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To whom it may concern,

**Consultation Response: Call for Evidence on proposed amendments to Supply Chain Plans**

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 290 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.

Scottish Renewables welcomes the opportunity to provide our view on the proposed amendments outlined in questions 1, 2 and 3 of this consultation. However, in response to question 4 we would like to emphasise the following points as we do not believe that the scope of the consultation addresses strategic and structural shortcomings of the SCP process and its relation to the CfD auction process.

A strong, globally competitive, UK supply chain is in the interest of both developers and the Government. The UK should therefore have a process for procuring renewable electricity generation capacity that ensures that the UK provides world-leading investment opportunities that will deliver the supply chain growth necessary to meet the Offshore Wind Sector Deal

commitment of 60% UK content by 2030, including increases in the capital expenditure phase, and deliver on the UK's increased ambition of 50GW offshore wind by 2030.

However, it is Scottish Renewables' view that SCPs alone will not deliver the required investment and a rethink of the process is required. This is for two primary reasons.

Firstly, the capacity of SCPs to bring forward investment in the supply chain is at odds with the competitive nature of CfD auction process.

The CfD has been extremely successful in bringing down the cost of renewable generation, and projects are delivering well below the current wholesale market price. However, the effort and ambition included in a SCP are currently not reflected in the outcome of CfD auctions. The exclusive focus on price in CfD auctions therefore means that much of the supply chain development that could be delivered through the SCP process is missed; the strike prices reached are too low to allow developers to pay the supply chain at a rate sufficient to create attractive investment opportunities. Promoting new UK supply chain opportunities may not be the lowest cost in the near term (especially where significant capital outlay is required) but doing so could bring more overall value to consumers by delivering multiple economic benefits in geographically diverse regions of the UK. It is therefore shortsighted that supply chain impact does not receive greater consideration in determining the outcome of CfD auctions.

Secondly, the project-by-project approach to supply chain development that is currently facilitated by SCPs precludes the strategic, proactive approach needed to build a robust, efficient, and competitive supply chain of sufficient capacity to serve the large and growing pipeline of projects both in the UK and internationally.

Developers, the UK Government, and the supply chain itself will need to collaborate to drive forward new supply chain opportunities. However, under the current system, collaboration between projects is extremely challenging as developers are subject to high levels of competition at multiple stages of the development process. This means that contracting processes, supplier engagement, and project timelines are extremely commercially sensitive. There is little scope for developers to be able to share best practice and work collectively on initiatives to enhance supply chains. Instead, the lack of collaboration means that the competition between developers for use of resources within the supply chain operates on a largely zero-sum basis meaning that the benefits from potential synergies are missed. The SCP process also creates unnecessary risks for suppliers as suppliers are contracted to supply projects prior to CfD notification. There is therefore a role for an overarching Supply Chain Strategy that sets out a long-term plan for supply chain development at a national level. SCPs

can then play an effective role in supporting the delivery of such a strategy rather than acting as a substitute for a strategy.

In light of these issues, we urge BEIS to:

- Consider how supply chain impact could have a role in determining the results of CfD auctions and how strike prices could be reached which allow developers to make sufficient investment in the UK supply chain.
- Consider how a more strategic approach to supply chain development could be introduced which incorporates a long-term plan for the growth of UK supply chain capacity and brings forward the proactive investment required to deliver it.

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 black ink, appearing to read 'Andrew MacNish Porter', with a stylized, cursive script.

Andrew MacNish Porter

**Policy Manager – Economics and Markets**

**Scottish Renewables**

**1. Views are invited on whether this approach could be beneficial. Views on how to set the level of the penalty; who could collect the penalty and who would benefit from the funds raised would also be welcome. Ideas are also invited on how to improve the penalty system including alternatives to the penalty system.**

Scottish Renewables supports a move away from the binary penalty mechanism that currently exists to a more nuanced system that would allow the cost to developers for the failure of SCP commitments to be more proportionate to the scale of the failure.

We note that BEIS' call for evidence considers a penalty regime alongside the OCP disincentive, an approach that differs from the OWIC proposal of having a corrective action fund instead of the OCP. We also note that the risk of contract termination may increase if BEIS increase the SCP pass rate to 60%, which may also lead to less ambitious supply chain submissions because developers will focus on being able to deliver on the new threshold at Milestone Requirement (MR) stage. The termination of a CfD is an extreme sanction with severe consequences for developers. This means that under the current regime, the risk to developers remains high and can thus result in higher costs of capital and higher overall project costs. We, therefore, welcome the fact that BEIS is considering the difference between borderline and severe SCP failure. Limiting or removing the risk of CfD termination will lower the associated costs and encourage developers to maximise their ambition for supply chain development.

However, as AR4 offshore wind projects are still going through the Supply Chain Plan Process, with only the eligibility phase completed so far, it is difficult for developers to assess the full impact of the AR4 SCP changes. Further evaluation of this process will depend on the run-up to the completion of the MR and FID tollgates; the comfort of financiers, investors and advisors during the different stages of the project development cycle; and the flexibility provided by BEIS during and in the run-up to SCP assessment.

Therefore, due to the limited evidence associated with the current SCP process (as projects have only undertaken the eligibility stage so far) it is difficult to assess whether a graduated corrective action payment (assuming the OCP is retained but at a lower threshold) would be more or less appropriate than additional flexibility provided by BEIS within the current process for less severe failings.

If BEIS consider a corrective action fund appropriate, they will need to ensure a level playing field. Assessments should therefore be against the SCP criteria and scoring, not against a developer's initial supply chain plan submission. An assessment against a developer's initial SCP would also encourage developers to submit conservative plans at the assessment stage, and they would place significantly more weight on deliverability.

If BEIS were to implement a corrective action fund alongside the current OCP, we would recommend that the OCP threshold is significantly reduced. This would ensure that the disincentive is proportionate to the scale of the failure, especially where shortcomings do not necessarily justify terminating the CfD contract.

Whilst it is important that any new penalty system strikes the right balance between avoiding being overly punitive and maintaining a sufficient incentive for developers and particularly their Tier One contractors to deliver on their supply chain commitments, the UK ultimately must be able to deliver high-quality local content at a competitive price if export opportunities are to be maximised. Scottish Renewables therefore recommends that any funds raised from a corrective action fund should be reinvested in the UK supply chain to assist suppliers in accessing and supporting the renewables sector. Both the floating offshore wind and green hydrogen sectors are still establishing supply chains and the UK has a chance to achieve this ahead of international competitors. Early investment will therefore serve to drive exports as well as create high-quality jobs.

However, it is important to note that any revenue generated from a corrective action fund would not be sufficient in and of itself to drive significant supply chain development and would only be supplementary to other supply chain initiatives. A strategic programme of investment in ports, infrastructure and the wider supply chain is necessary to achieve the growth required to meet Government targets.

## **2. The government welcomes views on introducing a system whereby Supply Chain Plans are negotiated between the Applicant and BEIS.**

Scottish Renewables welcomes the opportunity for applicants to discuss their application with BEIS ahead of formal submission. Doing so will allow applicants to clarify their understanding of scoring systems and expectations for SCPs and to gather initial feedback from BEIS on specific initiatives and actions regarding the supply chain for a given project. This early engagement alongside clear SCP guidance should result in higher quality SCPs. BEIS could also benefit from such discussions by gaining a better understanding of projects under development.

However, the formal negotiation of specific SCP commitments would go some way beyond such clarification issues. The prospect of a formal negotiation process raises concerns on several points:

1. **Consistency** – under the present system, all SCPs are assessed at the same time using the same set of standards. The same expectations and marking criteria are therefore applied equally to all SCP applications. We are concerned that it would not

be possible to maintain this consistent assessment process when conducting negotiations with individual applicants. This lack of consistency would add uncertainty to the application process and could cast doubt over whether the outcomes of negotiations are fair and equitable across all applications. We also note that the SCP has a high focus on ambition, process and narrative. It is unclear how negotiated SCP elements would align with this scoring criteria.

2. **Transparency** – detailed negotiations must necessarily be confidential since much of the information discussed will be commercially sensitive. This means that the negotiation system will have limited transparency for other stakeholders. It is also unclear who the negotiations are with – the supply chain itself or with BEIS – and whether the timing of the process aligns with project development/procurement timelines.
3. **Cost-effectiveness** – there is a balance to be struck between supplementary measures for supply chain enhancement and additional costs to the project. It is unclear how the cost-effectiveness of additional measures introduced through negotiation would be assessed.

Overall, we believe that the SCP process should drive an innovative, and globally competitive UK supply chain, one that is able to compete for export volume. It is unclear whether a negotiated SCP approach would deliver these outcomes. It is also unclear how compliance with the UK international agreements would be maintained if this approach is progressed.

For these reasons, Scottish Renewables is opposed to having a formal negotiation process beyond applicants having the opportunity to seek clarification on the process and informal feedback on their initial proposals.

### **3. The government welcomes views on how to address the issue of projects 'downsizing' their MW size to avoid Supply Chain Plan requirements.**

Scottish Renewables supports the continued use of a threshold for SCPs so that smaller projects are not required to prepare a formal SCP. We are of the view that 300MW remains an appropriate threshold for a SCP.

Preparing a formal SCP is a significant undertaking and, for smaller projects, the additional time, resource, and the cost is not appropriate for their relatively small direct influence on supply chains. The cost to a smaller project of preparing a SCP would also be disproportionately high relative to overall project costs when compared to larger projects. It is important also to note that smaller projects still engage in significant work to support domestic

supply chains despite not being subject to formal SCP requirements and many industry-wide supply chain initiatives apply equally to these smaller projects as to larger ones.

For emerging technologies, such as floating offshore wind, the projects likely to be bidding in 2025 will be innovation projects in geographically diverse regions of the UK, potentially deploying different technologies, which will mean that these projects will have a more limited impact on the supply chain that is intended from the use SCPs. Instead, the key role these projects play from a supply chain perspective is to support the development of the supply chain ahead of future step-change deployments such as ScotWind by working closely with the supply chain to de-risk the delivery of novel technologies and logistics/processes that will be necessary for future commercial-scale projects. Therefore, given that smaller emerging technology projects are still developing their supply chains and would feel the burden of preparing a SCP particularly keenly, we believe it would be inappropriate to lower the capacity threshold in an attempt to prevent downsizing if doing so would lead to such projects being required to submit a full SCP.

It is an unavoidable consequence of specifying a capacity threshold for the introduction of a particular requirement that there will be an incentive to downsize projects that are close to the threshold so that they fall below it. Lowering the threshold would be a misguided and potentially counterproductive solution as it would simply serve to shift the capacity range in which the incentive operates rather than remove the incentive. If lowering the threshold, there could be a risk that the total amount of downsizing would increase as a new tranche of projects would now be subject to SCP requirements and there would therefore be additional projects that have an incentive to adjust their capacity so that it falls below the threshold.

A more appropriate solution would be to address the nature of the incentive to downsize posed by the requirement to prepare a SCP itself. The strength of the incentive depends on the total cost of implementing the SCP. Therefore, the most effective way to address the problem of developers downsizing projects is to incentivise the delivery of SCP commitments.

If BEIS does decide to move the capacity threshold, instead of arbitrarily choosing a new threshold we believe BEIS should review the existing threshold and the objectives of implementing SCPs to assess whether these objectives are being achieved. An important context for such a review would be progress on the industry-wide initiatives on supply chains running parallel to the detailed plans of individual projects. We believe that greater weight should be given to these enduring industry-level initiatives and reporting on supply chains as there is a limit to what can be delivered on a project-by-project basis. Projects can only deliver locally what the supply chain can deliver locally. Continued investment into ports, infrastructure and other supply chain components is critical if stated SCP ambitions are to be achieved.

**4. The government invites other ideas and suggestions on ways to improve the Supply Chain Plan process, including any ideas on its relation to the CfD auction process.**

Currently, the SCP process is a significant undertaking for developers, particularly for small-scale innovation projects for whom the supply chain is still fledgling. With the move to annual CfD auctions as well as the accelerated deployment of offshore wind that is set out in the recently published Energy Security Strategy, it is imperative that actions are taken to maximise the pace at which a project can be developed. Accordingly, we have outlined in our cover letter why a rethink of the role of SCPs and a strategic programme of investment in the supply chain planned at a national level is necessary to deliver the supply chain capacity to deliver on the UK's ambitions.