



Department for
Business, Energy
& Industrial Strategy

Contracts for Difference for Low Carbon Electricity Generation

Government response to consultation on new
Supply Chain Plans Questionnaire

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Contents

Introduction	4
Context	4
Overview of consultation proposals	5
Engagement with the consultation proposals	5
Next steps	5
Supply Chain Plans	6
Proposal	6
Responses to the consultation	6

Introduction

Context

The Contracts for Difference (CfD) scheme is the government's main mechanism for supporting new, low carbon electricity generation projects. It applies to the United Kingdom but does not currently operate in Northern Ireland. A CfD is a private law contract between a developer of low carbon electricity (referred to in the contracts as a 'Generator') and the Low Carbon Contracts Company (LCCC), a government-owned company (the CfD Counterparty). The generator is paid the difference between the 'strike price' – a price for electricity reflecting the cost of investing in a particular low carbon technology – and the 'reference price' – a cost measure of the average GB market price for electricity. CfDs incentivise investment by giving greater certainty and stability of revenues to electricity generators by reducing their exposure to volatile wholesale prices, whilst protecting consumers from paying for higher support costs when electricity prices are high.

The government is committed to a green industrial revolution and achieving net zero emissions by 2050. The Build Back Better: Plan for Growth and the Ten Point Plan for a Green Industrial Revolution send a clear signal that the government will work with the renewables sector to accelerate new long-term investments in clean energy and the supply chain to make the UK a world leader in green energy, while helping to level up our nations and regions.

The government's main tool to ensure CfDs contribute to accelerating industrial development in green electricity are Supply Chain Plans (SCPs). Projects greater than 300MW must submit a Supply Chain Plan, which needs to be assessed and passed by BEIS, to compete in a CfD auction. The government aims to use SCPs to effectively grow the low carbon economy, to strengthen productivity, harness innovation, drive regional growth and, crucially, achieve net zero. Building the competitiveness, capability and capacity of supply chains will also help keep down costs for consumers, as well as creating competitive businesses, increasing jobs, reducing emissions and boosting exports.

In November 2020, the government consulted on a range of proposals to strengthen our Supply Chain Plan policy, and on changes to the CfD contract to implement some of the policy decisions set out in the government response to a wider CfD consultation held in March 2020. In January 2021 the government consulted on related proposals for a new Supply Chain Plan questionnaire for CfD Applicants to complete. The questionnaire would be the basis upon which Supply Chain Plans are assessed and monitored.

The government published a response in May 2021¹ to the consultation on changes to Supply Chain Plans and the CfD Contracts, outlining decisions taken on changes to the Supply Chain Plan process and amendments to the EMR General Regulations. The response also sets out

¹ <https://www.gov.uk/government/consultations/contracts-for-difference-cfd-changes-to-supply-chain-plans-and-the-cfd-contract>

the details on how the new Supply Chain Plan process will work, including information on what developers need to submit and when.

Overview of consultation proposals

On 14 January 2021, the government published proposals to introduce a new Supply Chain Plan questionnaire to be completed as part of the application process to enter a Contract for Difference allocation round. The consultation lasted eight weeks and closed on 11 March 2021.

The consultation ran in parallel with the consultation on changes to Supply Chain Plans and the CfD contract for two weeks. This was to allow stakeholders time to review both consultation proposals together before the consultation on Supply Chain Plan process and the CfD contract closed.

Engagement with the consultation proposals

The consultation attracted 26 individual written responses. Of these, 10 were from developers of renewable generating stations and 3 were from trade associations. The consultation also saw a small number of responses from supply chain companies, trade unions, Local Authorities, NGOs, consultancies, energy councils and technology manufacturers.

Next steps

The government will publish revised Supply Chain Plan guidance and Questionnaire on the GOV.UK website shortly.

On the 7 May, the government announced that the fourth round of the Contracts for Difference (CfD) scheme will open to applications in December 2021. Therefore, the Supply Chain Plan Application window is expected to open in September 2021.

Supply Chain Plans

Proposal

In the January 2021, the government sought views on proposals for a new Supply Chain Plan questionnaire for CfD Applicants to complete, which will form the basis for assessing, and monitoring Supply Chain Plans.

In particular, views were sought on:

- Whether the right questions are being asked in the new Supply Chain Plan questionnaire to deliver on the Supply Chain Plan objectives;
- Whether the questions and tables in the questionnaire are clear and straightforward to complete;
- What sources of evidence should be taken into account when assessing each technology's ambition in relation to strengthening the UK based supply chain;
- What weighting should be given to the different priorities within the Business Environment section of the questionnaire;
- Whether the questionnaire will drive greater investment into the UK supply chain and what level of anticipated UK content should represent a "pass" mark (for each technology);
- Whether publishing the expected UK content figures of a project would be commercially sensitive and whether publishing a supporting commentary alongside the UK content figures mitigates any sensitivities.

Responses to the consultation

Question 1 invited views on whether the right questions are being asked in the new Supply Chain Plan questionnaire to deliver on the Supply Chain Plan objectives, including whether there are any key omissions, or any material challenges raised. These objectives are to build competitiveness, capability and capacity in local supply chains, with answers broken down in five sections of the original draft questionnaire (Business Environment, Ideas, Infrastructure, People and Place).

There was a total of 22 responses to this question. 20 respondents either supported the questionnaire, its structure and thought it straightforward to complete or offered no opinion either way. However, many of these respondents, particularly developers and supply chain companies, still raised concerns around certain aspects of the questionnaire, such as, the UK content calculations, the low threshold for reporting contracts, the level of detail that is being asked for, the sensitivity of that data and the administration cost for both the government and

Government response to consultation on New Supply Chain Plan Questionnaire

the generators of completing and reviewing the questionnaire. Many respondents also sought clarity on issues such as the monitoring process, how much detail of an applicant's SCP will be published, and the scoring criteria for both the initial assessment and the Supply Chain implementation assessment.

Respondents from all types of organisations provided suggestions on how some questions could be improved, made clearer, be more objective or pointed out questions they considered to overlap with other questions.

The two respondents who thought the questionnaire's structure would not deliver on its objectives highlighted that Supply Chain Plans are only one tool in addressing the wider challenge of securing investment in supply chain businesses, and that the supply chain plan process in itself does not deliver jobs but is at best a vehicle for dialogue with the developers around their expected impacts to the supply chain.

Question 2 invited suggestions for including additional questions in the questionnaire.

There were 16 responses to this question. Of those, 14 respondents, including developers, supply chain companies, trade unions and trade organisations made suggestions for additional questions. These included suggestions for including questions on exports, a parent company's previous contribution to supply chain development, innovation and future spin-offs. Others focused on jobs created in the UK, gender balance and accidents in the workplace. The former proposals stemmed mostly from developers, the latter mostly from Trade Unions.

Question 3 invited views on whether the questions in the questionnaire are clear and straightforward to complete.

There were 24 responses to this question. 18 broadly considered the questions to be clear. However, 12 respondents (developers and supply chain companies) repeated the concerns they raised in their responses to earlier questions. Namely: that the questionnaire would take considerable resources to complete because of the onerous amount of information requested; scoring criteria; the commercial sensitivity of some of the information requested; that some of the questions overlapped and the possibility that supply chain partners may not be willing to provide certain information.

Questions 4 invited views on whether the tables in the questionnaire are clear and straightforward to complete.

This question attracted 18 responses. 6 respondents agreed that the format, content and technology-specific tables for UK content and capabilities are clear and straightforward to complete.

However, 7 respondents (developers and supply chain companies) disagreed believing the tables are numerous and more complex than necessary. They argued that they needed to be simplified or further clarity and guidance provided. They argued that BEIS is asking for too much detail and commercially sensitive data. There needs to be a balance between how much

Government response to consultation on New Supply Chain Plan Questionnaire

detail is required, by when and whether such information can be supplied. One respondent also suggested that the methodology for calculating carbon footprint is unclear.

Question 5 invited views on what sources of evidence should be taken into account when assessing each technology's ambition in relation to strengthening the UK based supply chain.

There was a wide range of suggestions on sources of evidence that could be use from the 17 respondents who made suggestions. Suggestions however, mainly focused on the offshore wind sector.

Some specific sources were mentioned including:

- The Offshore Wind Sector Deal
- The UK Offshore Wind Industry Supply Chain Review (2019) by Martin Whitmarsh
- The OWIC response to the Whitmarsh Report
- ORE Catapult – UK Strategic Capability Assessment Offshore Wind Foundations (2020)
- Crown Estate Scotland – Ports for Offshore Wind (2020)
- OWIC Memorandum on UK Offshore Wind Supply Chain Development;
- The Supply Chain Development Statements which developers are required to submit as part of the ScotWind Leasing process (suggested using a similar format for English and Welsh projects)

A range of other less specific suggestions were also mentioned including using letters, emails, reports, contracts, Memorandum of Understandings, legal agreements, collaborations, press articles, Preferred Bidder Agreements, investment to date, correspondence with government agencies and clusters, resources allocated to date that relate to strengthening the supply chain, interviews with generators and supply chain companies.

One respondent suggested carrying out a new benchmarking exercise. This could give a single baseline view of the UK supply chain capacity and capability to aid accurate measurement and development of a structured and targeted investment strategy for the sector; and to develop and manage a protocol to ensure that market information remains current.

There was a suggestion that a separate version of the Supply Chain Plan questionnaire for solar projects should be developed as Solar characteristics will be significantly different to those for offshore wind projects.

Question 6 invited views on what weighting would a respondent give to the different priorities within the Business Environment section of the questionnaire.

There were 22 responses to the weighting of the questions within the Business Environment section from developers, supply chain companies, trade unions and trade bodies.

Comments on weighting question 1.1 from developers and trade bodies ranged from recommending that it is not scored (because predictions on UK content are vulnerable to

market fluctuations and capacity), that it carried too much weight - which would minimise ambition (as developers would seek to minimise risk), to believing the question should be scored as either “pass” or “fail”. One developer opposed an 'all or nothing' approach – arguing that approach could reward those who just about “passed” as much as those 'best in class' – instead they suggested the weighting should be spread more evenly across the whole section, with scaled scoring rather than “pass or fail”.

Other views from developers suggested greater weight should be placed on questions supporting the supply chain to build up its competitiveness, capacity and capability as this is what will increase UK content, or that developers should be judged on actions, ambition and effort rather than a percentage UK content figure.

Question 7 invited views on whether the questionnaire will drive greater investment into the UK supply chain. It also asked for views on what level of anticipated UK content should represent a “pass” mark (for each technology) and whether this would encourage ambition and help create a trajectory towards delivery of wider industry-led targets, for example the 60% UK content target in the offshore wind Sector Deal.

There were 23 responses to this question. 13 respondents including developers, supply chain companies, trade bodies and trade unions commented on what should represent a UK content “pass” mark, all relating to the offshore wind sector. Many suggested the offshore wind industry’s target for 60% UK content by 2030 in the Offshore Wind Sector Deal as an aspiration “pass” mark for offshore wind by 2030. Some thought BEIS should provide guidance on expected UK content levels for AR4, AR5, AR6 and beyond to give the offshore wind sector a view of the trajectory to 60% UK content by 2030.

One respondent suggested a “pass mark” for offshore wind of 50% at AR4 as this would show an upward trajectory of UK content from previous rounds. This could be raised at subsequent rounds five and six to 55% and 60% as government interventions to invest in port and harbour infrastructure bear fruit.

Three respondents, all Trade Unions, thought 60% was too low and the “pass mark” should be 80% UK content.

Some considered UK content could be scored in a range such that any project with a lower UK content than the 2017 “low” range (44%) would receive 0 marks, and any project in excess of the previous “high” range (53%) would receive 4 marks. Scores in between could be based on this range.

The majority of the 20 respondents who believed the questionnaire drove greater investment into the UK supply chain or had mixed feelings, acknowledging that the SCPs had a role in encouraging investment and ambition. However, they suggested this was as part of wider work to improve the supply chain that also includes actions in the Offshore Wind Sector Deal, the Government target for 40GW of offshore wind by 2030, CfD auctions occurring every two-years, port infrastructure developments, as well as the Scotwind and The Crown Estate Round 4 leasing rounds. They also acknowledged the greater scrutiny that BEIS is now exercising for SCP Questionnaire responses is likely to further encourage developers to promote supply

chain investments in the UK. The three trade union respondents wanted to go further and increase the UK content ambition.

Only 3 responses, all developers, completely disagreed that the questionnaire drove greater investment into the UK supply chain. Their main concern, and along with those who expressed mixed feelings, focused on the risk that developers would lower the ambition of their commitments in order to reduce the risk of having their CfD terminated for non-delivery. They flagged a potentially problematic scenario would be where several generators' Supply Chain Plans rely on a specific UK supplier which is the sole supplier capable of providing certain components/services. The concern expressed is that generators might be scored positively for the UK content implied by the supplier choice in their Supply Chain Plan, however, when it comes to placing contracts, the supplier will more than likely have capacity constraints (not being able to service several GWs of offshore wind projects in the same delivery period).

It was also argued that the binary pass/fail nature of the UK content question was not appropriate (suggesting a sliding scale depending on whether the UK content level was "low" or "high"), One respondent pointed out the Questionnaire itself may be a barrier due to the large quantity of information expected from Tier 1 suppliers.

Three respondents (a mixture of developers and suppliers) thought that greater investment in the UK supply chain will be driven by consistent pipeline availability and certainty, and the ability to export.

Question 8 invited views on whether publishing the expected UK content figures of a project would be commercially sensitive and whether publishing a supporting commentary alongside the UK content figures mitigates any sensitivities.

This question attracted 19 responses, of which 9 respondents (a mix of developers and supply chain companies) supported publishing the expected UK content figures of projects. Their reasoning included: that publishing highlights the positive economic contributions of responsible Generators as well as the broader UK offshore wind sector; that reporting of the local content level of a project at a percentage level would not create any commerciality issues; publishing the figures will give the industry the comfort it may seek to invest and publishing may also encourage delivery on SCP commitments, serving to recognise Generators with strong supply chain credentials.

10 respondents (a mix of developers, Trade Bodies and a supply chain company) were opposed to publishing the expected UK content figures. Their reasoning was that the information is highly likely to be commercially sensitive within sectors of the market; it could make negotiations with the supply chain more difficult by creating an expectation rather than competition; and any publication risks misinterpretation and potential financial and reputational damage to the project, developers, supply chain and ultimately the industry.

Some respondents opposed to publishing anticipated UK content levels stated that they would be more comfortable if the expected UK content figures were published after the Milestone Delivery Date of a project.

Policy Response:

The government is grateful to stakeholders who have engaged with this consultation for their responses and for their ideas and suggestions on improving the Supply Chain Plan questionnaire in order to achieve our objectives.

Having carefully considered all responses and suggestions put forward by stakeholders, the government has decided to restructure the questionnaire, simplifying many of the questions, and making the “success” criteria for each section of the questionnaire clearer. It will also clarify the guidance for the Supply Chain Plan process, accompanying the questionnaire.

On the questionnaire itself, the government has:

- Restructured it to align Supply Chain Plans with wider government priorities following the recent launch of the government’s “Build Back Better – our plan for growth” in March 2021. This is consistent with the government’s stated intention to align Supply Chain Plans with wider government industrial priorities in its response² to the consultation on proposed amendments to the CfD scheme. The Questionnaire will now consist of four sections, drawing on the structure of the “Build Back Better” plan: Green Growth (combining Levelling Up and Net Zero), Infrastructure, Innovation and Skills, with clearer criteria in each section.
- Simplified many of the questions and tables, having taken on board comments about commercial sensitivity and the level of detail required, ensuring there was a clear purpose for the information sought and taking account of the resource implications and administrative burden of completing the questionnaire. In particular, we have made clearer which data is to be published and the criteria for doing so (in the guidance); removed questions that were not directly related to the productivity and competitiveness of the supply chain, as well as overlapping questions; and modified the questionnaire so that more granular information is not always necessary at application stage, although it may be asked for as evidence during the monitoring process.
- Amended the scope of questions and allowed for ranges and estimates where data is requested at application stage, in recognition of the fact that some data requested in the questionnaire, such as on jobs, may be challenging to compile across a whole supply chain. However, the government will review the data received and the methods used to determine how to encourage better data gathering on some questions, such as job numbers, in the future.

² <https://www.gov.uk/government/consultations/contracts-for-difference-cfd-proposed-amendments-to-the-scheme-2020>

Government response to consultation on New Supply Chain Plan Questionnaire

- Adjusted the distribution of marks to account for the reduced number of questions, and to reflect the suggestion of many respondents to focus more on the drivers of supply chain capacity and capability.
- Kept the weighting level for Question 1.1 (UK content) at 35% of total marks for the Green Growth section. This weighting is set in a way to make the commitments featured in some Sector Deals a factor in supply chain development and reflects the interest the Government has in our industrial capacity in renewable energy. The level of marks ensures that the level of UK content is not a requirement of the scheme. It also acknowledges there are a wide range of other supply chain interventions that are just as important, whether investing in supply chain infrastructure, proactively supporting SMEs, creating apprenticeships and jobs. The scoring criteria have not been changed, namely that a generator will be assessed on the quality of their plans, and the evidence provided to back up their aspirations and ambitions.
- The government has decided to proceed with its intention to publish the anticipated headline UK content figure for each project. The figure to be published will be the anticipated total lifetime UK content and this figure can be provided as a range to account of the uncertainty of where contracts will be let. The government will not, however, publish the breakdown of how the headline figure was reached.
- The government has declined suggestions in the consultation responses to include a question on exports for AR4. The rationale for not including an export question is that Supply Chain Plans are specific to the project and therefore, exports would not be relevant. Also, an export question could potentially benefit developers with a portfolio of projects around the world over those that do not. However, the government may examine further whether it is possible to capture export activity in a way that is fair to all developers and in line with our international obligations, for possible inclusion in AR5.

In the guidance document, the government will:

- Reflect and clarify the new Supply Chain Plan process (as featured in the May 7th Government Response) and modified structure of the Supply Chain Plan Questionnaire.
- Provide additional detail around the application, monitoring, and implementation assessment processes, the scoring methodology, and what is expected for a project to obtain its Supply Chain Plan Implementation Certificate to comply with the project's Operational Condition Precedent. This is in response to calls for greater clarity on the monitoring and evaluation process.
- Scrap the need for an updated Supply Chain Plan to make the process less onerous and to account for the earlier assessment date for an Implementation Certificate. However, we will issue a Supply Chain Plan progress report at the 8-10 months stage after contract signature. This will be based on information provided at the frequent monitoring meetings between BEIS and generators (approximately every two

months). The frequency of monitoring, and the progress report, will help give generators a clear picture of their progress ahead of their application for an Implementation Certificate. The progress report will also give the generator an opportunity to respond by amending their Supply Chain Plan iteratively– in agreement with BEIS - before they submit their application for an Implementation Certificate.

- Restore the requirement to submit a Post Build Report once the project has been fully commissioned. This will not add to the administrative burden at application and assessment stage, nor will this form part of an OCP. This will, however, allow the Secretary of State to consider how a generator implemented supply chain plan commitments made in a previous allocation round when assessing a Supply Chain Plan submission in relation to a future round, as an incentive to get generators to deliver on their remaining commitments after they apply for an Implementation Certificate.

The government believes the revised Supply Chain Plan Questionnaire strikes the right balance between requesting information that is necessary to assess the merits of each Supply Chain Plan fairly and transparently, whilst recognising commercial sensitivity and administrative burden to keep what is asked for simple and clear.

Revised versions of the Supply Chain Plan Guidance and Questionnaire have been published alongside this government response.

This publication is available from: www.gov.uk/beis

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