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Clean Power Strategy & Deployment Directorate  
Department for Business, Energy and Industrial Strategy  
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29 May 2020

To whom it may concern,

**Contracts for Difference for Low Carbon Electricity Generation - Proposed amendments to the scheme: Consultation Response**

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 transition. We represent around 260 organisations across the full range of renewable energy technologies in Scotland and around the world, ranging from energy suppliers, operators and manufacturers to small developers, installers, and community groups, as well as companies throughout the supply chain.

Our energy system is experiencing a period of transformational change as we move away from centralised fossil-fuelled plants and embrace renewable technologies, which now account for 90% of Scotland's electricity supply<sup>1</sup>. Meeting our net-zero ambitions means that we must get to a renewables-based system across the economy, with the Committee on Climate Change (CCC) stating that we will need to expand low-carbon generation four-fold<sup>2</sup> in order to meet this target.

The Contracts for Difference (CfD) scheme has been successful in securing large volumes of renewable generation at the lowest cost to consumers. The latest auction round reinforced the value of the mechanism by driving down the cost of our transition to a low-carbon energy system through competition, with projects being delivered at prices far below the wholesale cost of power meaning they will actually deliver money back to government. By taking the right

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<sup>1</sup> [Scottish Energy Statistics Hub, Scottish Government](#)

<sup>2</sup> [Net Zero Technical report, May 2019, Committee on Climate Change](#)

decisions now the CfD scheme can continue to play a key role in decarbonising our energy system, as well as supporting a strong UK supply chain and technology innovation. As we transition out of the current restrictions caused by Covid-19, the renewables industry can play an essential role in a green economic recovery. This will not only have positive impacts at a domestic level but provides an opportunity to build an industry which can export skills and expertise globally. In 2019, Scottish Renewables found that Scotland's renewable energy reach is growing and being put to work in 72 countries.<sup>3</sup> Continuing to grow the industry in this way can allow us to develop a globally competitive and successful supply chain, as well as getting increasing business activity from energy developments around the UK.

Scottish Renewables welcomes the opportunity to provide our view on the proposed amendments outlined in this consultation. In responding, we would like to highlight the following points:

- We strongly welcome the reinstatement of access to the CfD mechanism for Pot 1 technologies. Technologies such as onshore wind and solar, provide one of the cheapest ways to tackle climate change while delivering economic benefits across the UK.
- We welcome the proposals for floating offshore wind and the clear signal this provides to developers and investors. Scotland's deep waters have a huge role to play in the global expansion of this important technology.
- It is crucial that budget and capacity caps are aligned with net-zero targets and are at a level that will enable an ambitious development pipeline for a mix of both established and less-established technologies.
- As we increase our deployment ambitions to reach net-zero, we believe that a move to annual auctions (with sufficient capacities) could provide a smoother pipeline of projects and enable better supply chain development. To facilitate industry debate, we would like to see BEIS publish its thinking on the future frequency of rounds as part of their response to this consultation.
- There must be a recognition of the need to maintain an appropriate balance of risk, innovation and competitive tension with the need to maintain significant levels of investment in both development and supply chain in order to meet all five objectives set out in the consultation. We would be interested in hearing how BEIS they see these being managed.
- Developing the UK supply chain should be a shared task between government, developers, and supply chain companies. Developers cannot bring forward a supply

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<sup>3</sup> <https://www.scottishrenewables.com/news/402-scotlands-green-energy-export-impact>

chain in isolation and the SCP process is only one part of a wider set of actions needed across all parties.

- Differences between Scotland and the rest of the UK need to be accounted for in all areas to ensure there is a level playing field for Scottish projects, particularly the disproportionate impact transmission charging costs pose for Scottish projects. Not addressing these disadvantages will hamper progress towards a geographically diverse energy system and reaching the level of deployment needed to reach net-zero.
- Throughout the consultation document, the proposed amendments are often looked at in isolation of each other. It is crucial that there is a recognition that the CfD is a dynamic and interconnected mechanism, and that changes in one area could impact another. Any decisions must be made across the scheme as a whole to achieve the stated objectives and avoid any unintended consequences.

Scottish Renewables would be keen to engage further with this agenda and would be happy to discuss our response in more detail.

Yours sincerely,

A handwritten signature in cursive script that reads "CDalziel".

Cara Dalziel

**Policy Manager**

**Scottish Renewables**

## Consultation Questions

### Community Support

#### **1. How can the government better ensure that the local impacts and benefits of renewable energy developments are taken into account across the whole of GB?**

The renewables industry has long recognised the importance of delivering benefits and building a relationship with local communities. The approach and outcomes of Community Benefits can vary from project to project depending on a number of factors, such as scale and location of project, the size and resource of the developer and the ability to offer benefits that are of interest to the local community.

A community benefit scheme should be flexible, allow developers to examine the benefits that specific communities need most, and recognise benefits to the community in a wider sense. During development and construction developers rely on the local community for support through local services and once commissioned can rely on local people to provide the workforce. This often extends to apprenticeship schemes. These benefits and the economic impacts to the community are often not formally recognised.

In Scotland, guidance already exists setting out good practice principles for community benefits<sup>4</sup> and shared ownership of onshore wind developments<sup>5</sup>. Local Energy Scotland also host a Community Benefits register<sup>6</sup> which pulls together information relating to operational projects where the community benefit scheme exists. Given that these guidance documents were recently updated in 2019, these would provide a good basis for guidance elsewhere in the UK.

#### **2. What exemplifies ‘best practice’ when it comes to engaging with and supporting local communities on renewable energy developments? Examples of specific projects and/or developers would be welcomed.**

We believe that examples of best practice take into account several elements. This includes early engagement with stakeholders that happens in a bespoke way to suit the local community. The ideas and concerns of the community should be identified, and the

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<sup>4</sup> [Community benefits from onshore renewable energy developments, May 2019, Scottish Government](#)

<sup>5</sup> [Shared Ownership of Onshore Renewable Energy Developments, May 2019, Scottish Government](#)

<sup>6</sup> [Community Benefits Register, Local Energy Scotland](#)

development plan clearly evidences how due regard has been given to the widest possible range of local views.

As we've set out in our response to question 1, there should be a flexible approach to ensure consideration of each individual community's needs, with developers and communities working together to agree a community benefit package which may not always result in the provision of funds. As a result, some of our members are now moving away from a "pounds per megawatt formula" of community benefit which is disconnected from the operation and profits of a wind farm, and not easily understood by many communities. Instead, developers may sponsor a local employment or skills initiative, support a social enterprise, or deliver capital works that improve the look or feel of a place. Some renewables projects are now being developed on a merchant basis and the tight margins of developing projects without subsidy exert a downwards pressure on the funds available for community benefits

Our members have provided specific case studies which demonstrate best practice:

- In April 2020, Vattenfall announced plans to build South Kyle Wind Farm, a 240MW onshore development. The project will deliver £38 million of community benefit investment over its lifetime to South Kyle's four very distinct neighbouring communities. It is Vattenfall's intention to enact best practice in the development and construction of the windfarm, particularly in how it will engage with, and maximise opportunities for, local communities to give them lasting impact and community value. To achieve this, Vattenfall is building engagement around five key themes: skills and education; the local supply chain; environmental and habitat improvements; direct in-kind benefits during the construction phase; and a community benefits package. A local Liaison Officer will lead engagement. Vattenfall engaged early with local community leaders and stakeholders and as a result were able to:
  - Lay early foundations of trust, building networks and linking into local community communications channels.
  - Learn from the communities' experience of other wind farms to provide a better understanding of local expectations and proactively address concerns
  - Better understand the distinct and varying levels of experience and understanding within the communities in working with wind farm developers and building community benefit packages, and build the engagement plan flexibly to reflect this.
  - Start a conversation with community leaders about the positive opportunities the project will bring, and open channels for suggestions, ideas and feedback.

Vattenfall has now appointed Foundation Scotland to take forward a community conversation on how to build a bespoke community benefits package which reflects local aspirations, capabilities and needs. The results from this will mould the final community benefits agreement, with the objective that this is sustainable and robust.

- Whitelee Windfarm, developed and operated by ScottishPower Renewables, has awarded over £9 million to local projects, with a further £14.5 million still to be paid in community benefits over the remaining lifetime of Whitelee<sup>7</sup>. Each year, around 200,000 people visit Whitelee for recreational activities such as walking, running or cycling and there has been over 750,000 total visits to the visitor centre. Whitelee Windfarm represents a total lifetime investment of £1.5 billion by ScottishPower Renewables and is expected to boost the UK economy by over £1 billion, with over £790 million in Scotland. During construction of Whitelee, over 4,000 FTE jobs were created in Scotland and 600 jobs per year are generated through operations and maintenance.
- The Ben Mor Hydro project was originally a joint venture between Coigach Community Development Company (CCDC) & Scottish Wildlife Trust (SWT) with the aim of developing a 'run-of-river' hydro project near Achiltibuie, NW of Ullapool. Locogen were appointed as project managers & owner's engineer in 2015 to take the project through the construction phase. Towards the end of 2015 it became clear that CCDC and SWT could not commit additional funds to the project due to the outstanding property and crofting law issues and a fast-approaching Feed-in Tariff deadline that looked likely to be missed. Keen to see the development through to its fruition, and building on the strong partnership already established, Locogen agreed to enter into a shared ownership arrangement with CCDC & SWT to deliver and operate the project. Locogen provided the capital and expertise needed to resolve the issues and build the project, whilst providing an ongoing share of revenue for the life of the scheme to CCDC & SWT. The project started construction in May 2016 and was commissioned in December 2016. The project benefits the local community by providing a secure revenue stream for the life of the scheme. The funds, amounting to over £1m, will be reinvested in the local community via new initiatives which will ensure the ongoing sustainability and enhancement of the local area.<sup>8</sup>

### **3. How should the government update the existing community benefits and engagement guidance for onshore wind to reflect developments in best practice for engagement between developers and local communities?**

The existing and well-developed guidance from Scottish Government on community benefits provides a good basis for updating guidance elsewhere in the UK. However, it should be considered that it may be unrealistic for CfD auction projects to deliver the same cash benefit levels that became normalised through the Renewables Obligation period. As we have highlighted in response to Q1-2, a wider interpretation of benefit should be considered (such

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<sup>7</sup> <https://bvgassociates.com/10-years-of-whitelee-windfarm/>

<sup>8</sup> [https://www.locogen.com/sites/default/files/Locogen\\_Hydro\\_BenMor\\_viz.pdf](https://www.locogen.com/sites/default/files/Locogen_Hydro_BenMor_viz.pdf)

as socio-economic and community development) rather than focusing on a specific 'pounds per megawatt' formula. It is important that there is flexibility for devolved administrations to continue to maintain and evolve their own approaches within a consistent national framework, however it should be recognised that where policy approaches add cost to development then having an uneven playing field across the UK could potentially advantage projects with the lowest level of benefits to a community.

#### **4. Should the government consider creating a register of renewable energy developments in England that list available projects and associated community benefits?**

A Community Benefits Register<sup>9</sup> already exists in Scotland which allows Government, industry, and the community to access information on how much funding is provided annually and gives an indication of average funds per MW that are being delivered.

The value of a register is dependent on the quality of information that is submitted by the developer and the recipient organisations. The Scottish register, for example, does not contain a lot of information about the initiatives that are being delivered with the funds that communities receive, and we would suggest that all participants are encouraged to ensure data is made available to the register at the appropriate levels and frequency.

#### **Pot Structure**

#### **5. The government welcomes views on whether, compared to maintaining the existing two pot structure, the proposed option of introducing a new Pot 3 for offshore wind is an effective means of ensuring value for money and achieving our decarbonisation and other objectives in the long term. We welcome the submission of supplementary evidence to support views on this.**

Scottish Renewables support this proposal. Increased capacity of offshore wind will be key to delivering the level of renewable deployment needed in order to achieve both Scottish and UK climate targets. We believe that creating a separate pot for this technology will be a crucial part of reaching the ambition of the Offshore Wind Sector Deal, particularly with the Conservative manifesto seeking to increase the target from 30GW to 40GW by 2030.

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<sup>9</sup> [Community Benefits Register, Local Energy Scotland](#)

We welcome the recognition of the importance of a diverse generation mix and agree that this is a key part in balancing decarbonisation of our energy supply against the cost to the consumer. The difference in project characteristics and level of commercialisation makes it challenging for other technologies within Pot 2, such as wave, tidal and floating wind, to compete against fixed-bottom offshore wind. With the right auction parameters in place (see Q7-8 for more detail), separating offshore wind from Pot 2 will increase competitiveness of these projects over time and enable a greater mix of technologies to come forward and deliver economic benefits in line with the Clean Growth Strategy.

It is important to note that the budget and capacity allocated to each pot will be a crucial element to ensuring renewable deployment can continue to expand at the rate required to make progress towards our net-zero targets and deliver the five objectives set out in the consultation.

## **6. The government welcomes views on whether the proposed options are an effective means of bringing forward a greater diversity of low carbon electricity generation.**

We believe that the proposed options are an effective means of bringing forward a greater diversity of low carbon electricity, however it is crucial that budget and capacity caps across all pots are at a level that will enable an ambitious development pipeline for a mix of technologies.

We strongly welcome the reintroduction of Pot 1 technologies to the scheme. As the costs of technologies such as solar and onshore wind continue to fall, this will be key part of decarbonising in the most cost-effective way. Scotland is already the UK's onshore wind powerhouse, with around 58% of its installed capacity, as well as 80% of its consented capacity. Allowing these technologies to access the CfD auctions once again will enable their financing and deliver economic benefits across Scotland.

As we have set out in response to Q5, establishing a Pot 3 solely for offshore wind will enable other less established technologies in Pot 2 which would find it challenging to compete to come forward, assuming appropriate auction parameters (such as minima, capacity and strike prices) are utilised. We welcome the proposals for floating offshore wind to be considered a separate technology within Pot 2 and believe this gives confidence and a clear signal to developers and investors.

Remote Island Wind (RIW) can make a significant contribution to low cost renewable generation, as well as delivering substantial local economic benefits. In order to support



upgraded transmission interconnectors to these islands, a minimum “critical mass” of project capacity is required. For this reason, it is essential that the Pot 2 budget is set at a sufficient level to enable, subject to competitiveness, the necessary capacity of RIW to allow these transmission links to come forward.

#### **7. The government welcomes views on whether there are alternative approaches to be considered in light of net zero.**

For smaller wave and tidal project projects, support is specifically needed for technology development. Industry has proposed introducing an ‘Innovation Power Purchase Agreement’ (IPPA) which can be used to support technology developers to deliver projects of up to 5MW whilst protecting consumers from costs by providing off-takers a tax rebate when buying marine energy. This would allow marine projects to sell their power over the market rate, with the off-takers reclaiming excess costs against tax, with this cost declining over time. The sector has been in dialogue with BEIS on how this model would be implemented and looks forward to continuing this discussion outside of the consultation.

Alongside larger generation and transmission, small-scale community and locally-owned projects have an important role to play in reaching net-zero targets. These projects offer significant benefits to local communities including job creation, income for local infrastructure and support to local businesses. Creating a pot for technologies under 5MW could encourage not only greater diversity in technology mix, but also in ownership as community and locally owned projects would be able to compete.

#### **Floating offshore wind**

#### **8. The government welcomes views on whether the proposed approach is an effective means of supporting floating offshore wind.**

Scottish Renewables support the proposed approach, in combination with the changes to pot structure. Although we are unlikely to see many commercial bids for floating ready for AR4, designating floating wind as a separate technology gives confidence and a clear signal to developers and investors. Given the important role that floating offshore wind has to play in decarbonising our energy supply and capturing a global lead for the UK, we believe a pot 2 minima will be necessary. Many of the sites available through upcoming ScotWind leasing are in deeper water and we are very keen that they are enabled to deploy at a commercial scale, build on the UK’s North Sea expertise and spearhead cost reduction for the technology. We

would like to see BEIS signal their intention to use every tool, including minima, to support this offshore transformation.

We would also like to highlight the similarity in benefits between floating offshore wind and tidal stream and wave projects, with high levels of UK content and major export potential. Some tidal stream projects are in a position now to expand their scale of deployment, and wave energy is likely to be in this position by the end of 2029. In recognition of this, we would like to see the same support offered in pot 2 for these innovative marine technologies.

**9. The government welcomes views on whether the proposed definition is a suitable definition of floating offshore wind projects, which should be distinguished from fixed bottom offshore wind, and what evidence prospective generators should be asked to supply in order to demonstrate that they have the required characteristics.**

We are supportive that floating offshore wind is given its own definition to ensure that it is distinguished from fixed bottom offshore wind.

Our members have raised concerns over the proposed definition however, primarily with the specified water depth. There will be instances where floating wind will be used in shallower depths where the seabed geology cannot support fixed-bottom turbines. In order to maximise the commercial development of floating wind technology, and in recognition of the wide variety of depths and ground conditions, we would suggest that the depth requirement is removed from the definition. We believe it would also be appropriate to introduce measures to mitigate any unintended consequences from removing a specified water depth from the definition.

Given these concerns, we would encourage BEIS to engage further with industry to reach an agreed definition. We would also welcome further clarity on the reasoning behind this definition.

**10. The government welcomes views and evidence on any potential wider benefits or disadvantages that floating offshore wind may bring to the UK, in particular in respect of wider system impacts.**

As set out in Scottish Renewables and RenewableUK's 'Floating Wind: The UK Industry Ambition' paper<sup>10</sup> published in 2019, floating offshore wind brings a wide range of benefits to the UK.

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<sup>10</sup> [Floating Wind: The UK Industry Ambition \(2019\)](#)

Deploying floating wind at scale will be necessary for Scotland to meet net-zero emissions by 2045, and the UK by 2050, and offers the most cost-effective pathway to delivering 75GW of offshore wind in UK waters. As ambition ramps up in the offshore wind sector, we will ultimately need to push further from shore and into areas of deeper water. Floating wind is key to unlocking these deep-water sites and sites with geology unsuited to fixed-bottom turbines.

Given that the UK has already established a global lead in offshore wind, floating wind presents an opportunity to grow the market for UK skills, products and expertise while delivering economic benefits to areas of the country that need it most. Scotland in particular can benefit from the synergies with the skills and capabilities already held within the oil and gas sector, helping with the transition for those employed in this sector.

**11. The government welcomes views on the need to deploy floating offshore wind at scale through the 2030s to meet net zero, and what trajectories for deployment and cost reduction are realistic and feasible, both globally and in the UK.**

Successful demonstration projects have proved concepts and allowed industry and the supply chain to better understand the distinct requirements of floating wind. Coupled with the UK's existing expertise in fixed-bottom offshore wind, this creates a strong base for cost reduction. With the right support, cost reductions can be achieved rapidly, mirroring the significant cost reductions in offshore wind over successive CfD allocation rounds. Based on realistic levels of UK and global deployment, we expect floating wind to be cost-competitive with other energy technologies by 2030<sup>11</sup>.

Continuous, predictable deployment is critical to cost reduction, for enabling both supply chain investment and further learning. Support for the near-term deployment opportunities, in the region of 1–2GW in the period up to 2030<sup>12</sup>, is therefore crucial. This will enable the current levels of cost reduction to continue and ensure the longer-term pipeline of UK projects can achieve significant reduction in support requirements; similar to those achieved in CfD allocation round auctions for fixed-bottom.

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<sup>11</sup> [Macroeconomic Benefits of Floating Offshore Wind in the UK, October 2018, Offshore Renewable Energy Catapult and Crown Estate Scotland](#)

<sup>12</sup> [Macroeconomic Benefits of Floating Offshore Wind in the UK, October 2018, Offshore Renewable Energy Catapult and Crown Estate Scotland](#)

**12. What further amendments to the CfD allocation process could be necessary to facilitate floating offshore wind technologies?**

As we have highlighted in response to Q8, we believe that it would be appropriate to utilise a minima in a number of future rounds to facilitate the deployment of floating offshore wind and other marine technologies. The budget and capacity of Pot 2 must also be designed to deliver long-term deployment of the technology. If the pot capacity is kept too tight then viable cost-reduction and supply chain enhancing projects will not go forward. If there are concerns that the pot is too large, and that this might lead to higher prices, then this can be managed through administrative strike prices or by ring-fencing the new technology into their own minima so that their higher prices within a minima do not impact the prices bid by other technologies during the clearing up process to close the round.

**13. Are there additional measures to support pre-commercial deployment and cost reduction which would be more effective than the CfD, or which could enhance the effectiveness of the measures under the CfD?**

As detailed in Q7, we are supportive of the industry proposal for an IPPA structure to support pre-commercial wave and tidal projects.

It is also important to recognise the huge role that innovative funding plays in the development of our leading renewable technologies, and the reality that much of this has been sourced from EU programmes. For instance, the Marine Energy Council estimates that over £200m has been provided for marine renewables over the last 4 years. It is vital that post-Brexit R&D funding streams are comparable in scale so that the UK's lead in so many areas of energy transition and cost reduction is not lost.

**Extending Delivery Years**

**14. Should the government amend the Contracts for Difference (Allocation) Regulations 2014 in order to extend the delivery years specified in those regulations to the 31st March 2030?**

We are supportive of this proposal, although we would suggest that a longer extension of delivery years to 2035 could be appropriate here. Extending out to 2035 would ensure that the CfD scheme remains in existence until the UK's net-zero target date of 2050, assuming 15-year contracts remain, and will provide investors with certainty over long-term delivery plans. When coupled with future allocation rounds occurring more frequently, this could provide a

smoother pipeline of projects and enable better supply chain development. For technologies such as wave and tidal, bringing delivery years forward by one year should be considered to speed up cost reduction and the benefits these projects could deliver to the supply chain.

## **Supply Chain**

**15. The government welcomes views on whether the Supply Chain Plan process for all technologies should be more closely aligned with the Industrial Strategy, for example with criteria headings to reflect a focus on competition, innovation, people and skills, infrastructure and regional growth, and within this what other measures the government could adopt and consider to support its objectives, for example, in the Offshore Wind Sector Deal.**

Scottish Renewables agree that the Supply Chain Plan (SCP) process should be reassessed and broadly support the alignment of government policy. However, we would note that the targets and commitments in the Offshore Wind Sector Deal are for the sector as a whole, rather than an individual project.

Over the previous allocation rounds, SCPs set by developers have contributed to achieving the initial objective of encouraging the effective development of low carbon generation supply chains within the UK.<sup>13</sup> SCPs can be a useful tool to achieve policy objectives, but we would welcome clearer details of what the government is looking to achieve through revising this process and how they intend to reconcile the investments required in the UK supply chain with the continued focus on low cost of power. Developing the UK supply chain should be a shared task between government, developers, and supply chain companies. Developers cannot bring forward a supply chain in isolation and the SCP process is only one component of a wider set of actions needed across all parties.

We would suggest that the policy objectives for the supply chain are reviewed before changes are made to the SCP process itself. Possible objectives could include demonstrating continued downward pressure of prices, providing confidence on project delivery, encouraging higher UK content in CfD projects or encouraging the development of skills, infrastructure, capacity and competitiveness. Objectives need to have measurable, targeted actions and it should be clear to developers how these objectives are weighted within the SCP process, e.g. is the key priority from the auction further cost reduction or UK supply chain development.

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<sup>13</sup> [Supply Chain Plan Final Guidance, August 2014, BEIS](#)

Beyond SCPs, there is need for Government to set out a wider strategic policy approach. Government has a key enabling role to play and should, amongst other issues, consider:

- The economic value to individual regions from securing investment, in addition to overall UK value
- A more active role in delivering the enabling infrastructure needed to generate greater investment
- Active signposting of existing infrastructure funding routes available to unlock investment
- Joining up existing local, regional and national initiatives
- Targeted R&D support, for instance focused on the application of new technologies, advanced manufacturing and O&M innovation

It is important that requirements from devolved administrations are taken into account to ensure there is a streamlined approach. In a Scottish context, it is not clear how the Supply Chain Plans for the CfD will interact with the new Crown Estate Scotland supply chain development plans for leasing. We have concerns over the additional burden that both processes will put on Scottish offshore wind projects which could ultimately put these projects at a disadvantage compared to elsewhere in the UK. It is crucial that BEIS and Crown Estate Scotland work together to ensure the processes are complementary and do not result in a negative impact on Scottish projects.

The issues raised by SCPs are complex and multi-faceted and any changes to the existing SCP process warrant a dedicated work stream that brings together all stakeholders for a thorough assessment of the issues and options.

**16. The government welcomes views on strengthening the powers to fail SCPs on the basis that the Applicant has not demonstrated compliance with a past SCP.**

It is important that SCPs are meaningful and that developers clearly understand the risk associated with their submission. This can only be done if there are clear, prescriptive success factors that the applicant understands must be passed. Failing an SCP based on non-compliance with a past SCP could hinder future progress made in good faith by developers. Likewise, the assessment of SCPs needs to be flexible and recognise the wide range of options to deliver supply chain benefits. If a SCP is failed on a technicality, this undermines developer confidence and increases their assessment of the risks associated with SCP delivery.

**17. The government welcomes views on whether requiring an updated SCP at a later stage after a CfD is awarded, for example at FID or after MDD, when major contracts would have been awarded, would deliver more focused and deliverable commitments.**

We feel that the current process is sufficient and requiring an updated SCP would not necessarily improve outcomes. We have concerns that this could act as an additional burden on projects already facing tight timelines.

If an updated SCP is required after the MDD, this would occur when projects are no longer carrying out significant negotiations with contractors and would therefore be of limited use to the government. If the requirement is implemented, we would welcome further information on what is required of developers at each stage. It is not clear from the consultation document whether the need for an updated SCP is a method of checking compliance or to reflect a particular stage in the development programme.

**18. The government welcomes views on the current compliance process for SCPs for failure to implement an approved SCP. Is it sufficient and if not, what other potential compliance options could be considered, for example by linking noncompliance to CfD payments?**

We believe that the current compliance process is sufficient and linking non-compliance to CfD payments would be excessive.

If it is concluded that there are shortfalls in the current process, further details of how other compliance options would work in practice need to be considered. The current process lacks transparency and compliance needs to be based on clear, prescriptive, and measurable targets to minimise adding significant risk to the process. It would also need to be considered how a penalty payment would be applied and whether there would be a scale depending on the level of non-compliance.

**19. The government welcomes views on any impact of reducing the threshold limit for the submission of a Supply Chain Plan to capture offshore wind extension projects (which were not envisaged when the policy was first drafted) and to reflect that projects below 300MW will also have a material impact on supply chains and if so, what the limit should be.**

While some of our members feel that there could be merits to lowering the threshold, others feel that the current level is appropriate. Should the threshold be lowered it is likely it will mainly

catch onshore wind projects which already have a mature supply chain, with recently built onshore wind farms using around 66% UK content<sup>14</sup>. It is important that SCPs play a meaningful role and therefore without specific targets for technologies, such as onshore wind and solar, it would be difficult to measure progress should a SCP be required.

Wave and tidal projects have a positive story to tell, with some projects in Scotland using over 80% local content<sup>15</sup>, and UK technology already being exported around the world. While these projects would likely sit below the threshold, our members would support voluntarily putting themselves forward for the Supply Chain Plan requirement. As we have highlighted above, there are some concerns over the administrative burden this could put on projects and therefore requirements should be reflective of the project size.

As we've noted in response to Q15, the issues raised by SCPs are complex and multi-faceted and any changes to the existing SCP process warrant a dedicated work stream that brings together all stakeholders for a thorough assessment of the issues and options.

**20. The government is committed to achieving net zero by 2050 and encouraging the growth of sustainable, efficient supply chains through the consideration of the carbon footprint of supply chains. We welcome views on how industry takes account of the carbon footprint of their supply chains. What methodologies are being used or could be developed to take greater account of the carbon intensity of supply chains when considering Supply Chain Plans.**

We are not aware of any existing methodologies being used by industry, but we would be supportive of working to develop an industry-wide methodology that could increase transparency and reporting. It should be noted however that there are concerns that this type of monitoring could bring additional complexity that could undermine the simplicity of the CfD and be an additional burden on developers. This should be considered within any work to develop an industry-wide methodology.

It is important to consider that building a UK supply chain will help reduce emissions in transportation. It should also be considered that through providing a positive incentive, e.g. an uplift for CfD projects which lower carbon content in their projects either through using technology manufactured with a lower carbon content or for using more local content, could

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<sup>14</sup> [The Power of Onshore Wind', June 2018, BVG Associates](#)

<sup>15</sup> <https://www.novainnovation.com/bluemull-sound>



improve the UK supply chain and increase the competitiveness to export internationally once capacity and capability has been built up.

### **Coal-to-Biomass conversions**

**21. Views are welcomed on the proposal to exclude new biomass conversions from future CfD allocation rounds, on the likely impact of this approach, and on any alternative approaches.**

### **Decommissioning Plans**

**22. The government welcomes views on how best to link the OREI decommissioning regime with the CfD scheme to ensure that offshore renewable projects that are party to a CfD fully comply with their obligations under the Energy Act 2004.**

We are not supportive of linking the OREI decommissioning regime with the CfD scheme. We believe the existing guidance is effective and robust and provides adequate protection through the existing financial security requirements. Further obligations and contractual requirements over and above the existing guidance would not be appropriate.

If it is felt that there is a gap in compliance, this would best be addressed and strengthened through the existing guidance.

### **Allocation Round Design**

**23. The government welcomes views on how we might change our approach to administrative strike prices to ensure value for money in future.**

The current administrative strike price methodology has broadly worked to date; however, we would suggest that there needs to be greater transparency of the way these prices are set. We would also recommend that BEIS ensures any data coming via consultations is as accurate as possible and that BEIS use a higher value of the supply curve than is currently used.

**24. The government welcomes views on extending the exclusion period for sites excluded under the Non-Delivery Disincentive, including on whether 36 months is a suitable period, or a longer period is needed.**

Scottish Renewables support extending the exclusion period to 36 months.

**25. The government welcomes views on whether different forms of disincentive are needed for technologies at different levels of development and on what basis such differentiation might work most effectively.**

**26. The government welcomes views on the advantages and disadvantages of introducing a new requirement for a bid bond where applicants provide a deposit, either by cash payment, bank guarantee or letter of credit.**

Having a strong Non-Delivery Disincentive is crucial to the operation of CfD scheme, and therefore we would welcome a strengthening of the Non-Delivery Disincentive. Introducing the requirement for a bid bond could offer greater protection against speculative bidding.

However, the introduction of bid bonds can create additional costs and increased risk, particularly to smaller developers or projects that already face high pre-development costs and project commitments before they can qualify to bid in a CfD auction. There must be a recognition that this requirement would need to be carefully balanced between being too low which would allow for speculative behaviour and being prohibitively too high or subject to tight payment timeframes. We would also recommend that the release of a bid bond is staged, to reflect the reducing risk as a project progresses. Having detailed criteria for the release of the bond will be also be important.

We would suggest that a risk-based approach is considered where bid bonds apply for projects which require a relatively small level of expenditure to qualify to bid in a CfD auction. It would also be useful to consider introducing a cap on the total amount a developer can pay.

We would encourage BEIS to engage with industry further in order to develop the structure of a bid bond mechanism.

**27. The government welcomes views on whether a bid bond would be practical for smaller projects. If difficulties are foreseen, what are they, what mitigation might apply and in respect of what size of project?**

As we have noted in response to Q26, introducing the bid bond requirement does have the potential to create difficulties for smaller projects., through additional costs and increased risk. It may also be more difficult for developers of smaller projects to have the necessary credit rating or have cash upfront in order to cover this cost.

One approach to ensuring excessive costs do not occur could be to introduce a cap on the amount a developer can pay in a bid bond.

**28. The government welcomes views on what a suitable level for a bid bond would be: would £10,000 per MW be effective and practical?**

When compared to international auctions, we believe that £10,000 per MW would be a suitable level. As we have already highlighted in the previous answer, we believe it would be appropriate to introduce a cap on the total amount an applicant pays to ensure that costs do not become excessive.

**29. The government welcomes views on alternative approaches to the Non-Delivery Disincentive and how they might work in practice.**

**Technical Changes to Future Rounds**

The government welcomes views on:

**30. Whether you agree the government should introduce the flexibility to apply any capacity cap, maxima, and minima as either a soft or hard constraint, set on a round by round basis?**

**31. The type of soft constraint (including those proposed) that could be deployed in future allocation rounds;**

**32. And any further evidence on benefits and disadvantages of a soft capacity cap constraint.**

Scottish Renewables strongly supports introducing a soft constraint on any capacity cap, maxima or minima.

From the proposals outlined on the type of soft constraint to be deployed, we believe that accepting the bid of the project that breaches the cap (assuming enough monetary budget remains) is the most appropriate option. This will allow for greater capacity to be awarded above any set caps, increasing the likelihood that the ambition for that round is met. This will also be crucial to ensuring we can meet the increased levels of renewables deployment that will be necessary to meet our net-zero targets.

Overly strict caps can constraint growth of the sector, increasing risk for investors and developers and hamper progress to net-zero. We would suggest there is a need for higher capacity caps that still promote competition but allow for the critical mass of projects required to come forward to trigger supply chain investments in the UK and align with net-zero trajectories.

### **System Integration of Renewables \***

#### **33. What storage solutions could generators wish to co-locate with CfD projects over the lifetime of the CfD contract?**

Storage will be a crucial part of our future electricity system and it is important that there is a policy framework which enables its deployment. There are a range of storage solutions that a generator may choose to co-locate with CfD projects, but this will ultimately be a commercial decision for developers to decide.

We are not aware of any co-located CfD projects, however as way of an example, ScottishPower Renewables have plans to co-locate a 50MW lithium-ion battery on site at Whitelee Windfarm,<sup>16</sup> which is accredited under the Renewables Obligation (RO) scheme. Its planned storage capacity makes it the largest windfarm battery in the UK, capable of achieving full charge in less than an hour. This means it will be on standby to provide services like reactive power and frequency response to National Grid, enhancing control and flexibility. The battery can be fully discharged or used in bursts as and when required to keep the electricity network stable by balancing supply and demand.

#### **34. What, if any, barriers are there to co-location of electricity storage with CfD projects?**

Our members broadly feel that the current barriers to co-locating storage with CfD projects largely sit outwith the scheme itself. Commercial issues, such as insufficient battery size for large-scale projects, are the main reasons for co-location of storage not being economically viable for projects.

One specific barrier within the CfD scheme is that co-located storage projects that import power from the grid that are excluded unless storage is set up as a separate Balancing Mechanism

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[https://www.scottishpower.com/news/pages/super\\_battery\\_plan\\_to\\_boost\\_uks\\_biggest\\_onshore\\_windfarm.aspx](https://www.scottishpower.com/news/pages/super_battery_plan_to_boost_uks_biggest_onshore_windfarm.aspx)

Unit (BMU). This can incur a number of additional costs and act as a significant barrier to co-location.

Once registered as a separate BMU, a CfD generator cannot use the storage to store output generated during hours with low system demand and export this power at a later date and receive payment under the CfD for export at that later time. As periods of negative pricing increase in frequency in future, this ability to “time-shift” output from CfD generators will be increasingly valuable, both to the individual generators but also to the system as a whole. This time-shifting of CfD output and payment is possible under the current rules for just one configuration, for storage located behind the CfD meter. However, in that configuration, the storage unit cannot import power from the grid for export later, which greatly restricts the range of other storage services that can be provided

Given the opportunity that co-located storage offers for system management, we recommend that BEIS sets up a work stream with developers, Ofgem and the LCCC to examine the issues and options for enabling more flexibility in co-located storage, beyond the levels allowed under the current rules. It is important that all the parties involved work together to explore if there are further viable opportunities to maximise the range of services that can be delivered by co-located storage.

**35. What, if anything, could be changed in the CfD scheme to facilitate the colocation of storage with CfD projects?**

Based on our response to question 34, we would suggest amendments to the CfD rules so that co-located storage can import power and re-export within the same BMU as the CfD project and co-located storage in a separate BMU to a CfD generator can store the CfD output and then export this to the system at a later time and receive payment under the CfD for export at that later time. These arrangements would require appropriate metering and other controls to guarantee that brown power is not re-exported as renewable generated power.

We would also suggest that a clearer framework is developed to support the further deployment of co-locating storage onsite.

**36. Do you have any views on the proposal to extend the negative pricing rule? Please include in your response any specific evidence in relation to the incidence and impact of negative**

We understand the need for generators to be incentivised to respond to market signals in order to maximise the flexibility and efficiency of the electricity system. The proposed change is one possible step in increasing market exposure for CfD generators, however we are not supportive of this particular proposal to extend the negative pricing rule. While we are supportive of enabling a smarter and more flexible electricity system, we feel that this is a 'sticking plaster' to a wider problem, i.e. that the wholesale electricity market based on short run marginal cost. Whilst extension of the negative pricing rule may influence some generator behaviour, it will also increase risks and undermine revenue stabilisation. Developers will factor that risk into bids, resulting in higher strike prices and untimely increasing costs to consumers. More fundamental reform of the electricity market is required to ensure that the wholesale market is fit for purpose and investment is not undermined by low or negative wholesale prices.

We do not believe that it will produce the intended behavioural response, particularly as some generators are unable to respond to signals in this way if they are on a long-term PPA. Additionally, negative pricing is a market signal to increase demand flexibility and synchronisation of supply and demand through demand shifting, storage and new demand which is adapted to low price hours (e. g. electrolysers). A full avoidance of negative prices would weaken investment signals for demand side adaptations. There must also be a recognition that by extending the negative pricing rule generators will be faced with increased exposure to market risk and face significant impacts on project financing, ultimately leading to higher strike prices. This outcome could result in higher costs to the consumer.

We would suggest that it would be appropriate to await the results from the call for evidence that will be taking place before any changes are implemented. There are a wider set of issues on how best to incentivise and reward flexibility, across all levels and technologies. An integrated approach is needed for this wider challenge.

Should this proposal be implemented, it is crucial that alternative levels of protection are introduced alongside it. This has happened in other countries. In France for example, no top up payment is paid when negative prices occur, however after surpassing a certain threshold of negative prices hours during the calendar year a compensation mechanism is triggered. This compensation mechanism means renewables installations will receive a compensation during those hours of negative prices beyond that threshold (provided the renewable asset does not produce during those hours). In Italy, all negative hours are collated and then added to the end of the tenor of the mechanism.

Technologies such as wave and tidal bring increased levels of predictability to the system. By introducing this proposal, new wave and tidal projects will find it even more challenging to get finance through the commercial debt market due to the increased levels of risk.

### **Improving the operation of the CfD**

#### **37. The government welcomes views on the preferred approach to maintain the cap on phased projects at 1500MW.**

Scottish Renewables support this proposal for Allocation Round 4. We would note that the ScotWind leasing round does not have a maximum project size and therefore the cap should be reviewed for future allocation rounds.

#### **38. The government welcomes views on whether there are any barriers to developing a phased offshore wind project on a part-merchant basis pricing.**

We do not believe there are any barriers within the CfD scheme itself, however merchant projects in general may find it difficult to obtain financing.

#### **39. The government welcomes views on the benefits, such as successful delivery of projects or reduced costs for consumers, that would result from extending the Milestone Delivery Date for: (i) the project commitments route only, or also (ii) the 10% spend route.**

We strongly support extending the Milestone Delivery Date (MDD). The current 12-month MDD imposes an artificial Final Investment Decision (FID) on projects, particularly for offshore wind which are complex projects which would typically need at least 18-24 months to reach FID. This means that the current length of the MDD period acts as a restriction on how an investor would otherwise optimally plan and execute the procurement process.

As well as better aligning with the spend and decision profile of an FID, an extension will have a particularly positive impact on the supply chain. Potential suppliers will have more time to understand the needs of the project and therefore be able to develop the necessary capabilities and prepare bids. Having additional time for the negotiation process means the developer has greater certainty over the design of the site and pricing and will likely result in more robust contracts. Along with increased visibility of future CfD auctions, additional time between signing the CfD and MDD could encourage new entrants to the industry, ultimately improving competitiveness. The current MDD favours incumbents as they require less time for technical

clarifications. An extension also provides an opportunity for innovation as there will be more time to explore new technologies and techniques.

It is important to note that this is a policy area that should not be looked at in isolation. If the NDD is strengthened, then there should be more confidence in providing an extension to the MDD.

**40. The government welcomes views on whether an extension should apply to all projects or only to particular technologies or sizes of projects.**

Offshore wind projects would likely see the most benefit to extending the MDD, however we would suggest that the extension could apply to all large-scale projects, such as those required to submit a SCP.

**41. The government welcomes views on the length of an effective extension and the implications. Would an extension to a 15-month deadline be effective and if not, why?**

We believe that extending to a 15-month deadline would not be sufficient. It is our view that extending the Milestone Delivery Date to at least 18 - 24 months will be necessary to achieve the benefits set out in response to question 39 and will better align with FID and financing requirements allowing projects to follow the optimal progression route through development, construction and financing.

**Miscellaneous Allocation Regulation Changes**

**42. Do you agree with the government's proposal to remove all references to "end date of the allocation round"?**

We are supportive of the introduction of flexibility, but this should not be open-ended as developers require as much certainty as possible from the CfD process. We would support setting a timeframe for auctions well in advance to allow developers to plan for auctions given the significant commitments required.

**43. Do you agree with the government's proposal to add more detail on when key dates can be varied using a round variation notice?**

We support this proposal.



**44. Do you agree with the government's proposal to remove the requirement to publish certain dates in the allocation framework?**

We are not supportive of this proposal. The dates should be included in the legislation and then the LCCC timelines can flow from that.

**45. Do you agree with the government's proposal to provide an extra scenario under which the allocation process must commence?**

We support this proposal.

**46. Do you agree with the government's proposal to make explicit the ability to amend the overall budget before the commencement of an allocation round?**

We are minded-to support this proposal, but only if the budget is amended upwards. It is also crucial that the reason and process for revising a budget is made as transparent as possible. Developers prepare their bids some time in advance of the auction, to allow for internal verification and approval. A key factor in bid preparation is to understand the auction parameters, including the overall budget. The preference is to minimise revisions to any auction parameter once the original auction announcement has been made.

**47. We would welcome views on adding additional powers to allow revision of a capacity cap before an allocation round commences.**

As we have noted in our response to question 46, developers prepare their bids some time in advance of the auction and a key factor in bid preparation is to understand the auction parameters. Developers need as much certainty as possible and therefore it should not be possible for a capacity cap to be revised downwards as it undermines the preparatory work undertaken by the sector. It must be made as transparent as possible as to why any changes to the cap would be considered, and it should only be used in cases where additional capacity is being added.

We would find it helpful to if BEIS could set out the reasons they would envisage changing the cap once it has been set.

**48. We would welcome views on adding additional powers to pause an allocation round between the commencement of the round and the issuance of CfD notifications.**

We would suggest that additional powers to pause an allocation round are not added. Developers prepare bids on the basis of a specified timetable and pausing an allocation round would inevitably set off a chain reaction of delays for projects. For example, a delay in the CfD notifications would mean a delay in project construction commencing. This will have numerous impacts, such as supply chain timing, availability of project resources and validity of tenders which project costs have been derived from. These all have cost implications and could potentially lead to increasing the total cost beyond the value used to prepare the original bid.

If a pause mechanism was introduced, it should only be used under extreme circumstances. The suspension of penalties under the NDD should also be considered due to the knock-on impacts a pause would have on projects.