

Contracts for Difference User Guide – Issue 2

Guidance Document for CFD Applicants



Issue 2
Contracts for Difference User Guide
3rd October 2014

Legal Disclaimer

This User Guide must be read in conjunction with the Contracts for Difference (Allocation) Regulations 2014 (“the Allocation Regulations”), the Contracts for Difference (Definition of Eligible Generator) Regulations 2014 (the “Eligibility Regulations”), the Contracts for Difference Allocation Framework (the “Allocation Framework”), the Standard Terms and Conditions of the CFD Agreement, and the Contracts for Difference (Standard Terms) Regulations 2014 (the “Standard Terms Regulations”): failure to do so may result in failure to qualify or to be awarded a Contract for Difference in the CFD Auction.

This User Guide is for information only and in the event of any conflict or inconsistency between the Allocation Regulations, the Eligibility Regulations, the Standard Terms and Condition of the CFD Agreement, the Standard Terms Regulations, and the Allocation Framework in force, the Allocation Regulations, Eligibility Regulations, Standard Terms Regulations, Standard Terms and Condition of the CFD Agreement and/or Allocation Framework take precedence over this User Guide.

This Guide does not constitute legal or investment advice and applicants are urged to obtain their own independent advice.

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1 Introduction

The Low Carbon Contracts Company is coordinating the delivery of the end-to-end Contracts for Difference (CFD) scheme, facilitating delivery partner cooperation and industry readiness. Low Carbon Contracts Company has been designated under the regulations as the “CFD Counterparty” and is working closely on the delivery of the CFD scheme with National Grid (the “Delivery Body”) and Ofgem (the industry regulator) as well as outsourcing key settlement activities to Elexon’s subsidiary, EMR Settlement Ltd.

This document, developed by National Grid and the Low Carbon Contracts Company, aims to assist participants in developing an understanding of the CFD scheme by providing a high level overview of the processes that are relevant to both Generators and Suppliers.

The Contracts for Difference User Guide is intended as an information document only and will be published in three phases.

Issue 1 (9th September 2014)

- Covering Phase 1 of the CFD, up to and including Allocation;

Issue 2 (3rd October 2014)

- Will update and replace Issue 1;
- Published on the 3rd of October alongside National Grid’s Round Guidance on auction parameters;
- Covering Phases 1 and 2 of the CFD process, to include Contract Placement and pre-start date Contract Management;

Issue 3

- The final version of the CFD User Guide updates and replaces issue 1 and Issue 2;
- Published in October / November 2014;
- Will provide a full guide to all phases of the CFD process, including information on Contract Management and the Supplier Obligation, including forecasting and settlement.

1.1 Document Status

This document (Issue 2) is an updated version of the Draft CFD User Guide (Issue 1) published on the 9th of September 2014. This document is based upon published material such as the CFD Allocation Framework and the Contracts for Difference (Allocation) Regulations 2014.

We welcome any feedback on the usefulness of this document and advice on what else could be added to the final version that would aid applicants and interested parties in

participating in the CFD mechanism. Please use the Delivery Body contact details provided in Section 12 to send any feedback.

2 CFD Delivery Partners

A robust, transparent and credible institutional framework is crucial to the success of EMR, which is important to provide investors with the confidence they need to invest.

A number of parties are involved in the delivery of the CFD mechanism. This section focuses on these organisations' roles in relation to the "implementation phase" covering the first application and contract award process for CFDs.

Contact details of the delivery partners, National Grid (Delivery Body), Low Carbon Contracts Company, and Ofgem are provided in Section 12.

2.1 Government

- Designs and implements the policy for the CFD mechanism;
- Sets the terms of the CFD contract and can vary terms for contracts issued in future;
- Sets the objectives for the allocation system;
- Is responsible for approval of supply chain plans;
- Sets out eligibility criteria that applicants must meet;
- Sets auction rules and details of the allocation process in the Allocation Framework;
- Can vary the generic CFD contract terms before an allocation round is announced;
- Announces allocation rounds and the budget for allocation rounds;
- Takes the final decision on whether to proceed with, rerun or terminate an allocation round after receiving the audit report;
- May award CFDs outside the generic allocation process;
- Is sole shareholder of the Low Carbon Contracts Company; and
- Reviews and approves Low Carbon Contracts Company's operational budget and sets the operational cost levy rate to cover this in the Contracts for Difference (Electricity Supplier Obligations) Regulations.

2.2 Low Carbon Contracts Company (the CFD Counterparty)

- Considers any minor and necessary modifications to the contract standard terms ahead of an allocation round;
- Signs CFDs once provided with the necessary information by the Delivery Body or directed by the Secretary of State;

- Manages and monitors CFDs, and Investment Contracts which are transferred from the Secretary of State, over their lifetime; and
- Forecasts CFD payments, and fixes Supplier Obligation interim rate and reserve amounts on a quarterly basis.

2.3 National Grid (EMR Delivery Body)

- Assesses the eligibility of applications for generic CFDs and notifies applicants of eligibility determination;
- Values all applications and assesses whether an auction process is required to decide which applicants should be offered a CFD;
- Runs the CFD allocation process;
- Provides the Low Carbon Contracts Company with the information necessary to offer a CFD;
- Conducts analysis to support Government's setting of administrative strike prices;
- Reports value of applicants to DECC; and
- Determines disputes regarding CFD eligibility (Tier 1 disputes).

2.4 EMR Settlement Ltd (Settlement Services Provider)

- Collecting metering data;
- Calculating payments and charges;
- Invoicing and collecting payments to/from Suppliers and Generators;
- Managing settlement of payments;
- Holding and managing reserve funds and credit cover payments; and
- Mutualises unpaid payments.

2.5 Ofgem

- Ensures that the EMR Delivery Body carries out its duties efficiently, cost effectively and in a timely fashion;
- Determines disputes regarding CFD eligibility (Tier 2 disputes); and
- Is the body to which suspected market collusion is reported.

3 Pre-application

3.1 Supply Chain Plan

The first stage for Applicants with projects of 300 MW or more and who wish to apply for a CFD is to review the Supply Chain Guidance published by DECC on 1st August 2014. (<https://www.gov.uk/government/publications/supply-chain-guidance>).

Once an Applicant has reviewed the Guidance they should then prepare and submit a Supply Chain Plan (Annex C of the Supply Chain Guidance) to DECC. Information in the Plan should include:

- Contact details;
- Project details;
- Project summary; and
- Competition, innovation and skills criteria.

3.2 Minor and Necessary Modification

Before completing a request for a Minor and Necessary Modification to a CFD a Generator is required to familiarise themselves with section 15 of the Energy Act 2013 and Part 3 of the Contracts for Difference (Standard Terms) Regulations 2014. These set out the basis upon which the Low Carbon Contracts Company should determine whether a proposed modification is Minor and Necessary, and the wider process for Minor and Necessary Modification requests.

A Generator should also refer to the Standard Terms Notice, the CFD Counterparty Costs Notice and the guidance published by the Low Carbon Contracts Company pursuant to regulation 5(4) of the Contracts for Difference (Standard Terms) Regulations 2014.

A Generator will receive notice of the acceptance or refusal of the Application within 5 working days before the Application Closing Date as set out in the Allocation Round Notice.

Any requests for Minor and Necessary Modifications should be undertaken by firstly completing the modification request form using the provided template, and submitting it via the link on the form. The form must then be printed and signed by a Director of the company to confirm that the relevant project is expected to be ready to apply for the 2014 Allocation Round, scanned and emailed to minor.necessary@lowcarboncontracts.uk.

Applications will only be considered following completion of this process by the Applicant. To be considered for projects in the 2014 Allocation Round, Minor and Necessary Modification Request Forms must be received by 1700 on 2 October 2014. Forms received after this deadline in relation to 2014 Allocation Round projects will not be considered.

3.3 Allocation Round Timeline

The timeline to complete the Allocation Round is highlighted more in detail in the CFD Round Guidance document published alongside this Guide.

All Allocation Round's relevant dates are set out by DECC in the Allocation Round Notice and CFD Allocation Framework.

4 The CFD Qualification and Allocation

The next four sections of this User Guide (Sections 5 to 8) focus on the CFD Allocation Process, and summarise all the key steps between making a CFD application and notification of CFD outcome.

Section 5 shows the various eligibility criteria that an eligible generator will need to satisfy when applying for a CFD. Section 6 highlights the methods in which participants and the Delivery Body will interact during the allocation round. Section 7 details the CFD qualification process (application determination, review and appeal) in which the Delivery Body (and eventually Ofgem) will determine whether or not an application qualifies to take part in the allocation process (which is described in Section 8).

While these sections provide a high level overview on the CFD allocation process, we strongly recommend that all potential CFD applicants are familiar with the following documents:

- The Contracts for Difference Allocation Framework, which describes Qualification Checks, the valuation methodology and the Allocation process steps;
- The Contracts for Difference (Allocation) Regulations 2014 (the “Allocation Regulations”), which sets out all the regulations relevant to any Allocation Round;
- The Allocation Round Notice, which provides round start and end dates, Application Closing Date, Delivery Year(s), any technology restrictions;
- The Framework Notice, which links the Allocation Framework to a specific Allocation Round; and
- The Budget Notice, which sets out overall budget, the administrative strike prices, minima, maxima and pot (Sub) budgets (if any).

5 Qualification Requirements

This section highlights the qualification requirements that an application made by eligible generators must meet in order to become a qualifying application and take part in the CFD allocation process.



Figure 1 - Application Qualification Requirements

As shown in Figure 1 a qualifying applicant will have to:

- Meet Eligibility Requirements;
- Not be an Excluded Applicant; and
- Provide additional information/data.

Further detail on each of these points is provided in sections 5.1 to 5.3.

The Delivery Body will determine qualification based on the information provided by the applicant and in accordance with the requirements of the Regulations and Allocation Framework. Schedule 4 of the Allocation Framework provides a list of the checks that the Delivery Body must carry out when assessing applications.

Failure to meet any of the qualification criteria and any additional information requirements will result in the Delivery Body rejecting the application. It is worth highlighting that the subsequent review and appeal phases for non-qualified applicants do not allow submission of additional evidence that was not provided with the original application.

5.1 Eligibility Criteria and Evidence

This section sets out the main eligibility criteria and evidence that will have to be supplied in support of a CFD application and includes connection agreements, supplemental requirements for offshore phased projects, supply chain plan, and planning permissions.

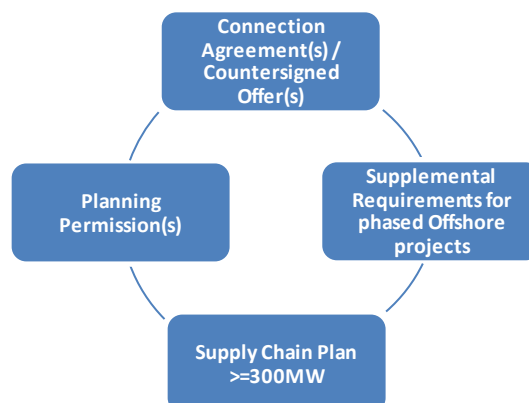


Figure 2 - Eligibility Criteria

5.1.1 Applicable Planning Consents

As part of normal project construction and operation, a generation project may require a number of different planning consents both for the generation facility and to connect to a Transmission or Distribution Network. Only some specific types of consents are relevant for CFD qualification, shown in Figure 3. CFD qualification only requires a developer to provide copies of the relevant consents where they are already a requirement for the development of the project.

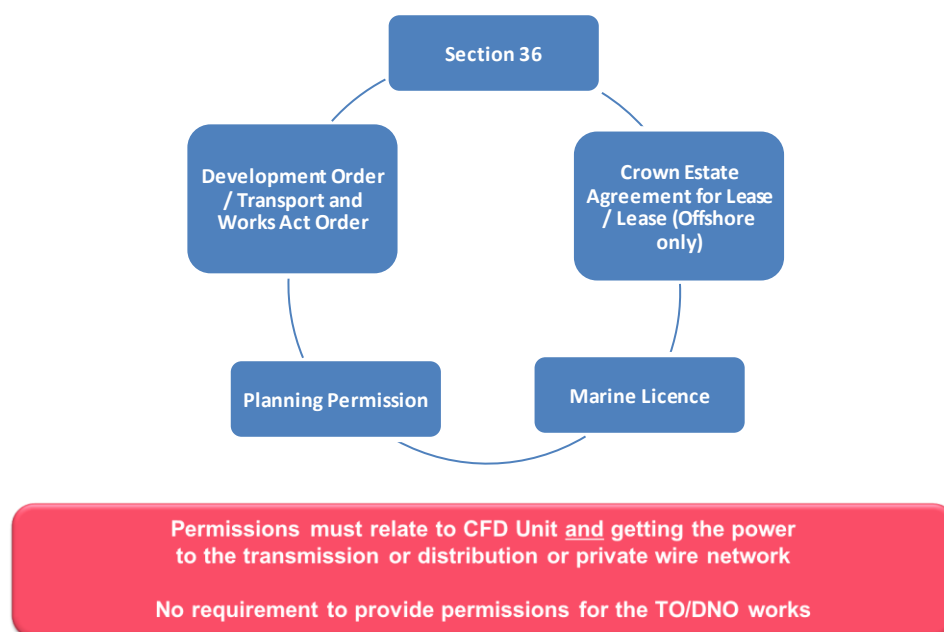


Figure 3 - Applicable Planning Consents

For each of the applicable planning consents, except in regard to Crown Estate Lease or an agreement for this Lease, applicants must:

- Provide full electronic copies of each document (preferably in pdf format) or confirm why an applicable planning consent does not apply to them (e.g. where this is not required for their project); and
- Clearly provide the location, MW, validity dates and technology (and where not stated or values are not in line with their CFD Application, provide reasons why).

For Crown Estate Lease or an agreement for this Lease, offshore applicants must provide full electronic copies of the relevant document(s), preferably in pdf format. Non offshore applicants will not be asked to provide any documentary evidence or make any declaration that a crown Estate lease does not apply to their application.

Applicants must make a declaration on the application form that the suite of planning consents provided are all the relevant consents for both the generating facility and any works required to get their power to the transmission, distribution or private network.

Applicants do not need to provide any planning consents where these are being carried out under connection agreement(s) by the transmission network operator, distribution network operator or private wire network operator.

5.1.2 Connection Agreements

The supporting connection agreement evidence that applicants needs to provide is dependent on which of the three connection types below apply to their project.

- **Direct Connection** is a connection to transmission or distribution system where all power from the project is to be exported to that system;
- **Partial Connection** is a connection to a transmission or distribution system via a Private Wire Network Operator with only part of the power to be exported to the transmission or distribution system; or
- **Islanded CFD Unit** is the connection of a Private Network Generator to a Private Wire Network Operator which has no connection to the transmission or distribution system.

Figure 4 shows the evidence requirements for each of these three types of connection.

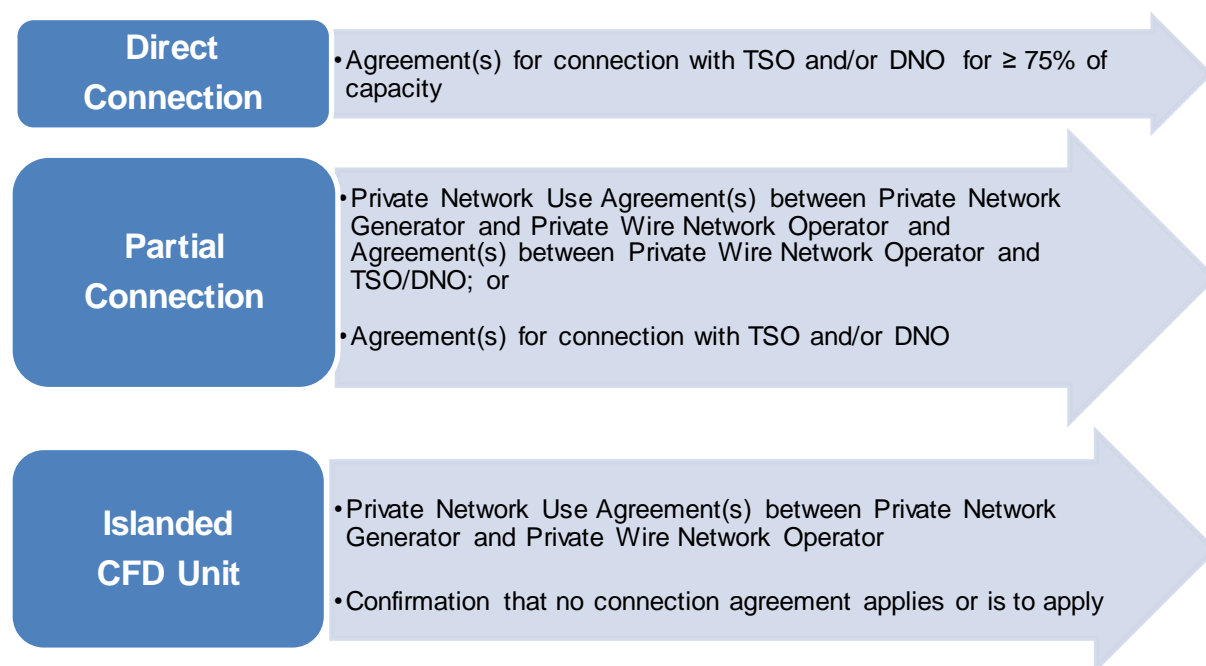


Figure 4 - Connection Agreements

For each of the Connection Agreement(s) submitted, the Applicant must clearly provide the values for location, MW capacity, connection dates and technology (and where the relevant documents do not state these, where values are not in line with their CFD Application, provide reasons why they differ).

5.1.3 Supplemental Requirements for phased offshore projects

Phased offshore wind projects have to also comply with supplemental requirements to become qualifying applications. These are set out in Allocation Framework Rule 5 but in summary are:

- Projects can have up to 3 phases, but the total capacity of all phases added together must not be greater than 1500 MW;
- Initial Installed Capacity for the first phase must be at least 25% of the total capacity of all phases; and
- The first phase must have a Target Commissioning Date no later than 31 March 2019 and the last phase must be no later than 2 years after Target Commissioning Date of the first phase.

5.1.4 Supply Chain plan

Projects of 300 MW and above will need to send a copy of their Supply Chain Approval Certificate that they have received from DECC.

For further details on Supply Chain Plan, please refer to Section 3.1.

5.2 Excluded Applicants

The Contracts for Difference (Allocation) Regulation 2014 (regulation 14) and the Allocation Framework Rule 6 set out where an Applicant is excluded from applying for a CFD through the generic allocation process. All applicants will be asked to declare that:

- Their application is not an Excluded Application;
- No capacity agreement (Capacity Market Scheme) or CFD applies to the CFD unit and not received or receiving funding under the Non-Fossil Fuel Obligation (NFFO). The Delivery Body will verify these statements against public lists;
- If the technology is Energy from Waste with Combined Heat and Power (CHP), that no application for accreditation to the Renewable Heat Incentive (RHI) scheme exists; and
- The CFD unit is not accredited nor has an application for accreditation under the Renewables Obligation (RO) scheme, and if it is accredited or has an application for accreditation, provide confirmation of which type of dual scheme the plant applies. The Delivery Body will verify accreditation status with the Authority but where the Authority cannot determine accreditation status before the Delivery Body are required to make a determination on qualification, they will rely on the statements provided by the Applicant.

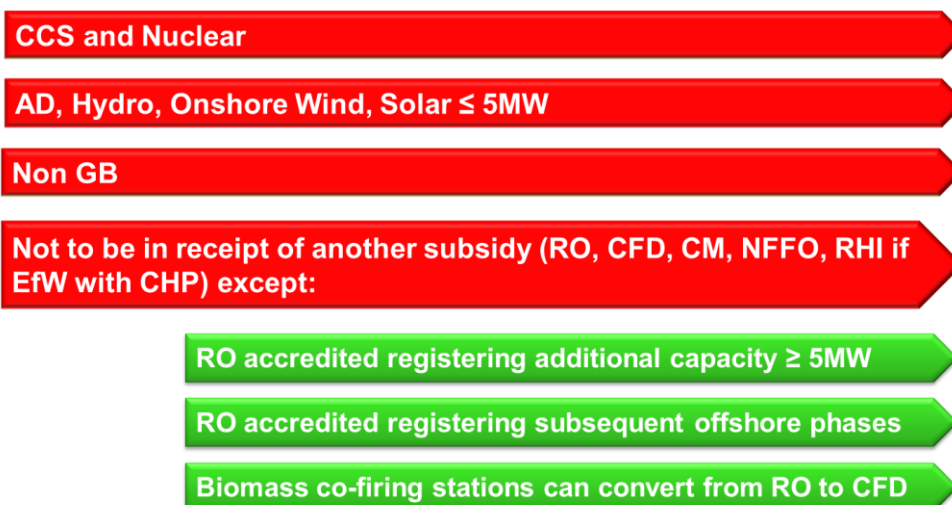


Figure 5 – Excluded Applicants (in red) with exceptions (in green)

5.2.1 Potential Future Exclusions

Where an Applicant has been allocated a CFD but then:

- Fails to sign a CFD when offered one by the Low Carbon Contracts Company; or
- The CFD is terminated prior to the Milestone Delivery Date which requires developers to have made substantial progress with their project within 12 months of contract signature or face contract termination.

DECC's policy intention is that the Applicant will be precluded for 13 months from the point of their CFD notification from making another application for a CFD. This is to minimise the effects of strategic behaviour and gaming that could undermine the efficiency of the CFD allocation process, and prevent other developers from accessing the CFD.

5.3 Other Information / Data

Generators applying for CFD will have to provide Incorporation information to the Delivery Body. In summary:

- Name, address and contact details of:
 - Applicant;
 - Agent (if Applicant is not based in GB);
 - Party entering into CFD Contract; and
 - Party who will be receiving notices under CFD Contract.

Where the Applicant is also a Company, they will need to provide Company Registration Number and Certificate of Incorporation (or equivalent if non UK Applicant). If the Applicant is VAT Registered, Applicants will need to provide VAT Registration Number and the VAT Certificate of Registration (Tax Certificate if non UK Applicant).

5.3.1 CFD Contract

The CFD Contract is between the Applicant and the Low Carbon Contracts Company, which is running a process ahead of the application submission, where Generators may request 'Necessary' Modifications to the standard terms that are of 'Minor' effect (please refer to Section 3.2 for more details of this process).

The Applicant, as part of application submission, will need to confirm the category and version number of CFD Contract that they are seeking to enter into. Where a modification to the standard terms is agreed with the Low Carbon Contracts Company, the Applicant needs to provide the date of such agreement.

6 Preparing for Application

To be able to apply for a CFD, participants are required to register their Companies and users to the system made available by the Delivery Body in that Allocation Round. This system will allow registered participants to:

- Submit applications with all supporting material;
- Withdraw applications;
- Submit a request for review;
- Notify to the Delivery Body that a request for appeal has been submitted to the Authority;
- Submit and withdraw sealed bids; and
- Exchange other secure communications with the Delivery Body during an Allocation Round (e.g. Review Notification, CFD Notification).

Details on all the steps above mentioned will be provided by the Delivery Body as part of the system specific training pack before each Allocation Round commences.

7 Qualification

7.1 Application Determination

When the application window to apply for CFD has closed, the application determination starts. The Delivery Body will then determine whether or not an application qualifies to take part in the allocation process.

The Delivery Body has up to 10 working days to complete the application determination and to give a notice to each Applicant which states whether or not an application is a qualifying application or not. Where it is a non-qualifying application, the Delivery Body will provide reasons for this determination.

7.2 Request for Review

Non qualifying Applicants may give notice (“Review Notice”) to the Delivery Body to request a review of their non-qualification determination where they believe that the Delivery Body has incorrectly applied the rules (Figure 6 summarises this process).

What a “Review Notice” must contain is set out in Allocation Regulations 20(2).

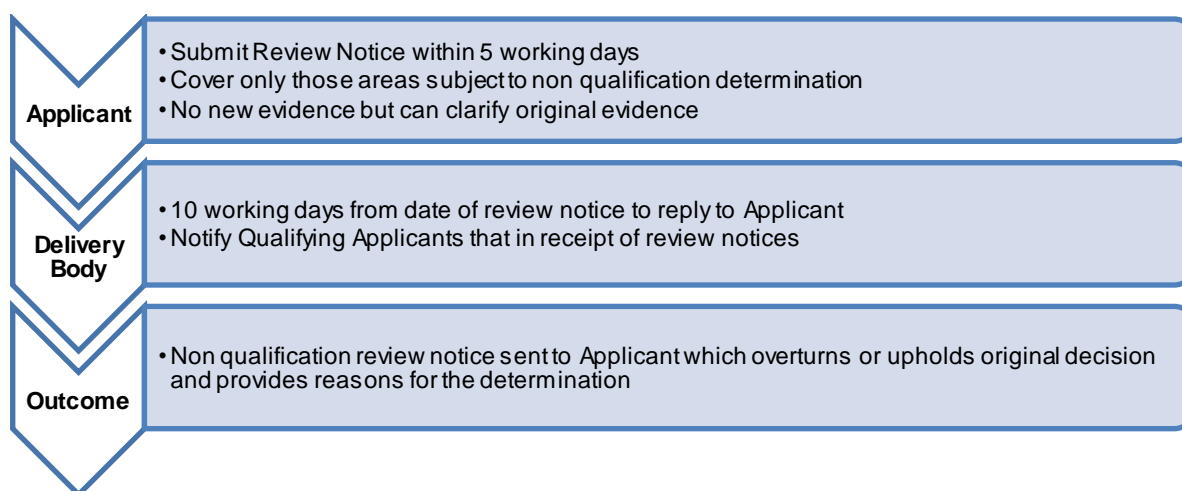


Figure 6 - Review Process

7.3 Request for Appeal

Applicants that are still not qualified after a non-qualification review can raise a qualification appeal to the Authority. The Applicant must also notify the Delivery Body of their appeal to Ofgem, so that the allocation process is not commenced.

Where the Authority upholds a non-qualification determination, the Applicant has 28 days after the non-qualification determination notice from the Authority to make an appeal to the High Court or, in Scotland, the Court of Session.

The Qualification Appeal process and High Court/Court of Session process is summarised in Figure 7.

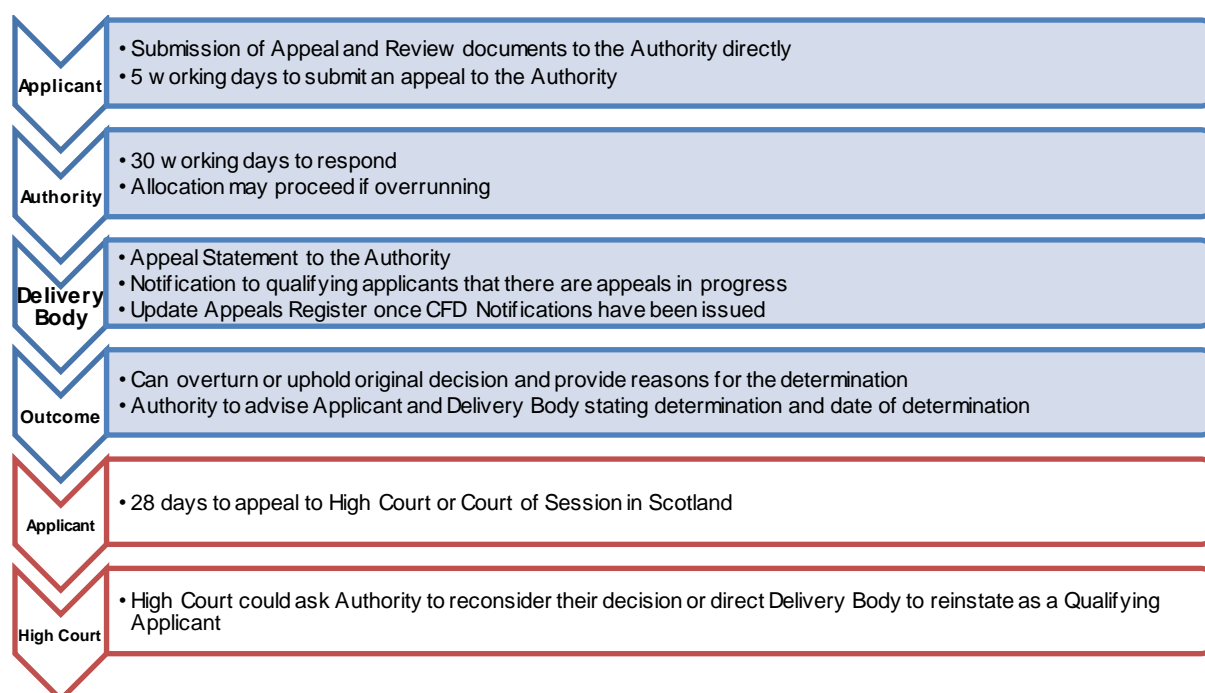


Figure 7 - Appeal Process

8 Allocation

Once qualification has been completed, the Delivery Body will proceed with CFD valuation and allocation. The figure below shows the key steps undertaken during allocation. These steps are explained in more detail in the remainder of this section.

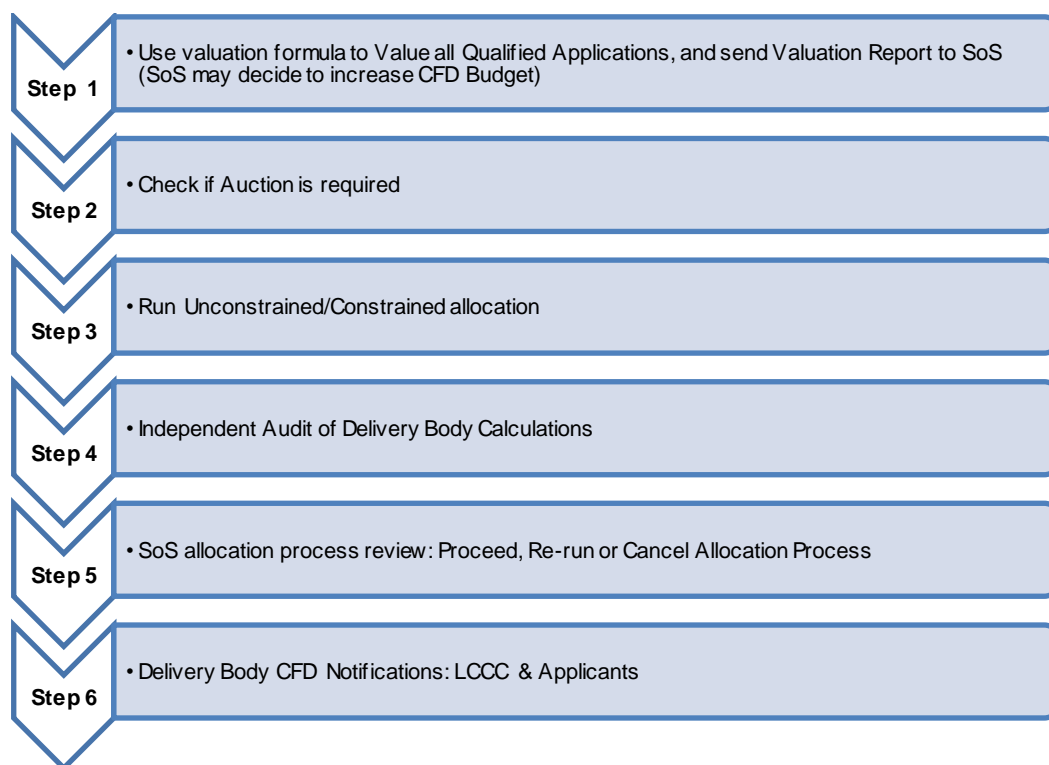


Figure 8 - Allocation Process

All steps in Figure 8 are carried out for each Pot specified in the Budget Notice.

8.1 Applications Valuation & Auction Decision

During Application Valuation, the Delivery Body will compare the aggregate value of all qualifying applications for each delivery year with the applicable budgets for each pot and any minima or maxima limits, to determine if there is a requirement for a competitive allocation process.

Valuation of each application is carried out using the valuation formula set out in Schedule 2 of the CFD Allocation Framework and summarised below (Figure 9).

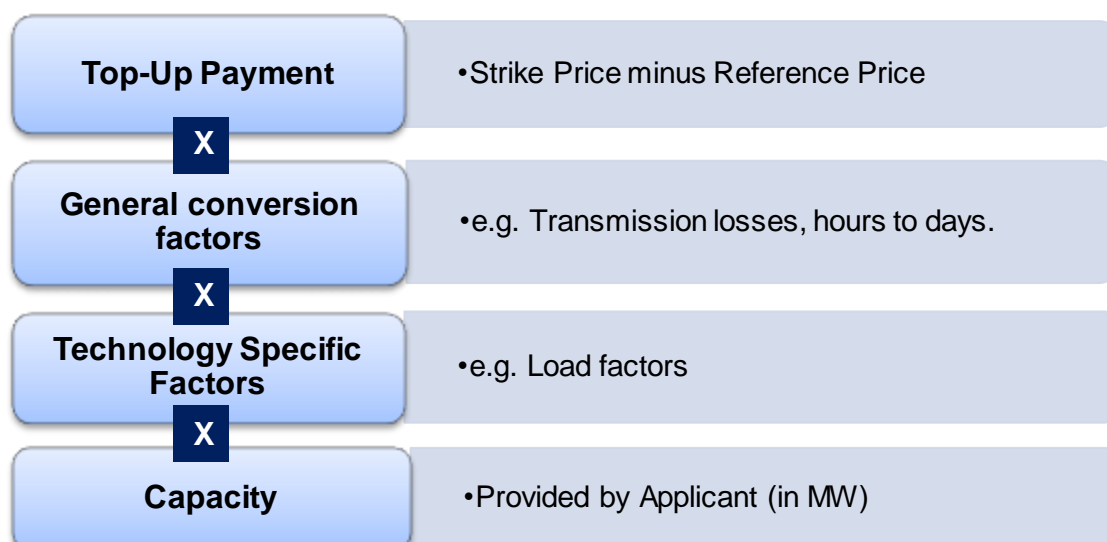


Figure 9 – Overview of the Valuation Formula

All the variables required by the valuation formula are a combination of data supplied by the applicant (e.g. MW, technology, etc.) and data taken from tables specified in the Allocation Framework.

The Delivery Body will determine whether or not the valuation of all qualified applications exceeds the relevant part of the budget and/or any minima or maxima capacity (Figure 10).

If the budget and any maxima aren't exceeded, each qualifying application will be offered a CFD at the Administrative Strike Price for its technology (unconstrained allocation: see Section 8.2). If the budget is exceeded, then the Delivery Body will run an auction (constrained allocation: see Section 8.3) to ration the available budget between qualifying Applicants.

Where the pot budget is exceeded and constrained allocation is applied, a general auction is required. Where a minimum applies to that pot, a minimum auction is required if the minimum capacity is exceeded. The Delivery Body will first hold an auction for the technologies relevant to that minimum. The Delivery Body will then run the Pot auction to include all unsuccessful applications from the minimum auction and other qualified applications in that Pot.

Where only a maximum capacity would be exceeded, the Delivery Body will hold an auction for only those technologies subject to that maximum.

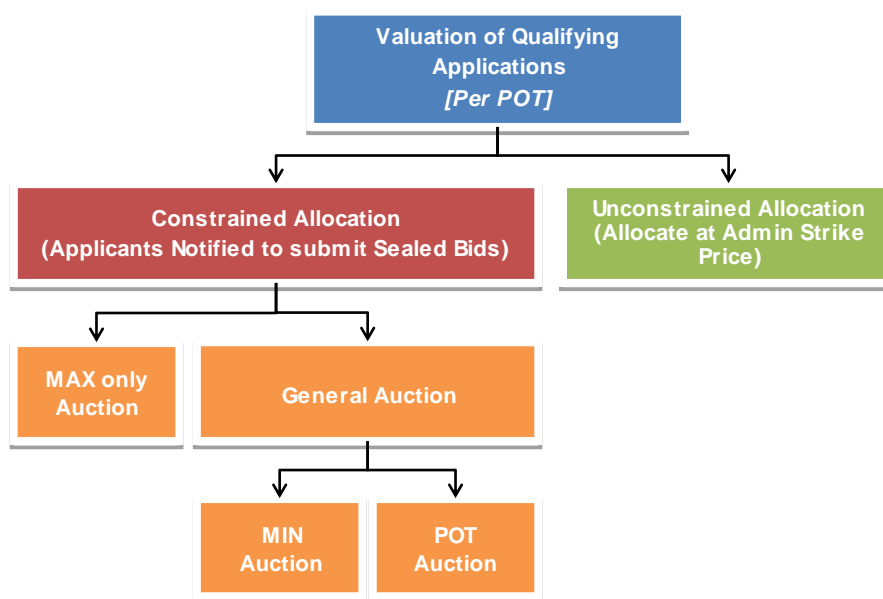


Figure 10 - Auction Decision

8.2 Unconstrained Allocation

Where no auction is necessary (i.e. all the applicants can be satisfied within the budget, under the constraints of any minima and maxima) the relevant applications will be offered a CFD at the prevailing Administrative Strike Price and a CFD notification will be sent by the Delivery Body to all successful Applicants (see Section 8.7).

Figure 11 shows an example of applications valuations resulting in unconstrained allocation. The total value of the six projects considered in this example doesn't exceed the Pot value (green dotted line) in any delivery year. In this scenario the Delivery Body will not trigger an auction for this Pot, unless a Pot max capacity is exceeded by the projects.

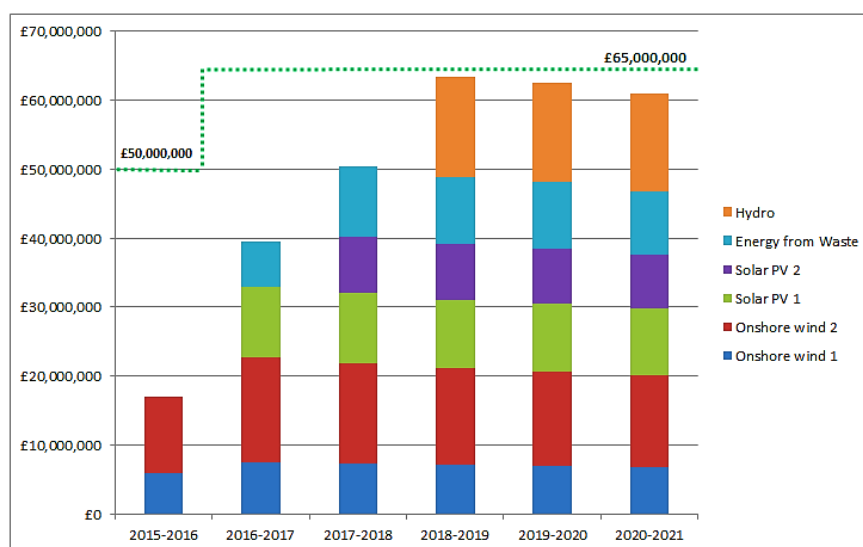


Figure 11 - Example of projects valuation for unconstrained allocation (budget line in green)

8.3 Constrained Allocation (Auction)

The Delivery Body will proceed to hold an auction where the value of qualified applications exceeds the Pot value, or proceed to hold a maximum only auction where the total capacity of technologies subject to the maximum, exceeds the maximum threshold specified in the Budget Notice. Figure 12 shows an example of applications valuations where a Pot general auction is triggered. The total value of the six projects considered in this example exceeds the Pot value (red dotted line) in 2018/2019 and 2019/2020.

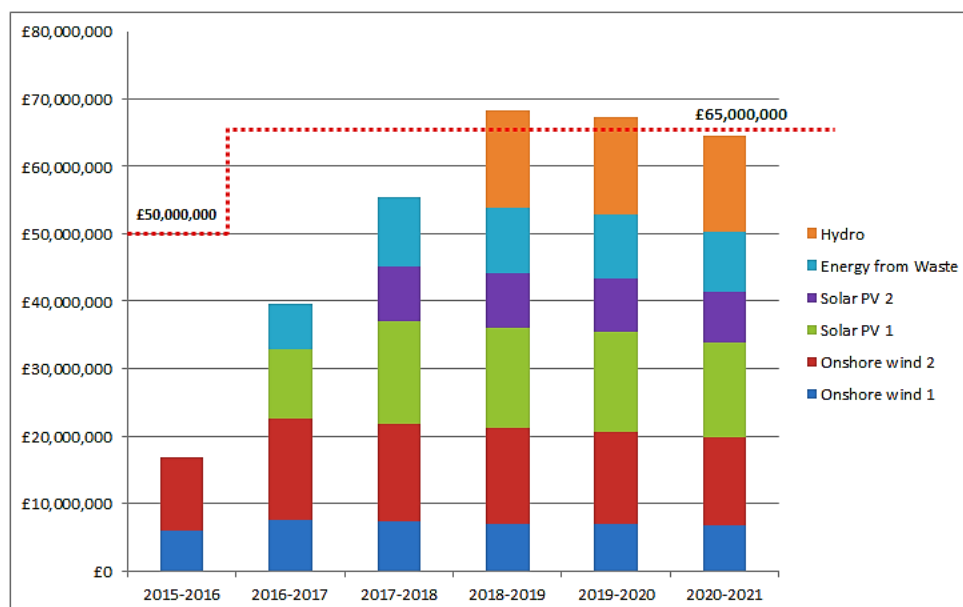


Figure 12 - Example of projects valuation for constrained allocation

8.4 Notice of Auction and Sealed Bid Submission

Where an auction is necessary, the Delivery Body, in accordance with the Allocation Framework, will issue a Notice of Auction to all relevant Qualifying and Pending Applicants, inviting the submission of sealed bids. Applicants will have 5 working days to submit their bids.

During sealed bids submission the following principles apply:

- Applicants must submit the strike price, denominated in sterling, that they are willing to accept;
- Applicants must submit the Target Commissioning Date (TCD) and Target Commissioning Window start date relative to each specific bid;
- Applicants may withdraw their applications during the submission window;
- Applicants may withdraw and re-submit bids during the submission window;
- No bids can be submitted above the relevant Administrative Strike Price;

- No bids will be accepted by the Delivery Body after the sealed bid submission window is closed;
- Applicants who do not submit a sealed bid will be assigned a default bid equal to the Administrative Strike Price, the Target Commissioning Date and the generating capacity of their original applications;
- Applicants will be able to submit up to 10 bids (flexible bids) per project. Each bid must:
 - (a) Be the same target commissioning delivery date or later than the original application;
 - (b) Be the same capacity or less than the original application;
 - (c) Have a different combination of bid price, capacity, and Target Commissioning Date; and
 - (d) Have no more than three bids for the same Delivery Year.

During an Auction:

- All projects in the same Pot will compete on strike price basis, regardless of delivery year;
- Projects with technologies subject to minimum will be allocated first;
- Projects will be awarded in order of lowest to highest strike price;
- Projects that are exactly tied on the same strike price bid will be handled with Tiebreaker Rules (AF Rule 18); and
- Projects will be paid the clearing price set by the most expensive successful project in each delivery year (subject to cap at the technology Admin Strike price).

Detailed rules on the auction process are set out in the Allocation Framework.

8.5 Independent Audit

The CFD Regulations (36) set out the obligations for the Delivery Body to ensure an Independent Audit (process audit) of the Valuation and Allocation calculations is carried out. Immediately following the completion of the Allocation process the Delivery Body will instruct the Independent Auditor to conduct the process audit.

The Independent Auditor will verify if the Delivery Body has appropriately used the valuation rules, allocation rules and Applicants details to determine the outcome of the allocation process. The Independent Auditor will provide a report (The Audit Report) which sets out the Auditors views on whether the Allocation process was carried out inaccurately including any consequences on allocation outcome.

8.6 Secretary of State Allocation Review

The Secretary of State will have 2 days from receipt of notification from the Delivery Body, to review the Auditors' Report with the Delivery Body's recommendation, to determine if the allocation process must proceed to notification, re-run, or be terminated. The Delivery Body will proceed on its recommendation if the Secretary of State does not respond within 2 days.

8.7 CFD Notification

At the end of an allocation round the Delivery Body will give notice to each qualifying Applicant which will set out whether or not that Applicant is successful.

A CFD notification will be sent to all successful Applicants and it will provide information, which could include but not limited to:

- The final strike price applicable to the successful application;
- The successful allocation capacity;
- The Target Commissioning Date and the start of the Target Commissioning Window; and
- Information supplied by the successful Applicant to the Delivery Body which is needed by the Low Carbon Contracts Company to complete the CFD Contract with the Applicant.

At the same time the Delivery Body will notify each unsuccessful Applicant outlining the reasons why a CFD notification has not been given. Pending Applicants (see Section 8.9) will be notified of the allocation round closure.

The Delivery Body will also give a CFD notification in respect of a successful application to the Low Carbon Contracts Company. On this basis the Low Carbon Contracts Company will offer contracts in respect of successful applications.

Following allocation notifications, the Delivery Body will complete the CFD allocation process by publishing an Allocation Round report and an Appeals Register where applicable.

8.8 Impact of Delays

Where there is a delay in the Allocation Process such as outlined in the Allocation Regulations, and if a direction has been given by the Secretary of State, the Delivery Body will issue all relevant Applicants with a Variation Notice. The Variation Notice allows Applicants to adjust the relevant Target Commissioning Date (TCD) of their applications.

The Delivery Body will perform the application valuation and allocation in respect of all qualifying applications or bids and where a new TCD was submitted, the Delivery Body will consider the new TCD and use the Administrative Strike Price of the relevant applications or bids as was submitted prior to the delay.

8.9 Pending Applications

Where the Authority has not notified the Delivery Body on the outcome of a Qualification Appeal, prior to the start of the Allocation Process, that application is considered a Pending Application.

Where specific notices are sent to Qualified Applicants (e.g. Auction Notice requiring Sealed Bids), where relevant, Pending Applications will be sent the same notices with similar requests and response dates.

The Allocation Framework sets out a number of scenarios that govern how Pending Applications which become Qualified Applications must be considered for a CFD. See the Allocation Framework for further details (Rule 21).

9 Contract Management

CFDs are private law contracts and the Low Carbon Contracts Company's remit as the 'CFD Counterparty' is to manage these life-term CFDs with Generators.

In preparation for the allocation of contracts, Low Carbon Contracts Company administers the Minor and Necessary Modification process and determines if the requested modifications are Minor and Necessary.

Following the allocation, and based upon the information provided by the Delivery Body on successful Applicants, the Low Carbon Contracts Company will then prepare the CFD.

The contract consists of the CFD Agreement and the Standard Terms and Conditions (www.lowcarboncontracts.uk for information about specific terms and conditions available for different types of projects). The CFD regulations set timescales for the amount of time the Low Carbon Contracts Company has to produce the contract and how long the Generator has to sign and return. The Low Carbon Contracts Company's Contract Management Team will be responsible for managing the CFD contracts and will oversee this process.

Following signature of the contract, each CFD will have a dedicated Contract Manager from the Low Carbon Contracts Company. The first obligation for the CFD holder will be to meet the requirements of the Initial Conditions Precedent and subsequently the Further Conditions Precedent. An example of how the CFD obligations might interact with a project development timeline is depicted in Figure 13 below. It is important for Applicants to understand these prior to signing the contract.

The illustration below shows an example of a typical offshore wind project with an illustration of project life compared to the CFD allocation timeline and deadlines.

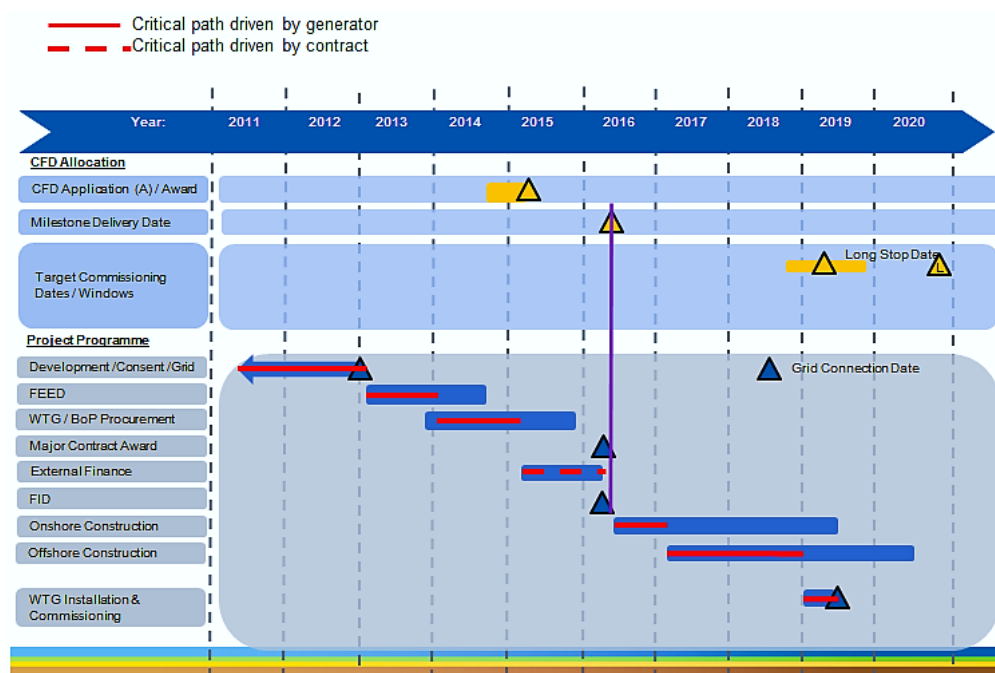


Figure 13 - CFD and Project development timeline example

During the time from contract signature until the start date on the contract the Applicant must provide regular updates on project progress including any updates on expected start date and changes to MW and MWh. For full details of the contract obligations please refer to the Standard terms and Conditions.

If after reading the Contract you think that the obligations are unclear you can email: contractmanagement@lowcarboncontracts.uk.

10 Supplier Obligation

The Low Carbon Contracts Company as the “CFD Counterparty” will oversee the collection and payment of monies under the Supplier Obligation for the CFD regime.

CFD payments will be made to Generators and collected via a Supplier Obligation levy to be paid by all licensed electricity suppliers in Great Britain from 1 April 2015. The Low Carbon Contracts Company has appointed EMR Settlement Ltd (a subsidiary of ELEXON Ltd) as the Settlement Services Provider to carry out settlement activities on its behalf.

It has also appointed a subcontractor Lane Clark & Peacock LLP (LCP) which has developed a Supplier Obligation Forecasting Model (SOFM) to forecast CFD payments in order that the Low Carbon Contracts Company can fix the Supplier Obligation interim rate and reserve amounts on a quarterly basis and provide sufficient transparency around this process.

Further information on the Supplier Obligation will be provided in Issue 3 of this Guide.

11 Relevant Links and Documents

This section provides a list of links and documents relevant to the CFD Allocation Process. These documents should be used in conjunction with this Guide while preparing for CFD application and during the application process.

- Contracts for Difference Allocation Framework:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/360269/Updated_Final_AF.pdf
- Budget Notice for CFD Allocation Round 1:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/360129/CFD_Budget_Notice.pdf
- The Contracts for Difference (Allocation) Regulations 2014:
http://www.legislation.gov.uk/uksi/2014/2011/pdfs/uksi_20142011_en.pdf
- Allocation Round Notice:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/348201/The_Contracts_for_Difference_Allocation_Regulations_2014_-_Allocation_Round_Notice_29_August_2014_.pdf
- Allocation Framework Notice:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/349371/Framework_Notice.pdf
- CFD Round Guidance: <https://www.emrdeliverybody.com/pages/home.aspx>
- The Contracts for Difference (Standard Terms) Regulations 2014:
http://www.legislation.gov.uk/uksi/2014/2012/pdfs/uksi_20142012_en.pdf
- The Contracts for Difference (Definition of Eligible Generator) Regulations 2014:
http://www.legislation.gov.uk/uksi/2014/2010/pdfs/uksi_20142010_en.pdf
- Contracts for Difference - Frequently Asked Questions (FAQs):
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/353094/Contracts_for_Difference_-_FAQs_FINAL.pdf
- Delivery Body – Qualification Frequently Asked Questions (FAQs):
<https://www.emrdeliverybody.com/pages/home.aspx>
- CFD Auction Guidance:
<https://www.gov.uk/government/publications/electricity-market-reform-contracts-for-difference>
- CFD Standard Terms Notice: www.lowcarboncontracts.uk
- CFD Counterparty Costs Notice: www.lowcarboncontracts.uk
- The CFD Standard Terms and Conditions: www.lowcarboncontracts.uk

- Guidance on Minor and Necessary Modifications: www.lowcarboncontracts.uk

For detailed information on the CFD Allocation Round, all interested parties should refer to the documents listed above.

12 Contacts

National Grid

☎ Phone: 01926 655300

✉ Email: emr@nationalgrid.com

or visit our dedicated website: www.emrdeliverybody.com

Low Carbon Contracts Company

☎ Phone: 020 7211 8999

✉ Email: info@lowcarboncontracts.uk

or visit the Website: www.lowcarboncontracts.uk

Ofgem

Website: <https://www.ofgem.gov.uk/>

