



Department for
Business, Energy
& Industrial Strategy

Contracts for Difference for Low Carbon Electricity Generation

Government Response to Call for Evidence
on proposed amendments to Supply Chain
Plans

August 2022



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Introduction

As part of the government's world-leading Net Zero agenda, we have committed to a fully decarbonised electricity system by 2035, subject to security of supply considerations. Delivering this will require rapid and sustained scale-up of low carbon deployment. Realising this ambition will demand a strong and stable renewable energy supply chain in order to meet the capacity required. Bringing forward more low carbon generation is essential for reducing our reliance and exposure to volatile fossil fuel markets. The government's Energy Security Strategy sets out steps to further accelerate this plan to deliver a more independent and more secure energy system.

The Contracts for Difference (CfD) is the government's main mechanism for supporting new low carbon electricity generation and is fundamental to achieving Net Zero. In order to qualify for a CfD Allocation Round, Applicants with generation capacity of 300MW or more and from AR5 onwards any Floating Offshore Wind project are required to complete a Supply Chain Plan and have it approved by the Secretary of State for Business, Energy and Industrial Strategy. The Secretary of State will approve a supply chain plan if satisfied that the generating station is likely to make a material contribution to the development of supply chains. The Supply Chain Plan process aims to combine our supply chain ambitions and decarbonisation objectives.

The government has considered how to ensure that CfD allocation rounds can best support an increase in the pace of renewable deployment needed to achieve its Net Zero agenda whilst minimising the amount consumers spend on energy across the country. On 9 February 2022 the Secretary of State for Business Energy and Industrial Strategy Kwasi Kwarteng announced that CfD allocation rounds will run more frequently, with the next allocation round (Allocation Round 5) due to open in March 2023. By increasing the frequency of CfD rounds the government will build on the success of the CfD scheme to date and will help provide greater market confidence and encourage even more investment in the sector.

Responses received

We would like to thank all stakeholders that responded to this Call for Evidence, with detailed and insightful views. In total we received 26 responses. The Call for Evidence ran from 4 February to 29 April 2022, and was available on GOV.UK. Responses were received via email and Citizen Space. The Call for Evidence was also advertised through our CfD Bulletin mailing list, and BEIS held a stakeholder engagement event on 9 February for the Call for Evidence and the consultation on CfD delivery and Supply Chain Plan Process, that was published in parallel.

We received responses from a variety of stakeholders including, developers, suppliers, trade associations, consultancies, and county councils.

Summary of responses

The Call for Evidence sought views on the long-term future of the CfD Supply Chain Plan process. Following a lessons learned exercise and a survey of Applicants on the SCP format

and questionnaire following the AR4 assessment process, the government looked to examine potential solutions to issues that were raised but require a more phased and longer term introduction. The Call for Evidence included proposals that would require more development and therefore would not be ready to implement until at least AR6 of the CfD. If any proposals are taken forward, the government intends to consult as appropriate.

In this section, we have provided a summary of responses received through the Call for Evidence, giving an opportunity for stakeholders to view how others responded.

The Call for Evidence asked for views on the following proposed changes:

- Penalties for failure of Supply Chain Plan Commitments
 - The government welcomed views on introducing a more graduated financial penalty system that can be applied to all projects that fail to implement their Supply Chain Plan, but whose shortcomings don't necessarily justify terminating the CfD contract.
- Negotiating Supply Chain Plans
 - The government asked for views on introducing a system whereby Supply Chain Plans are negotiated between the Applicant and BEIS, in an attempt to make Supply Chain Plans more precise and of a higher quality.
- Changing the Supply Chain Plan 300MW threshold
 - The government sought views on changing the 300MW threshold to address the loophole whereby projects change their size in order to avoid the requirement

In reporting the overall response to each question, the 'majority' indicates the clear view of more than 50% of respondents in response to that question, and 'minority' indicates fewer than 50%. The following terms have been used in summarising additional points raised in the responses: 'most respondents' indicates more than 70% of those answering the particular question, 'a few respondents' means fewer than 30%, and 'some respondents' refers to the range in between 30% and 70%. This is consistent with the approach of other UK Government responses to consultations.

Penalties for failure of Supply Chain Plan Commitments

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.

There were 24 responses to the proposal to introduce graduated penalties for failure of Supply Chain Plan commitments. The majority of respondents were supportive of the idea of a graduated penalty system with many of the view that this would be more proportionate than the current financial penalty system. However very few were supportive of a graduated penalty system being introduced alongside the current operational condition precedent (OCP), with some respondents pointing to the increased investment risk this would create. There were differing views about what a penalty fund should be used for. Some respondents suggested that funds should go back to consumers, others were of the view that funds should go towards funding supply chain activities. Some noted that if penalties were collected at a late stage of

project development, the benefits and impact to the supply chain would be minimal. Some respondents suggested that a portion of the money should go towards local businesses that have lost out on business due to the supply chain failures that have resulted in the penalty. Others pointed to the need for an incentive-based system and suggested that the fund be used to pay developers 'over-performing' on their supply chain plan commitments. Many respondents were of the view that the industry should be involved in administering such a fund. One respondent suggested that a way to mitigate developers buying their way out of completing a supply chain plan would be to have a maximum number of penalties a developer could receive before being disqualified from a future round.

Negotiating Supply Chain Plans

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

There were 23 responses to the proposal to introduce a negotiation system for SCPs between BEIS and Applicants. The majority of respondents were not supportive of the proposal to introduce a negotiation stage into the supply chain plan process. Many pointed to issues with transparency and consistency if this was introduced, highlighting the importance of objectivity in the process. Some noted the additional time that this may add to the process, noting that the process was already constrained for developers. Some noted that introducing a stage like this would make it difficult for government to adhere to international obligations. One respondent suggested that a negotiation stage might be appropriate for certain parts of the Supply Chain Plan, such as negotiating the number of internships and apprenticeships.

Changing the Supply Chain Plan 300MW Threshold

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

There were 22 responses for the question about how the issue of 'downsizing' should be addressed. The majority of respondents thought that the current threshold was appropriate, mainly due to the fact that smaller developers did not have a significant enough impact on the supply chain, and it would be disproportionate to require developers to be part of the process. Many respondents thought that lowering the threshold would not solve the problem of developers downsizing to avoid the requirements, as developers would use the same approach for the new threshold. Many respondents made the point that any burdens of the Supply Chain Plan process were not enough to incentivise developers to submit smaller projects as the economic benefits of the big projects outweigh negatives. A few respondents suggested that the government should look at the reasons why some developers were avoiding the Supply Chain Plan requirement and aim to minimise the burden of the Supply Chain Plan process overall. A few developers thought that it would be appropriate to have a lighter touch version of Supply Chain Plans for certain technologies that were under the 300MW threshold but that still have the potential to have a significant impact on the supply chain.

Other Ideas

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.

There were 25 responses to this question with numerous suggestions put forward. Ideas for improving the Supply Chain Plan process included: -

- a review of the Supply Chain process within the context of the new British energy security strategy and annual CfD rounds.
- including incentives in SCPs to explicitly promote collaboration or collective industry effort to grow the supply chain
- reducing the wide scope of SCPs: by identifying which sections, or elements of sections actually deliver the required strategic benefits.

BEIS will consider the merits of undertaking a review of the Supply Chain Plan process, its scope and whether proposals can be presented in time for potential introduction after Allocation Round 6.

A number of other suggestions were also put forward in the Call for Evidence that related more to supporting the development of the supply chain in general, rather than improving the Supply Chain Plan process in particular. These suggestions will be considered more broadly as part of the wider work of the newly established Offshore Wind Acceleration Taskforce.

Conclusion & next steps

Building on the commitments set out in the Prime Minister's 10 Point Plan, the Energy White Paper and the Net Zero Strategy, The Energy Security Strategy accelerates this plan, in a series of bold commitments which put Great Britain at the leading edge of the global energy revolution.

Vital to realising these commitments will be ensuring the continued long-term success of renewable deployment and ensuring the wider electricity system is able to fully utilise the opportunities of high levels of renewable generation. The responses to this Call for Evidence have been useful to teams working on many aspects of the CfD scheme and wider Renewable Energy portfolio, including those involved in the work of the newly established Offshore Wind Acceleration Taskforce.

Following the responses to the Call for Evidence, the government will not be taking forward the proposal to negotiate Supply Chain Plans, however the comments welcoming engagement with BEIS at an earlier stage have been noted and will be considered as part of any further review of the process. The government will keep the threshold for completing a Supply Chain plan under review but can confirm that we have no immediate plans to reduce the threshold for technologies other than Floating Offshore Wind, where we are keen to target its mass deployment potential. The proposal to introduce a graduated penalty system will remain in scope and the responses to this proposal will inform the longer-term thinking being done on allocation round 7 onwards.

Building on the evidence provided in this Call for Evidence, we will work closely with industry, academia, and wider stakeholders to further consider how our policies should continue to evolve both in the near term for allocation round 6 but also longer term so that supply chain development continues to keep pace with the ambitions for renewable energy deployment.

This publication is available from: www.gov.uk/government/consultations/contracts-for-difference-cfd-call-for-evidence-on-proposed-amendments-to-supply-chain-plans

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