

Email to: supplychainplan@energysecurity.gov.uk

11 January 2024

To whom it may concern,

Consultation Response: consultation on introducing a CfD Sustainable Industry Reward

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 340 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 respond to this consultation on introducing a Sustainable Industry Reward (SIR) to the Contracts for Difference (CfD) scheme. We would firstly like to acknowledge the positive policy intent behind the SIR proposals. In bringing forward the SIR, government is recognising that developers may need financial support to deliver supply chain initiatives above and beyond efforts currently being made via the existing Supply Chain Plan (SCP) process, where developers are already working to deliver benefits to the UK economy in terms of skills, jobs and supply chain investment. It is our view that with strategic direction set by government, and appropriate policy implemented in conjunction with wider supply side measures, that Scotland and the wider UK can realise their industrial potential in the offshore wind sector. This will also enable us to capture the £92bn GVA opportunity highlighted in the Supply Chain Capability Analysis report recently published by the Offshore Wind Industry Council and the Offshore Wind Growth Partnership.¹

We provide detailed answers to the consultation questions in the attached annexe. However, in responding we would like to highlight the following key points:

¹ [Offshore Wind supply chain has £92 billion potential for UK economy by 2040 \(owic.org.uk\)](https://owic.org.uk)

- **Lack of an integrated industrial strategy:** We are concerned that there is no wider strategy underpinning the introduction of the SIR, particularly given the limitations of a project-by-project approach in delivering the stated aims of the SIR.

The Industrial Growth Plan (IGP) is currently being developed with publication expected early 2024 but the SIR proposals do not appear to be linked with it in any significant way. The IGP should be a key means of assessing the SIR scheme's effectiveness as the SIR should be offering financing to developers to deliver parts of the IGP. We are therefore disappointed that the proposal to introduce the SIR appears to have prejudged the IGP rather than having waited for the completion of the IGP to inform the design of the SIR.

Going forward, we urge government to ensure the SIR remains closely aligned with the development of the IGP, including by allowing geographic areas identified in the IGP to be eligible for SIR funding under the 'deprived areas' criterion. We would like to emphasise that aligning the SIR with other initiatives such as the IGP and the Strategic Investment Model (SIM) should be viewed as a significant opportunity to be grasped rather than a challenge to be avoided, as the combined impact of these initiatives will likely be greater than the sum of their individual contributions if each is working in harmony with the others.

- **Separate funding pots for fixed bottom and floating offshore wind:** Scottish Renewables believes there should be separate SIR funding pots for fixed bottom offshore wind and floating offshore wind. This would reflect the differences in the supply chains and maturity of each technology as well as reflecting the unique opportunity that exists in building floating wind supply chain capacity in the UK as this technology develops.

In implementing this proposal, government will have to be careful to split the overall SIR budget across fixed and floating funding pots. This should be done in a way that ensures the proportion of the overall budget allocated to each technology accurately reflects the number and size of proposals from projects of each technology bidding into each SIR allocation round. This could be achieved by announcing the overall SIR budgets for AR7, AR8 and AR9 as planned to give the industry good forward visibility, and then decide the appropriate split between fixed and floating for each individual SIR allocation round closer to its commencement.

- **Limitations of the SIR proposals:** Whilst we support the intentions underpinning the introduction of the SIR, we believe that introducing the SIR at CfD auction stage means that there will be limited ability for the SIR to influence supply chain decisions and achieve DENSZ's stated objectives.

However, whilst introducing an equivalent policy mechanism at leasing stage would in many cases be the best option, we appreciate this is not now possible for the sizeable pipeline of projects which have already signed lease agreements and we support the effort to maximise the contribution of these projects to the development of the UK supply chain.

Nevertheless, it should be recognised that the proposal to introduce a standalone SIR auction held prior to CfD auction is a model for introducing non-price factors (NPFs) which is untested in international markets. In the EU, NPFs are incorporated at lease or at CfD stage, in both cases either at prequal or in the auction.

Scottish Renewables supports the introduction of NPFs to government processes for procuring offshore wind projects, but we would highlight that certain NPFs are better suited to being incorporated at CfD stage than others. In our view, introducing investment focused NPFs at CfD stage will have limited impact as this is too late in the development cycle to achieve the government's desired outcomes. Additionally, holding the SIR auction prior to CfD auction creates challenges as developers will struggle to commit to large investments without the certainty of a CfD.

Conversely, we believe that sustainability focused NPFs are better suited to being assessed at CfD stage. The limitations in what the SIR will be able to achieve makes it all the more important that the SIR is aligned with other supply chain initiatives and that a wider industrial strategy is developed to underpin offshore wind supply chain development.

- **Timelines:** Introducing the SIR for AR7 is very ambitious given that scoring, methodologies, budgets, minimum standards and parameters won't be published for at least another three months.

Considering the novelty and complexities of the SIR process and the fact that projects ready to bid into AR7 will be at a late stage of development, they will have limited ability to alter procurement decisions. If government decides to proceed with introducing the SIR for AR7 this should be a 'soft launch' with the SIR providing only upside for developers in this initial iteration (i.e. no penalties beyond loss of SIR top-up).

Given the ambitious timeline and limited impact of introducing the SIR for AR7, we believe it would be more appropriate to fully implement the SIR (i.e. with a full penalty regime) from AR8 onwards. This will allow DESNZ to fully consider consultation responses before legislation is drafted and allow developers adequate time to prepare

their bids. Waiting until AR8 for a full launch of the SIR will also avoid the risk of having another failed auction so soon after AR5.

- **Sequencing of CfD and SIR auctions:** We believe that government should consider reordering the sequencing of the SIR process to explore whether holding the SIR auction after each CfD allocation round rather than before as currently proposed would increase the potential benefits of the SIR process. Below we set out some of the potential advantages and disadvantages of this approach.

Advantages:

- Requiring developers to meet minimum standards in order to be eligible for the CfD and then running the SIR competition only for those successful in the CfD round could facilitate better collaboration between developers on SIR proposals, leveraging the full pipeline of projects to deliver larger scale, higher impact SIR proposals.
- It could avoid the opportunity cost of selecting SIR proposals which then cannot be funded due to the project not being successful in the CfD, avoiding the need to either re-optimize or re-allocate funding to the following allocation round.
- It could also allow for a more efficient allocation of the budget, circumventing the need for reallocating funding for SIRs awarded to developers that may then not end up winning a CfD.

Disadvantages:

- Developers will have less ability to flex their supply chain post CfD award as this will be closer to delivery.
 - Delaying supply chain decisions (in relevant areas) to after CfD award so a developer can participate in a SIR auction may increase cost.
 - It would push back many of the SIR conversations between developers and suppliers and limit the time available for these conversations thus limiting what may be possible to deliver through the SIR.
 - Investments can't be decided post CfD award without interfering with projects that need project financing (i.e. developers that don't do balance sheet financing).
 - Finally, there could be a risk that developers have less of an incentive to participate in the SIR auction in good faith once they have secured a CfD.
- **Risk of unintended consequences:** The interaction between the SIR process and CfD auction will be influenced by several complex factors and will be sensitive to design

decisions which are as yet outstanding. Given the risk of unintended consequences, a particular design package should not be chosen quickly without iterative feedback from industry. We therefore recommend that DENSZ undertakes rigorous scenario analysis with a range of hypothetical developers adopting various perspectives and objectives. This kind of analysis will be important for exploring different designs of the SIR and the behaviours and outcomes they incentivise.

- **Minimum Standards:** We are concerned that certain possible designs of the SIR process will encourage negative bidding, particularly if developers are required to win a SIR award to be eligible for a CfD auction. Similarly, we are concerned that variants of the SIR which introduce significant extra risk to the CfD allocation process, will push up strike prices and increase the cost to consumers of offshore wind. These concerns would be largely mitigated by ruling out the proposal relating to minimum standards where applicants are required to secure funding for at least one SIR proposal to be eligible to participate in a CfD auction.

Scottish Renewables 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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Annexe: Answers to consultation questions

1. Is the government's preferred model for allocating and valuing SIR proposals an appropriate delivery model to avoid overcompensation, while giving applicants flexibility on how they deliver their proposals? What could be the unintended consequences and value for money concerns, if any?

Scottish Renewables agrees that there are benefits in adopting an industry-led model as developers are best placed to propose, accurately cost and develop initiatives to drive a more sustainable supply chain.

However, adopting an industry-led model where Applicants estimate and propose the cost of delivering SIR commitments means there is greater scope for the process to be gamed and means that the funding allocation process will have to be more rigorously regulated. With several key parameters such as budgets, minimum standards and penalties unknown, at this stage it is unclear whether suitable safeguards can be designed under an industry led model to sufficiently mitigate this gaming risk, avoid unintended consequences and address value for money concerns. Alternatively, if pursuing a government-led model where the government defined a reward for delivering certain supply chain commitments, this would not carry gaming risk and would be a much simpler way of rewarding developers for delivering above minimum standards.

There could be a greater risk of under compensation rather than overcompensation if the final SIR design leads developers to submit extremely cautious proposals, for example if Option 1 for minimum standards is carried forward or if there are financial penalties linked to the ambitiousness of the bid. We therefore propose that the government trials various SIR designs and scenarios to explore the incentives and behaviours they foster and potential unintended consequences, including under and overcompensation.

2. What kind of backstop or mitigation would you suggest the government introduces to prevent a small number of large projects capturing the vast majority of the SIR budget?

Our primary concern with the SIR budget being consumed is if this then precludes projects which failed to win an SIR award from entering a CfD auction. This concern will be mitigated under Option 2 for ensuring minimum standards.

The nature of this question highlights the difficulty that the government may face in deciding how to set a SIR budget for any given allocation round, particularly later this year ahead of AR7. Whilst challenging to do, it will be vital to ensure that the SIR budget is set to properly reflect the eligible pipeline of projects, especially in the event of any kind of enforceable minimum standards or requirement regime. Any unused SIR budget (or allocated budget related to successful SIR applications that do not go on to win a CfD) could then be rolled over to the next round as appropriate. Importantly, in terms of sustaining investor and developer confidence at this critical moment in the deployment of offshore wind in the UK through the CfD process, it is essential to ensure that the SIR budget is an addition to the CfD budget envelope and the process of budget setting for the SIR regime must not have any impact on how the CfD auction budget is set.

A limit on the size of bids could be introduced as a backstop. An upper limit on the proportion of the budget that can be won by a single bid could be introduced to prevent a small number of projects from capturing an outsized share of the SIR budget. However, this proposal could deter developers, especially large ones, from submitting ambitious, and higher priced proposals which are likely needed to make a material and meaningful impact. It may also result in negative bidding as applicants are unable to cost their SIRs at an appropriate level. There is therefore a careful balance to be struck between not precluding ambitious proposals from winning SIR funding and still allowing smaller proposals from a diverse range of developers to be successful in each allocation round. The appropriate backstop will depend on the level of the budget and the number and price of proposals bidding in each SIR allocation round. The backstop should therefore be reviewed annually to ensure it is set at an appropriate level for each SIR allocation round.

The SIR budget and assessment should be separate for fixed bottom offshore wind and floating offshore wind given that the opportunities and needs associated with their supply chains are significantly different.

3. Would it be of value to Applicants to allow multiple SIR bids? What should the limit be on multiple bids per criteria? Please explain your answer.

Yes, it would be valuable to allow Applicants to submit multiple SIR bids. Allowing Applicants to submit bids of varying ambition and cost should allow the SIR to support a diverse range of proposals and give more Applicants a greater chance of winning some level of funding. However, given the advanced stages of procurement for AR7 and AR8 projects, this will limit the ability of Applicants to submit proposals of greatly varying ambition in these early SIR

allocation rounds. Submitting multiple bids is also likely to be challenging for a developer as they will need to further develop their (potentially already advanced) project with multiple supply chain scenarios, at additional cost and uncertainty.

The importance of allowing multiple bids is greatly increased if winning SIR funding is a prerequisite for participation in a CfD auction. However, it will still be valuable if this route to ensuring developers adhere to minimum standards is not chosen.

There will need to be careful consideration of how multiple bids are accommodated in the process of allocating SIR funding and this process should be clarified to Applicants as soon as possible. In addition to providing guidance on the number of bids permitted per criterion and per component, government should clarify whether all bids will be entered into the SIR auction on an equal standing. If so, this might simply mean that developers' highest scoring/lowest priced bids win funding. If the highest scoring proposals are entered into the auction first, this will create an incentive to overbid. Another option would be for developers to choose the order in which their proposals are entered into the SIR auction.

In all scenarios the SIR should allow developers to make a costed SIR proposal whilst allowing flexibility to delay making firm financial commitments until after SIR award to allow for the eventuality that a bid fails to win SIR funding.

However, there are potential downsides to allowing multiple bids. The preparation of each SIR bid will require a counterfactual against which to price the bid. This will necessitate Applicants exploring alternative procurement options to an advanced stage which they will then not use if awarded SIR funding. This will be both an administrative burden for developers, will create uncertainty for supply chain companies and could undermine relationships between developers and the suppliers they engage with.

We are also concerned that allowing multiple bids could lead to suppliers making multiple commitments prior to SIR award but then being unable to deliver on all of these commitments depending on how many bids are ultimately successful in the SIR auction. Conversely, if fewer projects win SIR funding than expected, this could leave unexpected gaps in suppliers' order books. Much of this uncertainty is inherent to the competitive nature of the proposed SIR allocation process. Nevertheless, there should be careful consideration of how this uncertainty can be minimised for both developers and the supply chain.

We urge DESNZ to keep the assessment and ranking process as simple as possible. However, allowing multiple bids will necessarily involve introducing more complexity to this process and could potentially increase the risk of gaming and unintended consequences.

We are also concerned that allowing multiple bids will add to the administration process and possibly the time required for DESNZ to consider and assess bids, and for any dispute resolution process to be completed. As mentioned in our response to Question 4, we do not think that the SIR application timelines should cross over with the CfD auctions or lead to CfD allocation rounds running less frequently than every 12 months. We therefore believe DESNZ should carry out simulations of auctions with multiple bids to explore how allowing multiple bids could impact auction outcomes, administration burdens and timings.

If multiple bids are enabled, to limit additional complexity, risks of unintended consequences and administration duration, we agree with limiting them to three per criteria at least for the initial SIR allocation rounds.

Should the SIR budget have a hard cap², we would see a stronger case for allowing multiple bids. This would enable developers to make lower-scaled versions of the same bid, which may have a better chance of winning funding than a more costly bid that is a borderline winner but risks breaching the budget. Allowing multiple bids may therefore result in more efficient use of the overall budget.

4. Is 6 months in advance of the opening of a CfD Allocation Round the optimal time to hold the SIR award and valuation process, assuming a 35 working days process to assess each application and notify applicants of the results? If not, when would you suggest?

The proposed timelines mean there will be crossover between allocation rounds, assuming allocation rounds proceed according to their longest timeline. This means developers will have to begin preparing bids for future rounds before they know the outcome of the current round. This will lead to an increased administrative burden on developers and increased uncertainty for the supply chain, which will be significantly heightened if Applicants are allowed multiple SIR bids in each funding allocation round. Moreover, in the circumstance that a project enters the next allocation round after being unsuccessful in the previous, there

² For example, if the budget was £100 million and the first six bids used up £90 million, but the next highest scored bid cost £20 million that next highest bid would not win a SIR, instead the reward would go to the next highest scoring bid that can fit within the cap. A 'soft cap' approach could address this by enabling the next SIR bid in the ranking to be funded (perhaps subject to an upper threshold limit).

would be very limited options for re-visiting the procurement strategy underpinning a renewed SIR bid ahead of the next CfD auction. We therefore believe SIR and CfD timelines should be reviewed to minimise and ideally eliminate any overlap, whilst maintaining annual CfD auctions. One option would be to open and close the SIR competition later in the year, possibly in late November or early December similar to the current Supply Chain Plan Application Window. The government would then process the bids, including a dispute resolution process over December and January with the SIR auction taking place in February before the CfD Application Window opens. This would not only address the cross overs between allocation rounds and the associated administrative burden but also enable developers additional time to narrow down procurement choices and more accurately cost their SIR submissions (although developers would need clear visibility of the SIR framework in good time ahead of the SIR bidding window). This would be particularly helpful for AR7 given the final budget and allocation framework may not be published until August 2024. It could also allow more time for DESNZ to refine the SIR policy after each CfD auction outcome.

It is also important to note that given that SIR commitments are made well in advance of a project obtaining a CfD, the government needs to be aware that changes to the procurement of key components, for example post-CfD award, may result in successful SIRs having to be later amended. This is often at no fault of the developer, so the government needs to have suitable flexibility in place to allow this (such as mirroring the current policy in Supply Chain Plans).

If the SIR has strict delivery requirements and limited no-fault failure exclusions for the proposal, this will require developers to make very firm commitments in advance of having secured the route to market for the project. These will typically require significant payments which increases the development costs and is particularly difficult for smaller developers. Smaller developers may also not have the same pre-existing local supply chain networks or agreements in place, or even order volume, so it is important that this is factored into the award and valuation process to ensure a level playing field and to encourage new market entrants and a competitive pool of offshore wind developers.

Given that the SIR process is yet to be finalised, projects bidding into AR6 should be allowed to carry over their SCPs to AR7 should they be unsuccessful in winning a CfD in AR6.

5. What is the right weighting between marks awarded for quality and marks for the price of delivery when determining the overall combined score of a proposal? Provide a reason why.

The scoring method for all criteria needs to be transparent and objective as possible, especially when assessing the 'quality' aspect of bids. However, at this stage it is difficult to assess what the correct balance of price versus quality should be as the parameters which will determine the quality of a proposal and the scoring methodology have not been specified in detail.

Gaming risks need to be considered when choosing the relative weightings for price and quality scores. The higher the quality weighting, the greater the incentive to over-promise when making bids. The higher the price weighting, the greater the incentive to bid negatively to minimise exposure to fines and penalties for non-delivery. Trialling design options may be an effective way to reveal potential unintended consequences and determine the most appropriate weighting.

The appropriate weighting may vary between SIR criteria if some are easier to quantify than others. The appropriate weighting will also be influenced by the level of the budget as a smaller budget will increase the role of price in determining which SIR proposals win funding.

6. When considering minimum standards, should the government bar applicants who have not obtained at least one SIR reward award from the CfD auction, or should it apply minimum standards to each SIR criteria as a contractual obligation instead? Please consider the need to minimise "gaming" of the SIR allocation process in your answer.

It is SR's strongly held view that Option 1 which would mean Applicants are ineligible to participate in a CfD auction unless they have won SIR funding should be ruled out as the risks associated with this option greatly outweigh any potential benefits.

If developers would have to compete via the SIR to prequalify for a CfD allocation round this would greatly increase the risk of negative bidding and unintended consequences. This could then feed through to CfD auctions as developers would likely have to submit higher strike price bids to achieve hurdle rates. This would then potentially lead to fewer projects being secured per allocation round. Option 1 would mean that chance and bidding tactics would play a large part in determining which projects proceed to CfD allocation which would undermine the objectives of the SIR. Additionally, obtaining at least one SIR reward would be heavily dependent on the size of the SIR budget. As such, the government would need to not

only ensure that the budget is set appropriately to reflect each allocation round's eligible capacity (set several months ahead of the Application Window closing) but have backstops in place to prevent a small number of projects potentially claiming the majority of the rewards. Should government fail to set these parameters appropriately, this could then have serious consequences for the number of projects secured in CfD allocation rounds.

SR therefore supports setting minimum standards across supply chain sustainability criteria by, for instance, carrying forward Option 2.

However, Option 2 has some issues including:

- There are challenges to address on all of the proposed criteria (see responses to Q10-Q17).
- The proposed SIR criteria have, rightly, been narrowed down to only include quantitatively measurable criteria that can produce scores that they can objectively rank in an auction. But, this has resulted in a much more limited focus than the current Supply Chain Plan (SCP), and limited coverage of the government's aims.
- The SIR scoring process proposes to score proposed commitments against the project's counterfactual, but this means that investments (for instance in deprived areas) already made to support the project could not count towards the project's score, which is also used to assess whether minimum standards have been met. As with the SCP process, allowing investments made before the SIR window opens to count towards meeting minimum standards would help to avoid perverse outcomes: for instance, preventing this would incentivise developers to delay project planning until after the SIR process.

The government therefore might consider an alternative approach than the SIR criteria for minimum standards to address this, for instance, a rationalised SCP.

Minimum standards need to be achievable regardless of project size and should reflect what is possible based on previous/recent projects as opposed to potential future ambition which may be unachievable and therefore carry the risk of government setting minimum standards too high. The minimum standards set for AR7 should also account for the fact that projects which will be competing in AR7 have already been under development for some time and will have limited ability to factor a new set of standards into their procurement decisions. We therefore suggest that current Supply Chain Plan requirements could form the minimum contractual obligations for all Applicants. Minimum standards should be reviewed annually in consultation with industry.

In the case where developers fail to meet minimum standards and/or their SIR commitments, the penalty regimes used by Crown Estate Scotland and The Crown Estate where developers have to pay a flat lump sum financial penalty if they fail to deliver a certain proportion of their supply chain commitments could be a viable model to use for the SIR financial penalty (as noted in response to Question 7).

7. Are the government's proposals on performance related adjustments (i.e. to address non-delivery) proportionate and enforceable? Please answer in relation to:

a. Performance related adjustments for non-delivery or partial delivery of SIR commitments.

b. Performance related adjustments for non-delivery of minimum standards.

The option to ban an applicant from future allocation rounds could have a very different impact to the non-delivery disincentive (NDD) under the current Supply Chain Plan process. Whereas the NDD applies to a project, the penalty as proposed under the SIR applies to the applicant and could therefore have a much more significant impact if the applicant has other projects for which it is seeking CfD support.

Penalising the applicant rather than the project could therefore be very damaging (for the developer and for UK decarbonisation) and have a much more significant impact on the cost of capital. This impact would be greater the more projects being developed by an Applicant, including across other technology classes. Plans to progress with any such kind of sanctions regime would be counter-productive to re-building confidence in the offshore wind sector in the UK. We therefore recommend that Option 2 for performance related adjustments for non-delivery of minimum standards is not carried forward.

We similarly believe that Option 1 as proposed should not be carried forward. Penalising developers by an amount proportionate to the SIR bid will likely incentivise adverse bidding if developers submit low or negatively priced bids in order to minimise their exposure to financial penalties.

We therefore propose that a tiered penalty structure linked to the level of delivery of the SIR or minimum standards is adopted. This would mirror previous proposals put forward by OWIC for CfD Supply Chain Plans in AR4 and the current structure of Crown Estate Scotland fines under the ScotWind process.

There should only be performance adjustments where the developer is at fault, up to a capped amount, with any adjustments taking account of the fact that some factors that result in non-delivery or partial delivery will be outside of developer control. Examples include: the failure of a manufacturing facility to materialise owing to a lack of wider orders, business case changes or planning/consenting challenges; the failure of a Tier 1 to meet the SME threshold owing to systemic issues in the supply chain or consolidation of key component companies; decarbonisation targets for projects not being realised, due to lower carbon components not being ready in time for the construction period from the manufacturer.

If developers carry the risk for factors such as these this will incentivise conservative bidding. If SIRs do not materialise because of factors outside of developers' control, they will still need to re-procure components to ensure project delivery. This re-procurement will be set against a capped CfD price, with no upside for the developer. Therefore, unless SIR downside risks (i.e. penalties) are fixed at a reasonable level independent of bid amounts, developers will be risk averse with their SIR bids, undermining the investment which the government is seeking to encourage.

8. When considering by how much to vary an applicant's CfD payments in the event that an applicant fails to deliver the minimum standards required, do you consider it appropriate to link the performance-related adjustment of CfD payments to the original SIR delivery cost the applicant put forward? If not, what would you suggest as an alternative?

No, we do not believe that it is appropriate to link the performance-related adjustment of CfD payments to the original SIR delivery cost. This will cause additional issues with the project finance process and incentivise low and/or negative bidding. Performance payments should be an adjusted lump sum assessed on delivery performance and certain mitigating factors. This will remove the need for non-financial penalties – i.e. CfD termination or banning applicants from future CfD allocation rounds.

Further clarification is required regarding how force majeure events are treated and how Applicants will be treated when they fail to deliver SIR commitments through no fault of their own. A contracting framework should be developed to avoid unintended consequences and costly and prolonged litigation in such cases.

9. When considering dispute resolution mechanisms (at both application and payment stage), what sort of independent panel body, or independent members, would be appropriate for DESNZ to appoint?

SR believes that similar mechanism to that employed within the current CfD process, with independent oversight, would be an appropriate model to adapt for use in the SIR allocation process. However, the impact of any dispute resolution mechanism on the timing of the SIR process should be minimised. It is critical that the CfD can still occur annually to enable projects to plan their schedules and support investment in the UK sector.

10. Are the proposed SIR criteria appropriate considering the government's policy objectives, and should others be considered?

Scottish Renewables does not believe any further criteria should be considered.

Addressing offshore wind supply chain challenges requires cross-industry action with collaborative and strategic investment. It is currently unclear if and how these criteria will support the SIM and IGP, or how they will link up and support the government's approach to supporting the offshore wind supply chain through the Green Industries Growth Accelerator and FLOWMIS funding. We therefore propose that the government do not finalise setting criteria until they can reflect on the IGP, due for publication in Q1 2024.

11. Will the deprived areas SIR criteria reward applicants effectively so that they are incentivised to invest in manufacturing facilities, deployment infrastructure (such as ports), skills and R&D within deprived areas? Please say why.

The definition of 'deprived areas' is not entirely clear. Government should provide more clarity regarding the areas which will qualify for scoring on this criterion. For example, DESNZ should clarify at what granularity the Scottish Index of Multiple Deprivation (SIMD) will be used to determine deprived areas. It would be helpful for government to provide a map of current and proposed new facilities that fall within the deprived area zones.

Scottish Renewables has concerns about defining 'new' manufacturing facilities or ports as facilities that have been constructed within the 5 years prior to an allocation round and suggests a longer period should be adopted. Five years is not a long time in the context of developing an offshore wind project and limiting eligible investment to that which falls within this 5-year window will preclude many investments in major new port or manufacturing facilities from qualifying for SIR funding. An Applicant may be unsuccessful in the first

allocation round they enter meaning some investment might fall outside this window by the subsequent allocation round. A similar timing issue will be faced by phased projects which participate over multiple allocation rounds. Allowances should be made for these cases.

Scoring should not be limited to activity supported by a single project only. If this were the case it could be challenging for single projects to score highly especially for projects which are entering AR7 or are already in an advanced stage of procurement. Instead, investment in collaborative projects should qualify for SIR funding and barriers which could prevent collaborative projects from bidding and/or winning funding should be addressed.

For example, initiatives (such as port investment or R&D and innovation) set up between industry participants are often not directly linked to specific projects. Moreover, if two developers collaborate to invest in a facility to support their respective projects, the developer's ability to deliver their SIR bid commitment or meet the deprived areas minimum standard (and therefore avoid a penalty) would be dependent on whether the other developer is successful at the same CfD allocation round. To this end, DESNZ should provide further guidance on how the SIR will interact with the SIM.

There will be facilities, for example port facilities in Scotland, which are not in deprived areas but will still require significant investment in order to scale up to serve the pipeline of projects which is currently being developed. The SIR should not inadvertently disincentivise investment in these facilities. Moreover, there is a risk that this criterion comes into conflict with the outputs of the IGP if priority locations for supply chain development that are identified do not fall within deprived area as defined by the SIR framework.

The sensitivity of the SIMD in detecting income and employment deprived people is lower in remote and rural areas and island local authorities. Household deprivation indices may therefore help to identify deprived individuals not living in deprived areas and could potentially be considered in conjunction with the SIMD.

A fundamental challenge with this criterion is that there are no consistent methodologies for designating deprived areas across the North Seas Energy Cooperation area nations. There is therefore a risk that projects located in certain regions may have an unfair advantage. As far as possible a consistent methodology needs to be developed for use across all regions eligible for SIR funding.

Whilst we agree that investments that leverage the geography of the North Seas Energy Cooperation area encourage shorter, more circular and environmentally sustainable supply

chains and understand the need to avoid any potential WTO challenge, we should highlight the risk to political acceptability of GB consumers' money being used to fund investments overseas, even if these are in the NSEC countries. It is worth noting that we are not aware of any such reciprocal arrangements in other NSEC countries that would reward developers of projects in the EU for investments in UK deprived areas.

12. Will rewarding applicants with projects spending a greater percentage of total DevEx and CapEx spending on SMEs lead to an increase in the amount of project spend that goes to SMEs? Please say why.

Scottish Renewables does not believe that the SME criterion should be carried forward as a standalone criterion for the reasons set out in our responses to questions 12-14.

Offshore wind is complex industrial infrastructure which needs, above all, to be built safely, and an unprecedented number and scale of projects need to be built speedily in order to achieve climate targets. The government needs to assess the extent to which an onerous SME percentage would make it harder for developers to build safely, quickly and at scale.

The integration of higher SME content requires detailed assessment and due diligence to provide full assurances, which is unlikely in the timescales provided under the SIR. A risk premium may be placed on such activities which will change project costs and factored in to CfD bids.

In theory developers can pass such incentives for greater use of SMEs to Tier 1 contractors who will primarily be responsible for this spend on behalf of the developer. In some cases, this will be difficult. It will also have consequences for project risk profiles and the reward would need to consider the additional delivery and interface risks that the Applicant must bear and the additional management and contingency costs on top of potentially higher direct costs. This risk premium would likely feed through to CfD bids.

SMEs have relatively high insolvency rates and Applicants will be exposed to this risk. This could prevent them meeting their SIR minimum standard and incurring significant penalties. This could impact the cost of capital and potentially incentivise perverse interventions to prevent SMEs going out of business. There is also the potential for gaming, for example if large supply companies are incentivised to create subsidiaries.

We also believe that there is a double counting risk between this and the deprived areas criterion. Many SMEs that developers may contract with and make SIR bids in relation to facilities set up in the last five years in deprived areas. The developer could therefore make separate deprived areas and SMEs SIR bids, seeking two rewards for the same activity.

13. To what extent would it be burdensome for developers and tier one suppliers to collect the requested information project DevEx and CapEx spend that goes to SMEs?

The integration of higher SME content requires detailed assessment and due diligence to provide full assurances, which is unlikely to be possible in the proposed timescales under the SIR. Additionally, influencing the choice of suppliers is likely to be challenging as many Tier 1's will prefer to retain flexibility and confidentiality about the detail and breakdown in spend.

14. What would you deem to be appropriate minimum, medium and maximum thresholds by which to score applicants against the SME SIR criteria and why? For example, a minimum threshold might be that at least 5% of a project's DevEx and CapEx spend goes to SMEs.

As proposed, the cost of scoring higher on the SME and CO₂ emissions criteria could be higher for larger projects. If scoring is based on the percentage of DevEx and CapEx spent on SMEs and there is a premium for opting for an SME then this will scale with project size. Similarly, for CO₂ emissions, this is scored based on a per MWh basis so if a project chooses to use green steel (for example) then this cost will scale with the number and size of turbines. If this is the case, larger projects will be at a disadvantage when submitting the price component or their SIR bid.

It will also be harder for a larger project to spend a high percentage of their CapEx on SMEs as this could be a very significant amount of money. A small project may only need to engage a few SMEs to meet a minimum standard, but a large project would have to find many SMEs, which may not exist or have capacity.

It is hard to suggest appropriate thresholds without more research on the supply chain. It is unclear how many SME suppliers exist with the right skills/capacity. It is also unclear whether the financial incentive provided by the SIR will be sufficient to make developers or Tier 1s compromise on the approval criteria that would otherwise see some SMEs excluded from procurement decisions. It is particularly difficult to suggest a minimum percentage to apply to all offshore wind projects without a robust data set to inform the decision. Five percent

seems be much too high, but without more data it is hard to know what the right level would be.

If carrying forward this criterion, the threshold for scoring should be set very low, at least in early SIR rounds to reflect the fact that engaging a high proportion of SMEs will be challenging for many projects.

15. Is the Carbon Trust's Joint Industry Programme methodology an appropriate, and effective, means by which to measure the CO₂ emissions of offshore and floating offshore wind projects? Please say why.

Scottish Renewables supports the use of the Carbon Trust's Joint Industry Programme methodology to measure the CO₂ emissions of fixed bottom offshore and floating offshore wind projects. Given that the methodology will not be finalised by AR7, we would recommend a phased approach to introducing this criterion. An additional reason why a phased approach is appropriate is because limited offshore wind emissions data is currently available to inform minimum standards. Calculating supply chain emissions is relatively new to the sector. Without such data, calculations are currently based on estimates and assumptions. It is therefore currently not possible to set a realistic minimum standard.

Before minimum standards are introduced, the government could require applicants to calculate and report their carbon emissions using the SUSJIP methodology, if available, or in the interim their own methodology. Over time, as projects report their emissions, the government could get a clearer idea of what average emission levels are for different types of sites, facilitating an informed decision (with consultation) on appropriate minimum standards.

It is important that when applied to the SIR scheme, particularly with respect to the setting of any minimum standard, the methodology used should take into account project characteristics that are outside of Applicants' control. Key examples include:

- Export transmission cables - Given that the Holistic Network Design sets out and mandates where offshore wind projects connect onshore, the project does not have control over the length of the cables and therefore the associated emissions of the export cables. Any minimum standard or scoring criteria needs to account for this.

- Fixed vs floating technology - Any minimum standard would need to be technology specific given the different characteristics between both fixed and floating wind. For example, floating wind will require more steel than fixed projects and often longer export cables to bring energy to shore (see above). Each technology will also have different average capacity factors.

We believe that the focus on only project emissions per MW/H is likely to incentivise actions with a single project focus. This will likely support actions like procuring lower-carbon steel. However, it will not incentivise some high-priority actions for reducing offshore wind emissions that require a multi-project perspective. For instance, electrification of port infrastructure to facilitate the transition to electric vessels, which will benefit multiple projects.

Delays by regulatory/accreditation authorities causing a failure to deliver an SIR or comply with a minimum standard should count as no-fault or force majeure and not result in any penalty or adjustment.

It should also be recognised that this criterion could (at least initially) disincentivise certain aspects of UK content as in the short-medium term there will be no suppliers of green steel active in the UK.

Finally, we have concerns about the scoring proposals based on their cost bids (more points for the smaller amount of revenue support sought), because it may restrict the ambition for lowering emissions. A more appropriate method could be to score proposals based on their carbon cost efficiency, for example, tCO₂e reduced per £million spent, with some cap or threshold to control spend. However, it would have to be ensured that this would not put smaller developers at a disadvantage.

16. Are science-based targets an appropriate standard by which to determine the sustainability of suppliers' manufacturing and procurement practices? Are there alternative measures the government should be considering that are easily measurable and verifiable?

Scottish Renewables supports the use of science-based targets as an appropriate standard to assess the sustainability of suppliers' manufacturing and procurement processes, provided suppliers are held to rigorous accreditation and monitoring procedures.

However, there are some challenges associated with this approach. Firstly, we understand that the SBTi application process can take up to 12 months. This lengthy process may mean

that supply chain companies could be midway through a validation process at SIR submission, creating risks for developers in how they score or account for their total SBTi score. This could be especially true if Tier 1 companies are unwilling to communicate their submission if they are unsure on aspects of validation or it is strategically sensitive.

Additionally, SIR success and bidding may be reliant on a third party which is not incentivised to comply with CfD timelines. Secondly, SIR submission will come at a stage in the project where procurement decisions are still uncertain, as the project is pre CfD award and pre-FID. As with other SIR criteria, it may be difficult to determine the exact amount of Tier 1 companies that may be utilised at this stage in the project. Finally, this criterion could send the wrong investment signal as many other factors will influence decisions over selecting suppliers (such as capacity, capability and deliverability) and developers therefore might not always be in a position to submit a proposal because of this.

Another point to be aware of is that the more suppliers adopt a science-based target, the less of a point of differentiation this criterion will become. This should be a consideration for future rounds as commitments science-based targets become more prevalent in the supply chain.

Again, delays by regulatory/accreditation authorities causing a failure to deliver an SIR or comply with a minimum standard should count as no-fault or force majeure and not result in any penalty or adjustment.

17. What would you deem to be appropriate minimum thresholds by which to score applicants against the SBTi criteria and why? For example, a minimum threshold might be that at least 20% of a project's Tier 1 suppliers have set, and are pursuing, science-based targets that have been submitted for validation and communicated.

It is difficult to suggest an appropriate threshold without knowing what proportion of suppliers already have a science-based target in place. This supports our suggestion of a 'soft launch' or data gathering exercise for the first SIR allocation round, at least for some criteria where more information is needed.