Department for Energy Security & Net Zero

Contracts for Difference for Low Carbon Electricity Generation

Consultation on Introducing a CfD Sustainable Industry Reward

Closing date: 11 January 2024

November 2023

Any enquiries regarding this publication should be sent to us at: supplychainplan@energysecurity.gov.uk.

Contents

General information

Why we are consulting

As part of the government's Net Zero agenda, we have committed to a fully decarbonised electricity system by 2035, subject to security of supply considerations, with an ambition to deploy up to 50GW of offshore wind by 2030, including up to 5GW of floating offshore wind. Delivering this will require rapid and sustained scale-up of renewable electricity deployment. The Contracts for Difference (CfD) scheme is fundamental to achieving this goal, supporting investment in low cost, low carbon electricity generation.

Recent macroeconomic, geopolitical and social trends have made the supply chain for offshore wind and floating offshore wind increasingly challenging from an economic, social and environmental perspective. We need an industry which can weather economic and global challenges and deliver sustainable deployment now and in future.

The government previously ran a Call for Evidence to determine whether introducing non-price factors in the CfD could help to address some of these pressures. After analysing feedback from the Call for Evidence[1], the government has decided to put forward more refined ideas for consultation, detailing a full proposal how non-price factors could work and help address the issues outlined above. The government is also proposing to refer to these non-price factors as the CfD Sustainable Industry Reward (SIR) from here on, as a more accurate description of how the policy could work.

Consultation details

Issued: 16 November 2023

Respond by: 11 January 2024

Enquiries to:

Email: supplychainplan@energysecurity.gov.uk

Consultation reference: Contracts for Difference for Low Carbon Electricity Generation Consultation on Introducing a CfD Sustainable Industry Reward Scheme.

Audiences:

The government welcomes responses from anyone with an interest in the policy area. We envisage that the consultation will be of particular interest to those considering the development of new low carbon energy projects in Great Britain, electricity traders and suppliers, businesses involved in low carbon electricity generation supply chains, and consumer and environmental groups with an interest in the electricity sector.

[1] https://www.gov.uk/government/calls-for-evidence/introducing-non-price-factors-into-the-contracts-for-difference-scheme-call-for-evidence

Territorial extent:

The CfD scheme applies to the UK but does not currently operate in Northern Ireland. This consultation therefore applies to Great Britain only.

How to respond

Your response will be most helpful if it is framed in direct response to the questions we have asked, though further comments and evidence are also welcome. When responding, please state whether you are responding as an individual or representing the views of an organisation. In view of the ongoing coronavirus situation, we are requesting responses by electronic means only. Please do not send responses by post to the department, as we may not be able to access them.

All the evidence gathered will be used to assess the policy impacts on both the offshore wind sector and on consumers. Subject to collected evidence, we will be aiming to publish the impact assessment with the responses to the consultation. We are seeking views and supporting evidence from stakeholders and interested parties, including but not limited to, developers of new low-carbon energy projects in GB, businesses involved in low-carbon electricity generation supply chains, and consumer and environmental groups with an interest in the electricity sector.

Respond online at: beisgovuk.citizenspace.com/clean-electricity/introducing-a-cfd-sustainable-industry-reward

or

Email to: supplychainplan@energysecurity.gov.uk

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our privacy policy.

We will summarise all responses and publish this summary on GOV.UK. The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the government's consultation principles.

If you have any complaints about the way this consultation has been conducted, please email: bru@energysecurity.gov.uk.

Introduction

The government is proposing to introduce a CfD Sustainable Industry Reward (CfD SIR) from CfD Allocation Round 7 onwards. This is following the Call for Evidence on introducing Non-Price Factors into the Contracts for Difference Scheme which closed on 22 May 2023 (the government response was published in September 2023)[2]. This is one of a number of measures we are looking at to help the renewable energy supply chain deliver the increase in the scale and pace of deployment needed to fully decarbonise the electricity system by 2035, subject to security of supply. We anticipate consulting on further policy changes to the CfD scheme ahead of Allocation Round 7.

The aim of the CfD SIR is to help accelerate the deployment of low carbon electricity generation, specifically offshore wind and floating offshore wind, by addressing some of the recent challenges that have been identified by the industry such as: underinvestment in supply chain capacity despite growing demand; environmental stress exacerbating difficulties in obtaining key materials and deploying at pace; a reliance on unsustainable means of production and deployment; lack of supply chain resilience in the face of a multitude of economic, political or environmental shocks; and the need for more visible social benefits from Net Zero linked policies. Combined, these issues could potentially hinder the UK’s ability to meet its renewable energy deployment targets at a sustainable cost to the consumer, and materially threaten the future security of our electricity supply.

The CfD SIR could provide greater revenue support through the CfD to projects that take meaningful action to increase the economic, environmental and social sustainability of offshore wind and floating offshore wind deployment. This was previously termed a “CfD non-price factor” in the spring 2023 Call for Evidence.

For clarity, for the purposes of this policy, the government is referring to the following forms of sustainability for offshore and floating offshore wind industries:

- The economic sustainability of their supply chains – their ability to be economically successful in the long term and to navigate short term pressures and volatility, meeting the deployment needs of major renewable markets.
- The environmental sustainability of their supply chains – their ability to meet deployment targets in a way that minimises environmental harm and minimises the emissions of greenhouse gasses.
- The social sustainability of their supply chains – their ability to actively demonstrate and deliver benefits to the communities they operate in.

The CfD SIR could work with other government policies aimed at increasing the rate of deployment of offshore wind and floating offshore wind.

This consultation sets out how the proposed CfD SIR could operate and the kind of proposed deliverables the government is seeking from this support.

The CfD SIR would be only accessible to offshore wind projects and floating offshore wind projects regardless of their size, due to their unique scale, and the unsustainable nature of the

[2] https://www.gov.uk/government/calls-for-evidence/introducing-non-price-factors-into-the-contracts-for-difference-scheme-call-for-evidence

conditions facing the sectors recently and the impact that could have on the deployment of low carbon electricity generation. In contrast, the government believes that the separate challenges faced by other technologies, such as solar PV or onshore wind, cannot appropriately be addressed through the CfD SIR, but by interventions at different scales. However, the government could under specific conditions extend the scheme to other renewable technologies in the future, based on the needs and pressures faced by other technologies should their circumstances change. This would require a separate consultation and further policy analysis.

The CfD SIR could replace Supply Chain Plans (SCPs) for offshore wind and floating offshore wind temporarily (as it does not make sense to have both interventions in place together). Existing SCPs will continue to be monitored and enforced. Other technologies with projects over 300MW will still need to continue to comply with the existing SCP requirements.

The first part of this consultation proposes a model to deliver the CfD SIR. The second part of this consultation proposes the type of factors that could be valued under the CfD SIR. The consultation is necessary to ensure that the policy could deliver optimal value to consumers as well as a prelude to legislation[3], though the final decision on whether to proceed with this policy will be based on responses to the consultation, and the overall fiscal situation and policy landscape, and status of the offshore wind and floating offshore wind market.

Mechanism for allocating funding for a CfD Sustainable Industry Reward

Contracts for Difference are currently awarded on the basis of a competitive auction, where developers of low carbon power projects submit bids, the lowest priced of which win a contract. The auction mechanism currently awards contracts based on price, budget availability and GW capacity. Developers must put in bids which represent their minimum viable price for generating electricity, reflecting the cost of investing in a particular low carbon power project. The auction mechanism identifies those participants that would be willing to accept a contract at the lowest bid or ‘strike’ price, and awards contracts until a pre-specified budget is used and/or a predetermined capacity limit is reached. Government also determines the maximum prices it is willing to pay for each low carbon technology (the ‘Administrative Strike Price’), which acts as a backstop to protect consumers from subsidising excessively expensive capacity.

This section sets out how we see the CfD Sustainable Industry Reward working within the CfD structure. The Government’s preferred option for both allocating and valuing increased revenue support is to introduce an industry-led reward mechanism, which provides a financial uplift to a successful applicant’s CfD (i.e. a reward). Taking part in this process should be required to enter a CfD Allocation Round. It should be seen as a new step in the overall CfD allocation framework.

This mechanism requires applicants to submit proposals to DESNZ on how they could deliver the sustainability criteria the Government is offering support for, along with their estimated cost of delivering those criteria, before a CfD Allocation Round opens. Proposals could then be scored on a combination of the quality and the cost of delivering them. Those scores could be

[3] It is likely that following regulations may need to be amended: CfD Allocation Regulations (SI 2014/2011) and the Electricity Market Reform (General) Regulations 2014 (SI 2014/2013), the CfD (Electricity Supplier Obligations) Regulations (SI 2014/2014).

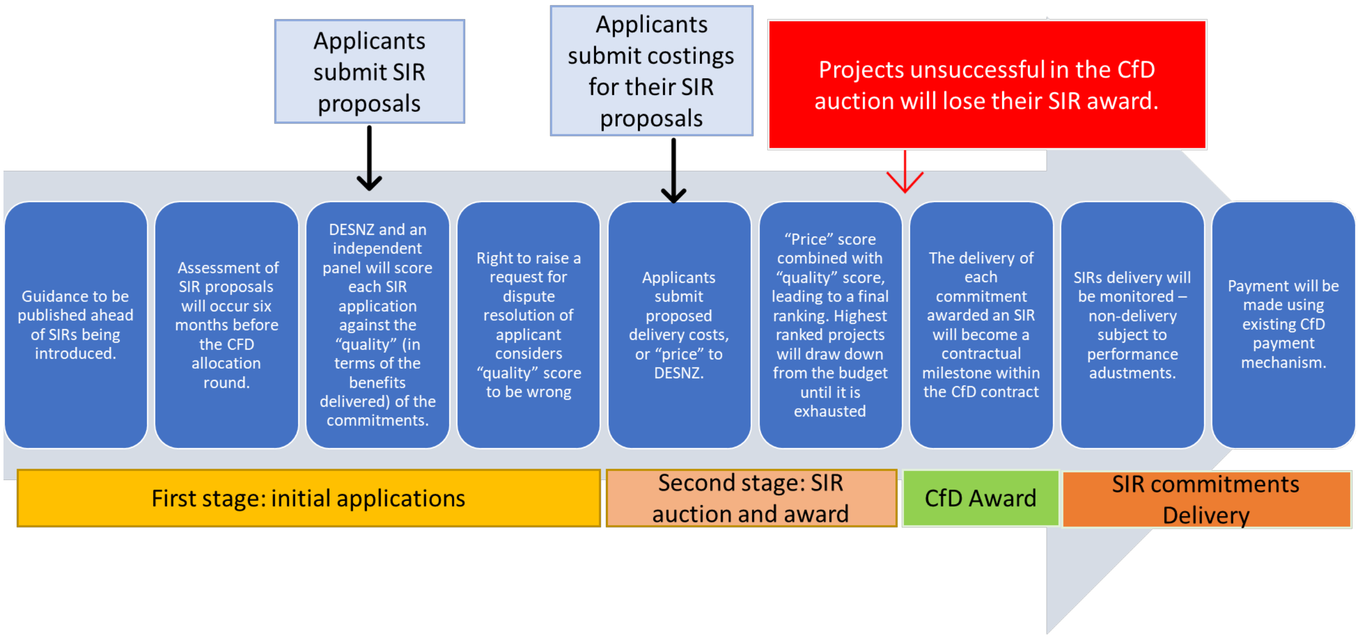
ranked. Proposals could be awarded the funding they bid for based on their position in the ranking: the highest scoring proposals could draw down from the available Sustainable Industry Reward budget first, and funding could be assigned to each of the proposals in the order they are ranked, until the budget is fully used-up. This means some proposals would not be eligible for funding, depending on the size of the budget and where they are placed in the ranking. Any CfD SIR budget could be calculated based on an assessment of the likely cost of investing in a more sustainable supply chain, the likely benefits, the pipeline of projects and the need to have a competitive process to allocate funding, as well as the likely impact on consumers.

The share of the CfD SIR budget assigned to each successful proposal could be delivered as a reward added to an applicant’s CfD payments, should the applicant go on to win a CfD contract. This proposal is termed “industry-led” because it is applicants who would estimate and propose the cost of delivering their SIR commitments, to minimise the risk that the government sets inaccurate prices or reward values for each SIR criteria, and to make sure the reward is both necessary and proportionate as part of our Subsidy Control principles. By ranking proposals against each other, this should help drive value for money for consumers, ensuring that any proposals are priced competitively, at their lowest viable price.

The CfD SIR could be paid to applicants as a lump sum or a series of lump-sums upon delivery of the commitments made in their application. Payments could be made through the Low Carbon Contracts Company (LCCC) when CfD payments commence. The introduction of an SIR could in effect be an addition to CfD payments for deployment but drawn from the same levy stream. It could be assigned before the CfD Allocation Round and auction process, which will otherwise be run as normal. However, projects must successfully secure a CfD contract through an allocation round to be able to receive SIR payments. Although payments are funded using the Supplier Obligation Levy and paid through the LCCC, the reward payment does not affect how a project is awarded a “strike price” through the CfD auction which will continue to run as it does now.

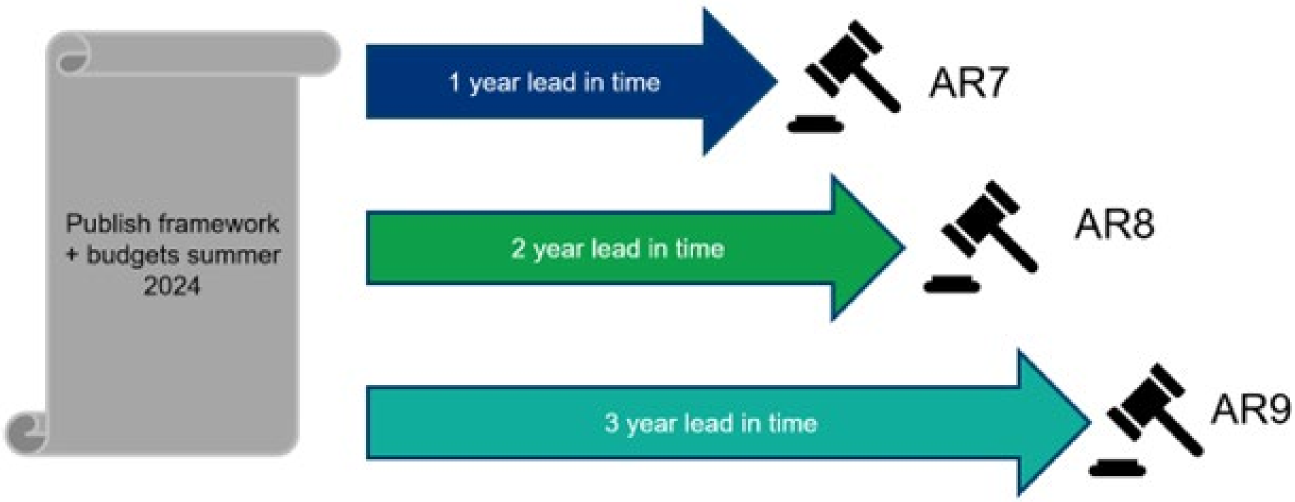
Any SIR funding raised from the Supplier Obligation and paid through the LCCC would follow the same processes that are currently in place to raise and pay CfD payments. SIR payments would effectively be an “add-on” to the necessary draw-down from the levy, kept proportionate and value for money by the SIR delivery model described below. This could require amendments to the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014, as the methodology by which funding is raised for CfD payments may need to be adjusted. The addition of a CfD SIR would lead to a small increase in the existing levy for Allocation Rounds 7-9. However, in the longer term this will help to sustain or accelerate our rates of renewable energy deployment, thereby displacing more expensive fossil fuels from the grid.

The SIR would be limited to addressing the challenges faced in the development and capital expenditure (DevEx and CapEx) phase of projects. The reason for limiting the scope of the SIR to those phases is to focus on the most relevant activities when it comes to shaping and developing a more sustainable project.



How the process could work:

The Government would aim to publish in spring or summer 2024 the criteria and overall budget for the SIR for Allocations Round 7, 8 and 9 of the CfD[4]. This means the government would publish the criteria for each SIR category (focusing on the economic, environmental and social sustainability of the supply chain), and the outcomes that it is seeking from each one, as well as estimated budgets available. Government may revise the SIR budget closer to the actual time of funding allocation, to adjust it for the estimated number of SIR bids likely to be submitted in the Allocation Round as well as to take account of any changes to technology eligibility in future rounds.



Applicants would then submit their SIR proposals into DESNZ 6 months ahead of each CfD Allocation Round for assessment. Applications would be processed speedily (e.g. in 35 working days), including a dispute resolution process. The proximity of the SIR assessment to the CfD Allocation Round is proposed to allow developers sufficient time following the publication of the SIR requirements to prepare their proposals, and price them accurately. At

[4] Any SIRs after AR9 are not currently envisaged, and would be subject to review and further consultation and policy analysis.

this stage, it is expected that developers would have narrowed down many of their project design and procurement choices and can therefore more accurately forecast the cost of delivering the proposals they submit. The government may consider introducing a form of backstop that allows all eligible projects, regardless of size, a fair chance of success in obtaining an SIR for their proposals. This is to prevent very large projects from claiming the majority of the rewards due to their size.

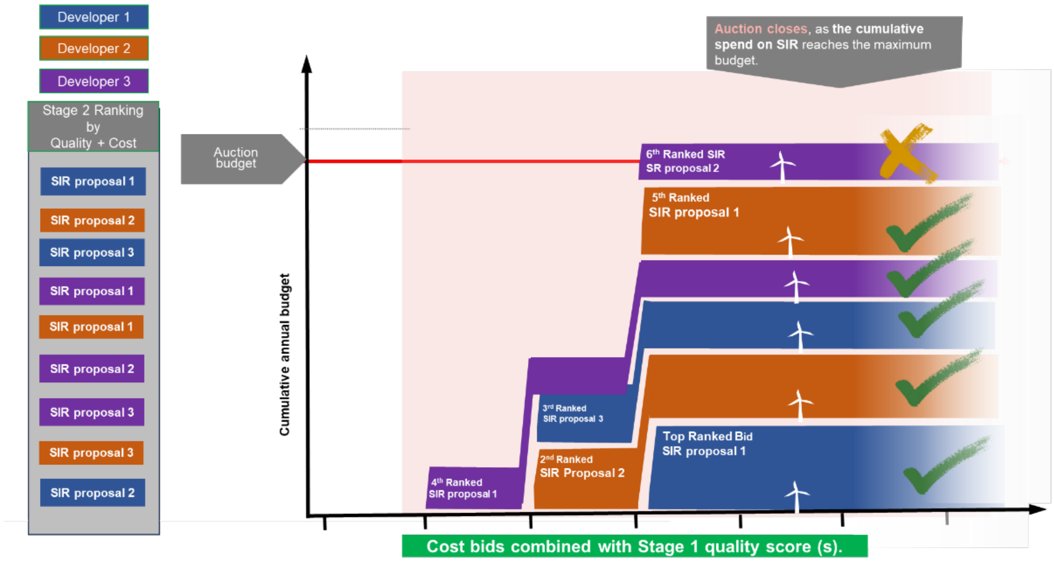
We envisage the SIR mechanism being a two-stage process. The first stage would entail the submission of proposals and their assessment followed by a dispute resolution process (should a proposal's score be challenged). During this first phase, the "quality" of an applicant's proposal gets assessed and scored. Proposals should detail, for each SIR requirement, what benefits their proposal would deliver against the published criteria, the counterfactual, and include a timetable for delivery. A panel of assessors including DESNZ and an independent assessor would score each proposal against the quality of the commitments.

Projects could have the right to trigger a dispute resolution mechanism, if the application panel considered any proposal failed to meet the quality criteria for the SIR objective they are applying for. The dispute resolution process could be run by an independent panel, body or individual, uninvolved in the original decision. It could consider the submissions of the candidate and the challenge to the original decision, and subsequently determine whether the original decision is upheld or rejected.

Once the dispute resolution process has been completed for all SIR proposals, the second stage of the process could begin. Applicants would be invited to submit the price or cost of delivering their proposals to DESNZ. This should be an Applicant's "best and final" offer as there would not be any opportunity to revise the cost after submission.

The "quality" score could be combined with the "price" score to provide an overall score for the proposal. Government is proposing that 60% of the marks could be awarded on the quality of the SIR commitments and 40% on the cost of delivering the commitments (though this is subject to views in the consultation and further analysis). This is to help support proposals that although more expensive, deliver greater sustainability benefits. A combination of a high-quality proposal and lower cost implementation will attract a higher SIR ranking.

Each SIR proposal is then ranked in descending order according to their overall scores (i.e. price and quality scores combined). The highest scoring proposal could be the first to draw down from the funding pot, with the subsequent highest next in line to draw down from the pot, until the budget is exhausted.



Unlike the CfD auction, projects awarded SIR could be paid "as bid" for each individual SIR awarded, in other words, the bids would need to be an applicant's "best and final offer". The reasoning behind paying as bid is because the associated benefits/outcomes of individual SIR factors could be completely different to each other, and therefore using a "pay as clear" system (whereby applicants are all paid the value of the most expensive bid that can fit within the overall budget) could significantly overprice a particular commitment which may be wholly different in cost, nature and substance compared to its more expensive counterpart.

Applicants would be informed of the outcome of the SIR funding allocation, together with the value of any award if successful, in advance of the main CfD auction. All applicants could also be provided with feedback and their assessment scores. The government does not envisage a dispute resolution process at this stage of the process – once the "quality" assessment of an applicant's proposals has been run and opened to dispute resolution, the scoring process should be devoid of subjectivity, as the "price" score submitted by the applicant which would be an objective metric. Both scores could be combined in a pre-declared formula to obtain the final score.

When and if projects secure a CfD contract in the main CfD auction, the delivery of each awarded SIR could become a contractual milestone within the CfD contract.

DESNZ could conduct regular monitoring meetings with all projects in receipt of a reward until the implementation of their contractual obligations are completed. This would likely be similar in nature and format to the current SCP policy monitoring process, including data requests and reporting requirements.[5] Once SIR commitments have been delivered to the satisfaction of the monitoring team, DESNZ could communicate to LCCC the completion of the SIR milestones, to unlock the SIR payments.

The government is proposing that projects awarded SIR that are later unsuccessful in the CfD auction could lose their entitlement to the SIR award part of their CfD and would need to resubmit an application in a subsequent CfD Allocation Round should they wish to secure a reward payment.

[5] See the guidance document under CfD Allocation Round 6 for an indicative example. https://www.gov.uk/government/publications/contracts-for-difference-cfd-allocation-round-6-supply-chain-plan-questionnaire-and-guidance

Multiple bids

The government is considering allowing multiple bids on each SIR criteria to provide flexibility to Applicants when developing their proposals and to help them keep their project development options open for longer before they bid for a CfD. Multiple bids could also increase the competition in the SIR allocation process and provide better value to consumers.

Proposals could either be a scaled variation of the same commitment (different output for a different price) or a completely separate commitment altogether. Each bid would be scored individually and ranked accordingly. Applicants could only receive support for a single variation of a bid. There would be no obligation on Applicants to submit multiple bids.

Applicants could be limited to no more than 3 multiple bids per criteria, to avoid over-complicating the auction process and to limit the administrative burden on Applicants and the Department.

Minimum standards

The government expects all developers of offshore wind and floating offshore wind projects in receipt of a CfD contract to make a material contribution to the sustainability of their supply chains (similar to the precedent set by SCP policy) and is proposing to set minimum SIR requirements before a project is eligible to enter the CfD Allocation Round. Other technologies with projects over 300MW will need to continue to comply with the existing SCP requirements.

The government is proposing two possible types of minimum standard requirements.

The first option would be to require all applicants to secure funding for at least one SIR proposal each through the allocation process, to be eligible to enter a CfD allocation round. This is being considered to incentivise applicants to take the SIR process seriously, and disincentive unviable bids whereby applicants aim to avoid “winning” SIR proposals, meaning that they do not have to implement any SIR commitments if they later win a CfD.

The second option would be to make it mandatory for all applicants to submit proposals for each SIR category to be eligible to enter the CfD Allocation Round, and to achieve at least a minimum standard on each SIR category. Not achieving the minimum standard on any category would mean the applicant would not be able to bid for a CfD.

In option 2, the minimum-standard for each SIR category would be turned into a contractual obligation, regardless of whether the applicant then won an SIR. This means that in effect, all offshore wind and floating offshore wind applicants would need to deliver a minimum standard on SIR categories, which could be enshrined in the CfD contract. Any subsequent SIR payments could only be made to those applicants awarded a SIR who deliver above the minimum standard.

Performance-related adjustments for partial or non-Delivery of SIRs

The department would monitor all projects for the implementation of their minimum SIR standard, and for their eligibility to claim SIR payments to those who were awarded such funding. This would help ensure delivery of commitments, and therefore value for money for the bill payer. Regular monitoring meetings could be set up with the projects concerned until the SIR has been delivered.

CfD SIR proposals could become contractual obligations as part of the CfD contract. Therefore, the government could introduce a performance related adjustment mechanism in relation to the SIR payments.

Any SIR commitment that is not met would not be eligible for payment. A partially met commitment would result in partial payment. Any SIR that falls below any minimum standard set by the department (see section below) could also see the applicant facing further performance adjustments.

The Department understands that circumstances can change during the delivery of a commitment and events happen that are beyond the control of a developer. The SIR monitoring meetings could be designed to discuss these issues as they arise. It would be the responsibility of the Project to engage with the SIR monitoring team, so they understand the circumstances around potential partial or non-delivery and whether mitigating actions can be taken. This would allow the monitoring team to determine whether a performance related adjustment needs to be made and if so, to set the level of any adjustment.

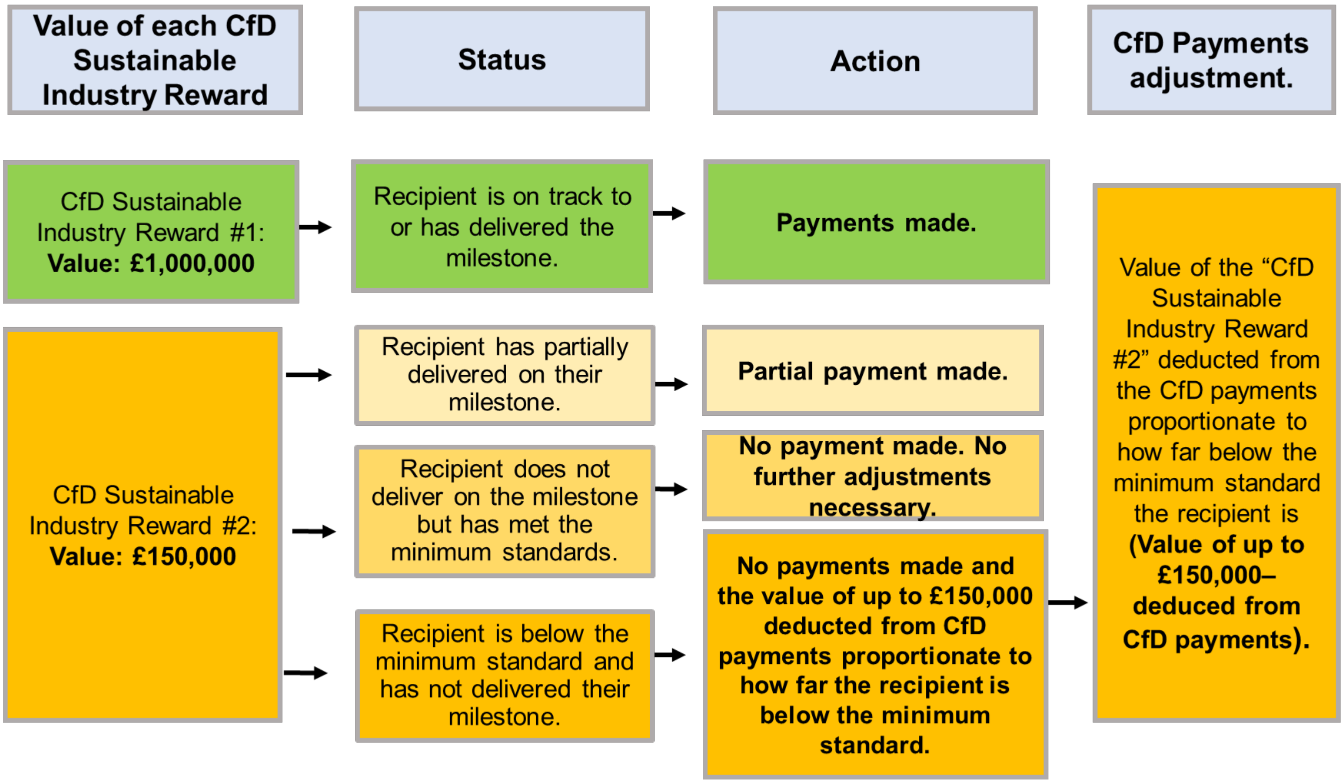
The Department could set up a dispute resolution process should an applicant consider a performance related adjustment to be unwarranted. The disputes process would be managed by an independent body, separate to the original monitoring team, similar to the dispute resolution process set up for the application phase.

Performance related adjustment for not delivering minimum standards

The government is keen that any minimum standards set as part of CfD Sustainable Industry Rewards must also be met. This means that if a project were to not only not deliver its original SIR commitments, but also failed to meet the minimum standards it had committed to, a further performance adjustment may be required. This is to ensure that the consumer is protected from the non-delivery of commitments made in a CfD contract. Therefore, the government is considering options on a proportionate disincentive system that could replace the current Operational Condition Precedent (OCP) for non-delivery of a Supply Chain Plan (under current SCP policy, triggering the OCP could effectively lead to the termination of the CfD contract). Note: the OCP would be maintained for all technologies not subject to SIRs.

One option being considered could be to vary an applicant's CfD payments if they failed to meet one or several minimum standards. Any variance would be capped at the total original value of the applicant's SIR proposal (e.g. if an applicant had committed to an action worth £1m, and had not delivered their commitments and had also failed to achieve the minimum standards, they could face an adjustment in CfD payments up to the total value of £1m over the lifetime of their contract). This could be done on a proportionate basis, so that missing the minimum standard by a small range incurs a small variation in CfD Payments, while a bigger breach would incur a bigger variation. The maximum variation allowed would be the value of the original bid put forward by the applicant for the given SIR deemed in breach. This could help provide a financial measure of the loss suffered by the government and the consumer for the non-delivery of the contracted minimum standard.

The government would provide further details, if it decides to proceed with this option, when consulting on proposed changes to the CfD contract.



Another option could be that the Secretary of State could take into account an applicant's (or any consortium of which that applicant is a member with a shareholding of 20% or greater) failure to implement SIR minimum standards, should that applicant seek to take part in subsequent CfD rounds[6], and could consider baring that applicant from the subsequent round they seek to take part in. This is similar to the original non-delivery disincentive of CfD SCPs in Allocation Rounds 1-3.

[6] Applicants who purchased a stake in a project after the commissioning date of the relevant project, are not affected by this provision. The 20% figure aligns with the principles of Section 67 of the Energy Act 2008.

Proposed Sustainable Industry Reward criteria

Government’s ambition is to deploy up to 50GW of offshore wind by 2030, including up to 5GW of floating offshore wind. Deployment at such a rapid pace and large scale requires supply chains that are sustainable from an economic, social and environmental perspective. The introduction of SIR criteria to the CfD scheme could aim to reward projects that develop such sustainable supply chains.

Economic sustainability is critical to the deployment of offshore and floating offshore wind. Long term investments in viable and responsible businesses, and greater manufacturing capacity, are needed to support the long-term, large-scale deployment of sufficient capacity to meet UK and global wind deployment targets. Without a strong industrial base, our ability to meet our energy needs could be materially affected. Recent market trends suggest that the offshore wind and floating offshore wind industry are struggling to maintain that long term viability while ramping up capacity.

The importance of driving environmental sustainability in offshore wind and floating offshore wind supply chains is two-fold. First, greater consideration of the environmental impact, provenance and mix of materials, and the uptake of recycling and reusing, can help reduce some of the capacity constraints faced by offshore and floating offshore wind supply chains in the long term – this will help us meet our deployment targets and maximise our security of energy supply. Second, reducing the environmental and carbon emissions impact of supply chains can contribute to government’s target to reach Net Zero by 2050.

Finally, large infrastructure projects need to demonstrate social benefits to underpin their long-term sustainability. This means that any new project must play its part in showing how their investments are not just driving the construction of new generation sites, but helping to build a socially sustainable asset that produces tangible benefits for communities, in turn increasing community support for, and involvement in, the deployment of ever greater offshore and floating offshore wind facilities.

Government initially presented a longlist of “non-price factors” within the April 2023 call for evidence. After consideration of the evidence received, and further engagement with relevant stakeholders, we have identified a shortlist of such criteria – now SIR criteria - that would help create more sustainable supply chains to support offshore wind and floating offshore wind deployment targets.

The proposed SIR criteria should aim at increasing the economic, environmental or social sustainability of supply chains, and each display the following characteristics:

- They deliver a significant impact in addressing the economic, environmental and social challenges posed to the offshore wind industry.
- They are easily quantifiable and can be objectively measured, ensuring good value for money (including to the electricity consumer).
- They are feasible to implement within a reasonable period of time (within the scope of a project’s capital expenditure phase).

Within the description of each SIR criterion below, we set out the information we would request from applicants so that we are able to score them on their SIR proposals in an objective and measurable way. Applicants would likely need to meet or surpass minimum thresholds for the delivery of their SIR proposals (see previous sections). An increasing number of points could be awarded the more applicants surpass those minimum thresholds. The full detail of the scoring method will be decided once the SIR criteria have been finalised following this consultation.

SIR criterion on "deprived areas"

We propose to introduce a SIR criterion that would reward a project's investments in areas near deployment zones where there are greater levels of socio-economic deprivation. This would incentivise investment in much needed manufacturing capacity to sustain required deployment rates and reduce bottlenecks in offshore wind and floating offshore wind supply chains, whilst directing that investment towards the areas that need it most – thereby providing tangible community and social benefits. The government is also proposing to reward skills and R&D investment anchored in such locations. The government is also proposing that such investments should be driven in deprived areas relatively near deployment zones, to minimise the environmental footprint of any new investment.

Definition of deprived areas

We are keen to ensure SIR criteria are consistent with other policies aiming to accelerate the deployment of renewable energy within the "North Seas". As a result, the government is proposing to target 'deprived areas' in range of the North Seas Energy Cooperation (NSEC) deployment zone (the Channel, North Sea, Irish Sea, Celtic Sea)[7]. This could help shorten offshore wind and floating offshore wind supply chains in the North Seas region, drive investments in one of the biggest deployment zones in the world, and thereby promote economic, environmental and social sustainability in that region.

To ensure investments are anchored to deprived regions of the North Seas area, it is important that we use appropriate and reliable data. First, the government proposes that the deprived areas taken into consideration are those within countries that have a direct border with the North Seas Energy Cooperation area. For the relevant European Union (EU) and EEA member states that meet that geographical definition (i.e. Belgium, Denmark, France, Germany, Ireland, Luxembourg, the Netherlands, Norway, Sweden), we propose that 'deprived areas' are those that meet the EU's definition of either 'a' areas or 'c' areas under the EU's regional aid guidelines[8], and EEA equivalents. These guidelines set out 'the geographical areas where companies can receive higher intensities of regional state aid'[9], from which individual maps have been drawn for each state to which the guidelines apply[10].

For England, we intend to use data provided by the Department for Levelling Up, Housing and Communities' (DLUHC) White Paper, 'Levelling Up the United Kingdom'[11], which identifies the most left-behind areas. We propose that deprived areas in England will include local authorities

[7] https://www.gov.uk/government/news/uk-signs-agreement-on-offshore-renewable-energy-cooperation
[8] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC0429(01)
[9] https://competition-policy.ec.europa.eu/state-aid/legislation/modernisation/regional-aid_en
[10] https://competition-policy.ec.europa.eu/state-aid/legislation/modernisation/regional-aid/maps-2022-2027_en
[11] Levelling Up the United Kingdom (high-res version), p.18 https://www.gov.uk/government/publications/levelling-up-the-united-kingdom

with between 2 and 4 measures of deprivation in the bottom quartile of DLUHC's dataset. Links to these data sets have been provided in the footnotes.

In Northern Ireland, Scotland and Wales, ONS data establishes that population density is significantly lower than in England. This means significant areas of deprivation may not show up at very large geographical scales. Consequently, we plan to draw on the data provided by the Northern Ireland Multiple Deprivation Measure 2017 (NIMDM)[12], Scottish Index of Multiple Deprivation 2020 (SIMD)[13] and Welsh Index of Multiple Deprivation 2019 (WIMD)[14] to more effectively capture the intraregional deprivation that exists within large regions with sparse populations. We propose that deprived areas in Northern Ireland, Scotland and Wales will include NIMDM, SIMD and WIMD data zones in deciles 1 – 5 on overall deprivation i.e. the most deprived 50% of areas.

Proposed questions

By introducing this SIR criterion, government seeks to incentivise projects to deliver the specific outcomes below:

1. Investment in new manufacturing assets or deployment infrastructure (manufacturing facilities and ports) within the areas that need it most from a socio-economic perspective.
2. Investments that leverage the geography of the North Seas Energy Cooperation area by encouraging shorter, more circular and environmentally sustainable supply chains.

We are proposing to only reward investments in 'new' manufacturing facilities or ports to encourage the use and creation of new offshore and floating offshore wind capacity, so that the sector can be placed back on a sustainable footing of investment necessary to sustain UK, European and global deployment targets. For the purposes of this policy, 'new' would mean the facility was set up (i.e. built) within the 5 years preceding the allocation round the application was made for, or significantly upgraded in that timeframe. This can include any investments made through an industry-led, collaborative programme to develop supply chains that was established as part of the Offshore Wind Sector Deal or the Scottish Strategic Investment Model.

Therefore, we propose to score applicants based on the evidence they provide in response to the objective and measurable questions set out below.

[12] https://www.nisra.gov.uk/statistics/deprivation/northern-ireland-multiple-deprivation-measure-2017-nimdm2017
[13] https://www.gov.scot/collections/scottish-index-of-multiple-deprivation-2020/
[14] https://www.gov.wales/welsh-index-multiple-deprivation

<table>
<tr><th>Information requested</th><th>Points available per action</th></tr>
<tr><td>What is your project's proposed expenditure on investments in new manufacturing facilities for offshore wind and floating offshore wind key components, or ports? We will accept multiple bids for multiple investments in different components/facilities.

Such investments could include, but are not limited to, order certainty placed with manufacturing facilities; direct investments in manufacturing facilities; taking stakes in such facilities; debt financing such facilities; and investment through collaborative funding vehicles, such as the Scottish Strategic Investment Model or any similar models devised in other regions e.g. the Offshore Wind Growth Partnership.

Please present this information broken down by component type as follows:
1. Turbines
a. Blades
b. Nacelles
c. Towers
2. Foundations
3. Cables
a. Export
b. Array
4. Electrical Infrastructure Balance of Plant
a. Electrical
b. Structural
c. Onshore
5. Installation
a. Turbine
b. Foundation
c. Electrical / Cable (export, inter-array and onshore installation)</td><td>TBD</td></tr>
<tr><td>Between your project and relevant original equipment manufacturers, how much funding for skills training centres and skills programmes have you directly allocated within deprived areas?</td><td>TBD</td></tr>
<tr><td>Between your project and relevant original equipment manufacturers, how much funding for Research and Development have you directly allocated within deprived areas?</td><td>TBD</td></tr>
<tr><td>Total number of points</td><td>TBD</td></tr>
</table>

We would be interested in views on whether these questions will reward applicants effectively so that they are able to invest in manufacturing facilities, deployment infrastructure (such as ports), skills and R&D within deprived areas.

Validation

Below, we set out the evidence we propose to require from applicants to validate their non-price factor submissions:

1. **Total spending on investments in manufacturing facilities or ports –** evidence could be provided in the form of a contract, memorandum of understanding, or project accounts. Evidence of order certainty could be provided in the form of conditional contracts or preferred supplier agreements.
2. **Proof of location of assets or investments –** evidence could be provided in the form of an official document (e.g., bill or contract) that displays the address of assets or investments.

Small and medium-sized enterprises

Government is proposing to introduce a SIR criterion that rewards projects for spending a minimum percentage of total project spend on small and medium-sized enterprises (SMEs) i.e., businesses with less than 250 employees and turnover under €50 million, as per standard UK and EU definitions. SMEs are to be a vital part of a healthy and sustainable economic environment for an industry – they increase competition, drive innovation, positively disrupt existing practices and have greater links to their surrounding communities which also helps drive greater social acceptance of an industry. Directing greater investment towards SMEs will help increase the economic sustainability of the offshore and floating offshore wind industry, not least by disincentivising the application of high barriers to entry to potentially more nimble and competitive firms.

The government proposes to limit this SIR criteria to spend on SMEs that are directly contracted by developers or by tier one suppliers.

The government wants to ensure that CfD applicants are only being rewarded for project spend going to SMEs that are relevant to offshore wind and floating offshore wind supply chains. Therefore, when we refer to CapEx spend on SMEs, the government refers only to those SMEs that come under the ‘C’ (manufacturing) and ‘F’ (construction) brackets of the UK Standard Industrial Classification (SIC) of economic activities (for non-UK SMEs, similar classifications will be required). With regard to DevEx spend, this extends to SMEs that come under the ‘L’, ‘M’ and ‘N’ (real estate activities, professional, scientific and technical activities, administrative and support service activities) brackets of the SIC.[15]

Proposed question

By introducing this Sustainable Industry Reward criteria, government seeks to incentivise projects to deliver the three specific outcomes below:

1. Strive towards a minimum share of project spend on SMEs.

[15]https://www.ons.gov.uk/methodology/classificationsandstandards/ukstandardindustrialclassificationofeconomicactivities/uksic2007

2. Encourage applicants to commit to higher shares of spend on SMEs.
3. Increase the economic sustainability of the supply chain.

The government proposes to score applicants based on the evidence they provide in response to the following question, which we have sought to make both objective and measurable:

Information requested	Points available per action
What proportion of your project's DevEx and CapEx spend goes to SMEs that are directly contracted by developers and Tier 1 suppliers? For DevEx spend, please only include spend that goes to SMEs under the 'C', 'F', 'L', 'M', and 'N' brackets of the SIC. For CapEx spend, please only include spend that goes to SMEs under the 'C' and 'F' brackets of the SIC.	TBD
Total number of points	**TBD**

We would be interested in views on three parts of this SIR criteria. First, with regard to the outcome, we would like views on whether this question will encourage greater spend on SMEs. Second, we wish for respondents to consider the extent to which collecting this information would be burdensome for developers and tier one suppliers. Third, we would like to know what respondents would deem to be appropriate minimum, medium and maximum thresholds by which to score applicants against the delivery of this Sustainability Reward. For example, a minimum threshold might be that at least 5% of a project's DevEx and CapEx spend goes to SMEs within the SIC codes identified above.

Validation

There is a particular challenge in validating this Sustainability Reward. Whilst defining, and thereby identifying, an SME is simple (businesses with less than 250 employees and turnover under €50 million), rewarding applicants with projects where a larger proportion of DevEx and CapEx spend goes to SMEs presents a gaming challenge. Applicants could simply create subsidiary companies which could be defined as SMEs to secure a maximum score for the delivery of this SIR criterion. Therefore, we would be interested in views on how we could most effectively ensure that this SIR incentivises greater involvement of SMEs rather than creating additional nugatory costs in larger companies, or similar.

Decarbonisation - outputs

The government proposes to introduce an SIR criterion aimed at rewarding projects with the least carbon intensive supply chains. By encouraging applicants to reduce the environmental impact of supply chains, this criterion will help channel investments in more environmentally sustainable supply chains, which will be necessary if increasing offshore wind and floating offshore wind deployment rates are to be sustained in the long term.

The Joint Industry Programme methodology

It is important this SIR criterion is easily quantifiable and comparable between projects. As a result, we propose that projects are scored on decarbonisation against the forthcoming methodology from the Sustainability Joint Industry Programme,[16] a collaboration between the Carbon Trust and offshore wind developers, which is planned to be made publicly available and will offer a standardised means of measuring carbon emissions through the lifecycle of offshore wind projects. A number of industry partners are working in collaboration with the Carbon Trust to develop the methodology, and this SIR criterion would incentivise developers to act on reducing the emissions measured.

We remain aware that the Sustainability Joint Industry Programme methodology is yet to be published, and so it may not be possible to incorporate this SIR into the CfD scheme until allocation round 8, and any final decision to include this criteria will depend on the final output from the Sustainability Joint Industry Programme.

Proposed question

By introducing this Sustainable Industry Reward criterion, government would seek to incentivise projects to deliver the two specific outcomes below:

1. Set a cap on carbon emissions for a project, likely focused on the CapEx phase of that project.
2. Promote environmental sustainability of the supply chain and the project overall.

The question below is designed to enable government to reward projects that emit the least, calculated using the Carbon Trust's Joint Industry Programme methodology. Applicants would need to meet a minimum threshold in the form of a maximum cap on their project's lifecycle CO2 equivalent emissions per MW/H for the CapEx phase. An increasing number of points would be awarded the lower the project's lifecycle CO2 equivalent emissions per MW/H.

Information requested	Points available per action
What are your project's projected lifecycle CO2 equivalent emissions, during the CapEx phase, per MW/H?	TBD
Total number of points	**TBD**

We would be interested in thoughts on whether the Carbon Trust's Joint Industry Programme methodology is the most appropriate means by which to measure projects' lifecycle CO2 emissions.

Validation

Data validation will be run by the Carbon Trust following the proposed methodology.

[16] https://www.carbontrust.com/our-work-and-impact/impact-stories/offshore-wind-sustainability-jip

Decarbonisation - inputs

The government proposes to introduce a SIR criterion that rewards projects which use a higher proportion of suppliers operating environmentally sustainable manufacturing and procurement practices, specifically those that minimise emissions of greenhouse gasses as a proxy for environmental harm. By encouraging suppliers to consider such issues as their environmental and carbon footprint, this SIR criteria can support the long term sustainability of an industry with a significant environmental impact – and therefore contribute to sustaining offshore wind and floating offshore wind deployment rates over time – not least because more environmentally friendly and low carbon supply chains are less likely to face acute pressures and shortages of materials or goods necessary to deployment. Decreasing environmental and carbon footprints of an industry should also help raise its social acceptance.

Currently, there is an incentive for suppliers of offshore and floating offshore wind projects to substitute sustainability for cost, enabling them to sell components at lower prices and outcompete counterparts who are following best practice. Rewarding projects whose suppliers operate more sustainably will encourage a greater number of suppliers to use more environmentally respectful practices while limiting the economic distortion, and harm, caused by poor environmental behaviours in supply chains.

Science-based targets

To ensure this SIR criteria is both objective and measurable, we propose to reward projects with a higher proportion of suppliers who are setting and pursuing Science-Based Targets that have been submitted for valuation and communicated. Setup by the Science Based Targets initiative (SBTi), science-based targets enable businesses to commit to targets that are rooted in the latest climate science and that are in line with the goals established in the Paris Agreement.

Science-based targets are validated by experts at the SBTi in line with the methodology produced in partnership with CDP, the United Nations Global Compact, the World Resources Institute and the World Wide Fund for Nature. Targets must meet all of the criteria listed within the methodology to be validated, and the SBTi reserves the right to remove commitments to targets that do not meet their Commitment Compliance policy.

The SBTi set out the process for setting a science-based target in five stages:

1. ‘Commit: submit a letter establishing your intent to set a science-based target.
2. Develop: work on an emissions reduction target in line with the SBTi’s criteria.
3. Submit: present your target to the SBTi for official validation.
4. Communicate: announce your target and inform your stakeholders.
5. Disclose: report company-wide emissions and track target progress annually.’[17]

Government intends to limit this SIR criteria to the proportion of Tier 1 suppliers setting and pursuing science-based targets that have been submitted for validation and communicated. We have limited it to Tier 1 suppliers to reduce the data burden for applicants and to ensure it does not form a new barrier to market entry for newer or smaller firms.

[17] https://sciencebasedtargets.org/how-it-works

Proposed question

By introducing this SIR criteria, government seeks to incentivise projects to deliver the two specific outcomes below:

1. Increase the use of suppliers meeting higher sustainability benchmarks.
2. Increase the number of suppliers meeting higher sustainability benchmarks.

The question we have asked is designed to enable government to score applicants on the environmental sustainability of their project. Applicants would need to meet a minimum threshold in the form of a minimum percentage of their project's Tier 1 suppliers that have set, and are pursuing, science-based targets that have been submitted for validation and communicated. For applicants surpassing this minimum threshold, an increasing number of points would be awarded the higher the percentage of their project's Tier 1 suppliers that are setting and pursuing such targets.

Information requested	Points available per action
What percentage of your Tier 1 suppliers set, and are pursuing, science-based targets that have been submitted for validation and communicated?	TBD
Total number of points	**TBD**

Government is interested in views on whether science-based targets are an appropriate standard by which to determine the sustainability of suppliers' manufacturing and procurement practices. We would also like to know what respondents would deem appropriate minimum, medium and maximum thresholds by which to score applicants against the delivery of this non-price factor. For example, a minimum threshold might be that at least 20% of a project's Tier 1 suppliers have set, and are pursuing, science-based targets that have been submitted for validation and communicated.

Validation

To validate applicant's non-price factor submissions, we propose that they provide SBTi confirmation that their science-based target has been validated alongside evidence of a publicly available statement communicating their commitment to the science-based target.

Weighting of SIR criteria

It is likely that government will need to provide a weighting for each SIR criteria, as their relative cost and benefits are studied and confirmed. The government is interested in respondent views on the relative importance of each SIR criteria, in terms of likely benefits across the three sustainability metrics (environmental, social and economic), and the likely cost of implementation.

Consultation questions

Please provide supporting evidence with all views provided.

With regard to the proposed delivery model:

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

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

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

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

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

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

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

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

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

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

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

With regard to the proposed SIR criteria:

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

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

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

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

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

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

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

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

This consultation is available from: www.gov.uk/government/consultations/introducing-a-contracts-for-difference-cfd-sustainable-industry-reward

If you need a version of this document in a more accessible format, please email alt.formats@energysecurity.gov.uk. Please tell us what format you need. It will help us if you say what assistive technology you use.