



Important developments on the allocation of financial support for UK Renewables projects

On 16 January, the Government published further details of how it intends to allocate Contracts for Difference ("CfDs") to renewables technologies. The consultation on this allocation process, which raises some significant issues for all types of renewables, closes on 12 February of this year.

Allocation risk (i.e. the risk of obtaining, or not, a CfD) is a key risk for future UK renewables projects, particularly for those technologies that are less well established. The Government has reconsidered how it will allocate these contracts, taking into account responses to previous consultations and movements at an EU level on the state aid aspects of financial support for energy projects. There is also a growing feeling within Government and more widely that the pipeline of UK renewables projects is looking very healthy and the number of projects coming through could place significant stress on the levy control framework budget and mean that the proportion of the budget available to allocate to CfDs is used up relatively quickly.

The current proposal is that CfDs will be awarded on the basis of allocation rounds from the start. The CfD budget will be divided between "established technologies", such as onshore wind; solar; energy from waste with CHP; hydro and landfill gas, and "less established technologies", such as offshore wind; wave and tidal; geothermal; anaerobic digestion and advanced conversion technologies. The Government is still considering how it is going to treat biomass conversion projects and the issues surrounding the need for further support for renewables projects on the Scottish Islands primarily due to grid costs.

As stated above, part of the rationale for adopting a strict allocation round process for groups of technologies at the outset arises from proposals at an EU level on aspects of state aid for energy support. Those proposals, which will be finalised by the EU later this year, contend that genuine competition must apply to those technologies that already achieve significant deployment across the EU. Hence the Government's decision to divide technologies into "established" and "less established". What this will mean, is that many technologies will be competing head-to-head for CfDs.

Developers will submit bids for their projects, detailing the strike price that they will be willing to accept. (The strike price for each technology cannot be above the strike price published in the EMR delivery plan for the relevant technology). Those technologies that can offer the lowest bids will be allocated CfDs first. There could well be a rush in the first allocation round, particularly amongst onshore wind and solar projects to grab a proportion of the CfD pot.

As for "less established technologies", a proportion of the CfD budget will be allocated to them. These, again, could end up competing with each other for allocation of CfDs. The Government has highlighted in the consultation that they expect to reserve a minimum allocation of 100 MW for wave and tidal technology in the Delivery Plan period, so that in any given allocation round for the less established technologies, wave and tidal stream projects will be reserved a minimum of 100 MW out of the CfD budget.

There will be considerable debate amongst the wave and tidal technology developers as to whether 100 MW is a sufficient amount. It must not be forgotten that marine energy benefits from five ROC's under the Renewables Obligation until that closes in 2017.

The last point to note, in this fairly brief consultation, is that there will remain technologies, just like nuclear, that will have to negotiate CfDs with Government on a case-by-case basis and those technologies include tidal lagoons. The Crown Estate recently published a consultation on running an auction process for the allocation of sites for tidal lagoon projects and there has been a lot of recent publicity about these technologies and developments. One of the issues these other technologies face, is that they will have to try to negotiate a sufficient CfD strike price as well as hoping that there is sufficient money left in the budget for CfDs at the time they are to be awarded a CfD. With the revised proposals on auctioning rounds and a clear view that there are more renewables projects coming through than first envisaged, this may pose a significant challenge.

If this Government, or future ones, are serious about energy security and creating new industries with the associated jobs it brings, it will have to keep its plans and budgets under review and continue to give a clear and ambitious message on generation targets for future decades.



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