

Rt Hon Claire Coutinho MP  
Secretary of State for Energy Security and Net-Zero  
Department for Energy Security and Net-Zero  
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February 27, 2024

Dear Secretary of State

## Maximising Contracts for Difference Allocation Round 6

On behalf of Scotland's renewable energy industry, I write to reiterate our priorities ahead of the budget and auction parameters announcement for Contracts for Difference Allocation Round 6 (AR6) next month. At a critical phase of our clean energy transition, the stakes could not be higher for enabling the level of deployment we need to ensure our energy security and achieve the UK's net-zero ambitions.

The Contracts for Difference scheme has been a real success story for accelerating the deployment of renewable energy in the UK and has helped cement our reputation as a world-leader across renewable technologies, particularly offshore wind. However, while the UK is home to five of the largest offshore wind farms in the world, there is enormous potential in Scotland's waters that we must urgently unlock.

While some renewable energy technologies saw success through Contracts for Difference Allocation Round 5 (AR5), the failure to secure any bids from offshore wind developers marked a significant setback for the UK's clean energy ambitions. In that context, we strongly welcome the steps which the UK Government has since taken to restore investor confidence by increasing Administrative Strike Prices and establishing a separate funding pot for offshore wind.

It is therefore essential that we build upon this progress by maximising capacity in AR6 if we are to achieve the UK's target of 50GW of offshore wind by 2030. As [recently outlined by industry](#), this will require at least 10GW of offshore wind in AR6 and an additional 10GW in Allocation Round 7 (AR7). This must also factor in the risk of further under-delivery of Allocation Round 4 (AR4) projects, with almost 3GW of offshore wind capacity from that auction having since been terminated or reduced due to unsustainable conditions for project delivery. Encouragingly, [fresh analysis by industry](#) has revealed that a record 14 offshore wind projects worth up to 10.3GW are eligible to bid into this year's auction.

With a target to achieve a decarbonised electricity system by 2035, [analysis by the Climate Change Committee](#) has also shown that capacity of offshore wind will need to quadruple over the next decade. Not only is hitting our targets critical for the UK's standing on the global stage, but it will be felt by households and communities across the UK. Had AR5 secured 7GW of offshore wind as was the case in AR4, savings of around £1.5 billion per year could have been achieved for UK consumers [according to the Energy and Climate Intelligence Unit](#) (ECIU).

Recent research [by the Fraser of Allander Institute](#) on behalf of Scottish Renewables has recently revealed that Scotland's renewable energy industry and supply chain supported more than 42,000 jobs and an economic output of over £10.1 billion in 2021. For the first time, offshore wind supported the most renewable energy activity across the Scottish economy with 15,005 jobs and an economic output of more than £4 billion – clearly demonstrating the growing strength of our offshore wind sector in Scotland.

Projects in the ScotWind leasing round of around 30GW of fixed and floating offshore wind – backed by the Innovation and Targeted Oil & Gas (INTOG) leasing round of 5GW of floating offshore wind – are poised to power the UK's future energy needs and boost our economy. ScotWind developers have announced [plans to invest £1.4 billion per project built](#) which is an unparalleled opportunity to deliver transformational benefits to our clean energy supply chain, fresh investment into coastal communities and high-skilled green jobs of the future.

With a record amount of capacity eligible to bid, the UK Government has a golden opportunity to ensure that AR6 is the most successful allocation round to date. To capitalise on this potential, Scottish Renewables recommends the UK Government delivers the following priorities in AR6:

- 1. Set an auction budget which maximises the capacity procured across all technologies.** The UK Government should use this opportunity to set an auction budget which maximises procurement across all three funding pots in order to deploy a diverse range of technologies at scale that will maximise the benefits to consumers, the economy and the supply chain.
- 2. Adjust reference prices and load factors for all technologies.** Accurate reference prices and load factors are critical to maximising the capacity that the auction budget can procure. However, to the detriment of consumers, reference prices and load factors used in previous allocation rounds have significantly inflated the budget cost of the capacity procured. Increasing reference prices to market reflective levels would significantly reduce the budget required to ensure that AR6 delivers the record capacity required to enable the UK is to meet its deployment targets. Similarly, current load factors have proven unrealistic and should be revised downwards to limit the budget required to ensure AR6 is a success.
- 3. Introduce a ringfenced budget for floating offshore wind.** The UK has a huge pipeline of floating offshore wind projects, with almost 20GW being developed through ScotWind alone. However, the UK's floating offshore wind supply chain is still its infancy and greater confidence in the UK's pipeline is required to enable capacity and sustainable supply chain growth. A ringfenced budget for floating offshore wind we can facilitate further innovation, drive cost reductions and maintain our supply chains as part of a world-leading sector.
- 4. Increase the budget ringfenced for tidal stream.** As tidal stream projects have been delivered with over 80% UK supply chain content spend, there is a huge opportunity to embed this both in projects deployed in the UK and around the world. AR5 demonstrated the ability of the tidal stream sector to respond to a larger ringfence and the UK Government should allow developers to build on this success by increasing the ringfenced budget to accelerate the deployment of what is an entirely predictable renewable resource. The UK Government should also commit to maintaining the ringfence in future rounds as this will help foster vital investor confidence.

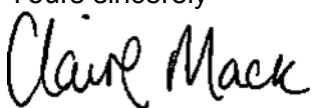
At this critical juncture, we face the choice between further energy insecurity or future economic prosperity. With the UK remaining "one of the most gas dependent economies in Europe" [according to the Office of Budget Responsibility](#), underperformance in AR6 will leave UK consumers less energy secure and more exposed to high, volatile gas prices.

On the other hand, [as revealed by the EICU](#) today (February 27), the total gross value added (GVA) by businesses involved in the UK net-zero economy now stands at £74 billion – a 9% increase on 2023. At a time of stagnation in the wider economy and rising international competition for clean energy industries, now is the time to supercharge delivery and secure our clean energy pipeline to incentivise investment, bolster domestic supply chains and maintain our globally competitive early-mover advantage.

Supported by an ambitious budget and sustainable auction parameters, Scottish Renewables looks forward to continuing to work closely with the UK and Scottish Governments to drive the collaboration that will achieve our bold decarbonisation targets and deliver cheaper, cleaner power for consumers.

I hope this is helpful and I would be pleased to meet with you next month once the Spring Budget has been delivered to discuss the priorities of our members in more detail.

Yours sincerely



Claire Mack  
**Chief Executive**