

Energy UK Explains: Potential implications from Allocation Round 5

Key points

- The UK has set a target of 50GW of offshore wind by 2030, to boost energy security with homegrown, clean power and bring down energy bills.
- Offshore wind is one of the cheapest sources of energy in the UK, much cheaper than gas
- The cost to develop and build projects has risen significantly in recent months due to regulatory uncertainty and supply chain pressures.
- Allocation Round 5 did not take these cost increases into account and therefore no offshore wind projects were bid into this latest renewables auction.
- This has significant implications to the UK's energy security targets; now half the offshore wind target needs to be delivered in the next two allocation rounds.
- It also has implications for customers; according to the ECIU this will mean billpayers miss out on £1bn a year from lost savings.
- The Government needs to ensure future auctions recognise the increased costs to develop and build critical infrastructure in the current climate.

Read Energy UK's response to Allocation Round 5 here: <https://bit.ly/EUKAR5Response>

Industry has been warning of the consequences of not taking increased costs into account for some time. Read Energy UK's previous briefing here: <https://bit.ly/WhyAR5Matters>

The results of Allocation Round 5

- No offshore wind or floating offshore wind projects bid in this allocation round.
- The results showed modest declines in solar and a marginal increase in onshore wind, and small-scale investments in new technologies like tidal and geothermal.
- These technologies are a welcome step towards a diverse renewable energy mix, however do not compensate for the shortfall in offshore wind.

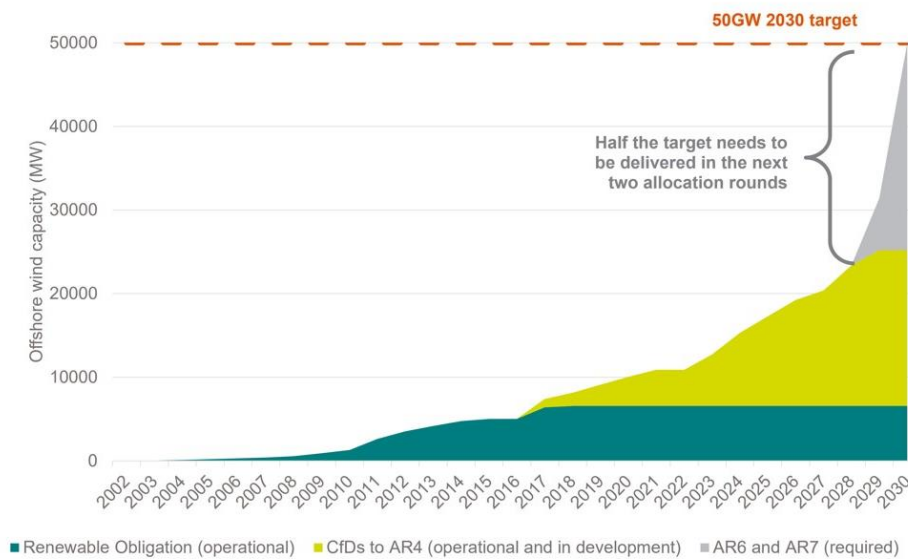
Why didn't any offshore wind projects bid?

- The cost to develop and build critical infrastructure has risen across all industries due to supply chain pressures and higher interest rates and cost of capital.
- With [additional regulatory uncertainty](#) for low-carbon energy projects, offshore wind developers have been reporting cost increases of up to 40%.
- The Administrative Strike Price within the auction round did not reflect this and therefore developers were unable to create a compelling business case for these critical projects.

Why does offshore wind need price frameworks?

- Offshore wind projects have grown significantly and represent billions of pounds of capital investment, and investors need to be able to guarantee returns in order to invest.
- By agreeing a stable Strike Price, and de-risking investment, the Contracts for Difference scheme has been key to the expansion of cheap, homegrown renewables by bringing investors certainty, and lowering the cost of capital.
- This price mechanism is not a subsidy as it works both ways; when the price of energy is high as it has been in over the Energy crisis, developers pay back the difference between the market price, and the agreed strike price.
- CfDs for existing wind farms [paid back c.£600million](#) in one year of the gas crisis.

UK offshore wind capacity required to meet the Government's Energy Security target



What are the potential implications?

For people

- According to the ECIU billpayers [will miss out on £1bn a year](#) from lost savings. This is because offshore wind is much cheaper than gas, and with less offshore wind, more gas will be needed.

On power

- With its commitment to decarbonising the power sector by 2035, the Government has set a target for the UK to have 50GW of offshore wind by 2030. This is because building up our domestic generation capacity will boost our energy security. Offshore wind is cheap, projects can be built at a large scale and generation doesn't emit greenhouse gas emissions, unlike fossil fuels.
- Now, half the target needs to be delivered in the next two allocation rounds
- This will become increasingly difficult as large-scale offshore wind projects take time to develop and build. The build-out must be steady; momentum is needed to maintain a strong UK-based supply chain. It cannot all be left until later years as there will not be enough supply chain (ie vessels, cable manufacturing capacity), skilled workers and time to deliver everything at once.
- It is now very unlikely the 2030 target will be met.

For the economy

- Of the world's largest eight economies, the UK is already set to have the slowest growth in low carbon electricity output between now and 2030.
- Whilst the UK has pioneered offshore wind, global competition is increasing; the US, the EU and China have put [significant measures in place to attract investment](#) in clean technologies.
- As the world's economies shift to green energy, the UK risks losing out in the long-term if global investment is directed elsewhere as businesses are currently deciding where to base their operations.

What needs to happen now?

- The Government needs to ensure future auctions recognise the increased costs to develop and build critical infrastructure in the current climate.
- The UK also needs a robust response to growing global competition for clean energy from the US and EU in the upcoming Autumn Budget.