



Department for
Business, Energy
& Industrial Strategy

Contracts for Difference for Low Carbon Electricity Generation

Government response to consultation on
proposed amendments to the scheme

November 2020



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List of acronyms

Acronym	Spelling
ACT	Advanced conversion technology
AD	Anaerobic digestion
AR	Allocation Round
ASP	Administrative strike price
BECCS	Bioenergy with Carbon Capture & Storage
BEIS	Department for Business, Energy & Industrial Strategy
BMU	Balancing Mechanism Unit
BMRP	Baseload Market Reference Price
CCC	Committee on Climate Change
CCUS	Carbon Capture, Usage and Storage
CfD	Contracts for Difference
CHP	Combined heat and power
CO2	Carbon dioxide
FID	Final investment decision
GB	Great Britain
GW	Gigawatt
IMRP	Intermittent Market Reference Price
LCCC	Low Carbon Contracts Company
MDD	Milestone Delivery Date
MR	Milestone Requirement
MW	Megawatt
MWh	Megawatt hour
NDD	Non-Delivery Disincentive
NG ESO	National Grid Electricity System Operator
NGO	Non-governmental organisation
NSIPs	Nationally significant infrastructure projects

OFTO	Offshore transmission owner
OREI	Offshore Renewable Energy Installation
PPA	Power purchase agreement
PV	Photovoltaic (solar)
SCP	Supply Chain Plan
TNUoS	Transmission Network Use of System (charges)
UK	United Kingdom

Introduction

Context

The United Kingdom (UK) has a proud record in reducing greenhouse gas emissions and is one of the first major economies to set a legally binding target to cut emissions to net zero by 2050, ending our contribution to global warming. This is a landmark decision for the UK and one which demonstrates that we are continuing to lead the international effort to bring an end to climate change.

Decarbonising the power sector is a vital part of the UK's efforts to meet its world-leading net zero target. Whilst we cannot predict today exactly what the generating mix will look like in 2050, we can be confident that renewables will play a key role, alongside firm or flexible low carbon generating capacity such as carbon capture usage and storage technology and nuclear power. Net zero defines what we must achieve by 2050, but not how to get there. We must take the necessary decisions now to deliver the resilient, low cost and low carbon power system we will need to reach net zero.

The competitive nature of the Contracts for Difference (CfD) scheme has been successful in driving substantial deployment of renewables at scale in Great Britain whilst rapidly reducing costs to electricity consumers. On 20 September 2019, the government published the results of the third CfD allocation round, which saw contracts awarded to 5.8 gigawatts (GW) of new renewable energy projects¹ at clearing prices well below the administrative strike prices for each of the successful technologies. This saw the costs of offshore wind fall by around 30% from the previous allocation round in 2017 and is the first time that renewables are expected to come online below current market prices, meaning a better deal for consumers.

These successes are an important step towards decarbonising the UK's energy system. The UK's new 2050 net zero emissions target means that we will continue to require substantial amounts of new, low carbon power sources to be built before 2050. In their report on net zero, the Committee on Climate Change (CCC) advise that electricity demand could be significantly higher than today, and the UK could require up to four times the amount of renewable generation from today's levels². This will require sustained and increased deployment between now and 2050.

The transition to a net zero greenhouse gas economy will require change across the whole of society. In this context 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 ambitions, whilst minimising the amount consumers spend on energy across the country. In July 2018³ the government announced its intention to hold a CfD auction approximately every two years from 2019 to provide industry with the certainty to invest in new renewable projects.

¹ Contracts for Difference (CfD) Allocation Round 3: results (September 2019)

<https://www.gov.uk/government/publications/contracts-for-difference-cfd-allocation-round-3-results>

² Net Zero – The UK's Contribution to Stopping Global Warming. Committee on Climate Change (May 2019)

<https://www.theccc.org.uk/publication/net-zero-the-uks-contribution-to-stopping-global-warming/>

³ CfD Auction Announcement (July 2018)

<https://www.gov.uk/government/news/energy-minister-claire-perry-hails-success-story-of-offshore-wind-in-newcastle-today>

In line with this, on 6 October the Prime Minister set out⁴ new plans to accelerate the UK's progress towards net zero emissions, whilst making the UK a world leader in clean wind energy. This announcement included an ambition that the next Contracts for Difference auction will support up to double the capacity of renewable energy supported through Allocation Round 3, and that this would take place in late 2021.

It also set out more ambitious targets for offshore wind, including a boost to the government's previous target to deliver up to 30GW of offshore wind to delivering 40GW by 2030, and a new ambition for 1GW of this new 40GW target to come from floating offshore wind. The announcement also included a new investment of £160 million to support new port side manufacturing hubs, creating an environment where the UK can host new factories making the next generation of clean energy technologies; creating jobs, reducing carbon emissions and boosting exports. These announcements, alongside the proposed changes to the CfD scheme set out in this document, will help to further support the ambition for next year's auction and make progress towards the 2050 net zero target.

Overview of consultation proposals

On 2 March 2020, the government published a consultation on proposed changes to the Contracts for Difference (CfD) scheme. The consultation was due to close on 22 May, but in recognition of the fact that many stakeholders were at the time heavily occupied by the response to the COVID-19 emergency, the government extended the consultation period for a further week. The consultation lasted thirteen weeks in total, and closed on 29 May.

The consultation sought views on a number of proposed changes to the Contracts for Difference scheme to ensure it continues to support low carbon electricity generation at the lowest possible cost to consumers. The proposed changes related to:

- delivering the UK's 2050 net zero emissions target
- bioenergy
- allocation round design
- improving the operation of the CfD
- supporting a smart, flexible energy system; and
- improving the operation and clarity of the Contracts for Difference (Allocation) Regulations 2014.

An Impact Assessment was published alongside the consultation, providing an indicative assessment of the costs and benefits of the key aspects of these changes should they be implemented. A revised Impact Assessment has been published alongside this Government Response, taking into account the proposals which will be taken forward.

⁴ Press release: New plans to make UK world leader in green energy (October 2020)
<https://www.gov.uk/government/news/new-plans-to-make-uk-world-leader-in-green-energy>

Engagement with the consultation proposals

The consultation attracted around 260 individual written responses, and a further 800+ similar responses coordinated by environmental NGO Biofuelwatch. Of the 260 individual responses, approximately 50 were from developers of renewable generating stations, 40 were from associated supply chain firms, and 30 were from members of the public. The consultation also saw a small number of responses from local and devolved governments and authorities, academics, NGOs and think tanks, and investors.

To aid stakeholders' understanding of the consultation proposals, and to gather further feedback, BEIS officials hosted a series of online consultation webinars in April and May. The webinars were attended by around 200 individuals from a similar cross-section of stakeholders, including developers, energy suppliers, supply chain firms and trade associations.

Several consultation responses included wider suggestions on how to improve aspects of the operation of the CfD scheme outside of the proposals consulted on. These are summarised at the end of the document.

Next steps

On 6 October, the government confirmed that the next allocation round will take place in late 2021. The policy changes set out in this government response will apply to contracts awarded through the next allocation round. The CfD scheme applies to the UK but does not currently operate in Northern Ireland.

The government intends to lay regulations before Parliament to incorporate a number of the policy proposals in this government response, including inserting a new definition of floating offshore wind, and extending the CfD scheme delivery years, subject to Parliamentary approval, into national legislation.

In parallel to this response the government has also published a second, follow-up consultation on the CfD scheme, which builds on some of the proposals consulted on earlier in the year. This [second consultation](#), available on gov.uk, seeks views on several drafting changes to the CfD contract to implement decisions taken on the following policies: floating offshore wind, negative pricing, coal-to-biomass conversions and milestone delivery date. Respondents are asked for their views on new proposals on Supply Chain Plans, which build on the responses received to the March consultation. It also proposes several minor and technical contract changes. Readers are strongly recommended to read the consultation in conjunction with this government response.

Community support

Under the community support chapter of the consultation, the government proposed updating the existing community engagement and benefits guidance for onshore wind in England, and to commission a register of renewable projects in England and their associated community benefits. On the whole, respondents were largely in favour of both of these proposals, and in particular pointed to the Devolved Administrations as exemplifying best practice. The government therefore intends to pursue these proposals.

Proposals

Questions 1-4 of the consultation focused on the relationship between renewable developers and local communities. These questions asked how the impacts and benefits of renewable developments on local communities can be better taken into account across Great Britain, what best practice looks like for engagement between developers and communities, how existing community engagement and benefits guidance relating to onshore wind in England should be updated, and whether there should be a register of renewable projects in England and their associated community benefits.

Responses to the consultation

There was good engagement across these questions, with between 100-160 of the 260 total respondents answering. Respondents were drawn from a mixture of groups and included members of the public and community groups, businesses involved in renewable energy developments and their representatives, public sector organisations such as local authorities, and charities and academic groups.

Views on proposals and government response

There was broad consensus amongst respondents that the current Community Benefits and Engagement Guidance for Onshore Wind⁵ should be updated. Respondents highlighted changes in context since 2014, when the last guidance was published, such as the government's commitment to reach net zero carbon emissions by 2050, or changes in market conditions.

Broad consensus amongst respondents also formed around having adopted flexible and non-prescriptive guidance. Many respondents underlined that every community was unique and that understanding the context of each community and its needs should be a principle at the heart of the guidance. Most respondents said that this was especially important when developing community benefits. Respondents highlighted the benefits available besides just direct cash payments – from benefits to the local economy through jobs, skills and training schemes; to shared ownership and local equity; through to other benefits that come with installed infrastructure, such as faster broadband or the installation of electric vehicle charging

⁵ Community benefits and engagement guidance for onshore wind (October 2014)
<https://www.gov.uk/government/publications/community-benefits-and-engagement-guidance-for-onshore-wind>

points. Respondents asked that guidance reflect this range of options, whilst still being clear that benefits remained immaterial to planning permission. This support came from all respondent groups.

A significant proportion of respondents also highlighted the equivalent guidance from the Devolved Administrations helps to facilitate good practice. These respondents said that, whilst policy differed across geographical boundaries, updated guidance for onshore wind in England should provide a framework through which these other approaches could be understood. These respondents tended to be businesses involved in developing renewable projects, or their representatives.

Respondents were also in broad agreement that best practice guidance should seek to involve communities, developers, and local authorities as the key stakeholders in the onshore wind planning process. Most respondents wanted to highlight the importance of community representatives, funds and trusts as the vehicle through which engagement and benefits could be delivered. There were also some respondents who highlighted the important role that local authorities have in the engagement process – such as helping developers to identify the right people in the community to talk to, or considering the quality of engagement and making planning decisions.

There were also some areas where respondents had conflicting views. Many respondents said that, like communities, each project had its own set of circumstances and that the guidance should account for this. Some respondents said that updated guidance should aim to be technology agnostic and not focus on onshore wind alone. Conversely others said that the guidance should encompass all technologies and detail how the specific circumstances of individual technologies impact community engagement and benefits. Comment on whether guidance should account for different renewable technologies tended to arise from businesses or their representatives.

There were also differing opinions about direct cash payments as a community benefit. Some believed that the industry guideline of £5,000 per MW should be kept or increased. These responses tended to arise from members of the public, charities or community groups. Other respondents, largely businesses and trade groups, suggested this figure should be evaluated in line with new market conditions.

When it came to considering the government proposal to create a register of renewable projects and their community benefits, most respondents were in favour. Many respondents highlighted the existing register of community benefits in Scotland as a good model. Many respondents mentioned that transparency would help to standardise benefits and drive up good practice. The proposal received broad support from across all respondent groups.

Some respondents did not support the idea of a community benefits register. Largely, these respondents believed that a register would be an unnecessary level of bureaucracy. Some respondents did not believe that the register would support better local decision making. These respondents tended to either be businesses involved in developing renewable energy, or members of the public.

Policy response:

The government will update the current Community Benefits and Engagement Guidance for Onshore Wind.

The updated guidance will not seek to encompass all technologies but will instead focus on onshore wind. In line with responses we have considered whether to either i) expand the scope of the guidance so that it talks more generally about community engagement and benefits for renewable energy developments; or ii) expand the scope of the guidance so that it discusses each technology and their relevant specific circumstances in turn. However we have concluded that the utility of the guidance would diminish with either approach and that maintaining the current scope of the guidance but updating its content will be most effective. Furthermore, onshore wind has its own set of unique circumstances that brings community engagement and benefits into focus, and expanding to provide a 'one size fits all' approach for all technologies would dilute the quality and utility of the guidance further.

The guidance will seek to be flexible and focus on community needs as a core principle and will work together with existing guidance in devolved administrations.

It will be informed by independent research conducted with communities, developers and public sector organisations (Local Authorities and Devolved Administrations). It is expected that the research will explore the community-developer relationship, based around best practice examples and will seek to include case studies of best practice provided by respondents in answers to question 2, as well as other known use cases.

We intend to publish the updated guidance by Summer 2021.

The government will consider commissioning a register of renewable projects in England and their associated benefits to incentivise best practice and standardise approaches. Given the large number and wide range of different technologies that would need to be included, we intend to liaise further with stakeholders to better understand the requirements and likely costs in order to help us decide how best to progress this work.

Work undertaken to support these proposals will provide an insight into the community developer dynamic and enable the Department to consider other issues raised in the consultation related to local and shared ownership and other support mechanisms for communities.

Other themes raised

Respondents to questions 1-4 also touched on other themes related to local communities and renewable developments.

Most respondents sought to highlight the opportunities provided by local and shared ownership of renewable projects and asked that government consider policies to facilitate this in England, either through the CfD or otherwise. Respondents from all groups flagged this, from members of the public through to businesses and developers.

Many respondents highlighted the difficulties that some communities have in organising themselves to engage collectively in the face of proposed renewable developments and asked

for support in the form of direct financing or through the provision of independent professional consultancy. These respondents tended to be members of the public or from community groups and charities.

Finally, some respondents used these questions to call for community engagement and community benefits to be embedded into CfD eligibility criteria. Several believed that some bidders saved on community benefits to bid at lower prices, thereby putting more community-minded developers at a disadvantage. The majority of respondents calling for this tended to be members of the public or community groups, but this idea also saw some support from business representative organisations and charities. We have reflected on these points but consider that specifying the type of community engagement and benefits that projects must deliver could hamper innovation and worsen the likelihood that the package offered reflects local priorities. We do not intend to make changes to the CfD application process or contract to mandate a particular form of engagement or benefit. As set out above, we are commissioning external research to inform the design of updated guidance on community engagement and benefits to ensure that it best reflects the diverse needs of local communities.

Pot structure

The government considers that maintaining separate pots in the next allocation round is important to ensure the CfD scheme supports significant low cost renewable generation in future. The consultation sought views on whether to retain the current two-pot structure, or whether to separate offshore wind into a third pot. The majority of consultation responses supported the proposal to separate offshore wind into a separate pot, commenting that offshore wind could no longer be considered a less-established technology owing to its price reductions over past allocation rounds. The government intends to proceed with the proposal to introduce a new, third pot for offshore wind ahead of the fourth allocation round which is scheduled to take place in late 2021 and which will aim to support up to double the capacity supported in Allocation Round 3.

Proposals

The consultation explained the government's rationale for maintaining a multiple-pot structure in the fourth allocation round, and sought views on whether to maintain the current two-pot structure or introduce a third pot for offshore wind. The consultation outlined the advantages and potential downsides of this approach for competition, value for money and supporting diversity of the electricity system and asked for views on whether the introduction of an offshore wind pot would be an effective means of achieving these objectives. The consultation also asked whether we should consider alternative approaches to the current and proposed pot structure to support net zero targets.

Responses to the consultation

Proposals received a high level of engagement from almost all of the 260 respondents, from a mixture of organisations. A large proportion of responses were from developers of renewable energy technologies, and from associated supply chain firms (in particular, from the marine sector). We also received a number of responses from devolved and local governments, trade associations, individuals and community groups, as well as academic and research institutions.

Views on proposals and government response

Questions 5 and 6 asked consultees whether the government should maintain the current two pot structure or introduce a third pot for offshore wind, and what the impacts of either approach would be on value for money, net zero targets and diversity of low carbon electricity generation.

Most responses supported the proposal to introduce a new, offshore wind-only pot. Many respondents justified this approach by commenting that offshore wind could no longer be considered a 'less-established' technology owing to the drop in clearing prices it has experienced over the last three allocation rounds. Many respondents also agreed that there was a risk that moving offshore wind into Pot 1 – with established technologies – at this stage, could cause a hiatus in offshore wind deployment, and that the strategic importance of offshore

wind for net zero targets justified a separate pot. Some respondents agreed that this approach would support a more diverse energy system, addressing the current issue that only a few of the cheapest technologies ever succeed in auctions.

Many respondents also raised the consequential impact on remaining Pot 2 technologies of moving offshore wind into a separate pot, in particular marine technologies. Respondents noted that a three pot structure could offer more opportunity to innovative technologies to realise cost reductions. A number of respondents added that this effect would only be achieved through application of technology-specific minima (ringfenced budget or capacity) noting that some Pot 2 technologies cleared at the same price as offshore wind in the last round.

In contrast, some responses called for the government to maintain the current two pot structure. These responses argued that separating offshore wind into its own pot would reduce effective competition with other technologies, which could lead to lower value for money for consumers. A small number of responses argued that a three pot structure could entrench the perceived discriminatory nature of CfD auctions towards offshore wind in particular.

Question 7 asked consultees whether any alternative approaches should be considered in light of net zero. There were a small number of responses which suggested alternative approaches at this stage. A small number of respondents called for the move to a ‘technology-neutral’ structure; removing artificial distortions in the auction. Other respondents called for offshore wind to be moved into Pot 1, pointing to comparably low prices and similar levels of technology maturity amongst offshore wind and Pot 1 technologies. Other suggestions included individual technology pots, the creation of a solar-only pot, and a two pot structure which comprises a single pot for all technologies, and an additional pot for nascent technologies.

Policy response:

Taking into account the views raised by stakeholders through the consultation and recognising both the potential advantages and disadvantages of pot structure changes, the government has taken the decision on an overall merits basis to implement the proposal to introduce a new, third pot for offshore wind projects ahead of the fourth allocation round.

The government considers this approach will allow auction parameters to be set in a way which better reflects project characteristics. Separating offshore wind projects – which are generally much bigger in size and have lower costs than other Pot 2 technologies – will allow more appropriate parameters (e.g. monetary budget, capacity cap, delivery years) to be set for each of the pots to reflect project characteristics and reduce the risk of suboptimal auction outcomes (such as higher strike prices, and hence consumer costs, than necessary). We intend to ensure that auction parameters (such as the level of any capacity cap) are set in such a way as to minimise the potential loss of competition to offshore wind by separating the technology into a single pot.

The government has considered alternative approaches set out in consultation responses. For the reasons explained in the original consultation document, the government maintains the view that a technology-neutral auction structure in which all eligible technologies compete against one another would create the risk of only a few of the lowest-cost technologies being successful in an auction. Whilst this may be beneficial in the short-term from a cost perspective, this could also see technologies that have significant long-term potential to contribute to decarbonisation and harness further cost

reductions, being unsuccessful. The government considers this outcome would be suboptimal, particularly for the purposes of meeting our net zero commitment at low cost.

For many of the same reasons, the government has considered alternative suggestions to move offshore wind into Pot 1 but maintains the view that it would not be appropriate to do so.

As set out in subsequent sections of this document, in addition to changes to the pot structure the government also intends to implement consultation proposals to remove coal-to-biomass conversions from the scheme and introduce a separate definition for floating offshore wind projects (which would form part of Pot 2). The final pot structure for next year's allocation round will therefore be as follows:

- **Pot 1 (established technologies):** Onshore wind (>5MW), Solar Photovoltaic (PV) (>5MW), Energy from Waste with CHP, Hydro (>5MW and <50MW), Landfill Gas and Sewage Gas.
- **Pot 2 (less established technologies):** ACT, AD (>5MW), dedicated biomass with CHP, floating offshore wind (see following section), geothermal, remote island wind (>5MW), tidal stream, wave.
- **Pot 3⁶ (offshore wind):** offshore wind.

Auction parameters for the next allocation round, including budget allocations, and the use of capacity caps, will not be set until nearer the opening of the round.

Other themes raised

Many responses raised other themes related to next year's Contracts for Difference allocation round. Many respondents commented on the announcement made in March this year that Allocation Round 4 would be open to both established, and less-established technologies. The large majority of replies were supportive, noting the positive role that established technologies including onshore wind and solar could play in meeting the government's 2050 net zero target.

⁶ At the beginning of the Contracts for Difference scheme a third pot existed which contained only coal-to-biomass conversion projects, but the technology was subsequently transferred into Pot 1 as of 1 January 2017. For the avoidance of doubt, references to 'Pot 3' in all future communications will refer to a third, offshore wind-only pot unless otherwise stated.

Floating offshore wind

The consultation sought views on defining floating offshore wind as a distinct eligible technology under the CfD with a different administrative strike price, from fixed bottom offshore wind. The majority of respondents agreed with the definition and agreed that it is appropriate for floating offshore wind to be treated distinctly from fixed bottom offshore wind because the technology is in an earlier phase of development. The government has decided to define floating offshore wind as a distinct eligible technology under the CfD with a different administrative strike price, from fixed bottom offshore wind. Floating offshore wind will compete against other less established technologies in Pot 2.

On 6 October, the government confirmed a series of more ambitious targets for offshore wind, including a boost to the government's previous target to deliver up to 30GW of offshore wind to delivering 40GW by 2030, and a new ambition for 1GW of this new 40GW target to come from floating offshore wind. This new 1GW ambition will provide certainty for developers and the supply chain to invest and begin the cost reduction journey.

Further to the consultation, the government issued a further Call for Evidence on marine energy (encompassing wave, tidal and floating wind technologies), seeking evidence on the scope for innovative marine energy technologies across Great Britain, including floating offshore wind. It ran between 28 August and 30 September and is intended to feed into the forthcoming Energy White Paper.

Proposals

The consultation proposed setting out a distinct definition for floating offshore wind technology, from fixed bottom offshore wind. This distinction would allow floating offshore wind to be considered as a distinct technology from offshore wind under the current CfD scheme, including a different administrative strike price. The consultation set out a potential definition and asked for comments on this. In addition, there were a number of other, broader questions seeking information on the likely development of the floating offshore wind sector.

Responses to the consultation

There were 258 responses to this section of the consultation. Respondents were drawn from a mixture of offshore wind development companies, local councils, NGOs and some individuals. In addition, a number of responses were received from developers of marine energy (wave and tidal stream) technology developers.

Views on proposals and government response

There was widespread support for the proposal of considering floating offshore wind as a distinct technology, although concerns were raised on the proposed 60 metre water depth criterion and the nature of generating sub-stations potentially linked to a floating offshore wind

site. Respondents displayed broad agreement about floating offshore wind playing an important role in helping the UK to meet its longer-term decarbonisation targets, with a consistent number of them asserting that its pre-commercial development over this decade would be decisive to bring down costs and to facilitate mainstream roll out from 2030 onwards.

On potential measures to be adopted to improve the CfD mechanism, a wide consensus emerged on the ability of “capacity minima and maxima” to support further deployment of floating offshore wind. Many respondents also pointed at instruments such as a separate administrative strike price to support the passage between a pre-commercial and commercial phase. Further views were collected on additional measures to support for pre-commercial deployment and cost reduction.

Question 8 asked for views on whether the proposed approach towards floating offshore wind is an effective means of supporting this technology.

Broadly, respondents supported the inclusion of additional criteria in the support for the inclusion of floating offshore wind as a distinct technology under this proposal. Respondents agreed that this would be a necessary step if the government wishes to see pre-commercial deployment and cost reduction in the sector through the coming decade.

Where respondents were more equivocal or opposed to the proposal, this tended to reside in either a fundamental objection to the deployment/value of renewable energy or concerns that proper regard should be given to the effect on the environment arising from large scale deployment of a new technology in the marine ecosystem.

A number of the respondents made direct links with pot structure, noting that a three-pot structure where fixed bottom offshore wind had its own pot would be preferable. They stated that, since emerging technologies have a higher cost of energy – not having had time to work down the cost curve – they would be unable to compete in a pot with more established technologies with lower costs.

Some NGOs, despite being broadly favourable to the concept of using offshore wind and floating offshore wind to achieve decarbonisation, raised concerns over potential niche applications such as using floating offshore wind as a power source for deep-water oil and gas fields. Although likely displacing fuels such as diesel, they were concerned that a low carbon energy subsidy could be applied to extraction of high carbon fuels. Most NGOs raised the need for close scrutiny of the environmental effects of floating offshore wind farms as a new technology (in terms of both the turbines and their mooring/anchoring techniques) to ensure that any effects were acceptable. They did also refer to the effect which deployment would have on alleviating longer-term pressures in areas such as the North Sea.

Question 9 asked for views on whether the proposed definition is a suitable definition of floating offshore wind projects and what evidence prospective generators should be asked to supply in order to demonstrate that they have the required characteristics.

The responses to this question were varied. Although there was no clear-cut consensus among respondents, some themes emerged. A consistent number of respondents were content with the definition as drafted in the consultation paper. They felt that this was necessary and appropriate in the wider context of the CfD scheme. It would be effective as a protection against gaming on sites in lower water depths between floating and fixed platforms. A larger number of respondents raised potential concerns over the definition: these fell into two themes related to either water depth or the qualification as a floating structure.

Many respondents were concerned that the proposed 60m depth criterion was too restrictive, particularly given the emerging nature of the technology. Some were concerned that it would force early stage pre-commercial demonstration projects where there was less operating experience into deeper waters which might be more difficult. They were also concerned that potential floating offshore wind projects in demonstration zones, such as those at Wave Hub in Cornwall and off Pembrokeshire in Wales, might be excluded as their water depths are below 60m. Others raised concerns that the depth criterion unnecessarily limited the scope to deploy in those shallower waters less suitable for fixed bottom turbines sterilising potentially useful deployment areas. For example, where the seabed geomorphology is not suitable for monopiles, jacket foundation or suction buckets.

Only a small number of respondents commented on the criterion that, to qualify as floating offshore wind, all wind turbines in a generating station must be floating. Those that did, broadly commented that this might be understandable while floating offshore wind prices remained significantly higher than fixed bottom wind. However, they said that in the longer term the ability to create hybrid fixed/floating wind farms could be advantageous. They asked either for further clarity on how hybrid projects might be incorporated into the CfD or for the government to keep this criterion under review while floating offshore wind costs fell.

Question 10 asked for views and evidence on any potential wider benefits or disadvantages that floating offshore wind may bring to the UK, especially in respect of wider system impacts. The respondents to this question raised the following benefits of deploying floating offshore wind:

- Easing of cumulative impacts to deployment: several respondents noted that the majority of offshore wind development in the UK to date has been fixed-bottom wind in the North Sea. They commented that, with the levels of wind deployment which would be needed to meet our deployment trajectories to 2030 and 2050, if deployment remains concentrated in the North Sea, the cumulative effects on the environment, other users of the sea and coastal communities could make deployment increasingly difficult. The use of floating offshore wind to open up areas of sea with greater water depth could reduce the stress on the North Sea, particularly in the period beyond 2030.
- Some respondents commented that, if greater deployment is to be undertaken (across fixed and floating technologies) there would be an increasing need to ensure the effective strategic coordination of developments (e.g. development of CO₂ sequestration, strategic to planning onshore and offshore grid and transmission networks). Since the consultation closed, the Department has launched an Offshore Transmission Network Review; a review into the way that the offshore transmission network is designed and delivered, consistent with the ambition to deliver net zero emissions by 2050.
- The fishing and maritime industries asked that Government ensure that they were engaged early in strategic discussions into the use of the sea space, given the potential effects on their existing activities and livelihoods.
- A number of respondents commented that the deployment of floating offshore wind in deeper waters remote from the traditional shallow water deployment areas for fixed bottom wind would provide security of supply and system integration benefits. Floating offshore wind farms located around the coast of the UK could access different weather climates, assisting management of the grid and counteracting, to some extent, the intermittent nature of offshore wind. Some also considered that colocation with, for example, other energy generation projects such as hydrogen production or electricity

storage facilities could be beneficial – in particular, dealing with managing intermittency on the energy system and varying demand.

- A number of respondents quoted the potential economic benefits which could arise from establishing the early floating offshore wind sector in the UK. This could bring benefits to coastal communities in Scotland and the West of the UK which are not currently benefiting from the offshore wind sector. This could assist with growth on skills and employment in these areas. Others suggested that early lead in the technology would place the UK in a good position to benefit from the global market as it expanded.

Disadvantages of floating offshore wind referenced included:

- A number of respondents raised concerns over the higher levelised cost of energy (LCOE) of floating offshore wind compared to more established energy sources. They suggested that Government should invest more in research and development to reduce costs before supporting wider market expansion. Similarly, some raised concerns over negative pricing with high levels of penetration of intermittent generation.

Question 11: sought views on the need to deploy floating offshore wind at scale through the 2030s to meet net zero, and likely trajectories for deployment and cost reduction. There was broad agreement from respondents that floating offshore wind would play an important role in meeting our longer-term decarbonisation targets, in particular net zero by 2050. Several commented that it was likely that the deployment targets to 2030 could be met entirely by fixed-bottom offshore wind. However, they referred to the Committee on Climate Change's proposals for meeting net zero which stated that offshore wind deployment levels of around 75GW in UK waters could be required. In this context floating offshore wind was likely to be important in meeting the longer-term target. A small number raised concerns over attrition of the offshore wind pipeline in the period to 2030 and commented that early deployment of floating offshore wind could assist in meeting 2030 targets.

A wide range of potential UK floating offshore wind deployment levels/trajectories were proposed. Some respondents quoted studies by IRENA, the Offshore Renewable Energy Catapult, and others which suggest that there is a large exploitable floating offshore wind resource off the coast of the UK and mainland Europe. A small number suggested potential deployment levels by 2050 – from around 20GW in 2050 to as high as 175GW (with the majority of deployment globally being floating offshore wind).

Several respondents stated that pre-commercial development of floating offshore wind in the period to 2030 would be important to bring down costs and to facilitate mainstream roll out from 2030 onwards. A number of companies and trade associations proposed that the Government should introduce a formal target of 1-2GW of floating offshore wind by 2030.

Question 12 asked if further amendments were needed to the CfD allocation process to facilitate floating offshore wind. The broad consensus across the responses to this section of the consultation was that capacity minima and maxima would support further deployment of floating offshore wind. Many respondents also pointed at instruments such as a separate administrative strike price to be necessary to support floating technology accelerating from pre-commercial pilots to commercial deployment.

Respondents pointed out that, given the early high cost of projects, it would be helpful if projects receiving other subsidies (e.g. R&D) remained eligible for CfDs. While the CfD is a well-established scheme and has a strong record in reducing costs, they indicate the need for a targeted approach for floating offshore wind to be able to replicate the successes of fixed

bottom. Other suggestions included providing both targeted capital grants and CfDs as helpful to kick start floating wind, Carbon Capture, Utilisation and Storage (CCUS) and the production of green hydrogen at scale in the UK. Given the technology and financing risks of these early technologies they argued that incentives like the CfD, which are paid only according to production, are of limited value.

Question 13 asked whether there were additional measures to support for pre-commercial deployment and cost reduction which would be more effective than the CfD, or which could enhance the effectiveness of the measures under the CfD.

Responses to this question covered a diverse range of subjects, including topics raised under the previous question. Some of the main points raised by the respondents included: introduction of additional incentives to promote research and development in floating offshore wind, especially focused on cost reduction; combining such targeted innovation grants with CfD support to assist the move from demonstration through precommercial deployment to mainstream floating wind deployment in the UK; combining floating offshore wind with other technologies (e.g. as a power source) – for example, CCUS and green hydrogen production; creation of industrial clusters focused on innovation, demonstration and precommercial deployment of floating offshore wind; access to low cost finance for precommercial projects; and, more regular provision of funding opportunities, whether innovation grant funding or revenue support.

A small number of respondents suggested changes to the CfD process itself. These suggestions included proposals to broaden the remit of the CfD scheme from simply delivering low cost, low carbon generation. They suggested that factors such as cost reduction potential of precommercial technologies and potential for economic benefits, should be included within the competition process to ensure that the scheme delivers longer term, strategic benefits as well as shorter term price savings.

Policy response:

On 6 October, the Government announced an ambition to deliver 1GW of floating offshore wind by 2030, as part of the wider ambition of reaching 40GW of offshore wind by 2030.

Taking account of the responses from the consultation the government will proceed with defining floating offshore wind as a distinct technology within the CfD, with a different administrative strike price, from fixed bottom offshore wind. Floating offshore wind will compete against other less established technologies in Pot 2. To be considered a floating offshore wind project, (in addition to meeting the existing requirements for offshore wind) all turbines within a generating station will need to be floating and situated in offshore water depths of at least 45 metres. If an offshore substation is required, it can be either floating or fixed bottom. Alternatively, some projects may not require an offshore substation.

We have reduced the minimum water depth criterion from 60 metres to 45 metres having considered the views expressed in the consultation responses. We consider 45 metres strikes the right balance to:

- incentivise offshore wind developers to use the shallowest sites for cheaper fixed bottom projects;

- enable use of the vast majority of floating foundation concepts in the market including ones which can be deployed at depths of less than 60 metres; and
- enable use of areas of seabed which are less than 60 metres, which could be suitable for floating offshore wind deployment.

Relevant Regulations and the CfD contract will require amending to give effect to these policy changes. We propose that the CfD contract for floating offshore wind should be similar in most respects to the terms that apply to offshore wind, with several exceptions to reflect differences between the two technologies, and in order that floating offshore wind generators can demonstrate to the Low Carbon Contracts Company (LCCC) that they fulfil the legal definition of a floating offshore wind CfD Unit. The government is consulting separately, and in parallel, on these proposed CfD contract changes. This includes a proposal not to extend phasing to floating offshore wind projects which will necessitate amendments to the CfD Allocation Regulations, in addition to changes to the CfD contract.

The government considers it important that all projects measure water depths using the same reference points. Following advice from the UK Hydrographic Office, the 45 metres will be measured between the seabed and “chart datum” which is the plane below which all depths are published on a navigational chart. It is also the plane to which all tidal heights are referred, so by adding the tidal height to the charted depth, the true depth of water is determined. By international agreement Chart Datum is defined as a level so low that the tide will not frequently fall below it. In the United Kingdom, this level is normally approximately the level of Lowest Astronomical Tide⁷.

Other themes raised

Although the topic was not expressly covered in the consultation, many respondents from the wave and tidal energy sectors used the consultation to express their support for these sectors. They noted the parallels with floating offshore wind in that wave and tidal stream are emerging technologies which have yet to undertake mass deployment and climb down the cost curve. They noted that they could have the potential to make a contribution to the longer-term decarbonisation of the UK if brought to commercialisation and provide additional economic growth.

On that basis, they said that, as pre-commercial projects, wave and tidal projects should benefit from similar forms of support as floating offshore wind. They also suggested the introduction of bespoke support measures for those technologies under the CfD. Particular issues raised included:

- support for a three-pot allocation round structure;
- the reintroduction of minimum allocations to allow early wave and tidal stream projects to obtain CfDs for precommercial deployment;
- support for an independent revenue support scheme for very early stage pre-commercial arrays utilising tax incentives to provide support to customers under

⁷ A more detailed explanation can be found at <http://www.ukho.gov.uk/easytide/easytide/support/faq.aspx>

bespoke power purchase agreements (the Innovation Power Purchase Agreement) allied with an “innovation CfD” for later pre-commercial deployment.

Although the comments made by the wave and tidal sectors were outside the scope of this consultation the Government has noted them. In the light of this response from the wider marine energy sector, the Call for Evidence on Marine Energy was launched in August 2020 and closed in October, and will feed into the forthcoming Energy White Paper.

Extending delivery years

The government proposed to extend the CfD scheme 'delivery years' until 31st March 2030 by amending the definition in the Contracts for Difference (Allocation) Regulations 2014. This proposal was widely supported, and we intend to proceed with the proposal and go further, extending delivery years to 31st March 2035, instead of 31st March 2030.

Proposals

Under the Allocation Regulations, allocation rounds, and their associated budgets can only be made available for projects commissioning in set periods, known as delivery years.

In order to run allocation rounds for delivery years after 31st March 2026 and to further provide necessary flexibility to support the level of ambition needed to meet the 2050 net zero target, we proposed to extend the CfD scheme 'delivery years' until 31st March 2030 by amending the definition in the Contracts for Difference (Allocation) Regulations 2014.

Responses to the consultation

There were 115 responses to the consultation which addressed this proposal. Responses were made by a mixture of respondents mainly renewable developers and trade bodies representing a range of technologies and businesses, investment companies, consultants, and regional and local government.

General views on the proposal

Question 14 sought views on whether the government should amend the Contracts for Difference (Allocation) Regulations 2014 in order to extend the delivery years specified in those regulations to 31st March 2030.

Responses to this proposal were overwhelmingly supportive, with most respondents agreeing that an extension was necessary, highlighting that it allows for flexibility and the longevity of the scheme, which would increase investor confidence and is critical to us meeting our 2050 targets.

Many of those who supported the proposal also suggested a longer extension, the most popular of which was to 2035. Some considered a longer extension was needed on the assumption that BEIS would be running a certain number of allocation rounds up to the end of the decade. However, it is important to note there is no legal requirement which dictates the allocation round and delivery year timing. Therefore, whilst we have had two consecutive delivery years for the past two allocation rounds, it should not be assumed future rounds would necessarily follow the same pattern.

In addition, a few respondents suggested that a longer extension was needed if we were planning to run a fifth allocation round in 2023 following the same pattern of delivery years as we have previously. This was because they judged that an extension to 2030 only would cause

issues for phased offshore wind projects which planned to deliver in three phases, with the final two phases delivering beyond 2030. However, we consider that this concern may have arisen as a result of a misunderstanding of the difference between timings of delivery years and valuation years under the scheme.⁸

Policy response:

In view of the consultation responses summarised above, the government intends to proceed with the proposal to amend the definition of delivery years in the Contracts for Difference (Allocation) Regulations 2014, but to do so to 31st March 2035 instead of 31st March 2030.

Beyond the ambition to hold rounds every two years, no further decisions have been taken on the potential timing of future rounds, the government considers extending to 2035 will provide the flexibility to run future rounds with delivery years out to 2034/35 should we wish to do so. In addition, extending the delivery years to 2035 now removes future administrative burden of needing to make a further change if it is decided in the future that 2030 had not been a long enough extension.

⁸ Delivery years are the years in which a project plans to start generating in and be eligible to bid into an allocation round. Valuation years exist to consider the budget impact of phased offshore wind projects. For example, a hypothetical offshore wind development could bid to deliver in the 2nd of two delivery years (e.g. 2028/29) but in 3 phases which would mean they would also be “delivering” their 2nd and 3rd phases in e.g. 2029/30 and 2030/31 which are the valuation years.

Supply Chain Plans

The government sought views on whether the Supply Chain Plan policy might be better able to encourage the growth of sustainable, efficient supply chains. Proposals included introducing new measures to strengthen the policy so that it is more focussed on delivering clearer and more measurable commitments that align with government priorities such as supporting regional growth, investing in skills and boosting competitiveness and productivity. The consultation also sought views on strengthening the compliance processes for implementing Supply Chain Plans.

The majority of respondents supported closer alignment with the Industrial Strategy to make the most effective use of the Supply Chain Plan process. Respondents broadly welcomed proposals on requiring an updated Supply Chain Plan after CfD award and strengthening the powers to fail Supply Chain Plans where implementation of the Supply Chain Plan is not demonstrated, but most did not support strengthening the compliance process for failure to implement an approved Supply Chain Plan.

Having considered responses to the consultation, the government intends to follow through with its plans to develop criteria based on the aims and objectives the Industrial Strategy's five foundations and to strengthen the Supply Chain Plan process by:

- a. Increasing clarity, ambition, and measurability of developers' commitments; and
- b. Ensuring that those commitments are delivered.

A consultation published alongside this government response sets out further detail on the new proposal and readers are strongly recommended to read the consultation in conjunction with this government response.

Proposals

The Prime Minister's recent announcement set out the government's ambition for Allocation Round 4, alongside a new investment of £160 million to upgrade ports and infrastructure. This commitment to the green industrial revolution and achieving net zero emissions by 2050 sends a clear signal to the industry to accelerate new long-term investments in renewable energy and the supply chain, and make the UK a world leader in green energy.

The government wants to ensure that the Supply Chain Plan (SCP) policy continues to be aligned to government priorities so that it effectively advances the low carbon economy to boost productivity, harness innovation, drive regional growth and achieve net zero. The government also wants to consider whether the policy might be better able to encourage the growth of sustainable, efficient supply chains. Building the competitiveness, capability and capacity of supply chains will help keep down costs for consumers, as well as creating competitive businesses, increasing jobs, reducing emissions and boosting exports.

In the March consultation, we sought views on several proposals:

- whether the SCP process for all technologies should be more closely aligned with the Industrial Strategy;

- whether requiring an updated SCP at a later stage after a CfD is awarded would deliver more focused and deliverable commitments;
- the current powers to fail SCPs and the compliance process for SCPs for failure to implement an approved SCP;
- the impact of reducing the threshold limit for the submission of an SCP; and
- how the industry takes account of the carbon footprint of their supply chains.

Responses to the consultation

84 unique responses addressed this part of the consultation. Respondents included trade associations, companies in the energy industry, consultancies, innovative energy organisations, devolved and local governments, non-government organisations, non-profit organisations, and members of the public.

Views on proposals and government response

Question 15 sought views on whether the SCP process for all technologies should be more closely aligned with the Industrial Strategy, for example with criteria headings to reflect a focus on competition, innovation, people and skills, infrastructure, and regional growth.

Most respondents supported closer alignment with the Industrial Strategy to make the most effective use of the SCP process. It was noted by a few respondents that without this alignment, there is a risk that the lowest cost projects are pursued without due consideration of the long-term sustainability of the industry and supply chain. A few respondents welcomed more targeted and specific questions to simplify the information submitted in the SCP process. But some also noted that the new process should align and be complementary to the Crown Estate Scotland's new ScotWind leasing process, so it does not result in a negative impact on Scottish projects or impose overly onerous obligations on smaller projects.

A few respondents highlighted that the targets and commitments in the Offshore Wind Sector Deal are for the sector as a whole rather than individual projects. They argued that the issues raised by SCPs are complex and multi-faceted and so any changes to the existing SCP process warrant bringing together all stakeholders for a thorough assessment of the issues and options. It was noted that the SCP process is only one of many components delivered by government, developers and supply chain companies needed to support supply chain development.

Policy response:

Having considered responses to the consultation, the government intends to follow through with its plans to develop criteria based on the aims and objectives the Industrial Strategy's five foundations, aligning Supply Chain Plans to support wider government priorities and maximising the benefits of achieving net zero. This will support the government's ambition of making the UK a world leader in green energy by creating jobs, encouraging innovation and boosting exports. The government intends to amend the

Electricity Market Reform (General) Regulations 2014 and the SCP guidance to implement the policy.

Question 16 sought views on strengthening the powers to fail SCPs on the basis that the Applicant has not demonstrated compliance with a past SCP.

Respondents broadly welcomed the proposal providing certain provisions were met. Responses emphasised that any strengthening of powers to fail SCPs should be accompanied by clearer and more quantitative criteria for passing or failing a SCP. A few respondents supported the proposal on the condition that the assessment of SCPs is made sufficiently flexible to recognise the wide range of options for delivering supply chain benefits. Responses also stressed that the proposal should not penalise applicants where external factors beyond their control led to non-compliance with their SCP (such as instances where UK suppliers have become insolvent).

Many respondents raised concerns over developing sectors, particularly floating offshore wind and marine technologies, where supply chains are comparatively immature. In these sectors, respondents noted that significant adjustments to these types of projects are possible between the submission of the SCP before a CfD is awarded, and further development of the project. These cases would need to be handled carefully so as not to increase the risk for developers using these technologies.

Several respondents raised concerns over developers bringing forward projects in different partnerships if penalties are applied to future projects (as is currently the case) rather than the project that failed their SCP (e.g. taking a Post Build Report into account in the assessment of a future SCP); projects could have their SCP failed due to a partner having failed to comply with a SCP in a previous project where other partners were not involved. It was recommended to restrict penalties to the relevant partnership that was not compliant with their SCP. A few responses highlighted that preventing developers from participating in future auctions would be incompatible with the objective of delivering net zero affordably.

Some respondents expressed concern over increasing the risk for developers, which may in turn undermine the investment certainty that the CfD provides.

Some responses argued that market forces should control the CfD process, and expressed concerns that a homegrown supply chain is potentially risky and unprofitable compared to the use of larger, more established, and experienced suppliers.

A few respondents suggested compliance with SCPs should be incentive driven rather than penalty based. A system of monitoring and feedback on SCPs was suggested to ensure that developers are given the opportunity to improve.

Policy response:

In view of the responses received, the government has further developed proposals to strengthen the SCP compliance process by (i) increasing clarity, ambition, and measurability of developers' commitments, and (ii) ensuring that those commitments are delivered. The government proposes to introduce a consequence for non-delivery that applies to the project that has failed to deliver rather than applying it to future projects by the developer(s). The government is seeking views on these proposals in a consultation published alongside this government response.

The government's announcement including the additional £160 million funding for ports and infrastructure is intended to support the growth of an internationally competitive manufacturing UK supply chain.

Question 17 sought views on whether requiring an updated SCP at a later stage after a CfD is awarded, for example at final investment decision (FID) or after the CfD Milestone Delivery Date (MDD) when major contracts would have been awarded, would deliver more focused and deliverable commitments.

Most respondents agreed that it was appropriate to require an update at a later stage, stating that an update would be more reflective of what a developer believes can be achieved as many tier 1 and tier 2 contracts will be in place. This was caveated by saying that there should be no risk to the CfD as a result of information being updated, and that if there was no significant deviation from the original SCP then the reporting requirements should not be onerous. It was noted that any changes to SCPs as a result of this updated process should be justified and not be an opportunity to roll back on commitments.

Those who did not agree that an update of the SCP was necessary said it would not add any value and would only be an additional burden, particularly because FID and MDD are already busy times for developers. They also thought that the current process in which the implementation of SCPs is monitored by BEIS is sufficient.

Policy response:

Having considered the responses received to the consultation, the government plans to make a change to the SCP process to require updates to the SCP after CfD signature. The government considers this to be the best way to ensure more focussed and deliverable commitments. The consultation published in parallel to this government response includes further details of this proposal.

Question 18 sought views on whether the current compliance process for failure to implement an approved SCP is sufficient. It asked what other potential compliance options could be considered and proposed an example of linking non-compliance to CfD payments.

Most respondents considered the current compliance process sufficient and were unsupportive of linking SCP non-compliance to CfD payments. Respondents emphasised that linking non-compliance to CfD payments would only be acceptable if compliance is based on clear, prescriptive, and measurable criteria in the SCP process. Many respondents expressed concern that linking CfD payments to SCP compliance would create an additional risk for developers, which would undermine the bankability of the CfD instrument with lenders. This could result in higher bid prices as the increased cost of capital is factored into bids.

Some respondents, which included members of the marine industry, local government and charities, supported linking non-compliance to CfD payments, providing there is ongoing engagement with the applicant and an opportunity to remedy any deficiencies before the penalties are applied. Responses also stressed that the proposal should not penalise applicants where external factors beyond their control, such as a major supplier withdrawing from the market, led to non-compliance with their SCP.

Some responses suggested a variable or adjusted strike price which could be lowered if the SCP is not met depending on the level of non-compliance. Others suggested a financial incentive may be more effective, where compliance with pre-defined and measurable

commitments is rewarded with a pre-defined strike price adjustment. One respondent suggested linking SCP compliance to the Offshore Wind Growth Partnership contributions, whereby the lower a developer scores in SCP delivery, the more they would have to pay into the OWGP.

Another respondent suggested that for any financial mechanisms, compliance should be assessed independently from government, against objective and measurable parameters, and that the financial costs of any penalty should be made clear.

Policy response:

In view of the responses received, the government has further developed proposals to strengthen the SCP compliance process by introducing the requirement to submit a Supply Chain Implementation Report for assessment. We will consult on the proposal that passing this assessment will be an Operational Condition Precedent within the CfD contract. Utilising an Operational Condition Precedent allows for the use of existing contractual procedures that are well understood by generators and avoids the need to introduce further legislation and new powers of enforcement. The consultation published alongside this government response sets out detailed proposals on compliance measures and seeks further views from industry.

Question 19 sought views on any impacts of reducing the threshold limit (currently at 300MW) for the submission of a Supply Chain Plans and, if supported, what the threshold limit should be. This could capture offshore wind extension projects and reflect that projects below 300MW also have a material impact on supply chains.

Most respondents agreed in principle to adjusting the threshold limit for the submission of SCPs to capture offshore wind extension projects. However, not all stated what the threshold should be lowered to. Some believed that the limit should be reduced in line with the Nationally Significant Infrastructure Projects (NSIPs) which is 50 MW for onshore schemes and 100 MW for any offshore scheme.

Others proposed a variable threshold with a lighter touch for smaller projects. One respondent suggested that a better metric for the threshold would be to use expected revenue rather than installed capacity.

Many respondents thought the current threshold was set at the correct level and the extra cost and burden of submitting SCPs could make smaller project unviable. They argued that it would be unfair to treat small projects in the same way as larger ones. Onshore wind projects were provided as an example by respondents of projects that would be the most likely to be captured by the change, claiming that onshore wind was already a mature sector with a high level of UK content and that any benefit that would be derived would not justify the increased administrative overhead faced by the projects in forming and delivering a SCP.

Another cautioned against lowering the threshold limit before Allocation Round 4 due to the advanced stage of development of many projects that could be caught by a reduction in the threshold.

Policy response:

Having considered the responses received to the consultation, and noting that there was a wide range of views with no clear consensus, the Government has decided not to change the 300MW threshold limit (for all technologies) for Supply Chain Plans for Allocation Round 4. The Government will keep the issue under review for future Allocation Rounds.

Question 20 sought views on how the industry takes account of the carbon footprint of their supply chains. This included views on what methodologies are being used or could be developed to take greater account of the carbon intensity of supply chains when considering SCPs.

41 respondents answered this question. Respondents were broadly positive to exploring this further, but concerns were raised about the complexity of establishing a methodology and monitoring, the burden this would place on developers (with implications for cost reduction), and whether SCPs are the most appropriate point for carbon footprint to be assessed or if a broader government approach is needed. It was argued that targeting renewable energy sources with such measures and not requiring them of other less sustainable sectors and technologies could be interpreted as disproportionate and perverse.

Existing initiatives were suggested, including the Scottish Government Carbon Calculator and the Greenhouse Gas Protocol, which offers guidance and tools on the assessment of greenhouse gas emissions.

Some respondents raised that there are several challenges to a developer-led drive on the carbon footprint of SCPs. For many of the components of renewable generation projects, the sector has a minor share of the total customer demand. As a result, there is limited influence from the sector within extended global supply chains. While customer pressure can help to motivate the supply chain, respondents argued that the carbon intensity of different manufacturing sectors is most effectively assessed and reduced by the sectors themselves, not by isolated campaigns by subsets of customers.

Policy response:

The issues raised around taking account of carbon footprints in supply chains for different technologies are particularly complex. For this reason, the government will need to consider further the points raised by respondents before proposing any amendments to the SCP process. Therefore, we will not be making any proposals for inclusion in the next Allocation Round, which is planned for 2021, but will continue to develop our policy in this area going forwards. However, we will consider how we can start to embed sustainability considerations into the SCP process where appropriate to ensure that developers appropriately consider and mitigate their impact on the environment. The revised SCP template will be subject to further consultation.

Coal-to-biomass conversions

Government sought views on excluding coal-to-biomass conversions from future allocation rounds of the CfD scheme. The majority of respondents supported this proposal and agreed with the rationale set out in the consultation document. Government therefore intends to proceed with this proposal.

Proposals

Coal-to-biomass conversions have been supported under the CfD scheme as a transitional technology, with support ending in 2027. They have played a material role in helping meet the UK's 2020 renewables targets by replacing coal fired power stations with renewable energy generation. However, as electricity generation has become less carbon intensive, we are reviewing the role of biomass conversions. Views were sought in the consultation on the proposal to exclude new coal-to-biomass conversions from future CfD allocation rounds.

Responses to the consultation

There were 883 responses in total, including 807 broadly similar responses as part of a campaign coordinated by Biofuelwatch.

The responses were from a mixture of renewable developers, trade bodies, businesses, consultants, regional and local government, individuals and NGOs.

Views on proposals and government response

Question 21 sought views on the proposal to exclude new coal-to-biomass conversions from future CfD allocation rounds, on the likely impact of this approach, and on any alternative approaches.

Most respondents supported this proposal. A number of respondents agreed that it was right to treat coal-to-biomass conversions as a transitional technology helping us move away from coal generation and that now is the time to end support for new conversions and focus support on lower carbon generation.

Other respondents in favour of this proposal raised concerns about the sustainability and carbon footprint of coal-to-biomass conversions given the reliance on wood imported from North America.

A few respondents made the point that the Capacity Market is the right mechanism for future coal-to-biomass conversions rather than the CfD scheme as new projects could help ensure security of supply. The point was also made that bioenergy subsidy can distort the market for forest residues and sawmill products and so reduce the supply of wood available to other wood users.

A few respondents disagreed with the proposal. Some commented that coal-to-biomass conversions should be treated the same as other technologies and a strict assessment of the indirect greenhouse gas emissions should be done to ensure emissions are reduced. Others stated that low carbon generation, no matter the technology, should be able to benefit from CfDs.

Other respondents who disagreed with the proposal made the point that biomass power plants are a more reliable source of energy than most other renewables so to exclude them discourages a possible secure baseload power supply. They argued that the consultation should take account of the wider benefits of biomass, for example, in relation to whole system costs as biomass power minimises the system integration costs of variable renewable technologies such as wind and solar.

One respondent opposed the proposal on the basis that excluding coal-to-biomass conversions creates a gap in the government's renewable power support policy, potentially raising unintended market concerns about the future ambition for biomass projects in the UK.

A number of respondents made the point that it is important that any changes to policy on coal-to-biomass conversions do not lead to unintended consequences on the development of Bioenergy with Carbon Capture & Storage (BECCS) as this is likely to play a key role in reaching net zero by 2050. This point was raised by both respondents who supported the proposal and respondents who rejected it.

Policy response:

Having considered the responses to the consultation, the government intends to proceed with the changes required to exclude new coal-to-biomass conversions from future CfD allocation rounds.

Comments were made about the importance of ensuring this change does not adversely affect the development of BECCS. Government continues to look at BECCS separately from the role of coal-to-biomass conversions.

Government has announced it is developing a new cross-government Biomass Strategy that will look at how biomass should be sourced and used across the economy to best contribute to our net zero target. This will set out the government's view on the role of biomass in the energy sector and provide further clarity to the market. We intend to publish the new Strategy in 2022.

Other themes raised

As part of the campaign responses concerns were raised that the 70% minimum efficiency requirement and stricter greenhouse gas (GHG) limit (29kg CO₂e/MWh) announced by government in 2018 for biomass technologies had not been mentioned in the consultation or included in Regulations, and they were concerned this meant these requirements would not apply for Allocation Round 4 (AR4) or other potential future rounds.

However, the government has already clearly set out that our intention is for these standards to apply for all new contracts, not just those allocated in AR3. In 2018 the government published two responses to the policy changes proposed in the December 2017 CfD consultation; these covered minimum efficiency requirements and changes to the GHG limit. In these responses

we stated that the government intended to require all dedicated biomass with CHP, and energy from waste with CHP, projects applying for new support contracts under the Contract for Difference scheme to have a minimum overall efficiency of 70% (net calorific value) and that government would set a new GHG threshold of 29 kgCO₂e/MWh. This would apply to all new projects offered a contract from the next CfD allocation round onwards.

The GHG and efficiency limits for biomass were incorporated into the standard terms and do not require secondary legislation in order to apply to future rounds.

Decommissioning plans

Government sought views on how best to link the offshore renewable energy installations (“OREIs”) decommissioning regime with the CfD scheme to minimise the risk of taxpayers having to fund decommissioning in the future.

Responses to this proposal were mixed with similar numbers opposing to supporting. Many respondents who opposed the proposal stated that any issues with decommissioning could be addressed via existing Guidance notes for industry for the “Decommissioning of Offshore Renewable Energy Installations under the Energy Act 2004 (England and Wales)”⁹ (“guidance”) and legislation.

Government does not intend to proceed with the proposal to link the decommissioning regime with the CfD scheme at this time. Further consideration needs to be given to whether strengthening the OREI decommissioning regime legislation and guidance would be a more appropriate way to ensure decommissioning obligations are adequately considered.

Proposals

In the consultation published in March 2020, government sought views on how best to link the OREIs decommissioning regime with the CfD scheme. Presently, there is no link between OREIs bidding into and receiving CfD payments with compliance under the Energy Act 2004 and government has a responsibility to minimise the risk of taxpayers having to fund decommissioning in the future. The proposal was considered for its potential utility in ensuring developers continue to give appropriate consideration for the decommissioning of OREIs.

In the consultation published in March 2020, the government sought views on how best to link the OREIs decommissioning regime with the CfD scheme. There is currently no check to ensure that OREIs participating in the CfD scheme are complying with their obligations under the Energy Act 2004 to plan and fund the decommissioning of assets at the end of their operational life. With the cost of decommissioning offshore wind projects in operation or construction as of 2017 valued between £1.28bn-£3.64bn (2017 prices)¹⁰, we want to ensure developers of OREIs give appropriate consideration to the cost of decommissioning. In seeking initiatives to ensure developers/owners continue to give appropriate consideration to the decommissioning of OREIs so that the risk of taxpayers having to intervene in the future remains low Government considered whether it would be appropriate to include decommissioning obligations within the CfD scheme.

Responses to the consultation

Sixty-one responses to the consultation addressed this proposal.

⁹ <https://www.gov.uk/government/publications/decommissioning-offshore-renewable-energy-installations>.

¹⁰ Decommissioning offshore wind installations: cost estimation (July 2018) <https://www.gov.uk/government/publications/decommissioning-offshore-wind-installations-cost-estimation>.

Respondents included renewable developers, consultants, trade bodies representing the renewable industry, individuals, regional and local government, and non-profit organisations such as charities and campaign groups.

General views on the proposal

Question 22 sought views on how best to link the OREI decommissioning regime with the CfD scheme. This was to help ensure offshore renewable projects that are party to a CfD fully comply with their obligations under the Energy Act 2004 and was not a proposal to add any new obligations. Responses were fairly mixed with similar numbers opposing or supporting the proposal. Of the responses that opposed the proposal, many stated that the legislation, guidance, and mechanisms that already exist were sufficient enough to ensure developers take their decommissioning obligations seriously. For example, there are provisions in the Energy Act 2004 which requires the submission of decommissioning programmes for approval by the Secretary of State. Many of these respondents also noted that any issues with decommissioning could be addressed via the existing OREI guidance and legislation and not by linking decommissioning to the CfD scheme.

A few responses suggested the proposal did not make sense because the CfD contract has a lifetime of 15 years whereas the average lifetime of a project is much longer, sometimes upwards of 20 years. They therefore thought that any decommissioning obligations imposed via the CfD scheme would expire during the project's lifetime and therefore be pointless. However, the proposal was to link the CfD scheme to the existing OREI decommissioning regime and this wouldn't change how a developer/owner of a OREI would comply with their decommissioning obligations as set out in existing guidance and legislation. Developers/owners of OREIs decommissioning obligations do not expire upon the expiry of a CfD contract and would continue to remain in place after the CfD contract ends, therefore the length of a CfD contract would not be a relevant concern.

Of those that supported the proposal, many highlighted how the linking of OREIs decommissioning regime to the CfD scheme would strengthen existing decommissioning obligations. Some respondents provided suggestions for alternative methods of strengthening obligations including the use of financial mechanisms, such as setting up a decommissioning fund over the course of the renewable asset's life or creating a decommissioning bond. However, developers/owners of OREIs are already required to provide appropriate financial security for the decommissioning of assets and these are set out in the guidance.

Policy response: In view of the consultation responses summarised above, the government does not intend to proceed with the proposal to link the decommissioning regime with the CfD scheme at this time. Government will be considering whether mechanisms such as strengthened legislation and guidance for the OREI decommissioning regime, which are separate from the CfD scheme, would be a more appropriate way to ensure decommissioning obligations are adequately considered by developers/owners of OREIs.

Decommissioning obligations will remain in place according to current legislation and guidelines. The OREI decommissioning team will consider whether to take forward any changes and they may propose a link with the CfD scheme for Allocation Round 5.

Administrative Strike Prices

The consultation sought views on how the government might consider changing its approach to setting administrative strike prices to ensure value for money in future rounds. Few responses raised any significant concerns with the current approach to setting administrative strike prices (ASPs), with many noting that it strikes an appropriate balance between encouraging deployment while ensuring value for money for consumers. Many responses considered that ensuring effective competition in the auction was more important than how ASPs are set. Some responses acknowledged the challenges gathering accurate cost data.

For the fourth allocation round, the government has decided to set administrative strike prices using the same principles and overall analytical framework for ensuring value for money. In recognition of greater need for flexibility in setting ASPs between technologies to improve value for money and better align with wider ambitions on decarbonisation, innovation and investment, we will have the discretion to target different sections of estimated supply curves depending on technology in allocation rounds. This would be a change compared to recent allocation rounds where ASPs were set by targeting the same proportion of the estimated supply curve across technologies. These technology-specific sections would be chosen using the best available evidence to ensure value for money, and consistency with our policy and deployment ambitions in the context of the Industrial Strategy and progress towards net zero. As for previous allocation rounds, the government will publish a note explaining the methodology used (including how technology-specific considerations have been determined) when we publish the draft Budget Notice.

Proposals

The consultation noted that ASPs for the second and third allocation rounds were set using estimated generation cost data to produce modelled 'supply curves' for each technology in each delivery year. In setting ASPs for AR3, the Government considered technology specific factors such as capital and operating costs, financing costs as well as any build constraints; market conditions such as wholesale power prices and the discount generators may face when signing a Power Purchase Agreement (PPA); as well as policy considerations such as the need to drive technology cost reductions and increase value for money for consumers. The consultation also noted the importance of flexibility when setting ASPs. Applying a stringent approach across a diverse range of technologies could lead to ASPs that did not reflect properly the scale of deployment or cost reduction potential, and consideration of a wider set of factors and potential alternative approaches may be beneficial in ensuring the scheme is adaptable in future.

The consultation did not make any specific proposals.

Responses to the consultation

There were 94 responses, from a mixture of stakeholders, including developers, devolved and local governments, trade associations, individuals, and community groups, as well as academic and research institutions.

Views on proposals and government response

Question 23 asked for views on how we might change our approach to setting administrative strike prices to ensure value for money in future.

Few responses raised any significant issues with or proposed fundamental changes to how administrative strike prices are set currently. Many responses acknowledged the challenges involved in setting ASPs at an appropriate level, particularly for technologies where less cost information (such as the fuelled technologies) is available, but many thought the principles and current methodology strike an appropriate balance between the Government's objectives for the scheme. Some responses noted that the reduction in costs achieved by mature technologies since the scheme started show that the current approach has served consumers' interests well.

Many responses valued the consistency of applying an evidence-based approach to different technologies and across allocation rounds, considering that it has benefits for technology neutrality and supports prospective participants understanding of the process. Other responses noted that applying the same approach across a diverse range of technologies can lead to ASPs that are too high and not reflective of the scale of deployment and cost reduction potential, but the risk can be mitigated by ensuring strong liquidity in the auction. Some responses thought a greater risk was setting ASPs that are too low, which could reduce competition and inhibit the deployment of sufficient renewables capacity to reach net zero.

Many responses agreed that ASPs should be based on robust cost information from a range of projects. A few responses noted it is always difficult for government to establish up to date costs and returns for different technologies and suggested more engagement with developers (individually) and with the supply chain, to allow a fuller view on the project pipeline, and the potential for further reductions in capital, operational and decommissioning costs by the time projects are delivered.

Many responses noted the importance of ensuring, and asked for more, transparency in how ASPs are set, including by publishing data used to define the supply curve. Some acknowledged that setting ASPs based on the same proportion of the supply curve for each technology may not reflect innovation ambitions, scale of deployment or potential cost reductions.

Some responses argued that, particularly for onshore wind, solar and offshore wind, effective competition in the auction, which would provide good price discovery and prevent over-compensation, was more important than the ASP. A few responses noted that increasing the frequency of auctions, moving to technology neutral auctions, or changing to pay-as-bid would further improve price discovery, reduce the scope for bidders to "game" the auction, and ensure the Government is not overpaying for generation. (Some noted their views that pay-as-bid would also reduce the risk of non-delivery from projects underbidding their necessary strike price, which some responses perceived is a problem.)

The importance of the ASP in determining the parameters for the auction was also noted, particularly for budget setting, which requires a good understanding of the costs of different technologies.

Some responses thought that more flexibility in setting ASPs between technologies could allow better alignment with the Government's wider ambitions on decarbonisation, investment, industrial strategy, and innovation, and also drive regional growth, strengthen local economies, and support communities.

A few responses proposed reducing ASPs over time in line with deployment, since deployed capacity has been shown to be a reliable indicator of cost reduction. They suggested ASPs (together with minima and budget / capacity allocations) could be used to signal cost reduction trajectories, by providing a competitive target without damaging industry growth, reducing gradually over time in line with deployed capacity. Adopting such an approach could allow allocation rounds to be run more frequently while still providing appropriate protection for consumers during auctions. Others disagreed, noting that mechanical reductions in ASP, such as fixed priced regressions, might not allow for the inherent pricing uncertainties facing bidders in future auctions. Some responses cautioned against assuming clearing prices from the previous allocation round show the 'correct' level of support, until those projects are delivered.

A few responses argued that individual ASPs for established technologies were unnecessary and, for simplicity, the pot could have instead a maximum strike price that applies to all technologies in the pot, which would ensure fair competition but also value for money for consumers. One alternative proposed was to divide the monetary budget by the minimum generation (MWhs) required, to set an auction 'cap' price.

Some responses noted that it is more difficult to set ASPs for less established technologies in Pot 2. It was proposed that they could be capped at a level where the technology could reasonably be expected to compete with Pot 1 technologies on price in the future, based on assumed technology cost learning rates, to ensure that higher prices are acceptable in the short-term only with the expectation that the technology will become cost competitive in the future.

One response proposed adopting the VALCOE framework (value adjusted LCOE) developed by the International Energy Agency to compare technologies. It incorporates factors such as reliability and seasonality, so takes account of the importance of diversification of energy sources for energy security. Another response suggested that a price premium could be granted to projects that are at the forefront of research and innovation to incentivise the adoption of improvements that could significantly improve the financial viability of the sector going forwards.

Some responses commented on how ASPs are set for specific technologies. Several responses noted that the ASPs were significantly higher than the strike prices achieved by successful advanced conversion technology (ACT) projects in the last two allocation rounds. Other responses thought that technological challenges as well as more complex commercial arrangements, from fuel sourcing to revenue from waste products, make ACT projects more challenging to deliver. It also means that there is a wider spread of costs between projects.

One response suggested that a balance needs to be struck between the need to reduce costs and the desire for developments to deliver appropriate social and environmental benefits. It was noted that an unintended consequence of driving down prices to protect the consumer is that it drives onshore wind farms towards windier, more sensitive landscapes, and using larger

turbines that are not appropriate in all locations. The cheapest form of generation is not necessarily the best form of generation from an environmental point of view.

Several responses supported the introduction of a separate ASP for floating offshore wind and argued that it should be set at a level to create a sustainable pipeline of work, encourage investment in the sector, demonstrate the Government's commitment to the technology, and help to secure the UK's position as a global leader.

A few responses noted that setting progressively lower ASPs for offshore wind had been effective in providing developers with a benchmark to aim for in their efforts to reduce costs and develop competitive bids, but this should not mean that the ASP necessarily gets progressively lower in future auctions. To ensure offshore wind remains an attractive investment proposition, any cost reductions associated with technology developments and innovation should be balanced against projects being developed further offshore and in deeper water with increased environmental risks impacting deliverability. One response noted that future ASPs should reflect developments in technology costs (for example new requirements for export cables and foundation concepts).

Policy response: For the fourth allocation round, the government has decided to set administrative strike prices using the same principles and overall analytical framework for ensuring value for money. In recognition of greater need for flexibility in setting ASPs between technologies to improve value for money and better align with wider ambitions on decarbonisation, innovation and investment, we may in future target different sections of estimated supply curves depending on technology. This would be a change compared to recent allocation rounds where ASPs were set by targeting the same proportion of the estimated supply curve across technologies. These technology-specific sections would be chosen using the best available evidence to ensure value for money and consistency with our policy and deployment ambitions in the context of the Industrial Strategy and progress towards Net Zero. We will consider further how to engage informally with developers, industry, and other stakeholders to ensure the cost information and assumptions, which feed into the calculation of administrative strike prices, are realistic. As for previous allocation rounds, the government will publish a note explaining the methodology used (including how technology-specific considerations have been determined) when we publish the draft Budget Notice.

Non-Delivery Disincentive

The government sought views on potential changes to the Non-Delivery Disincentive (NDD) including amending the current exclusion period to ensure offending sites are excluded from making an application for a CfD in the subsequent allocation round, and on the need for further changes to ensure the continuing efficacy of the NDD such as introducing a requirement for bid bonds. Consultation responses broadly supported the proposal to ensure exclusion of offending sites from the next allocation round. There was a mixture of views on bid bonds, including concern that they should not unfairly disadvantage any projects. The Government intends to amend the NDD's exclusion period to ensure the proposal's intended effect, but to carry out further work on the design of bid bonds and consult again before considering their potential introduction at a later stage.

Proposals

The Non-Delivery Disincentive (NDD) currently penalises non-compliant developers by excluding applications for a CfD at the same site (an 'excluded site') for a specified period. The exclusion period is triggered if (i) the successful applicant in respect of that project allowed the offer of a CfD to lapse¹¹ or (ii) the contract was terminated, either within 13 months of the date of the CfD notification or because the successful applicant failed to meet their Milestone Requirement by the Milestone Delivery Date¹².

The government proposed amending the exclusion period (by extending to 36 months) to ensure that excluded sites could not enter the next allocation round in which they would otherwise be eligible to apply. The government also sought wider views on the need for further changes to the NDD to ensure that it continues to act as an effective incentive to contract signature and project delivery, including whether to introduce a new requirement for bid bonds or whether other measures might be required.

Responses to the consultation

There were 85 responses to the government's proposals on the NDD, with differing levels of engagement on the individual questions. Respondents reflected a mixture of stakeholders. A large number of responses were from developers of renewable energy technologies. There were also responses from suppliers, devolved and local governments, trade associations, individuals and community groups, as well as academic and research institutions.

¹¹ For the meaning of 'offer lapsed', see regulation 11(1) Contracts for Difference (Standard Terms) Regulations SI 2014/2012 (as amended).

¹² The Milestone Requirement is a mechanism within the CfD contract to ensure developers demonstrate adequate delivery progress by a deadline (the Milestone Delivery Date) of 12 months after contract signature. It does so by requiring developers to demonstrate evidence of considerable financial commitments to project delivery, for example in the form of invoices.

Views on proposals and government response

Question 24 asked for views on the proposal to extend the exclusion period. There was strong support from respondents for ensuring that exclusion applied to the subsequent allocation round. A few respondents suggested this should be in explicit terms rather than for a specified period of time. A small number suggested that a longer exclusion period or other stronger measures should apply, whilst a few opposed the changing the NDD.

Question 25 asked whether different forms of disincentive were needed for technologies at different levels of development and how they might work. A few respondents argued for the same treatment for all, to ensure a level playing-field, although several advocated different treatment to reflect the different challenges faced respectively by mature and by less established technologies. Of those arguing for differential treatment, a small number said this should reflect projects' differing development timelines and costs, with a few more suggesting that these differences may see an increased risk of speculative bidding in Allocation Round 4. A fair number said there should be more flexibility for smaller developers or smaller projects, whilst a few responses argued for flexible treatment for project delays that resulted from unforeseeable or uncontrollable circumstances. Finally, a small number of responses argued for not penalising projects that resorted to merchant delivery.

Question 26 asked for views on the advantages and disadvantages of introducing a new requirement for bid bonds. Responses reflected a mixture of support and opposition. Many respondents were supportive of bid bonds as a means of addressing speculative bidding and non-delivery. Of these, many suggested that the introduction of bonds should be conditional on the treatment of certain project types or technologies and a few indicated a desire to input further on their design, e.g. on conditions and timing of their release. A few respondents argued for greater flexibility around the form of credit. Several responses said that bonds could increase costs and bid prices. Many suggested that if they were introduced, less established technologies and/or small projects should either be exempted from the requirement or treated more leniently to avoid it becoming an effective financial barrier to participation and to deployment of new technologies. A few suggested exempting offshore wind on the basis that it had higher up-front costs and a lower risk of non-delivery.

Question 27 asked whether bid bonds would be a practical requirement for smaller projects and how difficulties might be mitigated. Several respondents said that the requirement for a bond would impose an additional financial burden on small projects and community projects which should be exempted or have provision made to mitigate potential adverse impacts on them. A few said that small developers would be more significantly affected by the requirement, regardless of project size. Several respondents said that the same approach to bonds should apply to all projects, with no mitigation for small projects, a few adding that a bond that was proportional to project size would be fair.

Question 28 asked at what level bid bonds should be set and whether £10,000 per MW would be appropriate. Several respondents supported the proposed bond level, though a small number of responses proposed different levels, some higher, some lower. A few suggested comparison with practice in other countries. Several responses proposed applying conditions such as a maximum cap for the bond or different levels of bond for different sized projects. A reasonable number of respondents proposed exemptions from the bond, for instance for less established technologies. A small number of respondents proposed an alternative approach to £/MW bonds, for instance bonds based on a £/MWh approach or an approach that factored in load factors of technologies. A few others suggested bonds could represent a proportion of expected project costs or that a risk-based approach should apply, i.e. only requiring bonds if

project spend has not reached a certain threshold or if the developer has not sufficient evidence of experience, adequate finance and/or a robust supply chain plan.

Question 29 asked for views on alternative approaches to the NDD. Whilst many respondents indicated either that the best approach would be to introduce bid bonds or that there was insufficient evidence to change the status quo, a few suggested alternative approaches to address the risk of non-delivery. These included financial penalties in contracts for non-delivery, review of the Milestone Delivery Date (MDD), further information about future allocation rounds, change to the frequency of auctions and review of eligibility criteria.

Policy response:

In the light of the consultation responses, the government intends to amend the current NDD exclusion period to ensure that generators are prohibited from making a CfD application in respect of an excluded site in the subsequent applicable allocation round (i.e. the next round for which it might otherwise have been eligible to apply). Expressing the exclusion in terms of the subsequent applicable round should provide greater certainty of achieving, and clarity about, the desired outcome, than specifying a time-period.

Many consultation responses highlighted the potential benefit of introducing bid bonds to tackle non-delivery, citing increasing risks of speculative bidding. However, several responses highlighted concerns about the impacts of bid bonds on certain projects or developers and a few noted the importance of good design of bonds. In the light of these comments, the government does not intend to introduce bid bonds for the next allocation round but intends to carry out further work on how bonds might effectively and fairly be applied. The government will consult further on these details before any future application.

Technical changes to future allocation rounds

The consultation set out a number of technical changes that the government wishes to make to future allocation rounds to improve the way that the scheme operates. There is no statutory duty to consult on these aspects, but the changes were set out to help inform consultees' responses to other proposals. Responses which expressed views on these changes are set out below.

The government intends to implement the proposal to amend the CfD Allocation Regulations to provide the flexibility to decide, on a round by round basis, if it should apply a hard constraint (as in previous allocation rounds) or soft constraint for each capacity cap, maximum or minimum, subject to certain conditions being met. The government also intends to proceed with proposals to simplify the operation of delivery years in CfD auctions (subject to expert advice on the impacts), to amend the valuation formula to reduce the strategic complexity of the auction and ensure that the earliest possible date of CfD payments is considered when calculating budget impact on the budget.

Simplifying delivery years

Proposal

The government proposed simplifying the role of delivery years in auctions so that if the monetary budget were breached in one delivery year, the whole auction would close (as already happens when a capacity cap is breached) and that a single clearing price would apply across the auction (subject to administrative strike prices). The aim of this proposal was to reduce the strategic complexity of the auction and increase value for money for consumers.

Responses to the consultation

The government did not pose any questions, but did receive 11 responses to the proposal. The majority of these were from developers of renewable energy technologies. There were also some responses from trade associations and a delivery partner.

Views on proposal and government response

The majority of comments on the government's proposal were supportive, with a few indicating that it would simplify the auction and could increase value for money for consumers. A few comments noted the need to avoid unintended consequences and sought further clarification of the impacts of the proposed change, for instance on valuation and auction outcomes. A few suggested that the proposal should be reconsidered on the basis that the current arrangement would better suit the greater number of delivery years likely in AR4 with the variety of technologies represented by the different pots.

Policy response:

The government has noted stakeholders' comments on the proposal to simplify delivery years, including the importance of avoiding unintended consequences. The government is minded to proceed with the proposed approach but intends to test it further with independent auction experts before applying it.

The proposal would affect the operation of delivery years in closing the auction. Bidders would still bid into individual years within the delivery window as normal but when a bid breached the monetary budget, instead of a single delivery year closing, the whole auction would close. At that point, a single clearing price would apply across the delivery window (subject to administrative strike prices), in contrast to previous allocation rounds where different clearing prices could be set in each delivery year.

The government expects that the proposal should provide simpler auctions and better value for money for consumers when there are fewer delivery years in an auction (as has been the case in recent allocation rounds). Budget parameters for the next allocation round, including delivery years, will not be set until nearer the opening of the round, although it is possible that different delivery years may apply to different technology groups ('pots').

The government does not foresee any impacts on the framework used for setting administrative strike prices nor on the valuation formula, although it is possible that administrative strike prices will be set at a single price per technology across delivery years (the government will set out administrative strike prices in the budget notice). The government expects that the proposal would lower maximum strike prices and overall budget impact.

Valuation formula

Proposal

The government proposed a change to the valuation formula set out in the CfD allocation framework, to use the first day of the Target Commissioning Window to calculate the budgetary impact instead of the Target Commissioning Date. The aim of this proposal was to reduce the strategic complexity of the auction and ensure that the earliest possible date of CfD payments is considered when calculating the impact on the budget.

Responses to the consultation

The government did not pose any questions for response but did receive three comments on the proposal. These were from developers of renewable energy technologies and a delivery partner. Comments received were generally supportive.

Policy response:

The government intends to implement its proposal to amend the valuation formula, to use the first day of the Target Commissioning Window (or the first day of the first delivery year, whichever is later) to calculate the budgetary impact of bids instead of the Target Commissioning Date. This would provide a clearer indication of the potential budgetary

impact of projects. It may indicate a higher budgetary impact for some projects, depending on when they commission in practice.

Flexibility in the use of capacity caps, maxima and minima

Proposals

For the third CfD allocation round, the overall budget, in both monetary and capacity terms (i.e. the 6GW 'capacity cap'), was set as a 'hard' constraint, whereby the bid that breaches either the monetary budget or capacity cap in the auction is rejected and so not offered a CfD. The use of a hard constraint can make it more difficult to manage the amount of capacity that is successful in the auction.

The consultation asked if future CfD allocation rounds could instead apply capacity caps, maxima and/or minima as 'soft' constraints. This would mean accepting the bid that breached the cap, perhaps subject to specific conditions being met. The amount of capacity for projects awarded contracts would therefore likely be closer to the Government's ambitions for the round.

Responses to the consultation

More than 100 organisations responded to this part of the consultation, including developers, trade bodies, and consumer groups.

Views on proposals and government response

Question 30 asked for views on whether the government should introduce the flexibility to apply any capacity cap, maxima, and minima as either a soft or hard constraint, set on a round by round basis.

Question 31 asked for views on the type of soft constraint (including those proposed) that could be deployed in future allocation rounds.

Question 32 asked for any further evidence on benefits and disadvantages of a soft capacity cap constraint.

A significant majority of responses were in favour of introducing the ability to set capacity caps, maxima and minima as soft constraints, with only a few opposed. A few responses noted that the level of the cap must encourage competition and deliver the capacity to meet the government's ambitions on deployment and decarbonisation. Some responses thought that having the flexibility to adopt either a hard or soft constraint for each allocation round might create uncertainty for applicants, but a greater number thought they should be looked at on a round-by-round basis and applied as a soft constraint if it were appropriate to do so.

Many responses stressed the importance of ensuring that the allocation process continues to be based on clear rules and fair competition, so that bidders can understand why a project was accepted or rejected in each round, and cautioned against introducing too much complexity. A few responses noted that the aim of soft caps should be to take advantage of low-cost bids rather than seek to mitigate risks associated with uncertainty around competitive tension in the auction.

The consultation noted that there are several ways in which a soft constraint rule could operate, and gave three specific examples:

- accepting the bid and awarding a contract to the project that breaches the cap, if enough monetary budget remains; or
- accepting the bid and awarding a contract to the project that breaches the cap, subject to price (i.e. more capacity could be successful only if the price is low enough and enough monetary budget remains); or
- accepting the bid that breaches the cap only if it increases the total capacity awarded a CfD in the round by less than a specified amount of capacity (a given threshold) and enough monetary budget remains.

All options had some support, but the first option was the most popular, and the second was the least popular, with a few responses noting that it could add unnecessary complexity to the auction.

For the second option, where the bid would be accepted and a contract awarded to the project that breaches the cap only if the price is low enough, one response argued that the contract should only be awarded if it would result in a small (<5%) price deviation from the most expensive project that did not breach the cap.

The third option was preferred by some responses, with one specific suggestion being to award the project a contract if the breach of the capacity cap equalled no more than 10% of the overall cap (so, for example, a 1.2GW project would be awarded a contract if it breached a 7GW cap by 400MW, as it is less than 700MW). Another suggestion was to award a contract (for the full capacity) if the majority (more than half) of the project's capacity fits under the capacity cap (so a 100MW project that breached the cap by 20MW would be awarded a contract, but a 750MW project that breached the cap by 500MW would not).

Other than the variations described above, the main alternative suggestion put forward was to develop a rule, similar to the one used in Capacity Market auctions, based on a dynamic supply curve to allow procurement of additional capacity if the price was below a certain level.

Policy response:

The government intends to implement the proposal to amend the CfD Allocation Regulations in order to provide the flexibility to decide, on a round by round basis, if it should apply a hard constraint (as in previous allocation rounds) or soft constraint for one or a combination of a capacity cap, maximum or minimum, subject to certain conditions being met. Whether each constraint individually will be hard or soft, and any conditions that would apply in the case of the latter, will be set out in the Allocation Framework for the round. It has not been decided yet if this flexibility will be used in Allocation Round 4.

Storage

The consultation sought views on the perceived barriers to storage co-location with CfD projects, and whether any solutions could be provided within the CfD scheme to facilitate this. Views were divided between responses that considered further changes to the CfD scheme are necessary to make the co-location of storage commercially viable, and those that thought it is better to address the need for storage and flexibility at the system level. What is clear from the range of responses is the complexity of the different considerations needed to make decisions in this area. Though no specific changes are being proposed for AR4, the government intends to work with delivery partners and stakeholders to consider further the barriers to the co-location of storage with CfD generators that respondents have identified. We will also be seeking views more broadly on how renewables can be integrated into the energy system in future, through a forthcoming Call for Evidence.

Proposals

The consultation observed that storage could mitigate some of the potential negative impacts of variable renewable generation on the system. Electricity storage can be installed at CfD sites so long as generators comply with the obligations set out in the CfD contract: storage is not considered part of the CfD facility and must be metered separately.

Additional metering (specifically, installing storage in a separate Balancing Mechanism Unit (BMU)) was described as a 'burden' by a significant number of respondents to the AR2 consultation in 2016. In response, the government introduced some flexibility into the CfD contract, which states that a separate BMU is not necessary if the generator can demonstrate to the LCCC's satisfaction that the meter ensures that their storage technology only stores electricity generated by the CfD project and does not store electricity imported from any other source.

The consultation did not contain any specific proposals but asked for views on potential storage solutions, and what might be changed in the CfD scheme to address barriers to co-location.

Responses to the consultation

There were 103 responses to one or more of these questions. Most organisations that responded to this part of the consultation were generators, developers, consultancies, supply chain companies, or trade bodies, but responses were also received from other stakeholders including community groups and local government.

Views on proposals and government response

Question 33 asked what storage solutions generators could wish to co-locate with CfD projects over the lifetime of the CfD contract.

Many responses thought that co-locating short duration lithium ion battery storage with solar or onshore wind projects is the most likely solution in the short term. New technologies are emerging quickly though, and industry is looking at novel storage solutions that may prove commercially viable. Battery storage is more suitable to time shift into peak periods, whereas longer duration storage technologies could benefit wind projects by mitigating price cannibalisation issues. A few responses noted that projects already generating are exploring how to retrofit battery energy storage and many planning applications for solar or onshore wind now include the option for battery storage to be installed.

Other solutions included producing green hydrogen from electrolysis, which has potential for seasonal energy storage and in decarbonising heat and industry. Offshore wind, because of its larger scale, higher load factors and geographical location, is seen as a good fit with hydrogen. Anaerobic digestion also has potential by combining hydrogen with the CO₂ in biogas to produce more methane.

Question 34 asked what, if any, barriers there are to co-location of electricity storage with CfD projects.

Many responses observed that although many developers want the option to co-locate storage with their generation project (particularly wind or solar) and will develop their project to facilitate that option, most are not going ahead with co-locating storage because of the investment risks. Responses outlined that co-location could mean that the storage asset benefits from not having to pay for the grid connection (both the regulatory costs of operating a connection and the costs of the physical connection assets, both of which can be shared with the CfD project).

Many responses noted that the metering arrangements restrict the ability for storage assets to maximise value to the system. Registering storage as a separate BMU incurs additional costs, whilst not registering as a separate BMU means the storage asset cannot import electricity from the grid, limiting the other storage services that can be provided.

The additional metering necessary to ensure that electricity imported from the grid can be differentiated from electricity imported from the CfD generator is an additional cost. Many responses noted it is not commercially viable for a storage asset to operate solely with the generation from the co-located CfD generator, particularly if that electricity cannot then be used for ancillary service markets or traded in the Balancing Mechanism.

Some responses noted that the CfD contract prevents developers from making significant changes to the sites post operation, including retrofitting, or expanding existing, storage assets. It was argued that sharing grid connections or offering complimentary services could reduce costs to consumers and including suitable provisions in the CfD contract could encourage investment in storage by providing assurance that the CfD unit would continue to be eligible for CfD payments provided the generator continues to comply fully with its obligations.

Other barriers identified in responses include the cost and maturity of storage technology, the uncertainty created by Ofgem's Targeted Charging Review and Significant Code Review reforms, and the different testing and commissioning regimes for the generation and storage assets.

A few responses noted that one of the main barriers to co-locating storage with offshore wind sits outside the CfD scheme. Locating storage offshore is prohibitively expensive, but the offshore transmission operator (OFTO) arrangements mean that generators cannot own the

network infrastructure where onshore storage assets would be located. Responses felt this should be prioritised, to unlock the potential synergies of offshore wind and hydrogen.

Some responses thought a long-term policy vision for storage, in support of the net zero goals, is needed.

Question 35 asked what, if anything, could be changed in the CfD scheme to facilitate the co-location of storage with CfD projects.

Some responses thought that while further amendments to the CfD scheme could encourage co-located storage, it may be more cost-effective to deliver storage at a system level through other existing mechanisms, such as the Capacity Market. Other responses went further, arguing that the CfD scheme is not the right mechanism as it is focused, and structured, to maximize renewable capacity at the least cost for consumers, and not flexibility. Incentivising renewable generators to provide flexibility through storage could distort the wider market if it discourages demand response and interconnection. A few responses noted that it may be preferable to locate storage closer to demand, reducing the impact on the landscape and the loss of agricultural land.

Some responses also argued strongly that co-location of storage with CfD projects must not prevent generators paying back to customers in periods where wholesale prices exceed strike prices, which would be counter to the aims of the CfD.

A few responses thought that negative prices and storage should be considered together. Some thought that extending the negative pricing provisions may encourage more developers to consider co-location of battery storage. It was suggested that power generated and stored on site during negative pricing periods could be exempted from the negative pricing rule.

Some responses suggested that, in recognition of the benefits from imposing fewer requirements on the system, projects which integrate storage should be prioritised or offered an additional incentive through the CfD allocation process. A few responses thought this could take the form of a premium paid on top of the strike price, others that it could be achieved by modifying the pot structure, perhaps to define projects that co-locate with storage as separate eligible technologies (solar with battery storage, for example). Other ideas were to set a minimum for projects that include storage or have the capability to be dispatched, or valuing projects that deliver flexibility more highly than those that do not. Ring fenced support could also help to ensure storage technologies progress to commercial scale, which may be particularly important for realising the potential of hydrogen.

One response proposed encouraging storage to co-locate with intermittent generation, such as wind, by referencing difference payments against the Baseload Market Reference Price (BMRP) instead of the Intermittent Market Reference Price (IMRP). Separate pots and auction clearing prices for IMRP (wind only) and BMRP (wind plus storage) projects could provide a market view of the differential between baseload and wind capture prices over the 15-year period of the CfD.

Most responses agreed that CfD payments should only be made on electricity generated by the CfD generating asset, but to realise the full potential of co-located storage assets, further changes to the metering arrangements would be required. Many responses thought that the ability to revenue stack is crucial to make storage commercially viable, but the current rules prevent storage co-located with a CfD generator from providing ancillary services. Specifically, some responses proposed allowing the storage asset to import and reexport electricity within

the same BMU as the CfD project, and / or allowing co-located storage in a separate BMU to store the output from the CfD generator and to receive the CfD payment when it is exported.

Some responses proposed promoting self-consumption projects (private wire or behind-the-meter power purchase agreements) through the CfD scheme. Projects could export excess electricity against the CfD strike price but guaranteeing that if a local off-taker fell away, the project could export all its electricity to the grid against the CfD strike price. It might also require opening the CfD scheme to smaller projects (<5MW) which would match more closely the electricity demands of most industries and communities.

Some responses noted that there is currently no flexibility within the CfD contract to install storage after the development stage. Developers will be deterred from installing new, or expanding existing, co-located storage assets in future, if there is a risk of negative consequences under either the terms of the CfD contract or other commercial arrangements. Recognising and facilitating the retrofit, including after CfD payments have started, by including specific provisions in the CfD contract could create opportunities for the deployment of co-located storage.

Some responses proposed that BEIS should bring industry, Ofgem, LCCC and National Grid ESO (NG ESO) together to assess the optimal use of storage under the CfD scheme and to consider if the scheme should allow more flexibility, beyond what is allowed under the current rules, to maximise the range of services that can be delivered by co-located storage. Others noted that refreshing the Smart Systems and Flexibility Plan could provide more clarity and ensure that the framework for co-location is fit-for-purpose.

Policy response:

Flexibility is essential for integrating high volumes of low carbon power, heat and transport. The government supports the deployment of storage within the electricity network. This flexibility benefits consumers through reduced network management costs and improved integration of renewables generation.

There is some debate about where and how this flexibility should be deployed to maximise the benefits provided. Respondents had different views about whether the government should support colocation of storage with generation assets or incentivise storage and other flexibility at an overall system level. We will continue to consider this and other factors as we work to enable a more flexible and smart energy system.

For now we feel that it is important that support schemes do not present barriers to bringing forward system flexibility. Working to understand and remove those barriers will take time and although we do not propose introducing any changes for AR4 on the co-location of storage with CfD generators, we will work with the LCCC, Ofgem, NG ESO, and industry to consider further the barriers that respondents identified, and how these can be overcome for future allocation rounds. We will also be seeking views more broadly on how renewables can be integrated into the energy system in future through a forthcoming Call for Evidence on Renewable Support which will support this work.

Negative pricing

The consultation proposed extending the existing negative pricing rule so that difference payments are not paid to CfD generators when day-ahead prices are negative. Responses to the negative pricing proposal were mixed. Some respondents reiterated points around the potential for greater price exposure to exert an upward pressure on strike prices. Others pointed to the overall system benefits of removing this market distortion. The government considers overall that this proposal achieves the right balance between de-risking renewable electricity projects whilst incentivising behaviour which support the needs of the electricity system, and therefore intends to proceed with the proposal to cease top-ups during periods of negative prices.

Proposals

We proposed to extend the existing negative pricing rule so that difference payments are not paid to CfD generators when the Intermittent Market Reference Price is negative. The current rule limits the extent to which CfD generators are subsidised when day-ahead prices are negative, but generators still receive difference payments when there are less than six consecutive hours of negative pricing. This encourages CfD generators to keep generating during these periods of low demand and also facilitates negative bidding into the balancing mechanism (the within-day market used by the electricity system operator to balance electricity supply and demand for each half-hour period), increasing costs for consumers.

Responses to the consultation

In total there were 85 response to this question. Responses were received from a range of stakeholders. Many were received from developers of renewable energy projects and trade associations representing them. Other responses came from suppliers, academic and research bodies, NGOs, local authorities, and individuals.

Views on proposals and government response

Question 36 asked if respondents had any views on the proposal to extend the negative pricing rule. Overall, this question elicited a range of responses. Many of the responses came from developers who largely agreed with the principle of extending the negative pricing rule, though some raised concerns about the potential impact that increasing price exposure in this way could have on the costs of capital and, in turn, project strike prices. This led to suggestions of a 'claw-back' system where developers receive the benefit of very high prices, or a 'backstop' where large numbers of negative prices result in a cessation to the rule. A few respondents also highlighted the difficulty in accurately predicting the occurrence of future negative price and the impacts this would have on building the economic case for future projects.

Other respondents considered the wider system impacts of this rule change and were often in favour, citing the benefits of removing distortion to the merit order and the incentives to operate

closer to the needs of the system, based on the signals from the market. It was felt that continuing to reward generators who dispatch power onto the system at times of negative prices risks increasing system costs borne eventually by the consumer. Some respondents suggested going further, limiting payment during low (but positive) price periods.

Other points that were raised included the need to consider system integration and negative prices as part of a wider review of energy markets. A few respondents also pointed to the need to ensure that plants contributing significant capacity would not be incentivised to switch off at once in order to maintain system stability.

Policy response:

In light of the consultation responses, the government has decided to continue with the proposal to extend the negative pricing rule for future CfD contracts. As stated in the consultation itself, and recognised by respondents, this proposal is about achieving the right balance between de-risking renewable electricity projects and exposing them to signals which incentivise behaviour in line with the needs of the system.

BEIS recognises the potential for higher capital costs due to the change in risk or the perceptions of that change, and as such have looked to update our modelling on the occurrence of negative prices and their impact on project revenue. Our updated modelling suggests that the actual impact on revenue would not be particularly large relative to maintaining the current rule. In absence of quantitative analysis to the contrary, and based on our understanding of investor behaviour, we do not expect the impact on strike prices to be severe.

The rationale for this change is rooted in the principle that where it is possible for generators to adapt to the needs of the system (i.e. by diverting power away from the grid when supply is abundant, and demand is low), incentivising them to do so should yield lower overall system costs. Requiring bill payers to continue to pay generators during periods when market prices are negative, inhibits this incentive. As corroborated by a number of responses, market participants that best find alternative uses and revenues for this excess power will be impacted less by instances of negative prices and therefore will be more competitive in future CfD auctions, ultimately benefitting consumers. This could be in the form of contracting with storage assets to allow more flexible output. As set out in the response on the storage questions, the Department will continue to work with the sector and delivery partners on facilitating these sorts of developments.

BEIS are engaging with the Electricity System Operator to ensure that a strategy is in place to avoid any negative impacts on system stability at times when a number of plants no longer incentivised to remain generating, stop dispatching power to the grid simultaneously in the same settlement period.

As we integrate more intermittent renewables on to the system, it is likely that negative prices will become a more common phenomenon (which would be exacerbated without the changes we are proposing as extending the rule is expected to reduce negative bidding and therefore incidence of negative prices). An increasing frequency of negative prices is an aspect of increasing price cannibalisation from greater proportions of correlated low marginal cost plant operating on the system, and a lack of a corresponding increase in either system flexibility or underlying wholesale price. CfD generators at the end of 15 years, and generators without a government contract are exposed to this,

which raises questions on the ability of developers to raise finance for new or repowered projects in the long-term.

We will also be engaging the industry on how best to evolve schemes and markets to ensure new low carbon generators can continue to deploy at scale, through a forthcoming Call for Evidence on Renewable Support.

Phasing

Offshore wind projects that win a CfD contract can be built in up to three phases. The government has considered whether the current limit on phased offshore wind projects remains an appropriate cap size, and consulted on our view that the 1500MW cap should be maintained. Most consultees supported this approach, citing that such a level promoted competitiveness in the auction process. Since consulting, the government has set out new plans to accelerate progress towards net zero emissions by 2050, including commitments to increase the government's previous 30GW offshore wind target to 40GW and to support up to double the capacity of renewable energy in the next CfD allocation round. Whilst the government has considered whether an increased cap on phased offshore wind projects could support these aims, on balance we think it is right to maintain a 1500MW in Allocation Round 4. We will keep this level under review for future allocation rounds.

Proposals

Offshore wind projects successfully awarded a CfD contract have the option of being built in up to three phases. The size of phased projects has been capped at 1500MW since CfD Allocation Round 1. The consultation proposed that the current 1500MW cap be retained for the next allocation round, to strike a balance between benefitting from economies of scale whilst facilitating new entrants to the market. The consultation asked for views on the proposal to maintain the current cap, and also whether there are any barriers to developing phased offshore wind projects on a part-merchant basis (recognising that developers of phased projects may become increasingly likely to pursue this).

Responses to the consultation

This proposal had 39 replies in total, from a mixture of renewables developers, NGOs and think tanks, local and devolved governments, and trade associations.

Views on proposals and government response

Question 37 asked consultees whether the current cap on phased offshore wind projects of 1500MW should be maintained. The majority of respondents supported this approach, citing the cap sufficient to prevent a small concentration of large developers monopolising the auction process and allow smaller projects to compete, diversifying the auction. Several respondents noted that this would promote market liquidity and maintain competitiveness. A number of respondents also commented that maintaining the current cap for Allocation Round 4 would align with the Crown Estate seabed leasing process, but that the cap should be reviewed in future rounds to ensure consistency. A number of replies noted that this was particularly important for projects based in Scotland, as the current ScotWind leasing round may attract projects with higher capacities owing to density requirements.

Some respondents supported an increase in the cap to 1800, 2000 or 3000MW, citing the importance of avoiding artificial limitations to support the government's net zero target. Others noted that an increased cap could encourage larger projects to participate which are able to capitalise on economies of scale and advances in technology, and in turn protect consumers. Some argued that capacity and budget caps used in the auction process already ensure adequate competition should the cap be raised. Others pointed to other markets where competitiveness is guaranteed through restraints on single bidders acquiring a certain percentage of capacity.

Alternative approaches suggested by respondents included extending the Target Commissioning Window and Long Stop Dates in contracts to unphased projects, to help level the playing field between phased and unphased projects. One respondent also suggested the cap be lowered to 500MW to encourage large projects to access merchant markets for additional capacity.

Question 38 asked consultees whether there are any barriers to developing a phased offshore wind project on part-merchant basis. A number of respondents noted that the current corporate PPA market conditions were the main barrier to merchant deployment. Others argued that the presence of part-merchant projects in Allocation Round 3 demonstrates that there are not barriers to part-merchant deployment. A small number of respondents noted that the effects of the COVID-19 outbreak or EU exit may result in changing market dynamics which could affect the investment appetite for merchant deployment going forward.

Policy response: Since CfD Allocation Round 1 there has been a general trend for larger offshore wind projects. Increasing the cap on phased projects could bring opportunity to harness economies of scale, however the extent and scale of potential savings (and the possibility of these being passed on to consumers) remains uncertain. The majority of responses to the consultation supported the government's proposal to maintain the current level of cap, noting that it promoted competitiveness and diversity of bids by allowing greater opportunity for smaller projects to compete and avoiding a small concentration of developers participating. Consultation responses that supported an increase to the cap (to 1800, 2000 or 3000MW) did not quantify the potential value for money savings in allowing larger projects to benefit from phasing arrangements.

The government has made a number of announcements on renewables ambition since the consultation closed, including an increase in the previous 2030 offshore wind target from 30GW to 40GW, and an ambition to support up to double the capacity in next year's allocation round compared to the previous round. The government has considered this increased level of ambition, alongside that needed to support the 2050 net zero target, in determining whether to maintain the current cap on phased offshore wind projects competing in the CfD.

We are aware that a number of offshore wind projects greater than 1500MW have, or are seeking consent. Increasing the phasing cap to accommodate larger projects such as these could see greater levels of offshore wind capacity supported through the CfD in future. However, the government does not currently consider this the optimal way of securing the levels of renewable deployment needed between now and 2050. There are a number of alternative ways – beyond an increased phasing cap – that projects might seek to participate in allocation rounds, and which do not hinder deployment at scale. The government thinks it is right that, for the next allocation round, the cap on the total size of phased offshore wind projects is kept at 1500MW as it strikes the right balance between harnessing economies of scale and facilitating diversity of participants in the competition.

The government therefore intends to maintain the cap on phased offshore wind projects at 1500MW for Allocation Round 4, but commits to keeping this level under review ahead of future allocation rounds to ensure it continues to be set at an appropriate level.

Milestone Delivery Date (MDD)

The government sought views on the benefits of extending the Milestone Delivery Date (MDD), including on different project types, and on what a suitable period should be. The majority of consultation responses supported the proposal to extend the Milestone Delivery Date (MDD), suggesting a period of around 18-24 months. The government intends to extend the MDD to 18 months following contract signature, for all projects.

Proposals

The Milestone Delivery Date (MDD) is the deadline by which generators awarded a CfD must demonstrate delivery progress, by providing evidence either of (i) spend of 10% of total pre-commissioning costs, or (ii) project commitments. The government sought views on the benefits of extending the MDD beyond the current deadline of 12 months following contract signature. This included whether such an extension should apply to either one or both of the two routes, whether it should apply to all or certain projects, and what a suitable length of extension might be (e.g. to 15 months).

Responses to the consultation

There were 62 responses to the government's proposal on the MDD, with slightly differing levels of engagement on the individual questions. Respondents reflected a mixture of stakeholders. Large number of responses were from developers of renewable energy technologies. There were also responses from suppliers, devolved and local governments, trade associations, individuals and community groups, and research bodies.

Views on proposals and government response

Question 39 asked for views on the benefits of extending the MDD. Most respondents supported extension, saying that the current deadline presented difficulties as it did not fit with project timelines, including procurement and financing processes. Many respondents said that the current deadline hastened procurement decisions, increasing the cost of capital, reducing opportunities for innovation, and making it harder to secure value for money. A few respondents suggested extension should be for either one or other of the two routes, though a few more thought it should apply to both routes. A few sought an alternative approach to a deadline of a certain period after contract signature. Several respondents noted that extending the MDD would be easier if strengthening the NDD at the same time, and a fair number thought it would be important to show flexibility to projects facing delays for unforeseeable or uncontrollable reasons.

Question 40 asked for views on whether an extension should apply to all projects or only to particular technologies or sizes of projects. Several responses said that the same approach should be applied to all, to ensure fairness. An equal number argued for differentiation by technology. Of the latter, the largest number said that offshore wind had the greatest need for more time, as projects were generally larger and more complex, taking longer to reach a final

investment decision. Several others indicated difficulties for other technologies, particularly less established technologies, those with complex grid connections and large-scale projects. A few suggested a case-by-case approach or deadlines based on technology-specific evidence.

Question 41 asked for views on what the length of an effective extension would be (e.g. 15 months) and the implications of it. Of those supporting an extension, whilst several suggested that an MDD at 15 months would help, the majority said that it should be at either 18 or even 24 months to align with project timelines. Many respondents indicated that such an extension would align better with development, procurement and financing timescales. Several said that a longer timeframe would also allow better planning by suppliers to adapt to projects and could support development of the UK supply chain.

Policy response:

In response to evidence provided in response to the consultation, the government intends to extend the MDD so that generators must demonstrate delivery progress a maximum of 18 months after contract signature. This reflects what the government understands will better align with project timelines whilst still providing a suitable indicator of delivery progress. The extension will apply to projects that are successful from the next allocation round, irrespective of their chosen route to demonstrate the milestone requirement ('10% spend' or 'project commitments'). For simplicity and in order to provide a level playing-field, it will apply to all projects.

Miscellaneous Allocation Regulation Changes

Any reference to regulations (unless otherwise stated) is to the Contracts for Difference (Allocation) Regulations 2014 (as amended).

End date of an allocation round

To improve clarity, the government proposed the removal of all references to the term 'end date of the allocation round' from the Allocation Regulations and the allocation round notice. This proposal was supported by most respondents who agreed that these references do cause confusion as the end date does not refer to the actual completion of the round, beyond which no more activities occur. The government therefore intends to proceed with the proposal and remove all references to the 'end date of an allocation round' from regulations 4, 5 and 6 of the Allocation Regulations and the removal of references to the 'relevant period' in regulation 6 (1)(b) and (5).

Proposals

The 'end date of an allocation round' is a date published in the allocation round notice, this notice is used to establish a new allocation round.

Due to the fact the 'end date of the allocation round' causes confusion with stakeholders as to when the round will end and because there are other regulations which achieve the same purposes, the government proposed the removal of all references to the 'end date of an allocation round' from regulations 4, 5 and 6 of the Allocation Regulations and the removal of references to the 'relevant period' in regulation 6 (1)(b) and (5) as the 'end date of the allocation round' is used as part of the definition of 'relevant period'. This will mean the 'end date of the allocation round' will no longer be published as part of the allocation round notice.

Responses to the consultation

There were thirty-six responses to the consultation which addressed this proposal. Responses were made by a mixture of respondents mainly renewable developers and trade bodies representing a range of technologies and businesses, investment companies, consultants, and regional and local government.

General views on the proposal

Question 42 sought views on whether stakeholders agreed with the proposal to remove all references to 'end date of the allocation round'.

Most respondents argued in support of the proposal. Some of these respondents noted that the end date does cause confusion for stakeholders, in particular they highlighted that the publication of this date gave rise to some uncertainty and confusion in Allocation Round 3 when the allocation round was held up by Judicial Review and they weren't sure if the round would be able to proceed past this date if the delay ended up being several months.

Of the few responses which disagreed with the proposal, some were concerned that removal of the date would add uncertainty and allow the process to be open ended, in turn impacting investor confidence.

Whilst somewhat counterintuitive, the 'end date of the allocation round' as drafted does not enforce when the round will end. Activities relating to an allocation round can continue beyond the stated end date or equally the round can end months before this date. The end date cannot be later than 6 months after the round commences, however, it is possible for the activities of the round to take longer than 6 months from when the round commences, particularly if there are delays e.g. judicial reviews or if appeals are lodged with Ofgem. An allocation round will only end under two distinct scenarios, either when CfD Notifications are issued by the delivery body or when the round is terminated by the Secretary of State.

The government therefore do not consider that the removal of the end date will add any uncertainty to the timeline or have any impact on the allocation process. The government will still have to adhere to all allocation round timelines as set out in Regulations and the Allocation Framework and it is these that ensure the round does not continue on indefinitely, not the existence of an end date.

Policy response:

In view of the consultation responses summarised above, government intends to proceed with the proposal to remove all references to the 'end date of an allocation round' from regulations 4, 5 and 6 of the Allocation Regulations and the removal of references to the 'relevant period' in regulation 6(1)(b) and (5). This will mean the end date will no longer be published as part of the allocation round notice.

The government believes this will remove the confusion that arises from stakeholders considering this will be the end of the allocation process and the last day that any activities will occur. As noted above this is not the case as the allocation process could go beyond the stated end date, for example if there are appeals.

Its removal will not leave the allocation process open ended as an allocation round runs to a schedule based on various regulations of the Allocation and Standard Terms Regulations.

Round variation notice rules

The government proposed clarifying in the Regulations that it is not possible to vary key dates after they have passed, and that the Secretary of State would provide at least 5 working days' notice when varying any key dates. Most respondents supported these proposals and stated that more clarity is always welcome. The government therefore intends to proceed with the proposals as planned.

Proposals

The government proposed adding detail to clarify that it is not possible to vary the 'commencement date' or 'application closing date' after they have passed. This change was proposed to provide further certainty to stakeholders that once a round is running it will run to a set schedule and dates will not be changed retrospectively.

In addition, the government proposed adding detail to clarify that the Secretary of State must give at least 5 working days' notice when varying key dates such as the 'commencement date' and 'application closing date'. Again, this change was proposed to provide certainty to stakeholders and reassure them they would have notice to prepare for a change.

Responses to the consultation

There were forty-five responses to the consultation which addressed this proposal. Responses were made by a mixture of respondents mainly renewable developers and trade bodies representing a range of technologies and businesses, investment companies, consultants, and regional and local government.

General views on the proposal

Question 43 sought views on whether stakeholders agreed with the proposal to add more detail on when key dates can be varied using a round variation notice.

Most respondents agreed with these proposals noting that more clarity is always welcome and in particular a 5 day notice period before varying key dates would be both sensible and helpful. They welcomed the additional assurance these proposals will bring to participants in the allocation process. Of those that supported the proposals some suggested the government should consider a longer notice period than 5 days, suggesting 10 days would be more appropriate.

The government considers that 10 working days is longer than necessary for notice of varying a date as it would cause an extra week of delay to the round and most stakeholders have been clear we should minimise delays. In addition, the variation would likely only be to vary one or two key dates which we consider would have minimal impact. Whilst stakeholders will have to be aware and may have to move some activities to accommodate the date changes, the government does not consider that it would require them to make significant changes to their processes or to reconsider bids for example, which might require more time.

Of the few that disagreed with the proposal it appears they thought the government were proposing to bring in new powers to vary key dates which they stated would increase uncertainty and should be avoided. However, the power to vary key dates already exists and proposals are to add clarity on when this power can be used.

Policy response:

In view of the consultation responses summarised above, the government intends to proceed with the proposals to clarify in the Allocation Regulations that it is not possible to vary the commencement date or 'application closing date' after they have passed and

adding detail to clarify that the Secretary of State must give at least 5 working days' notice when varying key dates such as the commencement date and application closing date. The government consider these changes will provide further clarity and certainty to stakeholders.

Dates in the allocation framework

The government proposed removing the requirement for certain dates to be published in the allocation framework. Responses to this proposal were mixed, those who supported the proposal agreed the dates published in this manner are confusing and serve little purpose. Those that disagreed with the proposal mostly did so due to concerns it would reduce the clarity of the timeline. However, these dates will still be published as part of the full timeline provided to stakeholders by the delivery partners (BEIS, NG ESO, LCCC and Ofgem) prior to the start of the allocation round. The government therefore intends to proceed with the proposal to remove the requirement to publish 'the non-qualification review request date', 'the appeals deadline date' and 'the post-appeals indicative start date' in the Allocation Framework as planned.

Proposals

In the consultation the government proposed removing the requirement for the following dates to be published in the allocation framework: 'the non-qualification review request date', 'the appeals deadline date' and 'the post-appeals indicative start date'.

This was due to the understanding that these dates being published in this way can cause confusion as they are published without the context of the other key dates in the round, and without clarification that these dates only occur under some of the five potential auction scenarios (for example, if there are appeals).

Responses to the consultation

There were forty-six responses to the consultation which addressed this proposal. Responses were made by a mixture of respondents mainly renewable developers and trade bodies representing a range of technologies and businesses, investment companies, consultants, and regional and local government.

General views on the proposal

Question 44 sought views on whether stakeholders agreed with the proposal to remove the requirement to publish certain dates in the allocation framework.

Responses to this proposal were mixed. Of those that supported the proposal most agreed that the dates in the Allocation Framework can cause confusion and that their removal would be beneficial to the clarity of the process. This was caveated with the fact they assumed the full

timeline would still be published by the CfD delivery partners (BEIS, NG ESO, LCCC and Ofgem).

Of the respondents that disagreed with the proposal the majority did so due to the concern that the removal would reduce clarity of the timelines for an allocation round and that by reducing clarity we would also reduce investor confidence. Several of those who rejected the proposal also felt that there wasn't sufficient rationale for the removal of the dates from the Allocation Framework.

We can confirm that these dates will still be published well in advance of the round commencement but as part of the full timeline provided to stakeholders by the delivery partners (BEIS, NG ESO, LCCC and Ofgem), rather than as standalone dates in the Allocation Framework. This will provide the full context of the round along with these three key dates and so should reduce some of the confusion experienced by some stakeholders.

For this reason, the government does not consider the removal of these dates from the Allocation Framework to have any effect on the clarity of the timelines as it is the Regulations that specify the timings of the round. The dates in the Allocation Framework are just a duplication of those already defined in the Allocation Regulations and reproduced in the timeline published on the shared CfD microsite.

Policy response:

In view of the consultation responses summarised above, government intends to proceed with the proposal to remove the requirement to publish the 'non-qualification review request date', the 'appeals deadline date' and 'the post-appeals indicative start date'.

The government consider this change will improve clarity as these dates will still be published but as part of the fuller timeline provided to stakeholders by the delivery partners (BEIS, NG ESO, LCCC and Ofgem), rather than as standalone dates with no context.

Commencement of the allocation process

The government proposed clarifying that if all applicants qualify either after NG ESO's initial application review or after NG ESO's second review (non-qualification review), then NG ESO should commence the allocation process as soon as practicable. Most respondents were supportive of this proposal noting it would eliminate unnecessary delay when all applicants qualify. The government therefore intends to proceed with the proposal as planned.

Proposals

In the consultation the government proposed clarifying in that if all applicants qualify either after NG ESO's initial application review or after NG ESO's second review (non-qualification review), then they should commence the allocation process as soon as practicable giving notice to all relevant parties.

This was proposed as a change to streamline the allocation process because for the first time in Allocation Round 3 (AR3) all applicants qualified after NG ESO's second review. This meant BEIS was ready to commence the allocation process as soon as NG ESO had confirmed that all applicants had qualified. However, currently, in the event that all applicants qualify after the initial or second application review, regulation 33 requires that the NG ESO will wait until the non-qualification review request date or the appeals deadline date (both 5 working days after the date that NG ESO confirm they have reviewed all applications) until they proceed with the allocation round. This meant in AR3 BEIS had to wait for a notice from Ofgem that no appeals had been made, despite already knowing this would be the case as all applicants had qualified. This added unnecessary time to the process and caused some confusion for stakeholders who were unclear on what timeline we would be proceeding.

Responses to the consultation

There were thirty-five responses to the consultation which addressed this proposal. Responses were made by a mixture of respondents mainly renewable developers and trade bodies representing a range of technologies and businesses, investment companies, consultants, and regional and local government.

General views on the proposal

Question 45 sought views on whether stakeholders agreed with the proposal to provide an extra scenario under which the allocation process must commence.

Most respondents supported the proposal to allow for these other scenarios and many noted the proposal would eliminate unnecessary delay where all applicants qualify, as was the case in 2019. Some respondents also noted that because this scenario isn't already explicitly provided for, in AR3 when it occurred there was some confusion as to which timeline we would be following.

Some responses also requested that this additional scenario be included in the timelines provided by the delivery partners (LCCC, NG ESO and BEIS). The government usually publishes details of the longest and the shortest possible timelines, but will consider the merits of providing all possible timeline scenarios for AR4.

Policy response:

In view of the consultation responses summarised above, the government intends to proceed with the proposal to clarify that if all applicants qualify either after NG ESO's initial application review or after NG ESO's second review (non-qualification review), then NG ESO should commence the allocation process as soon as practicable.

The government considers these changes will provide further clarity and certainty to stakeholders as well as streamlining the allocation process in those two scenarios.

Budget Revision Notices

The government proposed making changes to clarify our ability to amend the ‘overall budget’ (meaning monetary budget) and add the ability to amend a capacity cap in the same way we can make changes to the other matters such as minima and maxima listed in regulation 11(2). However, on reflection the government considers that it already has the power to amend the capacity cap, due to the fact the definition of ‘overall budget’¹³ includes both the monetary and capacity budget. Therefore, both proposed changes would make explicit existing powers.

Responses to these proposals were very mixed, those that supported the proposal agreed this clarity was important as government needed the flexibility to ensure the ‘overall budget’ is applied in accordance with the country’s energy needs and the strategic planning goals. Of those that disagreed with the proposal, the main reason was on the basis they felt we were suggesting the addition of new powers which would add further uncertainty to the allocation process. However, as above the government considers that it already has the power to amend the ‘overall budget’ including the capacity. The government therefore intends to proceed with proposals to amend the Regulations so as to put the matter beyond doubt that there is the power for the SoS to amend the overall budget (monetary and capacity).

Proposals

The budget revision notice can be used by the Secretary of State to amend aspects of the budget after a final budget notice has been issued for an allocation round. The final budget notice has to be issued a minimum of 10 working days before a round commences.

The definition of “budget revision” in regulation 12 states that the Secretary of State may amend, add to, or remove any of the matters listed in regulation 11(2) (minima, maxima, division of overall budget for pots) after a final budget notice is issued. Regulation 12(5) also notes that if we are 10 or fewer working days before the commencement date of the allocation round or after the commencement round then we may only increase the overall budget.

In the consultation the government proposed two changes to the budget revision notice rules:

- clarifying that the overall budget (meaning monetary) can be amended using a budget revision notice in the same way that the regulations specify that minima, maxima and budgets for pots can be amended; and
- providing the ability for the Secretary of State to amend, add or remove a capacity cap using a budget revision notice in the same way that the regulations specify that minima, maxima and budgets for pots can be amended.

The definition of overall budget includes both the monetary and capacity budget. On reflection the government considers it already therefore has powers to amend the capacity budget as

¹³ “overall budget” means an amount set out in a budget notice, which is the total—

(a) sum of money potentially payable by the CFD counterparty under CFDs to eligible generators in a delivery year;

(b) capacity of electricity which may be generated by generating stations subject to a CFD in a delivery year; or

(c) a combination of (a) and (b);

well as the monetary budget, meaning we do not need to add the ability for a capacity cap to be amended. Therefore, the government will look to make explicit our existing powers to amend the 'overall budget' for both monetary and capacity budgets.

Responses to the consultation

There were fifty responses to the consultation which addressed Question 46 and forty-five responses which addressed Question 47. Responses were made by a mixture of respondents mainly renewable developers and trade bodies representing a range of technologies and businesses, investment companies, consultants, and regional and local government.

General views on the proposal

Question 46 sought views on whether stakeholders agreed with the proposal to make explicit the ability to amend the overall budget before the commencement of an allocation round.

Question 47 sought views on whether stakeholders agreed with the proposal to allow revision of a capacity cap before an allocation round commences.

Responses to both these proposals were fairly evenly split between disagreeing and supporting. Some respondents stated they were only supportive of the changes if the government were clarifying existing powers and not if it was adding new powers. A few respondents also noted that the rules in regulation 12(5) which state that if we are 10 or fewer working days before the commencement date of the allocation round or after the commencement round then we may only increase the overall budget, should also remain in place.

On reflection the government considers it already has the powers to amend (increase or decrease) the overall budget (both monetary and capacity) before the round starts¹⁴ and so the intended change to the Regulations will be to make explicit these powers and not to add new ones. It is also the intention to leave the rules in regulation 12(5) in place.

Some respondents noted they understood the importance of the government having the power to review the budget or capacity cap before an allocation round commences as flexibility was necessary to ensure both are being applied in accordance with the country's energy needs and the strategic planning goal.

Many of those who supported the proposals caveated their support with the fact that they felt only an increase in monetary budget or capacity should be possible, this was also an issue mentioned by many who rejected the proposal. This was on the basis that a decrease after announcing would be unfair as it is important that the monetary budget and capacity cap are clear as early as possible and changes only made if really necessary as too many changes could affect investor confidence.

However, the Regulations already state that as long as we are more than 10 working days from the commencement of the round, the government may make any budget revision (which

¹⁴ As long as that revision takes effect more than 10 working days before the round starts if we wish to decrease the budget

include decreasing the overall budget). It is only when we are 10 or fewer working days before the round that only an increase the overall budget (monetary or capacity) can be made.

A few respondents also stated that any changes should only be made after consultation. However, the government understands the purpose of the Regulations is to allow these revisions to be made without consultation.

Of those that rejected the proposal, the main reason seemed to be because they thought the government were adding new powers that did not already exist. They felt the ability to amend the monetary budget or capacity cap after issuing the final budget notice would reduce investor confidence. Developers noted that they need to prepare their bids well in advance of the round and so they need to know the parameters and be confident those will not change. As noted above, the government are seeking to make explicit its existing powers, and not to add any new ones.

Some of those who rejected the proposal seemed to misunderstand the timings of when BEIS announce the parameters (both draft and final), suggesting that any changes should only happen 9 months before the round starts. They suggested changes made with any less time than this would mean that investors/developers would not have time to react. However, in previous rounds the government has announced the draft budget (monetary and capacity) roughly five months before a round opens and the final budget (monetary and capacity) roughly a month before. Announcing the final parameters more than 9 months before the round commences would not be operationally possible or desirable as there would be higher levels of uncertainty, for example around the pipeline of projects likely to apply, the technologies eligible to apply, and how much renewable capacity the round is intended to deliver. The reason that the government announce the final parameters so close to the start of the round is to ensure they are applied in accordance with the country's energy needs and strategic goals at that time. This allows for the best potential auction outcome.

Policy response:

In view of the consultation responses and various policy considerations summarised above, the government intends to proceed with amending the Regulations to make explicit our existing powers to amend the overall budget, which includes both the monetary budget and the capacity cap set. The government considers these changes will make explicit its powers in the Regulations.

Pausing an allocation round

The government asked for views on adding additional powers to pause an allocation round between the commencement of the round and the issuance of CfD notifications. Responses to this proposal were very mixed and highly nuanced with a lot of interesting points requiring further consideration. The government has therefore decided not to proceed with implementing the powers to pause an allocation round for AR4 but may consider it for future rounds.

Proposals

In the consultation the government asked for views on adding additional powers to pause an allocation round between the commencement of the round and the issuance of CfD notifications.

This was proposed because currently, once an allocation round begins there is no mechanism in legislation to pause or delay it. If something were to occur that might necessitate a pause (for example, a legal challenge), the only option available to stop an allocation round from progressing is to terminate the round using a termination notice. The government considered that an ability to pause the allocation round might provide more flexibility in difficult situations such as judicial reviews, and reduce the risk of terminations. However, the government noted this proposal could also increase uncertainty around the timings of an allocation round and so only proposed pausing in a limited number of scenarios, such as a legal challenge.

Responses to the consultation

There were fifty-one responses to the consultation which addressed this proposal. Responses were made by a mixture of respondents mainly renewable developers and trade bodies representing a range of technologies and businesses, investment companies, consultants, regional and local government, and a delivery body.

General views on the proposal

Question 48 sought views on the proposal to add additional powers to pause an allocation round between the commencement of the round and the issuance of CfD notifications.

Responses to this proposal were fairly evenly split. Those that disagreed with the proposal were concerned about the impacts that delays to CfD timelines arising from pauses could have on the economics of projects and wider investor certainty.

They made the point that there is already a mechanism to terminate an auction round, which should only be implemented in the most extreme of circumstances. They considered that inserting an additional ability to pause allocation rounds would greatly increase investor uncertainty.

In addition, they flagged that if an allocation round is paused, this could lead to a delay in the CfD notifications and in the commencement of the project construction. They suggested that this could have numerous impacts (for example, on supply chain timing and availability of project resources), all of which have cost implications. As such pausing and therefore delaying the allocation round could significantly change the project cost base, potentially increasing the total cost beyond the value used to prepare the original allocation round bid. Some respondents felt this would be unfair on the allocation round participants.

Those that supported the proposal recognised that a mechanism to pause rounds could have benefits compared to terminations (for example in terms of speeding up the process once restarted) and flagged the importance of maintaining flexibility particularly as demonstrated by recent events such as COVID and the Judicial Review case against BEIS (now withdrawn).

However, a large number of the responses were caveated with respondents suggesting the pause mechanism should only be introduced under limited and specific circumstances, such as only allowing a pause before the stage where bids are submitted. They also suggested that a maximum time limit should be set for pauses (although little evidence was provided on how these time limits should be determined).

Many respondents in general indicated that BEIS should provide further clarity on the sorts of events/circumstances that they envisaged could lead to a decision to pause the allocation round.

The responses to this proposal raised a number of interesting points and it is clear a change to introduce a pause would require further analysis in particular to carefully consider the specific circumstances which could trigger a decision to pause a round and assess any impacts. A number of parts of the Allocation Regulations would need to be re-written to facilitate it. This is likely to be difficult to deliver in advance of the next allocation round.

Policy response:

In view of the consultation responses summarised above, the government does not intend to proceed with implementing powers to pause an allocation round for Allocation Round 4.

The government may still consider implementing these powers after AR4 however this proposal requires further work to consider all potential impacts and so commits to consulting further before introducing any changes of this nature in future.

Other themes

Several consultation responses included wider suggestions on how to improve aspects of the operation of the CfD scheme outside of the proposals consulted on. These included suggestions to increase the frequency of auctions and the long-term visibility of auction parameters.

Eligibility of part-built projects

A small number of respondents enquired whether part-built projects are eligible to compete in the CfD scheme. These are projects which have begun construction but have not yet commissioned. Under the current CfD eligibility criteria, only projects which are or are part of a generating station which has been commissioned are excluded from applying for a CfD. The government therefore confirms that part-built projects are eligible to compete in Allocation Round 4, but notes that we will keep this position under review for future rounds.

Frequency of auctions

Many responses called for CfD auctions to be held more frequently than the government's current commitment to hold a round approximately every two years, supporting a move to annual or even biannual auctions. Consultees suggested more frequent auctions could support the higher levels of ambition needed to support net zero targets, whilst contributing to lower project costs. Whilst the government remains open to suggestions for more frequent CfD allocation rounds in future, we believe it is important to allow sufficient time in between allocation rounds to apply learnings and undertake the complex policy development required to ensure the scheme remains aligned to its objectives in an evolving market and systems environment. Whilst we see merit in more frequent auctions contributing to the high levels of renewables ambition necessary to support net zero targets, it is also important to consider the potential drawbacks, including reduced competitive tension within auctions, and poorer value for money for consumers. We recognise the number of representations made by stakeholders on increasing the frequency of auctions, and the possibility of more frequent auctions will be kept under review for future rounds.

Visibility of auction parameters

Many responses to the consultation called for greater long-term visibility and clarity on auction parameters and the allocation framework. Several responses called on the government to publish a schedule for when future allocation rounds are likely to take place, citing the benefits this could offer in securing a sizeable pipeline of renewable projects as well as financing for projects. As has been the case in previous allocation rounds, BEIS does not typically publish the details of auction parameters (such as capacity caps or budgets) until closer to a round takes place, typically between 5-6 months in advance, and are set out in a draft budget notice and draft allocation framework. The government considers a range of matters when setting the parameters for CfD allocation rounds, including the anticipated pipeline of eligible projects. Doing so closer to when a round takes place allows assessments of the potential volume of

participants to be informed by the most current information on project pipelines. The government has already committed to a schedule of allocation rounds approximately once every two years.

Pot 1 technologies

Many responses to the consultation expressed support for the government's announcement in March on the inclusion of established (or 'Pot 1') technologies in Allocation Round 4 and called for long-term certainty that pot 1 technologies will be able to compete in future allocation rounds. In addition, some responses suggested earlier delivery years for pot 1 technologies, which can commission on a faster timeline than other technologies, could aid economic recovery and benefit our climate targets. These suggestions have been noted.

Transmission Network Use of System charges (TNUoS)

A number of responses raised higher TNUoS charges as problematic for some projects and called for the CfD to take these additional costs into account when setting auction parameters and running allocation rounds. National Grid ESO collect TNUoS charges to recover the cost of installing and maintaining the transmission system in Great Britain and offshore. As they are based on geographical zones, the charges owed by generators can differ depending on the location of the project. Where possible, project-specific TNUoS charges are already estimated for pipeline projects when setting Administrative Strike Prices using tariffs and network charging assumptions for each location, provided by National Grid¹⁵. This is one of a range of factors taken into account when setting Administrative Strike Prices.

Economic Recovery

Several responses called for more action to support the country's recovery after the COVID-19 pandemic. Suggestions included increasing the capacity cap or budget, and running an additional allocation round in 2022. The government recognises the important role that renewable energy has to play not only in contributing towards the UK's net zero target, but also in providing the opportunity to create new jobs and support low-carbon supply chains. The Prime Minister recently announced an increase on the previous 30GW offshore wind target to 40GW, creation of a new target for floating offshore wind to deliver 1GW of energy by 2030 and an ambition that next year's CfD allocation round support up to double the capacity supported in the last round. These plans form part of wider efforts to ensure the UK meets its legally binding target to reach net zero emissions by 2050, and build back greener from coronavirus.

¹⁵Contracts for Difference – Methodology used to set Administrative Strike prices for CfD Allocation Round 3 (December 2018)

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/765690/Admin_Strike_Prices_Methodology_AR3.pdf

This publication is available from: www.gov.uk/government/consultations/contracts-for-difference-cfd-proposed-amendments-to-the-scheme-2020

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