

Rt Hon Claire Coutinho MP
Secretary of State for Energy Security and Net-Zero
Department of Energy Security and Net-Zero
1 Victoria Street
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October 20, 2023

Dear Ms Coutinho

Restoring investor confidence through Contracts for Difference Allocation Round 6

This week, Scotland's largest offshore windfarm became fully operational. As you rightly highlighted, Seagreen is further proof of the UK's world-leading status in offshore wind. The Contracts for Difference (CfD) scheme has been critical to building that success story which is strongly rooted Scottish waters and supply chains.

Whilst some technologies saw success through CfD Allocation Round 5 (AR5), the failure to procure any offshore wind marked a significant setback for the UK's clean energy ambitions. Investor confidence in the offshore wind sector has been further damaged in recent weeks by the [catastrophic Transmission Network Use of System \(TNUoS\) tariff projections published by National Grid ESO](#), disproportionately impacting Scottish projects.

To repair this damage, it is critical that Allocation Round 6 (AR6) restores confidence in the CfD as a viable route to market for offshore wind, the UK's flagship renewable technology, and demonstrates the UK Government's commitment to achieving its targets of 50GW of offshore wind by 2030 and a decarbonised power sector by 2035.

We believe that UK Government action should centre around two key objectives. Firstly, the UK Government must set sustainable auction parameters which ensure the CfD offers a viable route to market that delivers for the supply chain as well as developers. Secondly, the UK Government needs to commit to maximising delivery in AR6 and Allocation Round 7 (AR7) to restore investor confidence and ensure sufficient capacity is procured to meet the UK's deployment and decarbonisation targets.

Accelerating the procurement of renewables projects which deliver clean, affordable electricity will also reduce consumers' exposure to high, volatile gas prices. In doing so, this will both deliver savings to bill-payers and improve the UK's energy security. Therefore, in light of the continuing cost-of-living crisis and wider geopolitical challenges, we believe this approach represents a no regrets option for the UK Government. In this context, we believe that the following specific changes need to be made ahead of AR6 in order to deliver on these objectives:

1. **Increase Administrative Strike Prices (ASPs)** to market reflective levels for all technologies to account for the inflationary pressures, rising interest rates and supply chain disruption facing developers. As the ceiling which is set on bids, ASPs must be set at a level at which developers can bid below whilst remaining financially viable.
2. **Set auction budgets at a level that will deliver the capacity required to hit the UK's deployment targets** of 50GW of offshore wind including up to 5GW of floating by 2030. With time quickly running out, it is crucial that future allocation rounds are given budgets which are capable of bringing forward the current pipeline of projects as fast as possible to make up for the shortfall in capacity delivered through AR5. This is particularly important for floating wind to progress in its transition from small scale test projects to commercial scale deployment. A draft budget notice should be published alongside the draft Allocation Framework in mid-November 2023 in order to give maximum clarity to developers. In addition, a long-term schedule out to 2030 to give forward guidance of parameters and budgets for future rounds would also be hugely valuable in securing investor confidence.
3. **Extend delivery years from three to four years for offshore wind.** Providing an additional delivery year will allow more projects to enter auctions which will boost competition whilst also accelerating the development of those projects directly contributing to the 2030 target. Extending delivery years will also aid the supply chain by providing greater certainty over the timing of the delivery of future projects.

4. **Reinstate Pot 3 for fixed bottom offshore wind** in order to procure the significantly increased pipeline of projects which will now be eligible for AR6 and AR7. With greater competition between offshore wind projects, reintroducing Pot 3 will allow for better budget allocation and ensure a diverse outcome from future allocation rounds. As a result, this will provide greater certainty to the supply chain which will help to unlock the necessary investments for capacity development. Without Pot 3, an offshore wind minimum in Pot 1 would be required. However, keeping the current pot structure and relying on an offshore wind minimum in Pot 1 poses a significant risk to deployment as it could act as a ceiling, not a floor, in procuring capacity. The pot structure for AR6 should be confirmed when draft parameters are published mid-November in order to give clarity to developers.
5. **Adjust reference prices and load factors for all technologies.** For AR5, the reference prices were significantly below market forecasts. Increasing reference prices to a level which is market reflective will lower the budget impact of a given level of capacity awarded CfDs and will therefore limit the need for an extreme budget increase to make up for the shortfall in capacity procured in AR5. Current load factors (for example, the 63.3% figure used for offshore wind) are unrealistic and should be revised downwards to an accurate level. Lowering load factors will also limit the budget impact of the capacity that will have to be procured in AR6 and AR7.
6. **Increase the budget ringfenced for tidal stream and commit to retaining the ringfence in future rounds.** AR5 demonstrated the ability of the tidal stream sector to respond to a larger ringfence. Increasing the ringfenced budget will allow developers to build on this success and expediate the delivery of what is an entirely predictable renewable resource. As tidal stream projects are being delivered with over 80% UK supply chain content spend, there is a huge opportunity to embed this in more projects deployed in the UK and around the world. By maintaining the ringfence in future rounds, the UK Government will give much needed certainty to the sector which will be crucial for unlocking investment. Tidal stream projects would also benefit from having an additional delivery year in future allocation rounds.

By a considerable margin, home-grown renewables provide the cheapest form of electricity generation, and this will continue to be the case after making the changes we outline above. Accelerating the deployment of renewables projects backed by sustainably priced CfDs is therefore in the best interests of both consumers and investors. However, the current focus of driving cost minimisation through the CfD results in a situation where projects which will enable cheaper consumer bills are unsuccessful in their CfD bids.

As more renewables projects reach the point when they are ready to bid for a CfD contract, we would therefore urge the UK Government to pivot away from focusing on cost minimisation and instead strive for 'value maximisation' by bringing forward more low-cost generation through the CfD.

Despite the concern caused by the AR5 results, the fundamental nature of a two-way CfD as a gold standard investment mechanism has not changed. However, it is clear that the way in which CfDs are allocated urgently requires rethought to take full account of the economic challenges and international competition facing the UK.

We believe the reformed approach to CfD allocation outlined in this letter can avoid repeating the mistakes of AR5 and ensure that the CfD continues to deliver for consumers, whilst unlocking greater investment in the UK's transition to a greener, cheaper and more secure future.

In the meantime, I hope that this letter is helpful, and I would be pleased to meet with you and your team to discuss our priorities for Scotland's offshore wind sector and wider renewable energy industry.

Yours sincerely



Claire Mack
Chief Executive