

# Kirk Hill + Derril Water Option to apply for a CfD

March 2024



# Overview

- What is the vote about?
- What is a CFD?
- How do CFDs work?
- Recent power prices
- What could be the impact on member savings with a CFD?
- What to consider when voting?

## Why are you being asked to vote?

Kirk Hill and Derril Water coop, like all coops, are democratic bodies, with major decisions determined by their members.

Ripple and the coop directors seek to minimize the burden on members by taking most operational decisions themselves, whilst empowering members to make pivotal decisions democratically.

**The decision to change coop rules (in order to apply for a CFD) needs to be taken by coop members.**

**The vote is on whether to change clause 5.1, by adding the words in bold:**

(a) providing Members with access to the value of the electricity generated by such project(s) in order to supply their homes/properties with clean, stable-priced **and/or lower cost** electricity via licensed electricity suppliers

As a member of the coop you have one vote, regardless of how many shares you own.

## Summary of the vote

This document provides information on CFDs to help you make an informed decision ahead of the vote.

If the Kirk Hill or Derril Water coops decide to apply for a CFD and are successful in the auction, it would remove the link between power prices and members' savings rate.

Members could no longer expect greater savings when power prices were higher, or lower savings when market prices were lower. Savings would be relatively static throughout the 15 year duration of the CFD.

Whether the level of savings would be greater than would be achieved in the market can not be known.

We can, however, see the Government's electricity price forecasts which suggest savings could potentially be greater with a CFD than without.

You should read this information deck ahead of the EGM. There will be time during the EGM to ask any questions you have about it. You can also discuss on the Ripple community thread on the subject.

# Contracts for Difference (CFDs)

## Background:

- CFDs are the main subsidy scheme for renewable energy in the UK
- The Government is about to hold an auction for CFDs
- A CFD could potentially deliver greater savings than the market price
- Energy price forecasts have fallen in recent months
- Potential changes to the electricity market (locational pricing) could reduce the value of your generation in the longer term

## Impact of a CfD:

**More stable savings** over 15 year term of contract

but

**More visibility** over payback period

**No protection** from price spikes

**Subsidy** – paid for by you + others

# How do CFDs work?

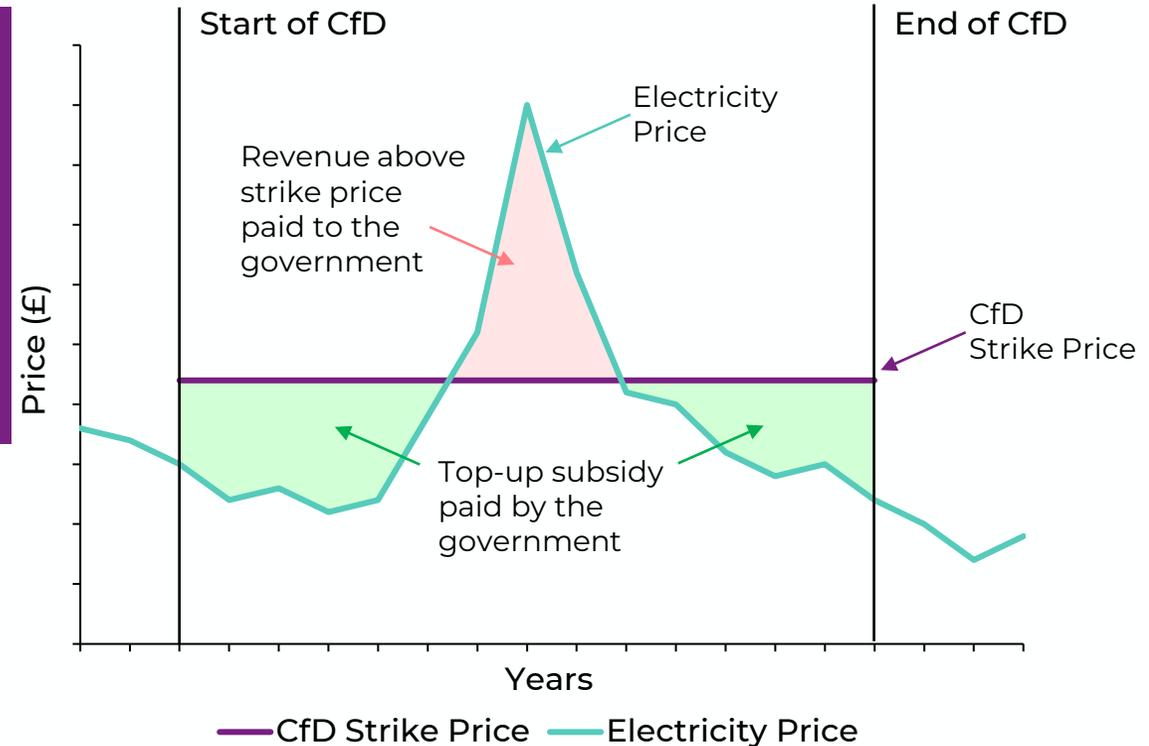
**Receive top up payment** if the market price is lower than CFD price (green area).

or

**Payback the difference** if market price is higher than the CFD price (red area).

Projects bid into **auction**, lowest bids win a CFD.

**CFDs are indexed linked**, so would increase with CPI inflation each year.

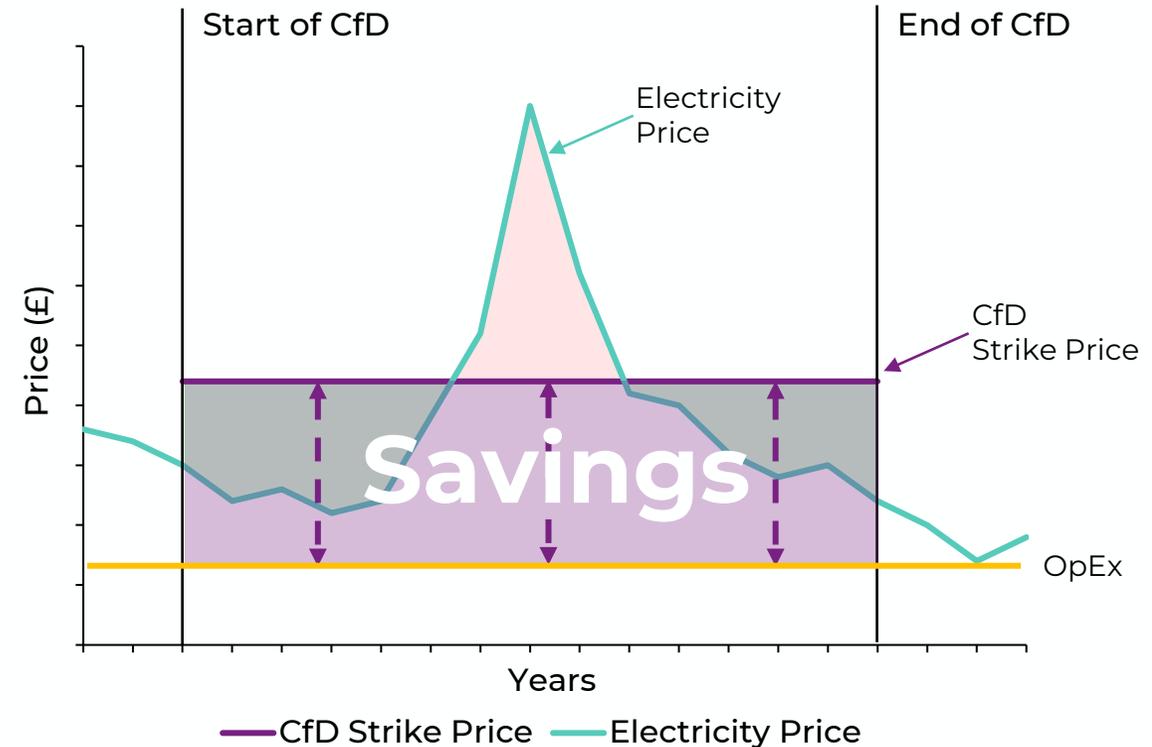


# How do CFDs work?

The link between the market electricity price and members' savings rates would be broken.

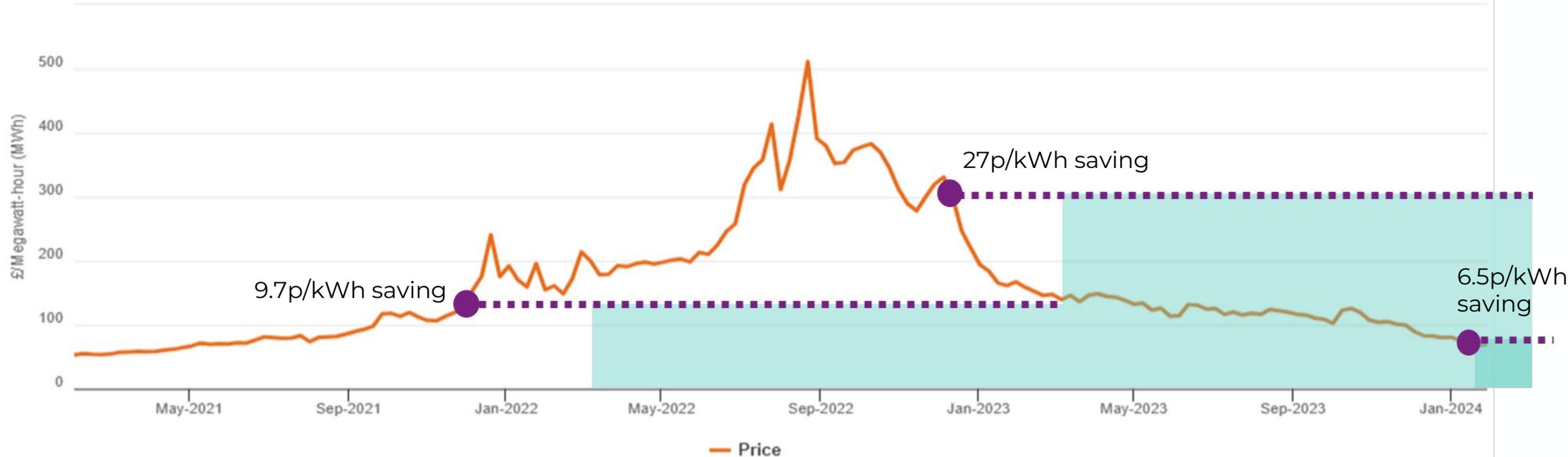
Savings would be far more stable, irrespective of the market power price.

The saving rate would essentially become the difference between the CFD strike price (plus green certificate value) and the project's operating cost.



# Market prices have fallen

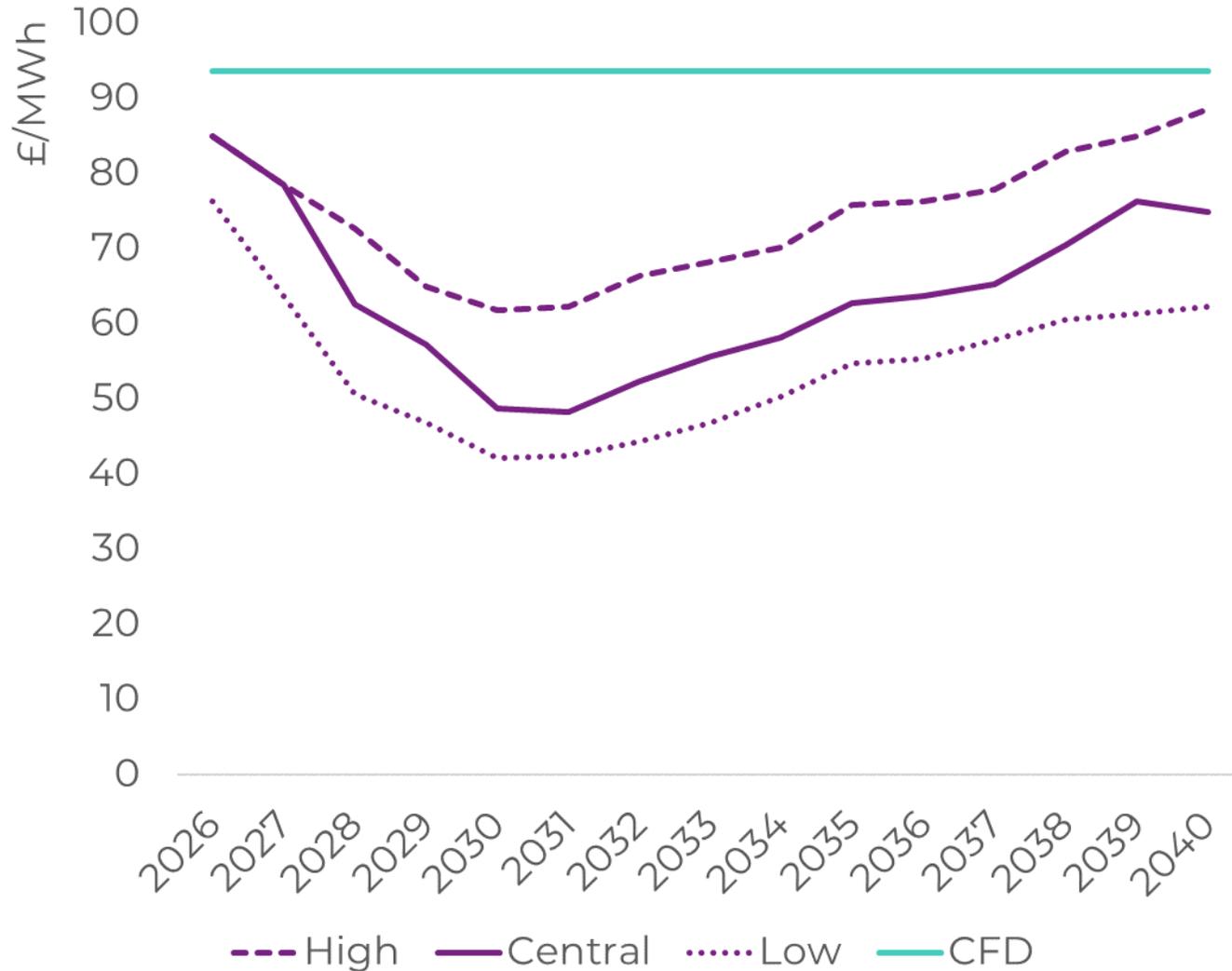
Electricity Prices: Forward Delivery Contracts - Weekly Average (GB)



Information correct as of: March 2024

# CFD vs wholesale price

All CFD prices shown in 2024 prices, without future inflation

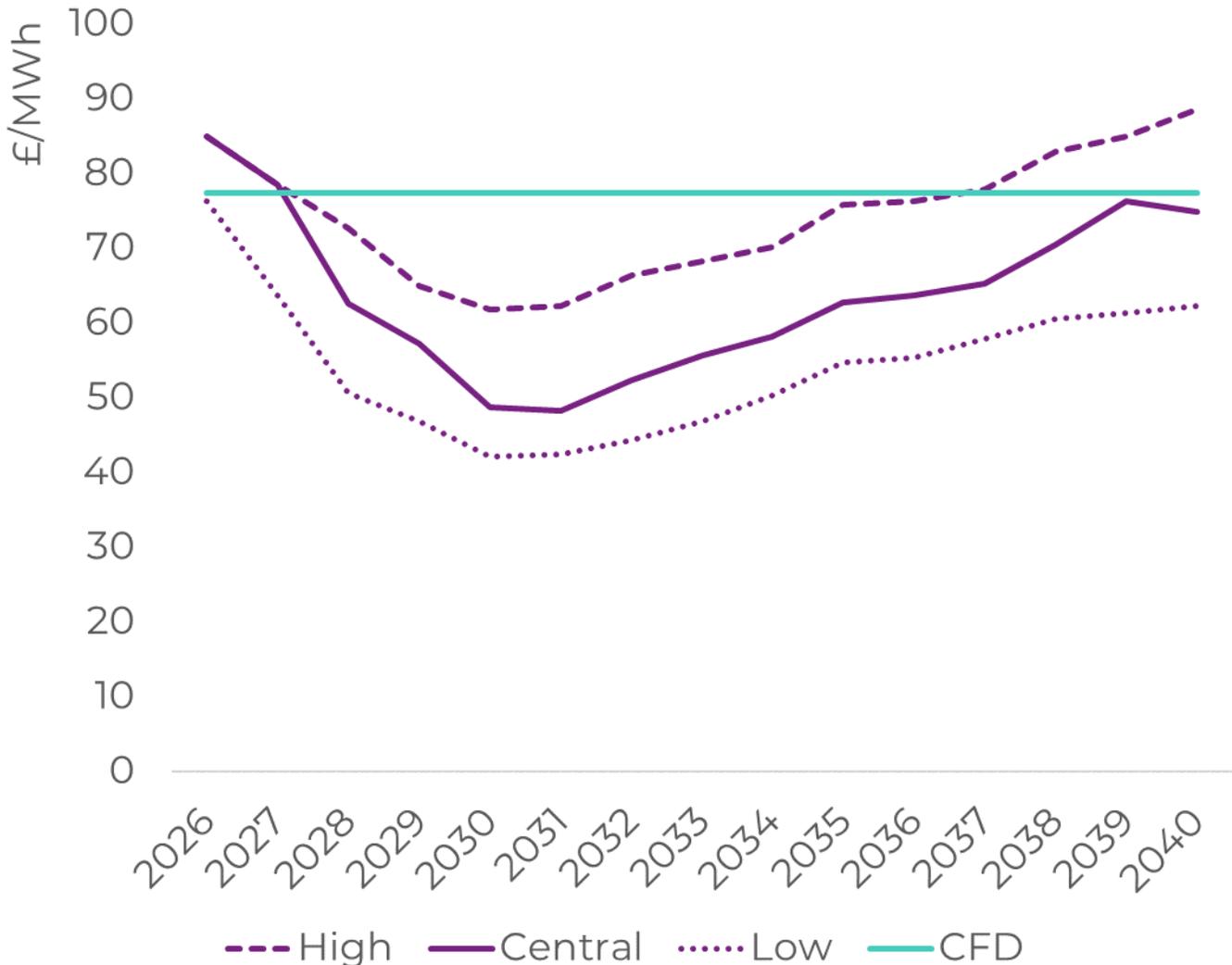


**£89/MWh, the max. price:**  
CfD would deliver greater value than all government price forecasts

**Approx 7p/kWh saving**

# CfD vs wholesale price

All CFD prices shown in 2024 prices, without future inflation



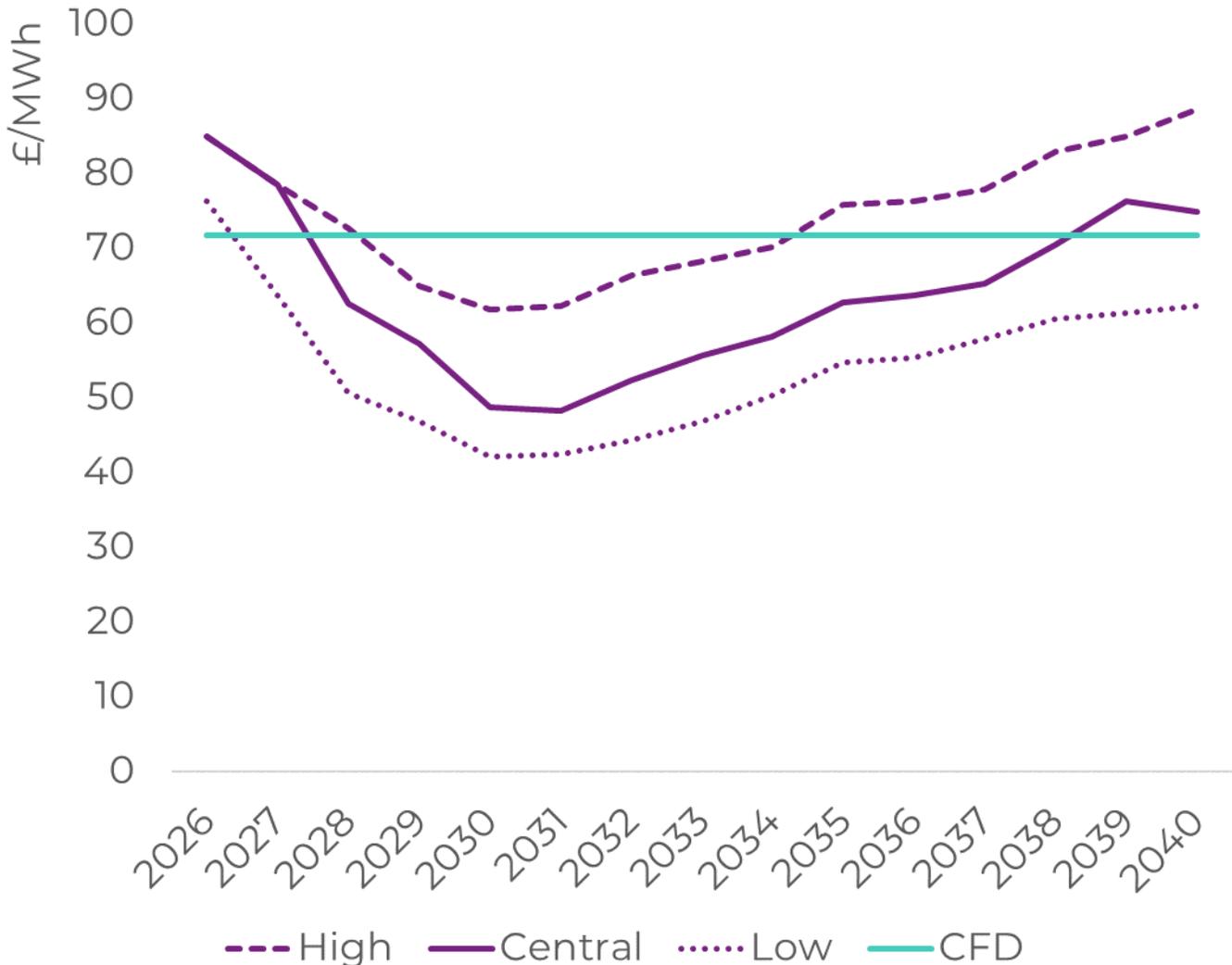
**£72/MWh, last year's onshore wind price:** CfD would deliver greater value than all government price forecasts

**Approx. 4.7p/kWh saving**

Share offer estimated 4.3p/kWh average saving.

# CfD vs wholesale price

All CFD prices shown in 2024 prices, without future inflation



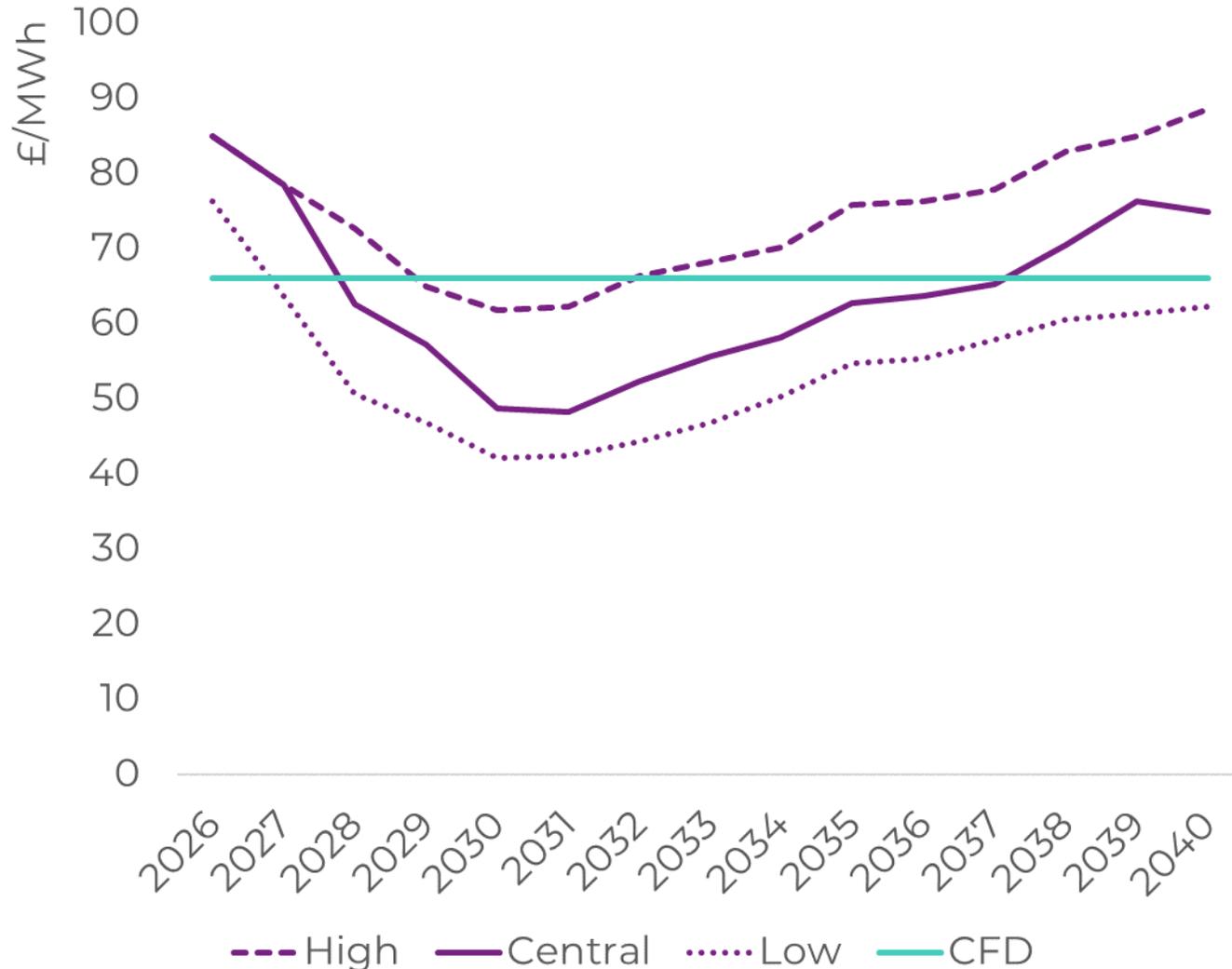
**£66/MWh, last year's solar price:** CfD would deliver greater value than all government price forecasts

**Approx. 4.3p/kWh saving**

**Share offer estimated 6.1p/kWh average saving.**

# CfD vs wholesale price

All CFD prices shown in 2024 prices, without future inflation



## £60/MWh, competitive auction:

CfD would deliver lower value vs high price scenario, similar prices to the central scenario, and higher value than low

**Average 3.3p/kWh saving**

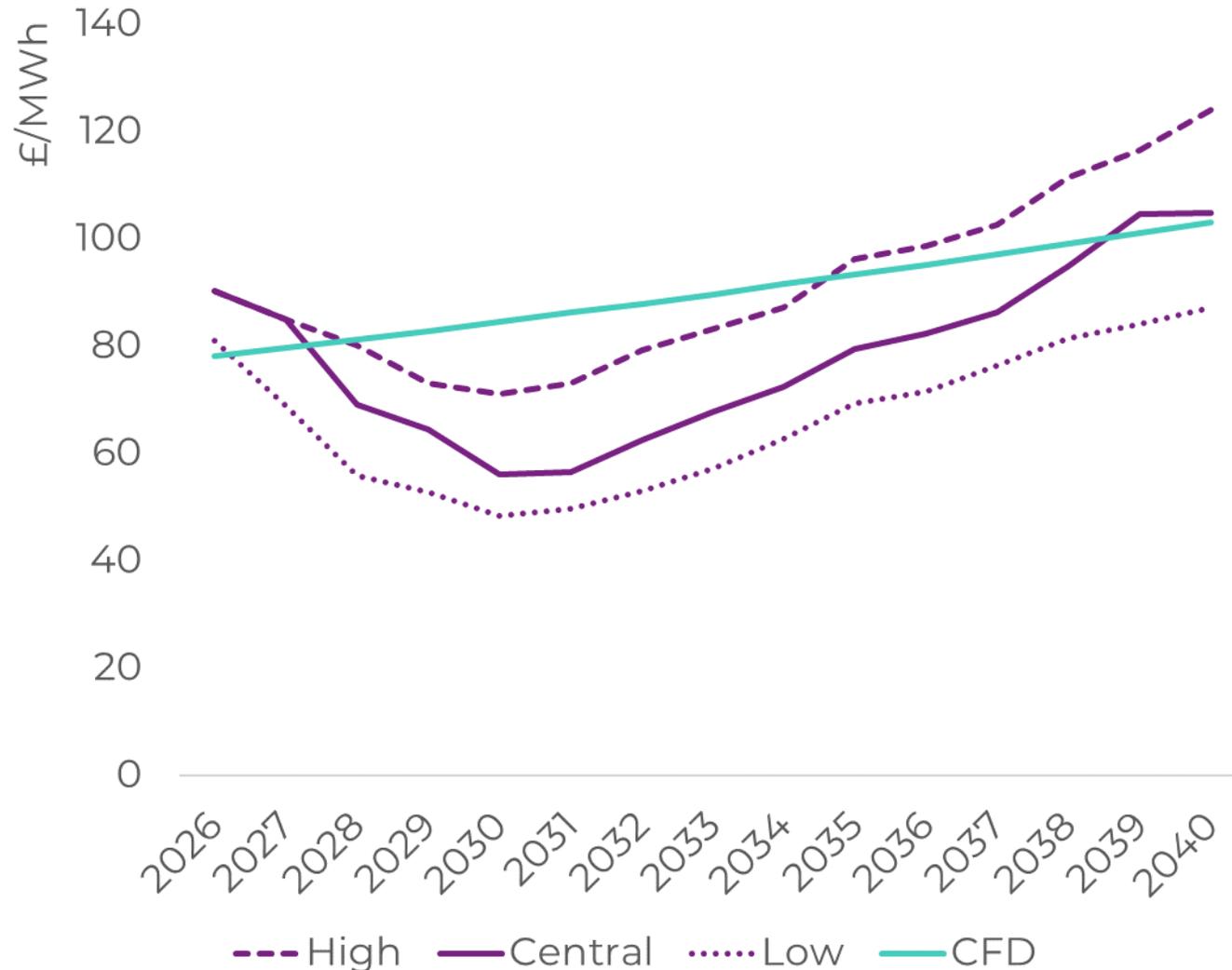
# Another energy price crisis...

All CFD prices shown in 2024 prices, without future inflation



**Another energy crisis:**  
CfD could deliver significantly less value than the market price during the crisis. Potentially greater value once prices returned to more normal levels.

# Including inflation



CFDs are index inked.

All the previous graphs ignored inflation, showing prices in real terms.

Assuming CPI inflation is 2% a £78 strike price and the government's electricity price forecasts would look like this over the 15 year duration of the contract.

# Key details

CFD prices shown in 2024 prices

## Timeline:

**Application:** 27 March – 19 April 2024

**Auction:** Summer 2024

**Contract period:** 2026 – 2040

**Contract length:** 15 years

## Maximum strike prices:

Onshore wind: £89/MWh

Solar: £85/MWh

## Last year's strike prices:

- Onshore wind: £72/MWh (7.2p/kWh)
- Solar: £66/MWh (6.6p/kWh)

## Note:

- 1. Even if we apply for a CFD, we may not be successful in the auction**
- 2. We will not be able to tell members the price we intend to bid into the CFD auction.**

It is a highly competitive process and discussing bids could be seen as market manipulation by the competition authorities. We would only bid a price we considered happy to win.

# Member vote

The coop boards have agreed to bid into the CfD for the share funded by bank finance

## Do you want the co-op share to bid into the CFD?

- Requires a change to the co-op rules – add in the words in bold to clause 5.1:
  - (a) providing Members with access to the value of the electricity generated by such project(s) in order to supply their homes/properties with clean, stable-priced **and/or lower cost** electricity via licensed electricity suppliers
- **Need 75% majority** to proceed with the rule change
- **You are voting on whether to change the coop rules – which would allow a CFD application**

## Remember:

- Voting to bid for a CFD does not mean we would win one
- We can't say what price would bid into the auction
- The entire coop share needs to be in or out, can't split it

## To consider...

### Think about what you want:

- Stable, predictable savings?
- Visibility over your payback period?
- Protection from the risk of low prices?

Or

- The ability to benefit from high prices?
- Protection from price spikes?
- Subsidy free savings?

**We don't know if a CfD would deliver greater savings or not.**

Current forecasts suggest it could, depending on the strike price.

# FAQs: Part 1

## **Q: What price would be bid into the auction?**

**A:** The auction is highly competitive, so we can't discuss the price that would be bid in as it could affect the auction outcome. We would bid a price we believe members would be happy to win.

## **Q: How long is a CFD for?**

**A:** CFDs are awarded for 15 years. If a CFD was secured, it would run from April 2026 to 2040.

## **Q: What happens after the CFD ends?**

**A:** Kirk Hill will sell electricity at market prices and members will receive savings depending on the market electricity prices.

## **Q: When will we know if Kirk Hill has secured a CFD or not?**

**A:** We will know if we have been successful in securing a CFD, and the contract's strike price, after the auction results are announced. This will be late summer or early autumn, depending whether projects appeal the results.

## FAQs: Part 2

### **Q: Will the CFD for the finance funded portion affect member savings?**

**A:** If the CFD price is higher than the market price the finance facility could potentially be repaid more quickly. This would enable members to get additional savings from the finance funded share sooner.

### **Q: Will the CFD for the debt portion affect the level of debt?**

**A:** The CFD for the debt portion will provide more certainty for the bank – it does not change the amount of debt owed.

### **Q: What happens if the coop doesn't vote to opt for a CfD?**

**A:** The share of the project funded by the bank facility would still bid into a CFD. The coop's share of the power would be sold as normal. Note – the CfD applies to individual turbines, so a small share of one of the coop's turbines would be under the CfD.

### **Q: When will the vote happen?**

**A:** The vote will open during the AGM and remain open for a couple of days. You will not be able to amend your vote once cast

## FAQs: Part 3

**Q: Can we apply for a CFD later?**

**A:** No, projects can only apply for a CFD before they are commissioned. Both Kirk Hill and Derril Water will have been commissioned by the 2025 auction. The 2024 auction is their only opportunity to apply for a CFD.