

Josh Roebuck
CfD Strategy & Policy
Department for Business, Energy & Industrial Strategy
1 Victoria Street
London
SW1H 0ET

16 November 2021

Dear Josh,

Contract for Difference Allocation Round 4 Final Budget Recommendation

I am writing to share our views on the draft budget notice for CfD Allocation Round 4.

Scottish Renewables believe that AR4 needs to be the auction that delivers the major part of capacity needed for us to meet the UK and Scotland's 2030 climate targets, by enabling a substantial part of the renewables project pipeline to proceed to construction. In this context, we welcome the ambitious budget, as well as the return of onshore wind and solar PV into the allocation round. However, we believe that in order to procure as much capacity as possible, the final budget must be modified.

Our key recommendations are:

1. Pot 1- Increase the 5GW cap to 7GW

Our analysis suggested around 9GW of onshore wind and solar PV are eligible for the next allocation round. In order to procure the maximum renewable capacity of both technologies, the cap must reflect the maximum capacity that each technology can obtain, which was established as 3.5GW for each one. We understand that the final strike prices will define how much capacity will be awarded, but extending the cap to 7GW would ensure that both technologies procure the maximum capacity possible if the final bid prices end up being very low.

2. Pot 2 – Minima for marine renewables

The UK has strong maritime history and has demonstrated global expertise in marine energy projects, in Scotland in particular. The UK is home to the first tidal stream arrays in the world and has already deployed more wave and tidal energy devices than the rest of the world¹. In recent years, many tidal stream projects have made significant progress towards commercialisation, but to secure a clear route to market the marine sector needs a stable domestic market to grow.

¹ Marine Energy Council, (2019). UK Marine Energy 2019: a new industry. Available at:
https://www.scottishrenewables.com/assets/000/000/427/uk_marine_energy_2019_original.pdf?1579622626

We believe that as the draft AR4 budget stands, it will not be possible for the marine energy sector to deliver. Our analysis indicates that the £55million budget allocated for this pot would be mainly used by floating offshore wind and remote island wind, leaving tidal stream unlikely to be awarded a contract.

We strongly support the call of the Marine Energy Council for BEIS to provide a minima for marine renewables, recognising the high levels of UK-manufactured content and the need to achieve cost reductions through further deployment. Scotland's world-leading MeyGen project in the Pentland Firth is ready to expand, and has recently announced a collaboration with Nova Innovation, another Scottish leader in tidal turbines. Scottish technology developers also seek to deploy tidal power at exciting sites in Wales and the Isle of Wight. A project capacity cap, as seen in AR1, could be another tool to ensure a geographic diversity of tidal projects.

Pot 3 - Offshore wind

Scottish Renewables welcome the £200m budget as well as the absence of a capacity cap for this pot. However, our analysis indicates that in order to procure all the renewable capacity in the pipeline, which is what is needed to achieve the 40GW target of offshore wind by 2030, the final clearance price will need to be very low (around £36.5/MWh), around £4/MWh less than the previous allocation round. This price presents a significant challenge for projects in Scotland due to very high transmission charges that projects must factor in as part of their bids.

Scotland has the resource to supply a big proportion of offshore wind deployment, but with transmission charges disadvantaging Scottish projects, there is a risk these projects may not be built, reducing our ability to deploy commercially viable projects at scale. Several major consented offshore wind projects in Scotland are ready to go, and can start delivering economic benefits almost immediately after securing a CfD. If Scotland gets little or nothing through AR4, our ability to reach net-zero is compromised and our supply chain will sit idle for at least six years, which is not recoverable. Geographically-diverse projects will help support the levelling-up agenda but also spread risk; all projects clustered in one area means that any issue with environmental impacts or grid could stall or stop progress on net-zero.

In this context, we believe that the £200 million budget may need to increase if further offshore projects become eligible for AR4 in the coming weeks. We understand that the Secretary of State has the authority to increase the budget once the allocation round has opened, so we would welcome that this option could be considered as it would be essential to achieve our 2030 targets.

In addition, we have noted that there is a strong possibility that the allocation round will not conclude until July rather than April 2022, given the large numbers of entrants for Pot 1 and the likeliness of a review and appeal for eligibility. Owing to the knock-on impacts on project timescales, we think that this is likely to result in offshore wind projects choosing to bid into the second delivery year 2026/27, which would delay progress to the 40GW target. We would like BEIS to consider whether the auction could be configured in a way that each of the Pots can follow their own timeline, and for results of each Pot to be announced at the earliest possible opportunity. This could keep open the possibility of project delivery in 2025/26.

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

Yours sincerely,



Angeles Sandoval
Policy Manager | Networks & Markets
Scottish Renewables