

# Energy UK response to DESNZ consultation: Further reforms to the Contracts for Difference scheme for Allocation Round 7

21 March 2024

## About Energy UK

About Energy UK Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies right through to new, growing suppliers, generators and service providers across energy, transport, heat and technology.

Our members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28m UK homes as well as businesses.

The sector invests £13bn annually and delivers nearly £30bn in gross value - on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors. The energy industry is key to delivering growth and plans to invest £100bn over the course of this decade in new energy sources.

The energy sector supports 700,000 jobs in every corner of the country. Energy UK plays a key role in ensuring we attract and retain a diverse workforce. In addition to our Young Energy Professionals Forum, we are a founding member of TIDE, an industry-wide taskforce to tackle Inclusion and Diversity across energy.

## Executive summary

Energy UK welcomes this consultation and the opportunity to respond.

Energy UK welcomes the Government's Clean Power Mission because it can accelerate the benefits that will be felt by people across the country through increased energy security, investment, growth and job creation. We welcome and support the objective of this consultation to ensure the Contract for Difference scheme is aligned with the Clean Power Mission and the scale of its ambition.

Many of the proposals in the consultation have the potential to support the acceleration of deployment, to increase investor certainty, helping drive down costs and deliver the benefits of a clean power system to consumers sooner.

If you would like to discuss this response in further detail with Energy UK and its members, we would welcome further engagement.

For questions which have not been answered, we refer DESNZ to individual Energy UK member responses.

**Sophie Lethier**

Senior Policy Manager

[sophie.lethier@energy-uk.org.uk](mailto:sophie.lethier@energy-uk.org.uk)

## Chapter 1.3 – Support for floating offshore wind

### 1. Are there any further measures you believe are necessary to facilitate the Government's intention to support multiple Test & Demonstration scale floating offshore wind projects in AR7, whilst considering potential impacts on auction dynamics? If so, what and why?

Energy UK welcomes the Government's intention to support multiple Test & Demonstration scale floating offshore wind projects in AR7. These projects will provide technological insights, drive cost reductions, and bolster supply chain and infrastructure development, paving the way for commercial-scale projects.

However, there must be a focus on learning from these test and demonstration projects and taking this into commercial scale projects as soon as possible. Only then will FLOW projects see cost reductions and achieve competitiveness with other renewable technologies. Therefore, support for test and demonstration projects must be balanced against the need for larger CfD budgets in future to support commercial scale GW floating projects from the Celtic Sea and future leasing rounds.

## Chapter 2.1 - Relaxing CfD eligibility criteria for fixed-bottom offshore wind projects

### Summary

Energy UK believes in the power of markets and competition to reduce costs and deliver positive outcome for consumers. Given the unprecedented levels of capacity that needs to be secured at AR7 and AR8 to meet Clean Power 2030, it is reasonable for the Government investigate options that could promote competition in these auctions and accelerate the pace of renewable deployment.

Whilst we welcome the intent of the proposal to give earlier certainty for routes to market for fixed offshore wind projects and recognise the potential benefit from getting earlier certainty in advance of getting consent, there is a long list of significant risks which could have a serious and detrimental impacts. The Government must ensure that it does not rush to implement a substantial change to

the CfD with a narrow focus at the potential expense of the Clean Power Mission and the integrity of the CfD scheme and auction process.

Energy UK does not support the proposal due to significant concerns that the risks would outweigh the potential benefits. If the Government decides to relax eligibility criteria for fixed-bottom offshore wind, it is essential that the proposal is amended.

To accelerate deployment, the Government's focus should instead be to accelerate the consenting of viable projects and expedite delays through reforms to the planning system. There is (at time of writing) 4.5GW of offshore wind capacity in the [Planning Inspectorate database](#) in England and Wales alone at the later stages of development in the Development or Decision stage. Ensuring delivery at pace of the Development stage for these projects and those in Scotland, as well as the Secretary of State's decision on projects in advance ahead of AR7, could unlock a sizeable number of new capacity in time for the auction process. Proactive and early review of the recommendation report by the Secretary of State is likely to be crucial to enabling greater release of capacity ahead of the opening of the auction process.

If the Government does not anticipate sufficient volumes being consented before the application window, then delaying the auction or accelerating unconsented projects should be the solutions. This would be a far less complex and far less risky approach and maintains a fair and principled approach to competitive auctions.

**2. Do you support the general proposal to relax eligibility requirements to enable projects to apply for a CfD while awaiting their planning consent? Yes, No, Unsure? Please provide any further comments to support your answer.**

No.

Energy UK does not support this proposal.

While there could be some benefits to the proposal, on balance we believe<sup>1</sup> that the risks outweigh the benefits. As mentioned above, there are other solutions to address the challenges identified in the consultation.

**1) Risks**

Energy UK agrees with the key risks identified in the consultation:

- Bids by early-stage projects may turn out to be too low, which could result in non-delivery. Similarly, projects may be refused planning consent. This would prove an inefficient use of the CfD budget, especially if awards are at the cost of viable projects.

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<sup>1</sup> This is not the view of Energy UK member BP who is supportive this proposal.

- Unconsented projects may include a higher 'risk premium' in their bids, due to increased uncertainty over project costs, which could result in higher costs to consumers.

### **Increased non-delivery risk at the expense of shovel ready projects**

Projects without consents could displace more advanced projects with consents in a CfD auction. That could result in cancellation of the more advanced project. There could be a risk to the 2030 Clean Power objective if the most mature projects deliverable by 2030 are not advanced, whilst less mature projects which may have less comprehensive engagement with the supply chain on costs and without knowledge of potential planning conditions are progressed.

### **Risk of increased cost to address uncertainties about projects' cost base**

The lack of planning consent at the time of the CfD auction means that the developer does not have certainty over the planning consent conditions that this will apply. Planning consent conditions can impose constraints on construction, design and operation of a project, which can incur additional costs. The developer can respond to this either by assuming there won't be additional costs, increasing the likelihood of non-delivery, or by factoring in additional costs that may not materialise in practice, raising overall costs.

There are additional risks with this proposal, listed below. Energy UK's key concern is the market distortion the proposal would create and impact on the principle of fair competition.

### **Market distortion: unlevel playing field**

The proposal would ultimately create two categories of projects, with different milestones and delivery obligations. There is a risk that these are less onerous in practice for the unconsented projects, reducing their overall project risk and creating a distorted, two-tiered CfD auction.

The consultation is investigating options to allow greater flexibility for non-consented projects by extending their Milestone Delivery Date (MDD) and removing the Non-Delivery Disincentive (NDD) for these projects. The latter would create a perverse incentive, where applying for a CfD without planning consent would these projects a more flexible contract with lower termination penalties. Bidders competing in the same pot should have the same rules applied to them.

### **Market distortion: Scotland v England and Wales**

The DCO process in England and Wales has been streamlined, with each stage following either a statutory or indicative timeline. However, this is not the case in Scotland which could put Scottish projects at a disadvantage. In addition, the time

limit for initiating a Judicial Review of a Section 36 decision in Scotland is three months from when the decision is made, whereas it is only six weeks in England and Wales. Energy UK appreciates some of the efforts made in the Planning and Infrastructure Bill to address some of these barriers, but it is by no means certain that this will be addressed in legislation by the time of the auction.

### **CfD contractual risks and the potential to further delay the auction due to legal challenges**

As indicated in the consultation document, unconsented projects may require additional protections in the CfD Standard Terms and Conditions and milestones. However, finding an appropriate balance between encouraging unconsented projects to bid and preventing speculative bidding (to the detriment of more viable projects) could be challenging and delay AR7 even further.

### **Supply chain concerns**

Some supply chain providers have expressed concern that a project awarded a CfD without consent has a more uncertain status than a project with consent. There is a concern that this will make it more difficult to commit to supply contracts. The proposal could also place additional pressure on an already constrained supply chain and lead to further bottlenecks and delays.

### **Negatively impacting the Clean Industry Bonus scheme**

Unconsented projects that anticipated participation in AR8 are unlikely to have adequately engaged with the supply chain to secure CIB revenue support for AR7, which would be a missed opportunity for the Government's growth agenda.

## **2) Potential benefits**

While Energy UK does not support the implementation of the proposal due to the overall balance of risks versus benefits, we nevertheless welcome the exploration of measures that could increase auction liquidity and boost competition. We also welcome the intent in the proposal recognising that earlier certainty of route to market would be helpful to projects. Earlier certainty could ensure a viable project continues to progress, rather than being abandoned due to the extended duration of project development with no guarantee of a route to market.

## **3) Other solutions**

To address concerns around speed of deployment and the liquidity in auctions, solutions should focus on expediting the planning and consenting process. Delivery at pace amongst capacity currently at a late stage in the planning system could address this.

There is a limit to how far timelines can be reduced under this proposal, as the project cannot commission before the grid connection date. In practice, the reduction in the overall development time may not be substantial.

The Government should provide long-term certainty by introducing a mechanistic long-term capacity ambition with a schedule across multiple allocation rounds.

The Government should provide an additional delivery year to increase the number of consented projects eligible to enter the auction. Granting an additional delivery year would increase the number of projects eligible for the auction that may not be able to enter due to delayed grid connections and would increase competition to offset concerns over market power.

#### **4) Requirements for implementation**

Energy UK does not support the implementation of this proposal. However, if the Government does decide to relax eligibility criteria to allow unconsented projects to bid in the auction, the following is required:

##### **Onshore renewable technologies**

It is essential that relaxation is never extended to onshore renewable technologies, as the risk of speculative bids is much higher for these technologies. If the Government moves ahead with this proposal, it should clearly state that introducing this relaxation for offshore projects does not set a precedent for onshore projects.

##### **Consent Eligibility Date that is further along in a project's consent application**

The proposed milestone (to have a consent application accepted for examination) is very early in the consenting process and increases the risk of projects crowding out viable consented projects. There are later milestones in the application process, before full consent approval, that may be more appropriate, as they allow more time for the project design to be developed.

##### **Greater alignment across the English and Scottish planning system for equivalent milestones.**

There are no equivalent statutory timelines in the Scottish consenting process so it will be challenging set an equivalent intermediate point for Scottish projects to enable fair competition versus English unconsented projects.

##### **Tightening existing criteria**

Existing criteria (grid connection, Crown Estate lease, CIB statements) filter out weak bids. Tightening these (e.g., minimum spend thresholds) could prioritise advanced projects.

##### **Pre-auction financial commitment**

Adding a minimum pre-consent spend (e.g., 5-10% of capex) or bid bonds to ensure advanced unconsented projects over speculative unconsented projects.

### **Enhanced monitoring**

There should be mechanisms in place to manage the risk of projects failing to obtain consent after winning a CfD. This could include financial penalties for projects that fail to obtain consent within a specified timeframe or conditions precedent that require projects to obtain consent within a certain period after winning a CfD.

### **Sunset clause**

A sunset clause should be introduced to review the impact of this proposal ahead of AR8 to assess its consequence on project delivery.

**3. The proposal outlines two options for the Consent Eligibility Date. Which option do you prefer? Eligibility proposal A, Eligibility proposal B, No preference? Please provide any further comments to support your answer.**

**4. Are newly eligible (unconsented) projects likely to take advantage of the proposed relaxation of eligibility requirements? Yes, No, Unsure? Please provide any further comments to support your answer.**

Yes. Newly eligible projects are likely to take advantage of the relaxation, but it is unlikely that developers will publicly state their intention to take advantage of this as it is commercially sensitive to know who is likely to apply for a round given the competitive nature of CfD.

**5. Is this change likely to reduce development timelines for newly eligible projects (either now, or in future once the change can be adjusted to)? Yes, No, Unsure? Please provide any further evidence to support your answer.**

In theory, this change could reduce development timelines, as it would allow a project to progress upon receipt of planning consent, without the need to wait for the next CfD auction round.

In practice, there is a limit as to how far timelines can be reduced, as the project cannot commission before the grid connection date. A project's development timeline and reaching commercial operations will largely depend on the project obtaining planning consent, any associated planning conditions, securing the necessary supply chain and its grid connection date. Post-decision adjusted changes cannot also be ruled out for projects, including additional environmental mitigation measures or material changes post consent. Therefore, any reduction in the overall development time may not be substantial.

**6. Are there any challenges or barriers a developer would face in preparing a bid for a newly eligible (unconsented) project compared to a consented**

**project? Yes, No, Unsure? Please provide any further evidence to support your answer.**

Yes.

Please refer to our answer to Question 2.

- The lack of planning consent at the time of the CfD auction means that the developer does not have certainty over the planning consent conditions that this will apply.
- On average, higher levels of uncertainty about their project's cost base and less engagement with the supply chain.
- Factoring in risk of not obtaining consent or receiving limited consent, which would require rethinking the project's design or plans. Additional costs could be incurred if the project needs significant revision to meet planning requirements.
- Securing revenue support under the Clean Industry Bonus scheme.

**7. Would the proposed changes have a positive, negative or neutral impact on supply chains? Positive impact, Neutral/No impact, Negative impact? Please provide any further evidence to support your answer.**

The proposed changes could increase both the visibility of future projects and the volume of future projects progressing through a given CfD auction. Both effects will provide the supply chain with more confidence that there will be the future demand for offshore wind products and services, which would be a positive effect.

However, there would also be negative supply chain impacts. The increased volumes would put greater pressure on supply chains to deliver sufficient volumes of products and services in response. Manufacturers would need to make supply and capacity allocation decisions against a more uncertain backdrop where projects with CfDs are no longer necessarily 'shovel ready' and carry planning risk (including Judicial Review). Supply chain companies may be reticent to contract with unconsented projects or add significant risk premia which would be priced into higher strike prices.

**8. Do you agree that the Non-Delivery Disincentive should apply to unconsented projects that fail to return a signed CfD contract by the statutory deadline? Yes, No, Unsure? Please provide any further evidence to support your answer.**

Yes.

If the Non-Delivery Disincentive (NDD) is not applied to unconsented projects the risk of speculative bidding materially increases as there is no disincentive against this. It is also vital to maintain a level playing field between projects of the same technology

competing in the same auction pot. Different rules for unconsented projects raise significant concerns about fair competition within the auction process.

**9. Do you agree that certain contractual obligations and milestones should be deferred or some flexibility permitted for unconsented projects until a planning decision is issued? Yes, No, Unsure? Please provide any further evidence to support your answer.**

The proposal to defer and/or provide flexibility to unconsented projects for milestones is logical should the Government decide to progress this proposal as it mitigates against high-quality projects being blocked due to consenting delays outside their control.

However, we would again stress that this would result in an unlevel playing field within the same pot which is contrary to the principles of fair competition and if this approach is chosen these projects should be placed in a separate pot, or these flexibilities should apply to all projects in the pot.

**10. Do you support the following flexibilities in the CfD contract to accommodate unconsented projects?: a. Deferral of the Milestone Delivery Date until a planning condition is issued. Yes, No, Unsure? b. Ability to leave contract early without penalty if planning consent is delayed beyond a certain date. Yes, No, Unsure. c. Provision to allow unconsented generators to adjust their contracts to accommodate planning conditions imposed on their projects following consent approval. Yes, No, Unsure?**

**11. Are there any other contractual obligations and milestones that you think should be deferred or granted flexibility not mentioned above? Please provide further details to support your answer.**

## **Chapter 2.2 - Amending the budget publication process and information received**

### **Summary**

Energy UK very much welcomes the intent behind this proposal to maximise procurement from the CfD scheme.

However, we would urge the Government to consider whether what's being proposed is the right solution to the problem identified, given concerns about transparency, anonymity, the scope for political intervention, and the removal the mechanistic process currently in place.

Enabling the Secretary of State to access the anonymised bid stack is a dramatic change – other alternatives should be considered. If the proposal goes ahead, the

Government will need to consider the controls that will need to be in place. Without sufficient assurances in places Energy UK does not believe it should be implemented.

More broadly, Energy UK is supportive of introducing auction schedules with capacity targets to improve visibility and provide greater certainty for investors and the supply chain. Energy UK maintains that the Government should put forward a multi-year allocation schedule, with long-term capacity targets to be periodically revised. Please refer to Energy UK's note "Maximising procurement from the CfD scheme in AR7 and AR8 in line with CP2030", sent alongside this consultation response.

### **Budget Notice publication**

#### **12. Is it important to receive a monetary budget in advance of the sealed bid window? Yes, No, or Unsure. Please provide your view on whether it is important to receive a monetary budget in advance of the sealed bid window.**

Yes.

CfD bidders require certainty in order to assess auction dynamics, potential chances of success and, if they have multiple projects, ensure efficient portfolio optimisation. This is even more crucial for the supply chain (for offshore wind) which needs a view of potential orders books in upcoming auctions.

As such a monetary budget has a number of benefits:

- It provides developers with a clear indication and commitment to the scale of the auction ambition, especially a minimum level of ambition, which offers offering certainty to developers and the supply chain.
- It ensures transparency and predictability ahead of the allocation round. It allows developers to plan and strategise effectively, knowing the financial parameters within which they need to operate. This proactive approach can lead to more competitive bids, ultimately driving the success of the allocation round.

However, the commitment which delivers this certainty and assurance does not necessarily need to be in the form of a monetary budget. A capacity ambition could potentially provide this certainty for developers.

The Government should only consider replacing a budget and introducing a capacity target for AR7 if:

- The capacity ambition is specified as a minimum capacity that the Government is committed to procuring, that cannot be subsequently reduced. This would be a continuation of the current rule that the auction budget can only be increased, but not decreased, after the initial announcement.

- The capacity ambition is aligned with wider policy objectives for consistency – capacity target should be set to align with ranges set out in the Clean Power Action Plan. The Government should consider individual capacity ambitions for key technologies, such as fixed-bottom offshore wind, onshore wind, solar PV, and floating offshore wind.
- A forward schedule for each auction up to at least AR9 is published alongside it. This will offer long-term certainty regarding the Government's ambitions, boosting confidence among developers, investors, and the supply chain in the GB market. This is critical to ensuring removing a budget doesn't undermine confidence in the auction process and increase uncertainty.

The proposal to move the monetary budget notice to after the sealed bid window would be a major change to the auction process. There are other options that could promote the objective of improving budget utilisation. For example, after the sealed bids are received, NESO could advise on what more capacity could be procured if the budget was increased. This would still allow a minimum budget to be set ahead of the auction.

**13. Would replacing a monetary budget with a capacity ambition impact participation in the allocation round? Yes, No, or Unsure. Please provide your view on whether replacing a monetary budget with a capacity ambition would impact participation in the allocation round.**

**14. Would publishing a budget notice after the sealed bid window have a negative impact on: a. Competition and bidding behaviour: Yes, No, Unsure. b. Boards / developer decision making timelines / processes and whether this could impose any unintended consequences / additional costs on developers: Yes, No, Unsure. c. Non-delivery/withdrawal from auction: Yes, No, Unsure. Please provide further evidence on this/these impacts.**

#### **Expediting the allocation process for offshore wind**

**15. Are you in favour of the auction process being run for parts of the allocation round, whilst other parts proceed with an appeals process? Yes, No, Unsure. Please provide further evidence in support of your views.**

#### **Removing restrictions on available auction information**

**16. Are you in favour of the Secretary of State having the power to see anonymised bid stack information. Yes, No, Unsure. Please provide further evidence in support of your views.**

Unsure.

Energy UK welcomes the Government's intention to address the risk of unspent budget and to maximise the volume of capacity that can be contracted from each

round. The Government is right to be considering ways to improve the efficiency of the monetary budget.

If used appropriately, there could be benefits to the Secretary of State having the power to see anonymised bid stack information to address some of the issues seen for pot 3 in AR6 with leftover budget. There is also a benefit that this could be implemented in time for AR7.

However, Energy UK does not believe this is optimal or best practice for renewables auctions. There is widespread, serious concern among members about full bid stack visibility. It would represent a significant shift away from mechanistic market-driven process, with scope for political interference. Energy UK also has concerns about this proposal being used as a long-term solution to the issue of leftover budget.

The Government should only consider implementing this proposal if it guarantees that:

- It applies solely to fixed-bottom offshore wind in AR7. It should also be reviewed after AR7 before being used for further Allocation Rounds.
- The Secretary of State will only be given the power to see anonymised bid stack information under well-defined circumstances for the specific objective of maximising budget utilisation.
- Strong safeguards and mechanisms will be in place to ensure bids are anonymised and the information shared is kept to that which is strictly necessary.
- The flexibility provided by this power is not at the expense of other technologies. It should only be used to decide whether to increase a pot and total budget, not to redistribute budget between pots.

### **Risks**

The more information that is made available, the higher the risk that the auction process is no longer viewed as mechanistic and neutral, with no opportunity for judgement to be applied in selecting successful projects.

Given the limited number of fixed-bottom offshore wind projects in each round, there is a risk that the Secretary of State could infer the sealed bid information for different projects. This could lead to the perception that budget setting is political motivated, potentially favouring some developers over others, which would undermine confidence in the CfD auction process.

### **Alternatives**

Given the risks, the Government should consider more fully whether this proposal is the appropriate solution to the problem and the scope for unintended consequences.

There are other options that do not require access to the full bid stack that would deliver similar benefits. For example, the size and budget impact of the next clearing project could be released. Another alternative is to amend the CfD regulations to allow budget caps to be classified as soft in the auction process (currently only capacity caps can be implemented as soft caps).

If the Government decides to proceed with its proposal to set the monetary budget until after the sealed bid window, NESO could provide advice to the Secretary of State with the price and budget required to procure a range of incremental capacities. While some sealed bid information could be inferred from this approach, it would maintain some level of anonymity.

The Government should consider a multi-year allocation schedule with capacity targets as the long-term solution to the issue of leftover budgets. This would ensure auctions clear efficiently against a set capacity target (linked to CP2030 and long-term aims) and remove the need for Secretary of State intervention.

**17. Would the Secretary of State seeing anonymised OFW bid information have a negative impact on: a. Bidder behaviour: Yes, No, Unsure. b. Investor confidence in the CfD scheme: Yes, No, Unsure.**

**b. Investor confidence in the CfD scheme: Yes, No, Unsure. c. Consumers: Yes, No, Unsure. Please provide further evidence in support of your views.**

**18. Do you believe this proposal could increase the likelihood of a preferable outcome for both industry and consumers? Yes, No, Unsure. Please provide further evidence on why this proposal may increase the likelihood of a preferable outcome for both industry and consumers.**

**19. Do you believe any further assurances, other than those in the Contract Allocation Framework, are required? Yes, No, Unsure. Please list any further assurances which would be required.**

Yes.

Further assurances are required.

It is essential that the auction decision process remains as mechanistic and rule driven as possible. In particular, the further decisions available to the Secretary of State should be constrained by transparent rules specified in advance.

More information is needed about data handling protocols, about who will have access to commercially sensitive information, and how this information will be safeguarded. Further transparency is also required on the approach taken by the Secretary of State, the aims of the approach (i.e. the capacity target being aimed for) and wider details are key for sector and wider consumer trust in this approach even if it is only used for AR7.

To ensure that the new budget post auction proposal does not damage competition or trust in the process government needs to provide:

- A clear view on auction parameters and the allocation framework as soon as possible. This includes clarity on factors such as reference prices and load factors which have a major determining impact on how much capacity a given budget can support
- A clear view on auction timings – including expected application window opening dates
- A minimum capacity target for AR7 instead of the budget view and ensure certainty for bidders.
- A clear auction schedule with capacity targets for each pot out to AR9 at the least, linked to Clean Power 2030 targets
- Alongside the auction schedule, clear written assurances that these capacities will be supported through appropriate budgets as agreed with other government departments such as HM Treasury.

Without these assurances, industry cannot have confidence in the auction schedule and the approach to removing budgets will be materially undermined and lead to worse outcomes than the status quo.

**20. Do you agree with the rationale to only apply the new bid stack approach to fixed-bottom offshore wind, for now: Yes, No, Unsure [If 20 = "No" or "Unsure"] Please select which other technologies you think the new bid stack approach should apply to: Solar PV, Onshore Wind, Tidal, Geothermal, Wave, Floating Offshore Wind, Unsure. Please provide any further comment on your view on the rationale to only apply the new bid stack approach to fixed-bottom offshore wind, for now.**

#### **Contract Allocation Framework amendments**

**21. Do you agree with the rationale for flexible bids being closed for OFW projects? Yes, No, Unsure. Please provide further evidence on your view on flexible bids being closed for OFW projects.**

## **Chapter 2.3 - Increasing the contract term for future CfD projects**

### **Summary**

Energy UK is very strongly supportive of increasing the contract term for future CfD projects. It is a priority policy position which we believe can both improve investor confidence and deliver consumer benefits.

Please refer separately the note prepared by Energy UK for DESNZ in October 2024 “Maximising procurement from the CfD scheme in AR7 and AR8 in line with CP2030”, which builds on Energy UK’s July 2024 report “[Mission Possible: the steps to make Britain a clean energy superpower.](#)”

Extending CfD contract length is also one of measures included to reduce consumer bills in Energy UK’s March 2025 report “[How to cut bills: a crisis we can’t afford to ignore](#)”.

Technology has advanced considerably since the rollout of the CfD due to successful innovation, and the operational life of renewable assets is increasing. With increased asset lifespan there is an opportunity to encourage investment by lengthening the CfD contract.

- Members report that increasing the CfD length from 15 to 20 or 25 years delivers a significant increase in project value, and therefore, a corresponding reduction in the CfD strike price required.
- Longer contracts offer more stable and predictable revenue streams over a greater period making projects more attractive to investors and financiers, which can lead to lower financing costs and lower costs of capital, delivering benefits to consumers.

Longer CfD would also help to mitigate merchant power risk that comes with longer operational asset lifespan. By providing revenue certainty over a great period of time, this will help to:

- **Accelerate investment:** Encouraging greater investment, improving liquidity and competition.
- **Encourage innovation:** Encourage investment in more innovative and potentially more expensive technologies, as there is more time to recover the initial high costs.
- **Provide increased investor confidence** at a time when the future of the GB energy market is uncertain (REMA, SSEP, CfD reform and uncertainty over future price cannibalisation and negative pricing periods). If zonal pricing is implemented, members support a 25-year contract.
- Support alignment with OFTO.

Examples from abroad:

- 20-year CfD style contracts are being provided for offshore wind in France, Belgium, Germany, Poland, and states in the USA amongst other markets.
- 20-year feed-in premium style contracts are utilised in Japan and South Korea
- In Spain, a maximum 30-year term is being considered for the new offshore wind regime.

## Market failure

**22. Do you expect that new renewable electricity projects operating on a 15-year CfD will be exposed to greater market price risk than was originally conceived in the EMR (2013)? Yes or No? Please explain why, providing evidence where possible.**

Yes.

Projects on a 15-year CfD will be exposed to greater market price risk than was originally conceived in EMR (2013), for a number of reasons:

- **Longer asset life:** the last decade has seen an increase of project lifespans from 25 years to spans lasting 35 to 40 years depending on the technology. Consequently, a 15-year CfD, which previously covered 60% of a project's lifetime, now only accounts for 40%, leaving a far greater proportion of project revenues exposed to market prices. Merchant revenue is allocated a significantly higher level of risk by investors. This greater risk exposure leads to an increase in the cost of capital, which in turn increases the CfD bid for a project.
- **Increased negative price risk:** The deployment of more renewable energy sources will reduce the long-term wholesale price of electricity. Accelerating the deployment of renewables will reduce the proportion of time that unabated gas is setting the price. This will deliver economic and societal benefits but will also lead to more frequent periods of price cannibalisation. This is exacerbated by increased deployment of renewables without transmission infrastructure and storage to match. The elimination of negative pricing protections for CfD projects starting from AR4, placing CfD assets alongside fully merchant projects as having exposure to negative market prices.

Future uncertainty over price cannibalisation, negative pricing periods, and uncertainty around the potential for zonal pricing in the wholesale market are becoming greater factors in project financing. It is very likely that new renewable electricity projects operating on a 15-year CfD will be exposed to greater market price risk than was originally conceived in the EMR.

The uncertainty around wholesale market reform is currently a major risk for the merchant period of projects in AR7 onwards. Zonal pricing could introduce significant price risk and volume risk for projects – it is essential that adequate legacy arrangements accompany any decision to implement zonal pricing. If the Government decides to pursue zonal pricing, then a longer CfD contract of at least 25 years is recommended.

Individual Energy UK members will provide further information on questions below.

**23. In your view, do you have concerns about the economic viability of CfD assets once they have reached the end of their CfD term? Yes or No? Please explain why, providing evidence where possible.**

Please refer to individual Energy UK member responses for further information. More broadly, we would stress the importance of comprehensive legacy arrangements should the Government decide to implement zonal pricing.

**24. If yes to 22 and/or 23, where possible, please provide evidence quantifying the impact you believe this may have on CfD strike price bids (% and/or £/MWh).**

#### **Potential benefits**

**25. Do you agree that increasing the contract term will reduce cost of capital? Yes or No? If yes, please state the breakdown of impacts on i) cost of debt, ii) cost of equity, and iii) gearing. If no, please explain why, providing evidence where possible.**

**26. If yes to 25, where possible, please provide evidence to quantify the impact you believe this may have on CfD strike price bids (% and/or £/MWh) via i) reduced cost of capital, ii) increased subsidy period, and iii) details of discount rates applied.**

**27. To what extent would a potential reduction in strike price from longer contracts be limited if there was insufficient competition in auctions? Please provide evidence where possible, specifically, detail on the justification for your assessment of the extent would be appreciated.**

**28. Are there any further changes to auction rules or design that the Government could make to increase the likelihood that project cost savings feed through to strike price bids, and so billpayers, and/or offset the limitations from insufficient competition? Costs / unintended consequences**

Energy UK considers contract length as one of the most impactful levers at the Government's disposal to reduce CfD bid prices.

There is a need for the Government to exercise caution when setting Administrative Strike Prices for AR7 and consider ongoing cost pressures to ensure that the AR7 ASPs are set at a level that developers can meet, enabling sufficient competition in the auction.

**29. Do you agree that increasing contract term for CfD assets would increase wholesale electricity price cannibalisation? Yes or No? Please explain why, providing evidence where possible.**

**30. If yes to 29, do you consider that this could materially impact security of supply? Yes or No? Please explain why, providing evidence where possible.**

**31. Do you consider that increasing the contract term would materially increase overall investor confidence in the renewable electricity industry? Yes or No? Please explain why, providing evidence where possible.**

Yes.

The CfD is considered the gold standard for renewables investment. Other markets around the world are now looking to copy this approach for their offshore and onshore renewables auctions. Markets without such a support scheme in place have suffered and struggle to attract investment. A recent example can be seen with Denmark (see [details here](#)) where no bidders were recorded for a recent offshore wind tender, with one of the key reasons being a lack of a route to market/CfD.

Maintaining, enhancing the CfD and aligning the scheme with the ambition of Clean Power 2030 is therefore critical to ensure the UK remains a leader in renewables investment. A longer CfD is the key way this can be achieved in the short-term and should be seen as a critical aspect of any transition arrangements if a zonal market is pursued under REMA.

An extension to the CfD contract term would increase confidence in the renewable energy industry at a time of increased instability and uncertainty both within the sector and the macroeconomic context. For developers and investors, the additional value that a reliable, regulated revenue stream offers is increasing, with reducing market appetite for merchant projects. According to members, increasing the contract term would materially strengthen renewable investments in the eyes of the finance community. The wider industrial and residential landscape would also benefit from greater confidence in more stable long-term energy prices.

**32. Do you consider there are any unintentional consequences that this policy change could create which have not been considered within this consultation? Yes or No? If yes, please provide evidence where possible.**

### Implementation

**33. Considering the factors of i) the impact on the wholesale market and security of supply, ii) the impact on CfD strike price bids and billpayers, and iii) overall investor confidence in the renewable electricity industry, in your view, what contract term best balances these factors? Please provide evidence to support your view.**

**34. Do you consider that an alternative approach to price indexation (currently CPI) may be required in any additional years of the contract to better balance the risk between generator and consumer? Yes or No? Where possible, please set out which mechanism you believe is most appropriate and why.**

**35. Do you consider that increasing the contract term from 15 years should apply to all renewable technologies currently supported under the CfD? Yes or No? Please explain why, providing evidence where possible.**

**36. If no to 35, what unintended consequences do you consider there may be for enabling longer contract term for i) OFW only, ii) OFW and ONW only, iii) OFW, ONW and solar only. Please provide evidence where possible.**

### **Chapter 3.1 - Solar PV Target Commissioning Window**

**37. Do you agree with the Government's proposal to increase the current TCW for Solar PV from 3-months to 6-months with effect from AR7. If not, please tell us why and provide evidence to support your position. If you wish to propose a different length for the solar TCW, please explain your rationale together with evidence. We would particularly welcome evidence on any commercial, technical or supply chain challenges that would prevent larger solar projects commissioning within a 6- month window.**

Energy UK supports an increase in the current TCW for Solar PV. However, we believe there is still a compelling case for the increase to be to 12 months, rather than 6 months, in particular for larger scale projects.

#### **Consistency in treatment of technologies in the CfD process**

There is a general principle underpinning the CfD process and conditions that technologies with similar characteristics should be treated in a similar way, particularly if they are competing in the same CfD auction pot.

As the consultation document notes, the majority of eligible CfD technologies have TCWs of 12 months. In contrast, solar PV currently has a 3 months TCW and the consultation states that this is because it has a faster build time than other technologies.

That may have been true in 2013, when the CfD was first introduced, when the great majority of solar projects were much smaller in scale than current practice. However, for the current and future larger scale solar projects, construction times are now comparable to other technologies, such as onshore wind projects.

Given this similarity, it is unreasonable to cap the TCW for solar projects at 6 months when other projects with similar construction times have 12 months available. This is because a difference in TCW duration can have a direct impact on the relative competitiveness of solar and other technologies competing in the same CfD auction pot, as solar projects will have a higher risk of erosion of the full 15 year CfD term. Distortion of the CfD auction due to differences in the auction parameters between technologies should be avoided as far as possible.

## The Need for a 12 months TCW for solar projects

The consultation notes that, had a 12-month TCW been available to solar projects in AR6, developers choosing the second delivery year would have had approximately four and a half years, to commission without financial penalty. The implication is that this is longer than a solar project could reasonably require and a period of four years (with a 6 month TCW) is sufficient.

However, there are reasons why a longer period could reasonably be required. Project programmes cannot be timed to exactly match the timing of CfD contract award and the start and end dates of delivery years. Programmes are constrained by many factors, including the date a site becomes available, site specific access time restrictions, supply chain availability, contractor availability, DNO or National Grid requirements on the timing of commissioning windows and other factors outside the developer's control. Consequently, for larger solar projects, the time to commission from CfD award can exceed four years. As a result, a 6 months TCW could still result in CfD erosion.

The consultation notes that several larger solar projects have secured CfDs with a 3-month TCW and suggests that this is evidence that some larger projects can deliver within the 3 month TCW. This may be true. However, it is also possible that some larger projects have tolerated a degree of CfD erosion within the clearing strike price secured through the CfD auction. The pipeline of future solar projects has a much higher proportion of large scale projects than the pipeline up to AR6. The TCW is likely to become a much more significant impact in future auction rounds.

### **38. Do you have any views on any of the impacts explored in the assessment? In particular, we would welcome further evidence on:**

- a. The benefit that could be captured in the near-term (AR7 and AR8) for solar PV projects from extending the TCW, or any risks of the proposal;**
- b. Any alternative design options that you consider might better balance the need for increased flexibility for some solar projects whilst ensuring that developers are still incentivised to build out efficiently.**

### **Delivery of 2030 Clean Power Mission**

The consultation notes that, in proposing resetting the solar TCW to 6 months, the Government wishes to strike a balance between giving future solar projects a reasonable timeframe in which to commission and maximising the likelihood of them coming online in time to contribute to the delivery of the 2030 clean power mission.

We would challenge the line of reasoning in this comment. There is commercial incentive to begin operations as soon as possible. If insufficient time is provided for a project to deliver without CfD erosion with achievable programme timings, this will

not result in the project accelerating delivery. As noted above, there are fundamental constraints on how quickly a large scale solar project can be delivered. What an insufficient TCW will do is worsen the project economics, increasing the risk that project doesn't proceed at all. In that case, it will make no contribution to any target for net zero delivery.

### **Options for solar TCW duration**

We understand that there is a potential concern that a 12 month TCW is significantly longer than smaller solar projects require and does not incentivise early delivery towards the 2030 clean power target.

While the risk and financial impact of the 3 month TCW is less for smaller projects, this is still potentially significant, even for a 50 MW scale project or smaller. For this reason, our preference would be to have one single TCW duration of 12 m for all sizes of solar projects.

However, if there is a continuing concern over smaller solar projects, then one potential option is to specify a 12 month TCW but only for larger solar projects. A suitable threshold would 100 MW capacity, to match the updated planning threshold for solar projects to qualify as an NSIP project subject to the DCO consent process.

## **Chapter 3.2 - Eligibility of surrendered CfD capacity for AR7**

**39. Do you agree with the Government's proposal to apply a temporary restriction on CfD capacity released by generators through the permitted reduction and FIC flexibilities being entered into AR7, and the proposed drafting in the Contract Allocation Framework to achieve this? If not, please tell us why and provide evidence to support your position. We would particularly welcome evidence from any existing CfD generators that may be adversely affected by this proposal.**

Energy UK agrees with the Government's proposal to apply a temporary restriction on CfD capacity released by generators through the permitted reduction and FIC flexibilities being entered into AR7. Some members propose DESNZ pursuing a further larger exclusion to ensure projects with AR6 capacity who have not yet reduced capacity cannot re-bid their capacity.

We recognise there are a number of issues with allowing permitted reduction and FIC flexibilities. There is also a need to retain flexibility within the CfD due to continuing uncertainty with cost increases and therefore we would recommend that this is kept open for further review. Having a mechanism by which projects can improve their economics is helpful tool to have. Flexibility can help projects deliver sooner rather than later.

We also agree and support the commitment in the consultation that the Government will consult in due course on any proposals regarding the eligibility of surrendered CfD capacity to enter future allocation rounds, and associated matters, with a view to clarifying its policy in time for the launch of AR8.

**40. Do you agree with the confirmation and documentary evidence that applicants will have to provide to demonstrate that their applications do not contain any capacity which was previously subject to a CfD awarded in Allocation Rounds 1-6? If not, please tell us why and provide evidence to support your position.**

**41. Do you have any views on any impacts explored in the assessment? In particular, we would welcome further evidence on:**

- a. **The assessment of benefits and risks identified in this assessment, including any additional evidence on the likelihood and significance of benefits and risks identified;**
- b. **Whether there are further benefits or risks to this proposal which are not explored in this assessment.**

## **Chapter 4.1 - Repowering of onshore wind**

**42. Do you agree with the proposed changes to the Contract Allocation Framework proposed above? If you disagree, please tell us why and support your answer with evidence.**

Energy UK agrees with the proposed changes to the Contract Allocation Framework on repowering of onshore wind.

The Government will need to strike a balance between maintaining a level playing field whilst also ensuring this proposal is implemented in line with its policy intent to maintain generation and avoid repowering projects stalling.

**43. Do you agree with the documentary evidence and eligibility checks proposed above? If you disagree, and/or wish to suggest alternative evidence/checks, please tell us why and support your answer with evidence.**

**44. Do you agree with the definitions to be added to the Contract Allocation Framework proposed above and in the CfD Agreement and Standard Terms and Conditions published alongside this consultation? If you disagree, please tell us why and support your answer with evidence.**

**45. Do you agree that applicants should be required to demonstrate at the point of application that the existing onshore wind station for which they are seeking CfD support will, or would have but for decommissioning, have reached the end of its operating life by the Target Commissioning Date? If you disagree, and/or**

wish to suggest an alternative cut-off point, please tell us why and support your answer with evidence.

Energy UK agrees.

However, we would like to raise concerns regarding the ability to repower in phases.

Our main concern regarding the proposed eligibility criteria is that it fails to adequately consider phased onshore wind farms, which have been designed and consented as a single repowering project.

The current definition of 'end of its operational life' is likely to result in the earlier phases of onshore wind farms being decommissioned and left idle for several years, rather than contributing to larger, more efficient repowered projects. This should not be the intention of the repowering policy, given the ambition of the Clean Power 2030 Action Plan.

The Government will need to strike a balance between maintaining a level playing field whilst also ensuring this proposal is implemented in line with its policy intent to maintain generation and avoid repowering projects stalling.

**46. Do you agree to allowing a more flexible approach to demonstrating that the existing generating station has reached the end of its operating life through fulfilment of an Operational Condition Precedent?**

**47. Do you agree with the proposed contract changes outlined above and shown as tracked changes in the CfD Agreement and Standard Terms and Conditions published alongside this consultation? If you disagree with any of the proposed changes, or have alternative suggestions, please tell us why and provide evidence to support your position.**

**48. Do you agree with the Government's proposed amendments to ensure the separation between the CfD facility and the existing decommissioning plant as outlined above? If not, please tell us why and provide evidence to support your position.**

## **Chapter 4.2 - Phased CfDs for floating offshore wind**

**49. Do you agree with the proposed amendments to the phased CfD contract terms to implement fully the Government's policy to extend phasing to Floating Offshore Wind? If not, please tell us why and provide evidence to support your position.**

Energy UK welcomed the Government's decision in their October 2024 consultation response to extend phasing to floating offshore wind from AR7 onwards. This is a positive step towards supporting the sector. We agree with the proposed

amendments to the phased CfD contract terms to implement phasing policy for floating offshore wind.

As per Energy UK's response to the 2024 AR7 consultation, we believe that there could be merit in increasing the 1500 MW cap. This would reflect the larger scale of future projects as the FLOW industry matures. We continue recommend a review of the size of this cap is carried out as a priority, as well as the detailed conditions on the number and timing of phases that are most appropriate to match the increased cap size. The option to include the 1500 MW cap should be kept under review in future and more information should be made available of the impact of increasing the cap, to avoid larger projects coming in phases and increasing risk.

The Government should also consider additional changes related to floating offshore wind to further enhance the overall construction process, improve the sector's commercial viability, and facilitate its early deployment in GB. Such changes include reducing the Required Installed Capacity to a minimum of 85% of the contracted capacity and increasing the Longstop Period from 12 to 24 months.

These adjustments would align with the flexibilities provided to fixed-bottom offshore wind. The case for these changes is even greater for floating offshore wind due to the heightened construction risks, such as limited suitable port capacity and greater sensitivity to adverse weather conditions.

## **Chapter 5.1 - Changes relating to implementation of Part 5 of the Energy Act 2023 (establishment of NESO)**

**50. Please flag any unintended consequence of these changes that Government may need to consider, and let us know if you think any other changes ought to be considered as a result of the establishment of NESO.**

## **Chapter 5.2 - Changes relating to Clean Industry Bonus payment suspensions**

**51. Do you agree that the amendment to the conditions relating to CfD payment suspensions is sufficiently clear and fit for purpose? If not, please state your reasons and an alternative proposal.**

## **Chapter 6.1 - Changes to regulations relating to the Clean Industry Bonus**

**52. Please flag any unintended consequence of this change that Government may need to consider.**

## Chapter 6.2 - Wider Risks that may impact the Allocation Round

### 53. Are there exogenous issues not covered elsewhere in this consultation that you are particularly concerned about when it comes to Allocation Round 7?

#### REMA

Energy UK has long maintained that fundamental changes to market arrangements, such as the introduction of zonal pricing, could risk creating an investment hiatus, or increase the cost of capital at a time when access to affordable investment is crucial. This could undermine efforts to accelerate the transition and hinder the long-term affordability of a decarbonised power sector.

The Government's decision on wholesale market reform in summer 2025, and whether to introduce zonal pricing, will have a profound impact on projected future revenues. This is the case even if the decision is to continue with an enhanced national market. Linked closely to this decision is the need for a predictable, stable and proportionate basis for future TNUoS charges for transmission access.

Without clear information on both the zonal pricing scenario and enhanced national pricing scenario, provided with adequate time for developers to analyse the implications, members report that it will not be possible to quantify the future risks for a project bidding in AR7. Projects may still submit bids, but these are likely to include substantial risk premiums to cover the uncertainty in REMA and TNUoS outcomes. This will increase the cost to the consumer. It is also likely that a number of projects will decide not to submit bids, reducing the scale and competition of the auction.

Please refer to Energy UK's note, shared alongside this consultation response "Essential investor information required ahead of and alongside a final REMA decision".

#### Additional delivery years

Energy UK supports additional delivery years across technologies as this would allow more projects to appear in Allocation Rounds. The alternative of not having extra delivery years isn't necessarily that more projects appear in the second year, it would be that fewer projects appear at all.