

Offshore Wind Environmental Compensation Reforms (ECR)

Lead department	Department for Environment, Food and Rural Affairs
Summary of proposal	The proposal is to reform environmental compensation for the offshore wind (OFW) industry to unlock wider compensatory measures, as well as using guidance to provide further clarity compensation.
Submission type	Options Assessment – 9 th July 2025
Legislation type	Secondary legislation
Implementation date	2025/26
RPC reference	RPC-DEFRA-25066-OA (1)
Date of issue	18 August 2025

RPC opinion

Rating¹	RPC opinion
Fit for purpose	The OA has sufficiently evidenced the problem under consideration to support the rationale for intervention and conducted options generation to produce a long-list and short-list. The OA has provided an NPSV assessment to justify the preferred way forward, although it could further explain the data sources that drive this calculation. The OA provides a sufficient SaMBA, as the regulation is beneficial to business.

¹ The RPC opinion rating is based only on the robustness of the rationale, options identification (including SaMBA) and justification for preferred way forward, as set out in the [Better Regulation Framework guidance](#). RPC ratings are fit for purpose or not fit for purpose.

RPC summary

Category	Quality²	RPC comments
Rationale	Green	The OA evidences the problem under consideration but could benefit from explaining what has changed recently to drive the current significance of the problem under consideration. The OA uses the existence of market failures to form its argument for intervention.
Identification of options (including SaMBA)	Green	The OA outlines the long list of options but could benefit from explaining further how some options would work in practice. The Department has used the critical success factors to justify discarding the other long-listed options but could provide more evidence to support the justification for this short list. The OA provides a sufficient SaMBA, as the regulation is beneficial to business in the sector.
Justification for preferred way forward	Green	The Department has identified and monetised the impacts of the proposal and has considered non-monetised impacts. The OA could provide further qualitative explanation of the benefit from protecting the marine environment. The OA could also explain further the data sources and assumptions that drive the NPSV calculations and should also provide further clarity on the analysis behind the carbon emission savings benefits. The OA should also provide further clarity on the analysis behind the carbon emission savings benefits. The OA provides sufficient justification for the preferred option.
Regulatory Scorecard	Good	The OA presents a good summary of the expected impacts on all key areas. The OA could consider further total welfare impacts that will be received from improving the protection of the marine environment.
Monitoring and evaluation	Very Weak	The OA should consider additional data sources that will be used to underpin the review, including existing sources. The OA should also detail the metrics, which will be gathered in these sources, as well as outlining the research questions that will be addressed by the evaluation.

² The RPC quality ratings are used to indicate the quality and robustness of the evidence used to support different analytical areas. The definitions of the RPC quality ratings can be accessed [here](#).

Summary of proposal

The proposal is to make changes to the existing environmental compensation processes in order to widen the scope of possible compensation measures for offshore wind (OFW) developments with unavoidable adverse impacts in Marine Protected Areas (MPA). This is necessary to take action to meet the Government's Clean Power by 2030 Mission and deliver part of the Offshore Wind Environmental Improvement Package (OWEIP), which aims to speed up planning and consenting times for OFW developments whilst protecting the marine environment.

The OA presents three short-listed options:

- **Option 1 - Do nothing** - OFW developers continue to follow the current environmental compensation process to find acceptable compensation. The planning and consenting process would remain unchanged with developers continuing to deliver compensation focused on the specific feature impacted by OFW development and continued confusion on certain legislative requirements.
- **Option 3 (preferred)** – Reform environmental compensation for the OFW industry to unlock wider compensatory measures in certain policy areas and provide clarification to existing requirements through guidance for other policy areas. Use guidance to provide clarity to timing of compensation requirements and small impacts requirements.
- **Option 4** - Reform the environmental compensation process for the OFW industry in all key policy areas to unlock wider compensatory measures, but also to clarify requirements for additionality, timing of compensation and small impacts.

The OA presents an NPSV of £1.8 billion for the preferred option (Option 3), with an EANDCB of -£57 million (with a 2024 base year). This includes familiarisation costs and benefits from carbon emissions savings.

Rationale

Problem under consideration

The OA outlines the problem under consideration, explaining how the limited availability of compensatory measures in the OFW sector is one of the key barriers for OFW deployment, particularly as it often takes a long time to agree like-for-like compensation measures. The Department evidences this problem, presenting examples of projects which have been delayed due to difficulties with their compensatory measures. The OA also utilises the independent report of the Offshore Wind Champion, which has found frequent occasions where the Planning Inspectorate and Statutory Nature Conservation Bodies have not been able to agree on compensatory measures. However, the OA could benefit from extracting the relevant evidence from the report to support these claims. In addition, the OA could benefit from relating the case study and report evidence directly to the problem statement, using the evidence to demonstrate more specifically how compensatory measures are unavailable. This could include providing, for a lay reader, more

examples of how current compensatory measures are identified, agreed and implemented and the limitations of this developer-led process. This would help to demonstrate the problem under consideration.

The OA would also benefit from including any examples of how other countries have approached compensation and explaining what has changed recently to drive the current significance of the problem under consideration. The OA could also expand the problem statement, detailing the consequential effects of the problem and how the current delays will negatively affect the overall impact of OFW projects and decarbonisation. The OA would also benefit from detailing the extent to which the existing process of compensatory measures addresses environmental harms associated with the OWF developments.

Argument for intervention

The OA uses the existence of market failures to form its argument for intervention, referencing information failure and positive externalities arising from a more strategic and efficient approach to compensation across the Marine Protected Areas (MPA) network rather than for the specific feature impacted at the project's location. The OA would be improved by providing relevant evidence to support these arguments. The OA could also consider including the existence of negative externalities as an argument for intervention, focusing on the negative spillover effects from OFW on marine environments and ecosystems. The OA also presents a strategic argument for intervention, as the proposal is part of a wider suite of measures to reform OFW. The existing Offshore Wind Environmental Improvement Package means the OA has a strong strategic case for intervention.

Objectives and theory of change

The OA discusses several policy objectives and the intended outcome with a proportionate amount of detail. However, whilst the objectives are specific and focus on widening the scope of compensatory measures, the OA could benefit from also including objectives which focus on OFW deployment outcomes. The Department would also benefit from applying the SMART objectives framework fully. The provided objectives are achievable, realistic and include some potential indicators of success, but do not fully consider the measurability and time limited aspects of the SMART framework.

The theory of change diagram, although fit for purpose would benefit from aligning its objectives with the SMART objectives set out. The diagram could also benefit from clarifying all the steps required to achieve the outcomes described. For instance, it is not clear how effective compensation will contribute to the MPA target and the OA could include an 'outputs' section of the diagram to illustrate this. Furthermore, the OA could detail more directly how the benefits are expected to be realised, and it could be clarified for a lay reader how broadening the compensation available will result in reducing the consenting period for OWF developments.

Identification of options (inc. SaMBA)

Identification of options

The OA has considered a long list of five policy options to change the compensation available for OFW projects, including a do-nothing option and three options which amend legislation (to varying degrees) to reform the compensation process. The Department details these options in the OA, describing qualitatively what they would involve and their associated risks. However, the OA could benefit from explaining further how some options would work in practice, such as providing examples of the different policy areas that will either be clarified through guidance in Option 3 or reformed through legislation in Option 4, as well as detailing how decisions were reached on which aspects are more suitable to be clarified through guidance rather than legislative changes and what form new guidance will take. The OA could also explain further how amending the current regulations to include the concept of 'measures of equivalent environmental benefit' will, in practice, widen the scope of compensation measures, perhaps including examples of possible new compensatory measures and how their effectiveness will be measured.

The assessment could also be improved by including detail on the process behind developing the long list of options, such as how research and other evidence have been used to form these policies. Whilst the OA states that the options have been developed using stakeholder feedback and industry engagement, the OA could benefit from using the Green Book's Strategic Options Framework Filter to detail this process and present the long list in greater detail whilst retaining a clear and concise structure.

The Department has used the critical success factors to generate the short-list and justify discarding the other long-listed options. The OA provides a good description of how the Green Book's critical success factors are related to the policy and sets out the measurement criteria that have been applied to form the assessment, although this could be more detailed to show the incremental variance between the different RAG ratings. The OA then rates the long-list options against these critical success factors, providing a qualitative explanation of the discussion to produce the short list of Options 1, 3 and 4.

Consideration of alternatives to regulation

The Department has considered an alternative non-regulatory option to increase the effectiveness of compensatory measures available, providing guidance to public authorities and marine industries on key compensation concepts and principles. The OA justifies why this option is not preferred to regulatory change, assessing it against the critical success factors to explain why it would not deliver the strategic objectives.

SaMBA and medium-sized business assessment

The OA provides a sufficient SaMBA. As the policy allows businesses to access wider compensatory measures, the proposal is likely to be beneficial to businesses, including SMBs. The OA discusses the positive impacts faced by businesses,

concluding that it would not, therefore, be appropriate to exempt SMBs from the policy, as this would place them at a disadvantage. The OA also indicates that there are currently no SMB OFW developers, suggesting that there will be a minimal impact on SMBs.

The OA could, however, benefit from considering further the impacts on SMBs, and could use the consultation to test these. In particular, there are potential impacts from large scale OFW projects on the fishing industry and shipping in addition to small and micro local businesses due to disruption to transport routes. The OA could detail any mitigations for these impacts. The OA would also benefit from expanding this assessment to consider the impacts on medium-sized businesses.

Justification for preferred way forward

Appraisal of the shortlisted options

The Department has identified and monetised the impacts of the proposal, estimating an NPSV of £1.8 billion for both Option 3 and Option 4 of the short list, across a 25-year appraisal period. Option 4 estimates an additional £0.3 million of costs compared to Option 3, reflecting the additional government staff costs of producing further legislation. The remaining costs for both options include familiarisation costs and benefits from carbon emissions savings. Reducing the consenting period will also result in a reduction in option fees paid by developers, and this has been documented as a transfer impact from government to industry. The OA also considers non-monetised impacts from the proposal, such as reputational benefits and the benefits to the marine ecosystem. As meeting the marine protected areas target is one of the core SMART objectives of the proposal, the OA could provide further qualitative explanation of this key benefit, alongside any rough estimates to indicate its potential scale. The OA could also provide further explanation for how benefits will be assured in situations where compensation measures are put in place after the impact to a protected site occurs.

The Department explains the methodology underpinning the monetised NPSV estimates for the short-listed options, setting out the key assumptions and data sources that have been utilised to calculate the costs and benefits. However, the OA could benefit from explaining further some of the data sources that drive these calculations and assumptions in the analysis. For instance, the Department explains that the number of staff required to familiarise has been estimated by policy officials but could provide further detail on the origin of this assumption. The Department could also provide clarity on how it has estimated the number of OFW firms in the UK to be 44. Furthermore, the Department could also explain how the ECR time saving assumption has been derived, which is estimated to be 30 per cent of the overall time savings from OWEIP. As this is a key assumption driving the benefits, the OA could explain further the origin of this assumption and the data sources that underpin its calculation. The OA could then explain further how this time saving has been applied to calculate the option fees benefit, detailing the steps involved to scale up the time saving by annual option fees per gigawatts (GW).

The OA should also provide further clarity on the analysis behind the carbon emission savings benefits, given these savings are estimated to be between £380m and £3.2bn and the variation within this large range could impact the value for money of the preferred option. In particular, whilst the Department justifies using a 25-year appraisal period, the OA could clarify whether this accounts for the increasing value of carbon, as well as confirming how discounting has been applied. The OA would also benefit from clarifying whether the savings have been adjusted for the (lower) carbon values in the traded emissions sector, as electricity generation typically falls under the UK Emissions Trading Scheme. The Department could also consider the impact of embodied carbon that may exist from manufacturing and constructing OFW. This could include capital emissions from the manufacture of turbines, installation vessel emissions and decommissioning impacts. Whilst this depends on the lifecycle boundary, the Department would benefit from detailing these assumptions in the OA, or an accompanying technical annex.

Option 4 includes an additional resourcing cost to government from making more changes to legislation in all policy areas. As Option 3 also includes making changes to legislation, just not for all policy areas, the OA could benefit from clarifying why this cost (at a lower scale) is not included in Option 3.

The OA considers the risks associated with the short-list options and applies an optimism bias, as well as using ranges on key time saving assumptions used to calculate the options fees benefit. The OA also uses a range of carbon values from the Green Book to estimate carbon savings. However, the time saving ranges appear arbitrary using value judgments. The OA would be improved if the Department could include some better-informed sensitivity analysis in addition to the ranges, testing the impact of different uncertain input variables. For instance, the OA could test the assumption that 30 per cent of the overall time saving from OWEIP is attributed to ECR in its sensitivity analysis.

Selection of the preferred option

The Department explains that the preferred option is Option 3, to amend the legislative requirements relating to compensation for certain policy areas and provide clarification to existing requirements through guidance for other policy areas. The NPSV estimate for this option is the same as Option 4, excluding the additional £0.3 million cost for government resource in Option 4. Although Option 3 results in only marginally better value for money compared to Option 4, the OA provides a high-level justification for the selection of the preferred option, explaining qualitatively why establishing Option 3 is favourable due to its cost-effectiveness as it involves making legislative changes only where needed to deliver reforms and using guidance to clarify other policies. Option 4 would mean increased legal and policy resource and producing legislation for all policy areas could mean a lack of flexibility to adapt to changes in the OFW industry (compared with guidance).

Regulatory Scorecard

Part A

Impacts on total welfare

The proposal is expected to have a positive impact on total welfare, with the OA presenting a NPSV estimate of £1.8 billion. This is driven largely by benefits from carbon savings. The OA could consider further total welfare impacts that would be derived from improving the protection of the marine environment.

Impacts on business

The OA indicates that the proposal will have a positive impact on business, presenting an EANDCB of -£57 million. This consists largely of option fee savings received by businesses. Although the OA includes minimal one-off familiarisation costs (£0.05 million) from staff reading and disseminating technical information, it should also consider if there are other one-off or ongoing costs to developers associated with considering a wider range of compensatory measures as a result of the reforms. The OA could benefit from considering further how the prices of the new compensation measures will be set, and if there will be any negative impacts faced by business if the costs for compensatory measures increase as a result of the proposal.

The assessment of business impacts in the regulatory scorecard could be improved by considering the impact on other sectors that share the marine environment, for example, the fishing industry which may be affected by restrictions around OFW developments and the impact on marine habitats during their construction and operation.

Impacts on households, individuals or consumers

The OA does not monetise any impacts on households but discusses the potential pass-through impact from businesses to households if the option fees savings are passed-through to households in the form of reduced household energy bills. As the overall magnitude of these pass-through impacts and the likelihood of them occurring are uncertain, the Department has not considered this as a direct impact on households.

Distributional impacts

The OA indicates that the distributional impacts of the preferred option are neutral. However, as the Department states that the preferred option would benefit all businesses in the sector that choose to use it, the OA could consider the distributional impact faced by this particular industry. The OA also discusses briefly the economic benefit that will be faced by coastal communities including more jobs being created quicker as a result of accelerated OFW capacity. The OA could also consider any adverse distributional impacts resulting from compensatory measures being undertaken in a different location to the site of the project, which may lead to adverse outcomes for communities in close proximity to the project. The OA could

benefit from further discussing these regional impacts in the distributional section of the total welfare scorecard, as well as providing any indicative evidence.

Part B

The Department considers the impact of the proposal on wider government priorities, stating that the policy will support the business environment by reducing the option fees paid by developers, removing a barrier to entry in the market. The OA also highlights that the preferred option would improve the business environment by reducing planning and consenting times. The OA could explain further how this might improve innovation and further technological advances in the sector, as reduced planning processes would streamline internal processes, requiring less time and resources from OFW developers. The OA could support the description of this impact with any relevant evidence. As the proposal reduces planning and consenting timelines, the OA could also consider the potential increase in demand for OFW developments, and the subsequent increase in competition for locations that are suitable for OFW.

The OA also details the impact of the proposal on international considerations, stating that the preferred option would accelerate the expansion of OFW in the UK, increasing its exports and attractiveness to foreign investors. The Department also indicates a positive impact on natural capital and decarbonisation, referencing the expected reduction in greenhouse gas emissions from the policy. The OA acknowledges that although introducing wider compensatory measures may lead to negative impacts on specific features, the overall impact on the MPA network is expected to be beneficial. However, the OA would be improved by presenting more evidence to demonstrate a net benefit to MPAs given it is one of the SMART objectives of the policy.

Monitoring and evaluation

The OA confirms that a post-implementation review will be conducted in seven years' time. Whilst the Department explains that this will allow the review to be aligned with the 2030 Clean Power mission, the OA could benefit from providing further justification for this selected timeframe, particularly as this may be too late to monitor, evaluate and make the relevant changes to the immediate impacts from the proposal.

The OA explains how the review may include creating a register that tracks the impact of the proposal on the UK-wide MPA site network and collates a list of compensation and impacts. However, the OA could provide more detail on this potential data set, explaining how the register would be developed and the nature of the data it will collect. It would also benefit from providing more detail on the methodological approaches taken to assessing the impact of individual compensatory measures that will feed into the register. Furthermore, the OA should expand its monitoring and evaluation plan to consider additional data sources that will be used to underpin the review, including existing sources. The OA should also

detail the metrics, which will be gathered in these sources, as well as outlining the research questions that will be addressed by the evaluation.

The OA sets out some external factors that may have an impact on the success of its implementation. However, the OA would benefit from considering how the evaluation will adjust for these.

Regulatory Policy Committee

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