facility
 - Specific: applies specifically to generating stations that employ the same type of generating technology and/or which are subject to a CfD

The above categories exclude circumstances where the change in law simply has a disproportionate effect on the project / type of facility etc

Impact

- V complex clause
- debated at length
- Limited protection
- Terms are more open to changes as a result

Application prerequisites



Storms brewing for CFDs

RENEWABLES | 8 July 2022 14:44

Analysis: Record-low price for UK offshore wind is nine times cheaper than gas



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ENERGY POLICY SOCIAL SUSTAINABILITY

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