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renewables®



The RT Hon Grant Shapps MP  
Secretary of State for Energy Security and Net Zero  
1 Victoria Street  
London  
SW1H 0ET

3<sup>rd</sup> July 2023

## **RE: Maximising Benefits through Contracts for Difference Allocation Rounds**

Dear Secretary of State,

RenewableUK, Scottish Renewables and Energy UK welcome the Government's continued support for our sector via the Contracts for Difference (CfD) scheme which has made the UK a world leader in the energy transition.

Powering Up Britain sets out how we will enhance our country's energy security, seize the economic opportunities of the transition, and deliver on net zero commitments. We are always assessing the necessary steps for Britain to continue being a world leader in the energy transition. Jointly we believe that a broader approach is needed in defining how best value is delivered from Allocation Round 5 (AR5) onwards for the industry and consumer. This should take account of the current economic environment, international competition in the sector and the benefits to UK plc from the timely deployment of homegrown, cost-effective renewable energy and achieving the ambition as outlined in Powering Up Britain.

The European Union and the United States have both stepped up their ambitions for renewable energy deployment as a response to geopolitical events to enhance energy security and foster sustainable economic growth.

The EU has been working on reducing its reliance on fossil fuels, including natural gas, through its Clean Energy Package and the European Green Deal. The EU has also committed to increasing the share of renewable energy in its energy mix, implementing supportive policies and regulations, and investing in renewable energy projects.

In the United States, the Biden administration has prioritised clean energy and climate action as part of its response to the natural gas crisis and geopolitical tensions. The US has announced targets for offshore wind development, aiming to deploy 30 GW by 2030. The federal government has provided financial incentives, grants, and tax credits to support renewable energy projects.

Considering the increased international competition in the renewable energy sector, the UK needs to maximise the benefits available from the CfD scheme to maintain its

position as a world leader in this sector. The current emphasis on securing renewable capacity at the lowest possible strike price – minimising expenditure rather than maximising benefit - risks creating a less attractive investment environment in the UK.

The race to the bottom on strike prices incentivised by the current auction process is at odds with the reality of project costs and investment needs, jeopardising deployment targets. This is especially relevant for supply chain companies that have been recording losses as the continuous squeeze on strike prices has been passed on to them. CfD strike prices are no longer cost reflective and, consequently, the industry's capacity to invest in critical infrastructure and domestic supply chain is being eroded.

Therefore, RenewableUK, Scottish Renewables and Energy UK would make the following recommendations to achieve greater value from future auction rounds and maximise the benefits of industrialisation as the sector continues its growth path:

- The monetary budget for AR5 should be reassessed and uplifted to maximise the delivery of eligible projects including projects which received consent after the AR5 announcement in March 2023. On the release of AR5 statutory notices, we estimated that to clear just the eligible fixed bottom offshore wind capacity alone at the administrative strike price the Pot 1 budget would need to be at least 2.5 times more.
- Continued support for emerging technologies, floating offshore wind, tidal stream, and wave projects, from AR5 onwards. Helping to deploy these technologies now will develop the supply chain in the UK whilst accelerating the cost reductions gained from the learning curve and benefiting from lower costs sooner. This could be supported by clear MW and MWh targets and auction minima for these technologies in the upcoming auctions.
- Ensuring that all AR6 and future allocation rounds CfD parameters reflect their current economic environment, both in terms of supply chain costs and interest rates, with greater transparency on how parameters are set to reflect these circumstances. The methodology used to date has not provided enough transparency and reassurance to developers that the economic circumstances at the time of allocation will be appropriately factored into the auction process.
- A clear auction schedule with auction parameters, budgets, and capacity targets needs to be introduced out to 2030. This will provide a clear roadmap to meet 2030 technology targets and 2035 net-zero targets.
- Pot 3 should also be re-introduced for offshore wind, noting the fundamental differences in the cost profiles, nature of the technology and policy environment against other technologies in Pot 1. Having a separate pot for offshore wind will ensure a level playing field and deliver a more diverse renewables mix as a share of the total generation.

In addition to these targeted recommendations, RenewableUK, Scottish Renewables and Energy UK recommend that the definition of value to the consumer of the CfD is fundamentally reframed to reflect net zero targets. The new approach would aim to

maximise the deployment volume of renewables at a price that delivers value for money to consumers compared to the counterfactual of gas generation. At present, the dominant focus on achieving a minimised strike price does not account for the full context of net zero delivery and overall, the best value for the consumer. Maximising deployment would deliver best value for the consumer while retaining a separate pot for offshore wind.

Yours Sincerely,

A handwritten signature in black ink that reads "Ana Musat". The script is fluid and cursive.

Ana Musat Executive Director, Policy & Engagement, RenewableUK

A handwritten signature in black ink that reads "Dhara Vyas". The script is cursive and somewhat stylized.

Dhara Vyas Deputy Chief Executive Officer, EnergyUK

A handwritten signature in black ink that reads "Morag Watson". The script is cursive and elegant.

Morag Watson Director of Policy, Scottish Renewables