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To whom it may concern,

Consultation Response: Changes to Supply Chain Plans and the CfD contract

Scottish Renewables is the voice of Scotland's renewable energy industry. Our vision is for Scotland leading the world in renewable energy. We work to grow Scotland's renewable energy sector and sustain its position at the forefront of the global clean energy industry. We represent over 260 organisations that deliver investment, jobs, social benefits and reduce the carbon emissions which cause climate change.

Our members work across all renewable energy technologies, in Scotland, the UK, Europe and around the world. In representing them, we aim to lead and inform the debate on how the growth of renewable energy can help sustainably heat and power Scotland's homes and businesses.

We welcome this opportunity to engage further in the run up to Allocation Round 4 (AR4). It has been encouraging to see the recent focus from the UK Government on delivering increased renewable ambition and we have welcomed recent announcements in regard to AR4, such as the target to double overall capacity and introducing a series of positive amendments to the scheme. We would highlight however that differences between Scotland and the rest of the UK need to be accounted for to ensure there is a level playing field. In particular we would note that the current amplified and highly uncertain locational charging signals could have unintended consequences in terms of the AR4 outcome, as well as hamper

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progress towards a geographically diverse energy system and reaching the level of deployment needed to reach net zero.

With 62% of the UK's sea area, and the majority of this in deeper water, there is a particular opportunity for floating offshore wind to succeed in Scotland. This would not only make a massive contribution to our own net-zero targets but can lead the commercialisation of this technology worldwide. This is why it is essential to future-proof the parameters for floating projects at this early stage and ensure that developers are able to bring forward projects at a rapidly increasingly scale, in tandem with the reinforcement and expansion of local supply chain and infrastructure.

We would also note that we see Supply Chain Plans as one part of a bigger jigsaw of industry and policy-led support for the UK supply chain which needs to be looked at holistically. The overarching ambition must be to create a visible and sustainable pipeline of projects that can enable supply chain confidence and investment, and ultimately deliver the 40GW ambition for 2030. Our disagreement with many of the specific proposals stems from an overarching concern about undermining the investor confidence that underpins and enables these ambitious projects to reach deployment.

Our full response to the consultation questions is set out below. We would be keen to engage further with this agenda and would be happy to discuss our response in more detail.

Yours sincerely,

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Consultation Questions

Supply Chain Plans

1. The government welcomes views on whether the Supply Chain Plan guidance document is clear in setting out what is required of applicants to support the drafting and submission of their Supply Chain Plan, Updated Supply Chain Plan and Supply Chain Implementation Report. Please provide information on what could improve the clarity of the guidance if applicable.

Scottish Renewables agreed in the spring CfD consultation that a review of the SCP process would be useful, and it is important to align the process in the light of recent positive commitments made by Government to support the rapid growth of renewables, especially offshore. Considerable effort is being made across the offshore industry to deliver the Sector Deal commitments and to support the UK supply chain.

However, industry feels that the proposal for Operational Condition Precedent in relation to Supply Chain Implementation Reports is the wrong approach and at the wrong point in the project process.

By seeking to introduce serious financial risk at a post-construction stage, the current proposal may damage the UK's position as an attractive place to make renewable investments. Developers would essentially have to make final investment decisions without the market certainty that the CfD was set up to bring about. Alternatively, this risk might be captured by a higher cost of capital, undermining the cost-efficient delivery of low-carbon power.

The proposed assessment process for SCPs introduces both simplistic (pass/fail only) and subjective ('best endeavours') elements to a project process that already has a very high number of regulatory hurdles and associated risks.

The Offshore Wind Industry Council has worked with members and consultants to draw up a substantial alternative proposal that seeks to meet Government policy objectives in a way that maintains investor and develop confidence in the CfD process. Scottish Renewables adds its support to that proposal and would like to continue the dialogue with BEIS.

On the guidance document itself, it would be helpful if BEIS could add some examples of how the scoring methodology will be applied to market criteria. The guidance must also make explicit that there are a range of potential situations that are outside of the control of developers, and that no corrective action would be possible in these instances.

2. The government welcomes views on whether the proposed timing for submission of the Updated Supply Chain Plan is appropriate.

We urge BEIS to ensure that corresponding timescales in relation to the Supply Chain Development Statement (SCDS) process that forms part of ScotWind leasing is well-understood and aligned so as to complement, rather than complicate, supply chain assessment.

Industry would also like clarification that an updated SCP could be submitted in advance of MDD if contracts are in place, and that BEIS would respond in 30 days. This is to avoid potential risks to FID if the SCP was not approved by that point.

3. The government welcomes views on whether the proposed timing for submission of the Supply Chain Implementation Report, whereby the timing is agreed by both parties through the monitoring process, is appropriate and ensures a balance between robustness of delivery and project certainty.

Industry would like to see SCP assessment brought forward to Milestone Delivery Date stage to align with Final Investment Decision.

4. The government welcomes views on introducing new powers in legislation for the Secretary of State to assess and pass or fail a Supply Chain Implementation Report.

As it currently stands, the proposals would lead to an unacceptable and disproportionate level of commercial risk. Industry proposes that a more proportionate financial disincentive is developed to replace the pass/fail approach for those that have failed to deliver on their SCP commitments.

There would be a need for a robust set of guidelines to ensure consistent metrics across industry, together with a clear process set out for SCP assessment, developer appeal and overall governance. Industry believes that a system of financial contributions could be agreed that might dovetail with the scale of support already indicated for UK supply chain development under the Sector Deal.

5. The government welcomes views on introducing a new Operational Condition Precedent with the potential consequence of CfD contract termination if a Supply Chain Implementation Report certificate is not provided to the LCCC before the

Longstop Date. Please include views on possible impacts, including on financing arrangements, and evidence where applicable.

Industry is strongly opposed to the introduction of an OCP with potential CfD contract termination at this late stage in multi-billion projects with final investment decisions already taken and capital already spent. This would introduce an unacceptable and disproportionate level of financial risk to project that may be subject to events outside of their control in the supply chain.

Debt finance models are often used in large offshore wind projects and will remain crucial to supporting increased deployment at scale. The risk created by this OCP proposal is likely to lead to considerable concern among lenders, who will look for additional de-risking or other protection. Longer de-risking periods would have a material impact on deployment rates and/or the cost of capital.

Industry has worked collaboratively to propose an alternative method for SCP assessment that meets the Government's policy objectives.

6. The government welcomes views on the proposed drafting change to introduce a new Operational Condition Precedent in the CfD contract and whether the existing provisions to provide extensions to the MDD, Target Commissioning Window and Longstop Date are sufficient to cover events or circumstances that may lead to a delay in obtaining a Supply Chain Implementation Report certificate.

7. The government welcomes views on whether it is more appropriate for BEIS or the LCCC (given the private law nature of the CfD) to undertake the monitoring and assessment of the implementation of Supply Chain Plans.

Our members have not expressed a strong preference on the appropriate body. What is essential is that there is a robust and transparent process in place for the assessment of SCP commitments, with clear mechanisms from the outset for any disputes and appeals.

It is also worth reiterating that sufficient resourcing in either/all relevant bodies will be essential to the overall success of this policy, as large volumes of information will be generated and timescales are always pressing.

8. The government welcomes views on the extent to which the proposed revised Supply Chain Plan process will support the government's objectives to encourage the growth of sustainable, efficient supply chains and support regional growth, skills, and productivity.

Scottish Renewables sees SCPs as one part of a wider industry and government approach, as captured in the Sector Deal, to maximising the benefits to the UK of our renewable growth potential. Encouraging the growth of the UK supply chain is a shared task between government, developers and supply chain companies and it is vital that government proposals find a balance between unlocking and driving investment and supporting the growth of our own supply chain.

We welcomed the announcement last year of the 'Offshore wind manufacturing investment support scheme' and we would very much like to see Scottish port infrastructure benefiting when awards are made, recognising the huge potential that Scotland's deeper waters offer for the growth of floating wind.

Floating wind

9. The government welcomes views on the proposal not to extend phasing to floating offshore wind.

Industry strongly opposes the proposal to remove the option of phasing for floating wind and would like to proceed on the same terms as fixed-bottom offshore projects have done. The suggestion that floating projects 'are likely to be comparatively small for the foreseeable future' seems completely at odds with the Government's stated ambition for scaling up floating wind to capture a global lead in this area, as evidenced by the 1GW by 2030 target.

While the AR4 round may not see bids from a great number of floating projects, these rule changes should be future-proofed in recognition of other projects already in development for future rounds. Most notably, many of those enabled by the current ScotWind leasing round by Crown Estate Scotland are expected to be in deeper water. The DeepWind Cluster in North Scotland has suggested that given the increase in turbine size, 2-3GW of floating by 2030 would be more likely to be of a scale necessary to secure sizeable UK supply chain benefits.

We also do not accept that construction risks are significantly lower for floating projects. Weather windows are equally as important for floating installations, which can be just as challenging as jack-up operations, potentially further out to sea and requiring towing from overseas ports. A towing installation could be expected to take 3-5 days round trip and, regardless of the capabilities of the floating technology, operations will still be guided by HSE weather requirements such as maximum wave height. Weather dependency can have significant supply chain impacts, such as bottlenecks with harbour mooring capacity.

Overall, there is clearly far less industry experience of floating installation, and so it is premature to suggest the offshore operations have been optimised in the way that fixed-bottom has been able to do over many years.

CfD phasing essentially allows developers to align capital expenditure with revenue, which has the effect of greatly reducing the risk profile of those projects. As floating technology is at an earlier stage of deployment, keeping this option available will be important to enabling the rapid scaling-up that is desired.

By enabling phasing for smaller projects, those of less than 300MW, BEIS will provide a significantly increased opportunity for UK supply chains as this will allow project developers to work with capacity constrained local capabilities, rather than having to use additional supply chain outside the UK to meet the time-limited demands of an unphased project.

10. The government welcomes views on its proposed drafting treatment of Floating Offshore Wind within the CfD Agreement and Standard Terms.

No comment

11. The government welcomes views on the proposal to set the Longstop Period for floating offshore wind at 12 months.

As with the other proposals, industry does not see the policy advantage of creating these distinctions between floating and fixed-bottom offshore wind. There is every commercial incentive to get projects commissioned and generating, as the CfD term would have started after the end of the Target Commissioning Window. While the turbine installation process at sea is expected to be less challenging than bottom-fixed, there are many other scheduling risks in relation to weather windows that are shared with these projects, and we see no reason as to why the timelines for these technologies should differ.

Restricting the longstop period to 12 months would add unnecessary pressure and risk to the floating technology. Industry calls for a 24-month longstop period to be applied to floating wind projects, similar to fixed-bottom.

12. The government welcomes views on the proposal to set the Required Installed Capacity of floating offshore wind at 95% of the Installed Capacity Estimate.

As above, industry opposes this proposal and would like to remain at 85% RIC. The use of different foundation technology for offshore wind does not justify being treated in the same way as onshore technologies such as solar.

Final project layouts are dependent on extensive surveying work, which occurs both before and after CfD award as project risks decrease. A 95% RIC for floating project would force very significant surveying costs and further risk to an earlier point in the development process.

13. The government welcomes views on the proposal that floating offshore wind should be included in the definition of Eligible Low Capacity Facility in common with all other forms of wind technology.

We agree that floating offshore wind should be included in the definition of Eligible Low Capacity Facility, however as per response to Q12, the Required Installed Capacity should be set at 85%.

14. The government welcomes views on the proposed new Operational Condition Precedent requiring generators to demonstrate that their project satisfies the legal requirements of floating offshore wind CfD unit and the associated evidence requirements.

Industry is content with this proposal.

Negative Pricing

15. The government welcomes views on the proposed drafting changes to implement the amendment to the negative pricing rule for intermittent generators in the CfD contract.

While we do not see any issues with the proposed drafting changes within the contract, we would reiterate our previous views[1] against amending the negative pricing rule. 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, however we do not believe that the changes to negative pricing will necessarily benefit consumers or flexibility.

We would again reiterate that consideration should be given to alternative approaches such as those taken in other countries. For example, in France 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

[1] https://www.scottishrenewables.com/publications/632-consultation-response-contracts-for-difference-ar4-consultation

negative prices beyond that threshold (provided the renewable asset does not produce during those hours). In Italy, all negative hours are collated and added to the end of the tenor of the mechanism. Without some form of protection, developers must account for the additional risk by including risk margins into their bids. Negative pricing by its nature is difficult to forecast which leads to a potential adverse impact on consumers if developers are forced to speculate and make arbitrary risk allowances.

In addition, we note that the current call for evidence on the future development of the CfD could result in a situation where only projects successful in AR4 would be subject to this change in the rules. We would suggest that the wider conversation needs to be concluded first to ensure a consistent approach for projects in the pipeline.

Coal-to-biomass Conversions

16. The government welcomes views on the proposed drafting changes to the CfD contract to give effect to the government's decision to exclude new biomass conversions from future CfD allocation rounds.

Scottish Renewables are content with the proposed drafting changes.

Milestone Delivery Date

17. The government welcomes views on the proposed drafting change to extend the Milestone Delivery Date in the CfD contract to 18 months.

Scottish Renewables are content with the proposed drafting changes.

Minor and Technical Contract Changes

18. The government welcomes views on these proposed minor and technical changes to the CfD contract.

Scottish Renewables are content with the proposed drafting changes.