



# Making CfDs Work for Solar In the UK

Cam Witten

Policy Manager

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# Agenda



- Allocation Round 4 Overview
  - Current Process
  - Proposed Amendments
- Recommendations for Solar from STA
  - Pot Structure
  - Auction Administration and Timing
  - Capacity Caps
  - Strike Price
  - Community Benefits

# AR4 – Overview



- Timeline
  - March 2020 – Reintroduction of Pot 1 auction announced
  - 29 May 2020 – Deadline for consultation on proposed amendments to CfD scheme
  - Summer 2020 – Government response to consultation expected
  - May 2021 – Allocation Round 4 auctions expected to begin

# AR4 – Proposed Amendments



*Note – adopted amendments to the CfD scheme will only apply to future allocation rounds*

- **Changes to Pot Structure:** Reintroduction of Pot 1 technologies, which includes solar PV, and two proposed options for technology groupings
  - Option 1
    - Pot 1 – Established Technologies
    - Pot 2 – Less Established Technologies, including offshore wind
  - Option 2
    - Pot 1 – Established Technologies
    - Pot 2 – Less Established Technologies
    - Pot 3 – Offshore Wind

# AR4 – Proposed Amendments



- **Extending Delivery Years:** Current CfD regulations provide for scheme delivery years to 31 March 2026, BEIS is proposing to extend scheme delivery years until 31 March 2030.
- **Non-Delivery Disincentive:** BEIS is proposing to strengthen existing regulations to disincentivise speculative bidding. Extending exclusion period for non-delivery to 36 months, introduction of a £10,000/MWh bid bond.
- **Negative Pricing:** Currently, provision of top-up payments is not suspended unless Intermittent Market Reference Price (day ahead) is negative for 6 consecutive hours. Proposed amendment would cease top-up payments immediately in the event of negative pricing.
- **'Soft' Capacity Triggers:** BEIS is proposing additional flexibility with regards to capacity/budget caps for delivery years to maximise capacity delivered.

# AR4 – Proposed Amendments



- **Supply Chain Plans (SCP):** BEIS is proposing potentially reducing the threshold for projects that are required to submit SCPs. The currently threshold size is 300MW, BEIS have not indicated a what they might reduce the threshold to.
- **Community Benefits:** The AR4 consultation is also seeking feedback on best practices to inform revision to government guidance on community engagement, as part of a broader review of community engagement guidance.



# Recommendations for Solar

# Pot Structure



- **Pot 1 Technologies:** We strongly support the reintroduction of Pot 1 auctions. The current technology mix proposed for Pot 1 is conducive to solar deployment and ensuring competitive tension.
- **Dedicated Solar Technology Pot:** There is an argument for the creation of a dedicated solar technology pot to facilitate the delivery of more frequent and regular solar auctions in line with the rapid delivery timelines for solar projects.
- **Sustained Programme of Pot 1 Auctions:** Certainty of ongoing access to CfDs, alongside additional clarity around auction design and timing for further Pot 1 allocation rounds is essential to enable potential bidders to plan accordingly, provide certainty for investors and developers, and increase the pipeline of projects bidding into CfDs.

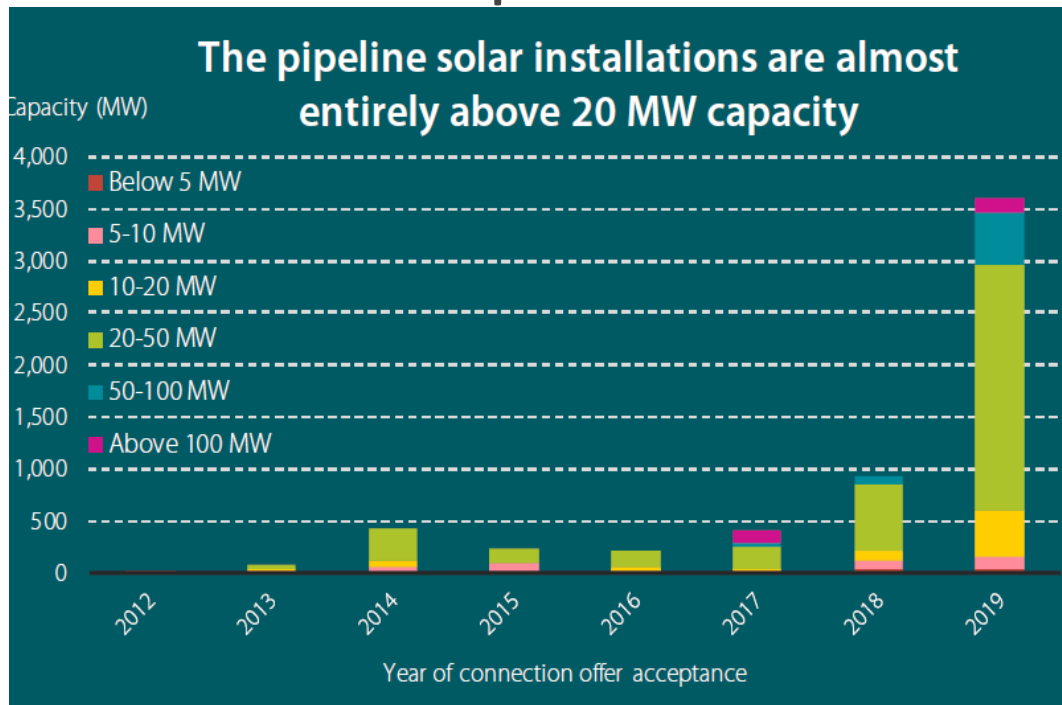


# Auction Administration



- Auctions are Pay as Clear:
- **Frequent CfD Auctions for Solar:** Our modelling shows that it will not be possible to deliver net zero by 2050 with biennial auctions.
  - Solar auctions should be held at least annually, but ideally every 6 months. This is in line with the frequency of solar auctions held in other European markets.
  - Will send a clear signal to markets, reduce the cost of capital.
  - Will deliver additional capacity by allowing projects to bid as they come to maturity.

# Large Scale PV Pipeline



[Source: Regen](#)

# Capacity Caps



- **Net Zero Commitments:** The central Committee on Climate Change (CCC) scenario projects 40GW of solar will be needed by 2030 to keep on track with net zero by 2050.
  - This equates to an annual deployment rate of 3.7GW
  - **AR1:** Delivered 5 solar projects totalling 72MW
- **No Capacity Cap for Solar:** A budgetary cap should be all that is required to create the desired competitive tension for Pot 1. The budget for Pot 1 should be set high enough to deliver a clear signal of the volume of capacity needed to achieve net zero.
  - If a capacity cap is set, it should be commensurate with the existing solar pipeline (>8GW of projects, majority between 20MW-50MW), and the CCC's deployment projections.
  - This equates to a cap of roughly 750MW for solar if auctions are held every 6 months.
- **Soft Capacity Triggers:** We support the proposal for a soft capacity cap constraint. Allows for more efficient use of allocated pot budgets, and increases viability of smaller projects.

# Administrative Strike Price (ASP)



- **ASP:** Sets a ceiling for bid prices by technology, projects can only bid at or below this price. The ASP that is set for solar projects is central to understanding the opportunities for projects bidding into AR4.
- **Bid Price:** We have used an indicative ASP of £50/MWh in our modelling, members have indicated bid prices of between £40-£45/MWh are achievable in AR4.
  - This is projected to fall to between £35-£40/MWh by 2030.
- **Wholesale Power Price:** Impacts of COVID-19 on wholesale power prices make it very difficult to determine the appropriate level for ASP in the short term. Wholesale prices projects to rebound by winter 2022.
- **Delivery Year:** Critical to consider as bids are reviewed in order of strike price by delivery year.

# Community Benefits



- **Best Practice:** Improving local amenity, safety for residents, and environmental health.
  - minimise visual impact
  - engage with the community in advance
  - encourage land diversification
  - buying and employing locally
  - act considerately during construction
  - using the solar farm as an educational opportunity
  - return the land to its former use
- **Bespoke Approach:** Case by case engagement is more effective than mandatory requirements, as no two projects or communities are exactly alike.
- **Flexibility:** Overly onerous monetary requirements can quickly undermine project economics, and mandated levels of contribution will necessarily result in increasing strike prices.

# Negative Pricing



- **Increased risk of non-payment:** Proposed revisions are expected to create a near-term spike in periods of negative pricing:
  - Up to 400 hours per year in the 2020-2030 window
  - Compared to 2-13 periods of 6 consecutive hours of negative price projected under current policy
- **Implications for storage:** In the short term may increase the viability of projects with co-located storage bidding into CfDs. But creates additional risks from higher upfront capital, and interplay with achieved strike price for solar site.



# Questions?

Cam Witten  
Policy Manager  
[cwitten@solar-trade.org.uk](mailto:cwitten@solar-trade.org.uk)