

Crown Estate Scotland
6 Bells Brae
Edinburgh
EH4 3BJ

marine@crownestatescotland.com

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Dear Sir/Madam

Consultation response on new offshore wind leasing for Scotland - Discussion Document

Scottish Renewables is the voice of Scotland's renewable energy industry, working to grow the sector and sustain its position at the forefront of the global clean energy industry. We represent around 250 organisations working across the full range of renewable energy technologies in Scotland and around the world, from large suppliers, operators and manufacturers to small developers, installers and community groups, and companies right across the supply chain.

We welcome the opportunity to develop new offshore wind projects through a new leasing round. The commercial health of Scotland's renewables sector is fundamental to meeting Scotland's 2030 50% renewable energy target and 2032 carbon reduction targets.

As set out in the Discussion Document, "much has been achieved with 211MW in operation (including Robin Rigg and Hywind Scotland, the world's first floating offshore wind farm suitable for deep water sites), 680MW in construction (including Beatrice and the European Offshore Wind Deployment Centre), 1,400MW due to begin construction over the next few years and 4,000MW of projects that are consented or in the planning process." We would like to see the next rounds of offshore wind leasing build on this momentum.

We note that Crown Estate Scotland (CES) will only lease out areas identified in Marine Scotland's Sectoral Marine Plan for Offshore Wind and applications for new leases will not be considered unless they fall within this plan. As such, the success of new leasing will be driven by developer interest in developing projects in the identified Areas of Search. This will likely be dependent on whether the Areas are capable of accommodating economically viable projects in the medium-term where commercialised technologies can be deployed.

We have set out our comments on Marine Scotland's draft Plan through their recent consultation process, but given the joined up approach CES and Marine Scotland have taken, we would reiterate our concern that most of the areas currently identified as being suitable for offshore wind development are in areas of deeper water.¹ This risks concentrating Scotland's future offshore wind

¹ <https://www.scottishrenewables.com/publications/download/411/>

potential on the development of technologies which are currently at a pre-commercial stage of development. Although floating offshore wind may provide a significant opportunity for Scotland and the UK in the future, there is currently a lack of clarity regarding Government policy and support mechanisms to develop further projects. This will be required if developers are to prepare a viable business case.

The Crown Estate (TCE) is running a parallel leasing process in England & Wales, where it appears that commercial considerations have played a larger role in shaping the early search process than in Scotland. In future, we would like to see CES similarly directing the shape of the next round of offshore wind in Scotland. We urge CES to work with Marine Scotland to ensure that feedback on the commercial potential of the areas of search identified in the draft Sectoral Marine Plan for Offshore wind is properly integrated in the next phase of drafting.

TCE is expecting to lease a further raft of extensions and new sites over the same timescale, releasing up to 10 GW of further capacity in shallow waters. This could encourage the offshore wind industry to focus on shallower locations outside of Scotland for the next round of development opportunities. Therefore, it is critical that CES' leasing process makes developing in Scotland attractive, and that CES engages with the UK and Scottish Governments to ensure that the necessary policy supporting floating offshore wind is developed in connection with the leasing process.

Overall, we believe CES have taken a thoughtful approach and are trying to structure the opportunity to be flexible depending on the market appetite for different scales of site. However, at this critical stage it is important to develop a framework that supports the success of competitive, credible projects.

If you have any questions on the comments set out in this response, please do not hesitate to get in touch.

Yours sincerely,

Stephanie Conesa and Fabrice Leveque
Large-Scale Energy Team

Consultation Questions

Question 1: Do you support our approach of accepting applications at the Draft Sectoral Marine Plan stage or do you favour applications being made only when there is a final adopted Plan?

We support the approach and we hope that through the Draft Sectoral Marine Plan consultation process, the final areas included in the adopted Sectoral Marine Plan will be feasible and attractive to developers. If developers have identified sites they would like to bid for within the current draft of the Plan we would support CES accepting these applications.

However, as noted in the Discussion Document, “this creates some risk that applications may be made in respect of areas which are identified in the draft Plan but are not carried through to the finally adopted Plan.” Therefore a developer must be able to make several applications and be able to withdraw when the final Plan is submitted. This could have consequences on the timing of the Clearing and Refinement process, and we suggest that the leasing process should be flexible enough to accommodate for this.

Separately, we note that the decision to stop ad-hoc applications for leasing agreements has the potential to delaying existing projects.

Question 2: Do you have any comments on the timescales we have indicated?

It is important to structure the Option Agreements in a way that allows offshore wind developers to begin construction and operation as soon as possible.

The timelines outlined take into consideration the consenting process that will follow an option award. Developers need flexibility to deal with any issues associated with the consenting process and a 10-year option period is considered a long enough time frame to deal with those.

However, clarification is requested on the timing for concluding the Clearing and Refinement processes. Figure 2 indicates that these will occur prior to adoption of the Plan, which would seem to make it likely that CES will require the use of Exclusivity Agreements as referred to at the end of the Discussion Document.

An application deadline of a minimum of 3 months from inception of the process is requested with additional allowance being made should this be initiated in late 2018.

Question 3: What could be done which might result in the level and location of project development interest aligning well with how the grid might be developed?

As set out in the Paper, there are several practicalities to consider in aligning the level and location of project development and the grid. We agree that, as in the draft Discussion Paper, “it may... be beneficial overall if the Sectoral Marine Plan, the Crown Estate Scotland leasing and the decisions taken by developers applying for Option Agreements together reflect these practicalities, to the extent that it is appropriate to do so.”

However, we would point out that the electricity grid is developed in reaction to generation, not the other way around. The development of new infrastructure may require a critical mass of projects. To enable appropriate planning by transmission grid owners and others it would be helpful to develop a

clear view, as the leasing rounds progress, of potential future requirements, including the potential for wider reinforcements.

A robust evaluation of grid connection proposals within the bidding process from a technical and economic basis would be welcome. It would be useful to initiate a working group at an early stage comprising prospective developers, CES and the transmission owners and operators.

As set out in the Draft Sectoral Marine Plan for Offshore Wind's Scoping 'Areas of Search' Study, "offshore wind technologies often require an electrical grid connection to demonstrate the full commercial generation cycle. More distance from shore generally equates to more cost."² Limited existing onshore grid infrastructure and the likely timescales involved in delivering new infrastructure will impact on both the cost and timescale associated with delivering offshore wind projects between 2025 and 2035. Further, the costs associated with offshore grid connection for projects located far from shore will be a limiting factor for projects. Therefore we have recommended that the Draft Sectoral Marine Plan for Offshore Wind acknowledges these limitations and identifies how they will be addressed. This in turn should feed in to the CES leasing process.

We would encourage Marine Scotland and CES to engage with National Grid on this issue and the potential demand for new infrastructure.

Question 4: Do you (potential applicants) anticipate being willing to include non-binding information of this kind when making an application to Crown Estate Scotland which can be shared?

It would be useful to provide further clarity on how providing this information would add value to the leasing process, and how this would be used.

Question 5: Are there aspects of the provisional design of the leasing process which may be significant barriers to the establishment of cost effective projects and supporting supply chain?

We welcome CES' aspiration to support the supply chain through the leasing process. The offshore wind industry currently employs 2,000 people (full-time equivalent) in Scotland.³ The leasing process needs to make developing offshore wind projects in Scotland attractive on a global level to build on this, by providing a continued pipeline of competitive projects. This is essential to enable local supply chain growth, by giving companies confidence to make the large investment in ports and manufacturing facilities required to enhance local capability.

As set out in our response to Marine Scotland's Scoping 'Areas of Search' Study, we are concerned that the limited availability of shallower sites could put Scotland at a competitive disadvantage in future UK-wide renewables auctions. TCE hopes to auction an additional c. 10 GW of potential capacity located in shallow waters through extensions and a further leasing round. It is therefore likely that developers and the supply chain will look to shallow sites for near term opportunities, with future Scottish projects competing in this context.

A lack of shallow sites in future Scottish leasing rounds risks creating a hiatus in supply chain activity, compromising the momentum that has been gained in recent years. At present there is a

² <https://www.gov.scot/Resource/0053/00536637.pdf>

³ <https://www.ons.gov.uk/economy/environmentalaccounts/datasets/lowcarbonandrenewableenergyeconomyfirstestimatesdataset>

pipeline of five confirmed projects in Scotland (either in construction or pre-construction with an agreed RO or CfD) for delivery out to 2022. Three projects are expecting to bid into the next CfD auction, in spring 2019, for likely delivery between 2023 and 2025. A further two Scottish projects are in development that could compete in future auctions, bringing total potential Scottish capacity to approximately 6.5 GW.

There is uncertainty regarding the efficacy of the leasing process to support the progression of floating technology to commercial scale development from its current pre-commercial stage. This will be of critical importance in the next leasing round as the draft Sectoral Marine Plan for Offshore Wind Energy has largely identified areas of deep water as suitable for offshore development.

Additionally, it is unclear how CES will manage overlaps in developer areas of interest, for example potential export cable overlaps. We would suggest that this should be addressed early on, rather than later at the clearing stage.

Question 6: Please provide us with your ideas on how wider benefits from the development of offshore wind might be realised.

Not answered.

Question 7: Should an interval other than 24 months be adopted between cycles of leasing? Is there a more appropriate time gap?

This may be an appropriate interval; however it will be contingent on whether projects from previous rounds have acquired consent. The frequency of such rounds should also take into account relevant activities such as CfD rounds, the planning process, government policy updates and new technology commercialisation. Twenty four months of survey data are generally required for offshore wind developments. Cumulative impact assessments may also be necessary.

We suggest the following points should be considered on this issue:

- The key requirement is a commitment to further rounds of leasing. Specifying a minimum interval is of secondary importance but a figure of 24 months seems reasonable and links with the recent announcement regarding future CfD rounds.
- We request clarity around the trigger point for the start of a 24-month period or whether the intention is to set specific dates.
- It may be that the most appropriate time gap can only be determined once this round has been concluded.
- We request clarity on whether the time to undertake a Clearing process would have any influence on the starting date for the next leasing application process.

Question 8: Do you agree with our proposal to enable applicants to select site boundary and size?

Yes, we welcome allowing applicants to have full flexibility when deciding on site boundaries. However, further specification is required around the extent of modification anticipated during clearing and the extent of 'fine tuning' anticipated during the pre-finalising stage.

Question 9: Is a ceiling on application size required? If required, what area would be realistic to develop over a ten-year Option Agreement term?

There are a range of views on this issue; in general, developers prefer flexibility given the economies of scale that can be achieved with bigger projects, although there has been some support for the proposed ceiling on application size amongst our membership.

Question 10: What is your opinion of our proposed approach to Option Agreement fees?

Charging a higher fee for the award an Option Agreement for “prime” areas for offshore wind may disincentivise development, as higher costs may give investors less confidence to go ahead. Therefore, the potential to negotiate fees would be welcome.

We would also argue that fees should not be the sole basis on which the award of Option Agreements will be made. Rather, these should be based on the credibility of proposed projects and detailed plans.

The Option Agreement fee payment structure and profiling should reflect the risks being taken by a developer in securing and characterising a site– particularly in the initial period of an option. With this in mind we believe Option Agreement fee payments should be profiled such that a reasonable period (3 years minimum) is allowed for initial site investigation and characterisation before the full fee is payable.

Overall, we support the process allowing bids at higher and lower levels than the base level fee to be submitted, but would highlight that even within sites this figure is likely to vary across the site. Particularly with regard to any subsequent Clearing process, it may be helpful to request that developers identify those areas of their site bids which they consider to be their highest priority.

Details of the costs to enter the bidding process are requested.

There is a concern that incorporating an Applicant Valuation into the bidding process might risk applicants making overly optimistic valuations, or otherwise seeking to second guess competitor Valuations (and Valuation strategies) if the need is felt to place significant emphasis on this aspect of the application.

We would request further clarity as to the weight that the Applicant Valuation will have in “resolving competing interest if that arises.”

Question 11: Do you agree that single-project Option Agreements are sufficient for areas of 150km² and below?

There are a range of views on this across our membership.

Question 12: What is the best combination of elapsed time and percentage commitment of development budget for Milestone 1?

While we believe the milestone approach is useful in demonstrating progress, we see risks in the approach set out for the first milestone. Requiring a proportion of the development budget to be committed discourages innovation, which will be particularly important in the next leasing round as the draft Sectoral Marine Plan for Offshore Wind Energy has largely identified areas of deep water as suitable for offshore development.

It is not clear how a requirement for minimum spend within a set period will incentivise overall cost reduction. A requirement for a developer to spend a certain proportion of the proposed development budget prior to a certain date could result in inappropriate spend solely in order to avoid the risk of Option termination.

We do not support spend as the sole criteria for Milestone 1. There needs to be a mechanism to also recognise achievement of demonstrable progress (particularly with regard to reducing development risk) and for this to feed into the evidence base for milestone satisfaction.

Question 13: Is it preferable that we define specific actions which the budget must be committed to, or will the milestone provide a suitable incentive by specifying the proportion of expenditure alone?

Developers will require clarity as to what must be included in the development budget. In the development phase developers would typically delay expensive expenditure on land options, grid agreements and geophysical surveys for as long as possible while the consent application is in progress.

Question 14: What is the earliest we might set a deadline for consent application that does not risk cancelling Option Agreements held by projects which could otherwise have been successful?

We would highlight that tight timescales can be damaging to project development, although we recognise the need to free up unused Option Agreements. Three to five years would be a reasonable deadline for consent application. Should a consent application still be under the consideration of Regulators near the end of the Option Period, we propose that there be pragmatic flexibility in Option Period extension to allow for completion of the consenting process.

We would request further detail on what is envisaged with multi-phase options within an overall 10-year option period. Whilst a consent deadline of 12 months from the end of the 10 year period may be appropriate for a single-phase option it is unlikely to be appropriate for an Option Agreement that specified multiple phases where consent for the initial phase would most likely be required earlier in the 10 year period in order to leave sufficient time to progress subsequent phases captured within the same Option Agreement.

Question 15: Is a broad-brush approach to Milestone 1 (Commencement) viable for multi-project Option Agreements, or is it unlikely to be possible to select parameters which give worthwhile incentives whilst not posing undesirable risks to some potential developments?

We do not believe that a broad-brush approach to Milestone 1 (Commencement) is viable for multi-project Option Agreements, as these will require further flexibility. Project milestones should be determined on a project-by-project basis in consultation with developers. Taking early commercial scale floating wind projects as an example, it would seem possible that the initial scale of project could be significantly smaller than subsequent phases but clearly strategies on this can vary between developers.

Additionally, we would argue that project completion, and the accompanying revenue stream, will be enough incentive for developers to progress projects.

Question 16: Assuming two broad-brush milestones could be worthwhile, what is the best combination of elapsed time and percentage commitment of development budget for Milestones 1.1 and 1.2?

Not answered.

Question 17: Does profiling of rent along these lines provide a suitable incentive to commence operations in a timely manner?

No, this is an unnecessary proposal and risks overcomplicating the leasing process. There are already sufficient drivers integrated into the project delivery phase such that it is not necessary for rent to be profiled as proposed.

Additionally, adopting this approach risks negatively impacting project economics, particularly in regards to preparing a CfD bid price, where it would be necessary to factor in the risk of the rent profile becoming misaligned with electricity generation.

Given the capital spend to bring a project through development and into construction we believe that the drivers to incentivise operations are already present. The rent being paid should be reflective of the value of the asset and recognise that overall this value will have been created by developer spend and commitment to the project. With this in mind we support a period of a number of years post financial close where base rent only will be paid with a caveat that no indication of the proposed base rent has been provided at this stage.

Question 18: Do you think the information we are requesting at this stage is appropriate? Is there anything else you would expect to see on the above list to help us reach robust selection decisions? Please explain.

The information requested at this stage is reasonable. The financial standing of applicants is important in determining capability and experience, and therefore the credibility of proposed projects. A supply chain plan could also be a good indication of a credible project, although this would need to reflect the stage of development where less established technologies are being used.

Question 19: What aspects of the plan for project delivery are most material in identifying applications which are likely to progress successfully?

We consider that the following will be important in evaluating the likelihood of successful project delivery:

- **The development entity:** This would include aspects relating to project delivery track record, QHSE performance, the experience and expertise of individuals involved and their roles and identification/ management of risk.
- **Budget:** Both the available budget resources and prior evidence of actual spend on similar projects.
- **Project Site Appraisal:** Clear evidence of knowledge of the proposed site at a level appropriate for the development stage.
- **Technology appraisal:** A demonstrable knowledge of the challenges of developing in deeper water sites and evaluation of technology options for these locations.

Question 20: What aspects of the project concept can be assessed, and in what level of detail, to determine the amount of operating capacity likely to result from an application?

In order to come to an informed view on this we would assume that CES will have to carry out a level of review and analysis similar to that of a developer. We suggest that given the significance this matter may have on Option Award that the focus should be on MWh rather than installed capacity and that this will consequently require informed appraisal in a number of key areas such as wind resource, including baseline environment and site-specific project constraints. Technology will also need to be considered, including turbine choice and foundations as well as array design.

Question 21: Should we try to reduce the chances of clustering occurring?

We agree that “assessment of cumulative and in-combination impacts of clusters of proposed projects may be challenging” and even after increasing the minimum separation required between Option Agreements it is likely that there will be interactions between projects.

While we would not like to see CES “needlessly rule out developments which may have been viable,” we believe that it is important that the leasing process is competitive and that the most credible, viable projects are successful.

We would seek clarity on how CES will consider this once the Sectoral Marine Plan for Offshore Wind Energy has been finalised. The Plan’s SEA and HRA should provide a good deal of clarity on how substantial cumulative and in-combination effects might be for each region (taken to mean the five areas: E, N, NE, NW and W) and until this has been progressed, it is our view that CES is not likely to be in a position to proactively manage this issue without either being very conservative regarding the size and scope of the leasing round or very prescriptive on areas where applicants can consider in their applications. Neither of these outcomes would be welcome.

Question 22: What is the correct minimum separation we should allow between projects? Please explain.

The minimum requirement for Maritime & Coastguard Agency (MCA) Search & Rescue (SAR) lanes is 5km. Even beyond this distance it is likely that there will be interactions between projects. This will need to be negotiated between developers. There is potentially a role for CES to be an arbitrator in cases of conflict between developments.

Question 23: Should we have a Clearing process? Please explain.

Yes, a Clearing process would be useful in ensuring that the maximum potential capacity of viable developments can be awarded Options Agreements.

However, further clarity is required on how CES will consider overlap issues. Again, we suggest that this should be dealt with earlier in the leasing process. We would also question why a bias is introduced to favour an applicant with fewer existing successful applications.

As previously set out, we request clarity on how a Clearing process can work at any stage in advance of final Plan adoption as CES will only lease sites identified as suitable for offshore wind development in the Plan. Figure 2 implies that Clearing and Refinement can occur prior to plan adoption.

Question 24: Is limiting the total seabed awarded in a cycle of leasing something we should consider? If we limit, what level should we consider (or what rationale should we consider adopting)?

Whether or not CES considers limiting seabed area awarded should largely be informed by market demand forecasts and Government policy. It is noted that Scottish electricity consumption projections for 2035, as reported in the Sectoral Marine Plan for Offshore Wind Energy Context Report, will be no more than 4.7 GW (National Grid scenario) with a total generation capacity of up to 25 GW (up to 20GW from low carbon generation).⁴ Scottish Government policy is also targeting 100% gross electricity consumption from renewable sources by 2020. In the Scottish Government Future Energy Strategy (2017), the 2030 forecast for installed renewable energy capacity is 17 GW, with 9.5 GW of renewable energy capacity currently installed (June 2017).⁵

Additionally, the draft Sectoral Marine Plan (as referenced in the corresponding Socio-economic scoping report) is considering potential development scenarios that are quantified as between 2 and 8 GW of new installed offshore wind capacity by 2035, which seems to be broadly aligned with the scenarios highlighted above.⁶ It is anticipated therefore, that this would provide CES with context for setting a limit to award, subject to adjustment to factor in uncertainties including capacity refinement, project capacity attrition, future leasing round plans, Brexit, and differences between plan time horizon and Option Period.

Question 25: Do you support us reserving the ability to limit dominant holdings of seabed?

The flexibility of the proposed leasing process means that there will be the possibility that developers might apply for large areas of seabed. Concentration of seabed under development with a single developer is a risk to the leasing process. Limiting application size and/ or total area awarded to individual organisations could be a way to reduce this risk. We suggest that affected applicants should be offered the opportunity to rank their bids should they wish to prioritise one bid over another.

While some form of limitation in the interest of competition may be appropriate, this would require further consultation to ensure a transparent and fair process.

Question 26: Should a Refinement stage be included?

Yes. We broadly support what is proposed apart from the development of binding agreements between neighbouring projects, as in practice these would be difficult to put in place in a competitive environment.

Question 27: What should be included in the scope of a Refinement stage?

The opportunity for Applicants to refine the terms of the Option Agreement, including the boundary, with or without engagement with neighbouring successful Applicants should be included in the scope of a Refinement stage. The Applicant should also have the option to engage more widely should they wish to, but without reference to information on other potential Options (unless agreed by the applicable Applicant).

⁴ <https://www.gov.scot/Resource/0053/00536630.pdf>

⁵ <https://www.gov.scot/Resource/0052/00529523.pdf>

⁶ <https://www.gov.scot/Resource/0053/00536625.pdf>

We would also suggest that variations to export cable route areas of search should be permitted at this stage.