



CfD AR#2 – the final countdown

14/3/2017

BEIS published the final Allocation Framework for the second Allocation Round today. Nothing much has changed, except the Department has put in reference prices for 2023/24 and 2024/25. Sound a bit arcane? Not a bit of it. This is quite explosive.

In the draft Allocation Framework, these reference prices were published (in 2012 money):

	2021/22	2022/23
Reference price £/MWh	39.86	42.60

Today, these have been extended by two years to this:

	2021/22	2022/23	2023/24	2024/25
Reference price £/MWh	39.86	42.60	47.68	52.29

That's roughly a £5/MWh increase each year beyond 2022/23. This is important, since the way that the budget draw is calculated leads to a significant backloading of that draw, as offshore wind project phases are built out. A MW in 2024/25 will be 'costing' significantly less than a MW in 2022/23, and this is going to allow significantly more capacity to be allocated than if the reference prices were flat after 2022/23.

My spreadsheet is telling me that with strike prices of 'only' £85/MWh, 2GW of capacity is affordable. Given the way prices have tumbled in auctions across the Continent, this looks quite conservative. Strike prices would only have to go down another £7-8/MWh for two 1,200MW projects to be affordable. And if bids were to go as low as £70/MWh, then over 3GW could be delivered. I wouldn't go so far as to predict this, but my statement at the time the draft Allocation Framework came out that this Round could deliver 2GW is only reinforced by today's news. The game is very much on!