



Department  
of Energy &  
Climate Change

# Final Investment Decision Enabling for Renewables

## Update 3: Contract Award Process

4 December 2013

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## Purpose of Update 3

1. The Government is committed to working with developers to avoid a hiatus in investment in low carbon generation during changes to the market under Electricity Market Reform (EMR) ahead of the implementation of Feed in Tariff with Contracts for Difference (CfDs)<sup>1</sup>. This work is being taken forward by the Department of Energy and Climate Change (DECC) under its Final Investment Decision Enabling (FID Enabling) programme.
2. On 14 March 2013, DECC published FID Enabling for Renewables: *Update 1: Invitation to Participate* (Update 1)<sup>2</sup>. This set out the framework of FID Enabling support available to qualifying renewable energy generation projects and launched Phase 1 of FID Enabling for Renewables, the invitation to participate. A second update document was published on 27 June 2013: *Update 2: Investment Contract Allocation* (Update 2)<sup>3</sup>, which set out the process, Evaluation Criteria and indicative timetable for renewable electricity project developers to apply for Investment Contracts.
3. The deadline for Phase 2 applications for Investment Contracts was 6 September 2013. Applications have been evaluated to determine if they meet the minimum threshold Evaluation Criteria set out in Update 2.
4. **This document provides an update on the indicative timetable and process for the remainder of Phase 2 through to the award of Investment Contracts to successful applicants.** It includes:
  - a) a summary of applications achieving Phase 2 minimum Evaluation Criteria thresholds;
  - b) the process and indicative timetable for award of Investment Contracts; and
  - c) detail on the FID Enabling for Renewables Levy Control Framework (LCF) Cap and down-selection process.
5. Applicants for Investment Contracts should note that DECC may modify or alter its approach, process and timetable at any time.
6. Applicants should note that all dates and timings referred to in this Update 3 are indicative only and dependent on progress on key elements of the enduring Electricity Market Reform (EMR) Programme, including (without limitation) the development and publication of the

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<sup>1</sup> This document refers to the 'Feed in Tariff with Contracts for Difference' as the Contract for Difference or CfD.

<sup>2</sup> <https://www.gov.uk/government/publications/increasing-certainty-for-investors-in-renewable-electricity-final-investment-decision-enabling-for-renewables>

<sup>3</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/209367/2013\\_-\\_06\\_-\\_27\\_FIDe\\_Update\\_2\\_Master\\_Draft\\_2\\_.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209367/2013_-_06_-_27_FIDe_Update_2_Master_Draft_2_.pdf)

EMR Delivery Plan and the development of the CfD standard terms. No assurance is given in this document as to when those elements will occur.

7. It is of the nature of the FID Enabling for Renewables process that it is seeking to run ahead of the enduring EMR regime. Consequently, applicants should bear in mind that policy remains under development. As a consequence, although the policy reflected in this Update 3, and the information, opinions and expectations contained or referred to in it, are current as of the date of this Update 3, they are subject to change. DECC reserves the right further to develop its policies and/or to alter any of the guidance, dates, amounts and approaches contained herein. Save as expressly stated in this Update 3, DECC accepts no duty to update applicants should any of the information, opinions, expectations, guidance, dates or approaches in this Update 3 change.
8. Nothing in this Update 3 is intended as advice or representation; nor should it be relied upon. Applicants should take their own advice on the matters referred to herein. This Update 3 is not intended to fetter the exercise of the Secretary of State's discretion in any respect; it is not intended to be legally binding or to give rise to any legally enforceable rights or obligations and does not represent a commitment by the Secretary of State to issue an Investment Contract, to determine strike prices at a particular time or in a particular manner or to do or refrain from doing anything else; it should not be relied upon as so doing.
9. An application for and any decision to offer an Investment Contract is without prejudice to any other application for consent, licence, permit or other permission which may be required by the project which is the subject of the application for the Investment Contract.

## Phase 2 application summary

10. DECC received 26 applications for Investment Contracts in Phase 2. One of these applications was subsequently withdrawn.
11. Applications were assessed and scored against the Evaluation Criteria set out in Update 2. Scores have been awarded for all criteria in order to establish the overall score for each applicant and whether each applicant has achieved all minimum thresholds.
12. Projects which have continued to meet the Phase 1 Qualification Criteria and have achieved the Phase 2 minimum threshold Evaluation Criteria are referred to in this Update 3 as Qualifying Projects. The following table provides a summary of the number of applications by technology that were received for Phase 2, the number of Qualifying Projects and the capacity they represent.

**FID Enabling for Renewables Phase 2 applications summary**

<b>Technology</b>	<b>Number of Phase 2 applications</b>	<b>Nameplate Capacity (GW)</b>	<b>Number of Qualifying Projects</b>	<b>Nameplate Capacity (GW)</b>
Biomass Conversions	6	3.0	6	3.0
Dedicated Biomass with combined heat and power (CHP)	4	0.5	1	0.3
Offshore wind	12	7.0	7	4.5
Onshore wind	3	0.3	2	0.2
<b>Totals</b>	<b>25*</b>	<b>10.8</b>	<b>16</b>	<b>8.0</b>

\*This reflects the withdrawal of one application from Phase 2.

**Note: GW figures are taken directly from Phase 2 applications**

## Process and indicative timetable for award of Investment Contracts

13. The Phase 2 process and indicative timetable was set out in Update 2. More detail on the process for inviting binding applications is set out below and an indicative timetable for the period to award of Investment Contracts is provided in Annex A.
14. As previously explained in paragraph 18 of Update 2, the process and timetable for the issue of Investment Contracts under FID Enabling for Renewables remain dependent on the occurrence of certain events as follows:
  - a) **Finalisation of the Contract for Difference (CfD):** The development of the Investment Contract is dependent on the development of the CfD standard terms. DECC published a draft CfD on 7 August 2013. DECC currently intends to publish an update to the drafting of CfD contract terms in December 2013, together with an explanation of its policy in respect of any areas where detailed drafting will not be available. The final form CfD terms are expected to be published in March 2014. These contract terms will form the basis of the standard CfD terms to be issued following regulations to be made under the Energy Bill 2013 once enacted. The first set of standard contract terms for the enduring regime is currently expected to be issued in Summer 2014.

DECC intends to issue draft technology specific Investment Contracts to applicants in respect of Qualifying Projects in December 2013, and to issue final draft Investment Contracts with amendments where appropriate to reflect the final form CfD terms in March 2014.

Where the draft Investment Contract issued in December 2013 does not contain final drafting it will include drafting notes describing the policy intent, with the intention that the final drafting will be provided in the Investment Contract to be issued in March, 2014. If in a very limited number of cases final drafting is not available for March 2014, the final Investment Contract may contain provisions under which the parties will agree that the relevant final wording will be incorporated into the Investment Contract post signature based on, and following the issue of, the standard terms of the CfD (expected in Summer 2014.) In such circumstances, the Investment Contract as so revised will be final and binding on the applicant unless the applicant exercises, within a short specified window, any option which may be granted to it, where appropriate, to terminate the Investment Contract. We will review our approach to these clauses in the light of the nature and extent of any areas that remain to be finalised and notify applicants prior to the deadline for binding applications.

- b) **Publication of the Electricity Market Reform (EMR) Delivery Plan:** The strike prices in Investment Contracts under FID Enabling for Renewables will be the CfD strike prices published in the final Delivery Plan. DECC currently intends to publish the final EMR Delivery Plan in December 2013.

15. Subject to these continuing dependencies, DECC's proposed approach for the process and timetable for the award of Investment Contracts is set out below.

## Exchange of letters

16. The assessment and scoring against the Phase 2 Evaluation Criteria has been completed and DECC will notify each applicant whether its project is a Qualifying Project. For those projects that have failed to achieve Qualifying Project status, DECC will notify the applicant and will provide the applicant with a written explanation of the reasons for the failure.
17. For those projects that are notified as having achieved Qualifying Project status, DECC will request the applicant to confirm to DECC in writing by a date to be specified the applicant's interest in continuing to participate in FID Enabling for Renewables. Applicants who do not confirm an interest by a date to be specified will not be entitled to take any further part in FID Enabling for Renewables. Those applicants who wish to continue to participate will be requested to provide certain project specific information which would form part of any Investment Contract awarded to them. This information will be required on a preliminary basis at this stage to assist in the preparation of Investment Contracts.

## Issue of Investment Contracts

18. Following publication in December 2013 of the final EMR Delivery Plan and an update to CfD contract terms and policy, DECC will send draft Investment Contracts to applicants in respect of Qualifying Projects.

19. At the same time, based on scores against the Phase 2 Evaluation Criteria, each applicant will be informed of its Qualifying Project's provisional ranking with respect to all the Qualifying Projects and within the relevant technology group as well as its provisional affordability position under the FID Enabling for Renewables LCF affordability envelopes set out in this Update. Applicants should note that these provisional rankings may change prior to the completion of any down-selection process, for example, because other applicants withdraw from the process or undergo material changes to their projects which impact their scores against the Qualification or Evaluation criteria. Obtaining a certain provisional ranking or LCF affordability position therefore would not guarantee that the applicant will or will not be awarded an Investment Contract as a result of any down-selection process.
20. At a date to be confirmed, but currently expected to be in March 2014, DECC intends to send a final draft of the Investment Contract to applicants together with a marked-up version showing the changes since the December 2013 draft.
21. Applicants should be aware that the final draft of the Investment Contract will be based on the then current draft of the standard CfD terms which will have been produced following the various consultation and market feedback processes which will have provided opportunities for industry to contribute to the development of that document. While DECC may permit technical variations which are both minor (having no impact on risk/reward levels) and necessary (in order to allow the applicant to be able to sign), the Investment Contract terms will not be negotiable and no changes will be permitted which affect the commercial substance of the agreement or the allocation of risk. Applicants should therefore bear in mind, when reviewing the Investment Contract and when making a binding application, that the contract terms are non-negotiable.

## Invitation to submit binding applications

22. At or following the time of sending draft Investment Contracts to applicants in December 2013, DECC proposes to invite those applicants to submit binding applications by a deadline which will be specified at the time and which is currently intended to be some days following receipt by applicants of the final draft of the Investment Contract.
23. The form and substance of the binding application will be set out in due course, but is expected to include the following:
  - a) Confirmation by a person duly authorised by the board or boards of the applicant that there has been no material change to the applicant's Qualifying Project that might have an adverse effect on either:
    - i. the satisfaction of the Qualification Criteria outlined in Update 1; or
    - ii. its score against the Evaluation Criteria outlined in Update 2;

or where there has been such material change, inclusion of an explanation of the change including its potential impact (if any) on the Qualification Criteria and Evaluation Criteria (applicants' attention is drawn to paragraph 27 which sets out their obligations in respect of notifying DECC where they become aware of a material change and the possible consequences of such a change);

- b) Final, binding, project specific information which would populate the Investment Contract awarded to the applicant in respect of its Qualifying Project; and
  - c) An offer to enter into an Investment Contract based on the form of contract issued in March and to include the technology specific strike price published in December.
24. Unless DECC advises differently at the time of inviting binding applications, it will expect all project specific information in paragraph 23 b) above to conform with the definitions and parameters specified in the draft Investment Contract issued to applicants prior to the deadline for binding applications.
25. A Qualifying Project will need to continue to satisfy the Qualification Criteria given in Update 1 and the minimum threshold Evaluation Criteria in Update 2 up to the point of Investment Contract signature.
26. With regard to the project specific information in paragraph 23 b) above, DECC will expect that:
- a) Where the applicant's Phase 2 application specified a target commissioning date, the Target Commissioning Date specified in the binding application will match the target commissioning date in its Phase 2 application;
  - b) Where the applicant's Phase 2 application specified a range of target commissioning dates, the Target Commissioning Date specified in its binding application will fall within the range in its Phase 2 application;
  - c) Where the applicant's Phase 2 application specified a nameplate capacity, the Installed Capacity specified in its binding application will match the nameplate capacity in its Phase 2 application; and
  - d) Where the applicant's Phase 2 application specified a range of nameplate capacities, the Installed Capacity specified in its binding application will fall within the range of nameplate capacities in its Phase 2 application.
27. If any applicant specifies an Installed Capacity or Target Commissioning Date in its project specific information request or in its binding application which involves a material variation from the parameters set out in paragraph 26 above, or where there is, or may be, a material change in any other respect of a Qualifying Project (which could, for example, include a change of ownership) prior to entry into the Investment Contract, the applicant should notify DECC as soon as practicable to explain the change, including its potential impact (if any) on the Qualification Criteria and Evaluation Criteria. DECC may request additional information, including, if appropriate, resubmission of the relevant parts of an applicant's Phase 2 application. Where such a material variation or change is made DECC may reconsider that project's qualification and evaluation scoring prior to any down selection process. Any such reconsideration of its evaluation scoring may only result in a decision to maintain or reduce the project's evaluation score for a Level 3 criterion or criteria and thereby, potentially, its ranking, not to increase its evaluation score or ranking. In the event of a material variation from the parameters set out in paragraph 26 above in respect of Installed Capacity or Target Commissioning Date or any material impact on the

Qualification Criteria or Evaluation Criteria, DECC may decide not to proceed with the application.

## Affordability assessment and Investment Contract award

28. Once the deadline for receipt of binding applications for Investment Contracts has passed, DECC will conduct the affordability assessment in relation to those Qualifying Projects for which binding applications shall have been made and carry out any down-selection process required as described in the next section. DECC will then notify successful applicants that they have been awarded Investment Contracts. Any applicant whose application is rejected as part of a down-selection process will be notified of the rejection and informed of its score against the Phase 2 Evaluation Criteria.
29. Having carried out any down-selection process, the Secretary of State will announce the successful Qualifying Projects and move to contract signature with the relevant applicants.

## Contract signature

30. Following award of Investment Contracts, an execution version of the Investment Contract will be sent to successful applicants. Successful applicants will be required to sign and return the execution version within a set number of days (to be specified) of its provision for signature on behalf of the Secretary of State.
31. Once entered into, each Investment Contract will be laid before Parliament as required by the Energy Bill.

# LCF cap and down-selection process

32. In Update 2, we set out the approach to Investment Contract allocation under Phase 2 of FID Enabling for Renewables which involves two stages:
  - a) **Stage 1:** Evaluation and assessment against minimum thresholds, scoring and ranking; and
  - b) **Stage 2:** Affordability assessment and down-selection (if required).
33. DECC's approach to stage 1 was set out in Update 2 and this part of the allocation process is now complete. This section sets out the approach to stage 2, the affordability assessment and down-selection (if required).
34. As set out in Update 2, an Investment Contract will represent a financial commitment under the LCF. As part of its management of the LCF settlement, DECC has set a limit on the amount of funding in each year of the LCF settlement period from 2015/16 to 2020/21 that can be committed to FID Enabling for Renewables projects under the current FID Enabling for Renewables programme (the FID Enabling for Renewables LCF affordability envelope or the affordability envelope). The affordability envelope, and the methodology for allocating FID Enabling for Renewables Investment Contracts within it, are set out below.

35. In the event that a down-selection process is required, DECC has developed certain technology based rules to be applied in the allocation of Investment Contracts to Qualifying Projects in respect of which a binding application for an Investment Contract has been made in order to ensure an efficient utilisation of the FID Enabling for Renewables LCF affordability envelope in line with DECC's policy objectives. These technology based rules are set out below.

## Affordability envelope

36. The FID Enabling for Renewables LCF affordability envelope is set out in the table below:

**FID Enabling for Renewables LCF affordability envelope**

£'m (2011/12 prices)	LCF Settlement Period					
	2016	2017	2018	2019	2020	2021
<b>Financial Year ending 31 March</b>						
<b>Affordability envelope</b>	260	450	720	1,010	1,010	1,060

37. The affordability envelope set out above is consistent with the position suggested in the current EMR consultation that first payments under Investment contracts and CfDs may be available from April 2015.

## Technology based rules

38. In the event that a down-selection process is required, DECC will apply a set of technology based rules when allocating Investment Contracts. Under these rules DECC will seek to allocate Investment Contracts first to the top quartile of Qualifying Projects within each of the technology types for which there is at least one Qualifying Project, as ranked in order of their overall scores against the Phase 2 Evaluation Criteria. Following application of this rule, any remaining budget under the affordability envelope will be allocated on a technology neutral basis in ranking order using the project's overall scores against the Phase 2 Evaluation Criteria.
39. Quartiles will be calculated for the four technologies for which there are Qualifying Projects. To calculate the number of projects within the top quartiles, DECC will divide the number of Qualifying Projects within a given technology by four, rounding up any fraction in the top quartile, including those of less than  $\frac{1}{2}$ . (For example, a group of four or fewer Qualifying Projects would result in a top quartile of one project, and a group of five to eight Qualifying Projects would result in a top quartile of two projects, and so on).

## Affordability assessment and down-selection methodology

40. The affordability assessment and down-selection (if required) will be carried out following receipt of binding applications from applicants in accordance with the following steps:

**Step 1:** Rank those Qualifying Projects for which binding applications are received (for the purpose of this paragraph referred to as “project” or “projects”) in order according to their evaluation scoring, placing the highest scoring project first. If two or more projects achieve equal scores, apply the tie breaker in paragraph 46 of Update 2, i.e. giving priority to the project which scores highest against Level 3 criterion 1.1.1, or where the projects score equally against this criterion, against Level 3 criterion 1.2.1.

Where projects score equally and cannot be separated by the tie-breaker, i.e. they have the same overall score and equal scores for both criterion 1.1.1 and criterion 1.2.1, then the projects will carry an equal ranking, e.g. if two projects are the highest ranking with equal scores and cannot be separated by the tie-breaker, both projects will rank first equal and the next highest ranking project will rank third.

**Step 2:** For each project, assess its forecast LCF spend in each financial year during the LCF settlement taking into account the following:

a) Project details taken from the applicant’s binding application in respect of:

- (a) Installed Capacity;
- (b) Target Commissioning Date;

including, in the case of a project commissioning in phases, the Installed Capacity and Target Commissioning Dates of each relevant phase as applicable;

- b) Strike prices from the EMR final Delivery Plan;
- c) Reference price assumptions from the EMR final Delivery Plan analysis;
- d) Transmission Loss Multiplier assumptions from the EMR final Delivery Plan analysis;
- e) Technology load factor assumptions from the EMR final Delivery Plan analysis; and
- f) Conversion to 2011/12 price basis (which is how the LCF for 2015/16 to 2020/21 is currently defined) using Consumer Prices Index data from the Office for National Statistics.

**Step 3:** Calculate the aggregate forecast LCF spend in each financial year of the LCF settlement period for all projects and compare to the FID Enabling for Renewables LCF affordability envelope. If the aggregate spend is within the affordability envelope in each financial year of the LCF settlement period, select all projects. If the aggregate forecast LCF spend would exceed the affordability envelope in any financial year in the LCF settlement period, proceed to Step 4.

**Step 4:** Ascertain which project or projects fall within the top quartile of each technology type based on the projects’ ranking in accordance with their scores against the Phase 2 Evaluation Criteria and as described in paragraph 39 above.

**Step 5:** Apply the technology based rules using allocation rounds within the top quartile of each technology type.

For the first round, calculate the aggregate forecast LCF spend of the highest ranking projects (or equal highest ranking) in the top quartile of each technology type and compare to the FID Enabling for Renewables LCF affordability envelope. If the aggregate spend is within the affordability envelope in each financial year in the LCF settlement period, select all projects in this round and proceed to the second round.

In the second round, calculate the aggregate forecast LCF spend of all of the highest ranking projects in the top quartile of each technology type PLUS (where the number of projects in the top quartile of each technology is greater than one) the second highest ranking (or second equal highest ranking) in that quartile, and compare to the FID Enabling for Renewables LCF affordability envelope. If the aggregate spend is within the affordability envelope in each financial year of the LCF settlement period, select all projects from the first and second rounds, and proceed to the next round, and so on until either all top quartile projects in all technologies have been selected or the aggregate forecast LCF spend would exceed the affordability envelope in any financial year in the LCF settlement period.

Where all of the top quartile projects have been selected, move to Step 6. If any round would cause the aggregate forecast LCF spend to exceed the affordability envelope in any financial year in the LCF settlement period, select all the projects from any previous rounds, and consider all of the projects from the current round in turn in their ranking order, selecting those that are affordable and rejecting any project or projects that cause the aggregate forecast LCF spend to exceed the affordability envelope in any financial year in the LCF settlement period.

Applying the same approach, complete any further rounds in respect of top quartile projects. Once all rounds in respect of the top quartile have been completed, move to Step 6.

**Step 6:** Consider the remaining projects, excluding those rejected in Step 5 above, in turn in ranking order, adding their forecast LCF spend to the spend of projects previously selected and assessing whether the aggregate spend is within the affordability envelope in each financial year of the LCF settlement period. Where a project is affordable, select it and move to the next project. Where a project causes the affordability envelope to be breached in any financial year in the LCF settlement period, reject it and move to the next project. Continue this process until all projects have been considered and either selected or rejected.

41. All Qualifying Projects that are selected will, subject to contract, receive a confirmed allocation of an Investment Contract and the applicant in respect of each such Qualifying Project will be issued with an execution version of the Investment Contract for signature.
42. Should any applicant fail to sign an Investment Contract within a set number of days (to be specified) of receipt of an execution version, DECC reserves the right to revoke the allocation of the Investment Contract and use the resulting available LCF spend for the award of an additional Investment Contract or Contracts up to the FID Enabling for Renewables LCF affordability envelope, assessing first any Qualifying Projects rejected in Step 5 above and then any Qualifying Projects rejected in Step 6 above, following the processes of those Steps. This process will not affect other allocations made prior to such revocation.

# Annex A – Phase 2 updated indicative timetable

Date	Milestone and activity
27 June 2013	DECC issues Final Investment Decision Enabling for Renewables: Update 2: Investment Contract Allocation
6 September 2013	Deadline for application for Phase 2 - allocation of an Investment Contract
4 December 2013	Applicants for allocation of an Investment Contract in Phase 2 notified whether their projects have satisfied the minimum threshold Evaluation Criteria and (if so) requested to confirm in writing to DECC by a date to be specified their interest in remaining in the FID Enabling for Renewables process
By a date to be specified	Deadline for applicants to confirm their interest in remaining in FID Enabling for Renewables
December 2013	DECC publishes an update to the CfD terms, an explanation of any terms where detailed drafting is not available and the final EMR Delivery Plan
19 December 2013	DECC sends draft Investment Contracts to applicants of Qualifying Projects, provides details of their provisional rankings and LCF affordability positions, and invites binding applications by a date to be specified
March 2014	DECC sends final draft versions of Investment Contracts, together with marked-up versions showing the changes since the December 2013 drafts to applicants in respect of Qualifying Projects
By a date to be specified to be some days after the sending of final versions of Investment	Deadline for binding applications for Investment Contracts

Date	Milestone and activity
Contracts	
Following receipt of binding applications for Investment Contracts	<p>Assessment of affordability</p> <p>DECC completes any necessary down-selection process</p>
Within approximately 10 working days of receipt of binding applications	The Secretary of State awards Investment Contracts to successful applicants
Following the award of Investment Contracts	Execution version of the Investment Contract issued to applicants
Within a set number of days (to be specified) of provision of the execution version of the Investment Contract	Successful applicants return signed Investment Contracts
Subject to Parliamentary timetable	Secretary of State signs Investment Contracts and they are laid before Parliament and subsequently published

1. Applicants should note that the timings from December 2013 onwards are indicative only and dependent on progress on key elements of the main EMR project.
2. As noted in paragraphs 5 to 7, DECC may modify or alter its approach, process and timetable at any time. Further clarity on these matters may be provided by future updates.



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