

CONSULTATION RESPONSE

Introducing a Contracts for Difference (CfD) Sustainable Industry Reward (SIR)

Response from Regen

11 January 2024

About Regen

Regen is a leading strategist on the pathway to a zero carbon energy system, focused on analysing the systemic challenges of decarbonising power, heat and transport. We know that a transformation of this scale will require engaging the whole of society in a just transition. We have 20 years' experience in transforming the energy system for net zero and delivering expert advice and market insight.

Regen is also a membership organisation, managing the Regen members network and the Electricity Storage Network (ESN) – the voice of the UK storage industry. We have over 150 members who share our mission, including clean energy developers, businesses, local authorities, community energy groups, academic institutions and research organisations across the energy sector.

This response is based on extensive practical experience and follows on from Regen's response to the government's previous Call for Evidence on the introduction of non-price factors to the Contracts for Difference (CfD) mechanism¹. We are keen to continue our engagement with the Department for Energy Security and Net Zero team in the development of the CfD.

¹ Regen, 2023. [Call for Evidence on introducing non-price factors into the Contracts for Difference scheme: Response from Regen](#)

Introduction

Since its introduction, the Contracts for Difference (CfD) mechanism has been extremely successful in incentivising investment in low carbon electricity generation. Based on a cost-competitive auction, the current mechanism has facilitated a significant reduction in the cost of electricity from offshore wind. However, the structure of the CfD mechanism has so far not recognised the wider societal, economic, environmental and energy system benefits of low carbon technologies, including supply chain development, job and skills creation and regional economic development.

The current CfD scheme also fails to give locational or energy system signals which might recognise, for example, the energy system benefits of a more diverse energy generation portfolio. Regen's Go West! analysis² explored the electricity system benefits of a diverse offshore wind portfolio and our response³ to the Review of Electricity Market Arrangements (REMA) highlighted the potential for the CfD scheme to better reflect the advantages that non-price-based factors can bring to the energy system and consumers. These points were further reflected in Regen's response⁴ to the government's 2023 Call for Evidence on the introduction of non-price factors into the CfD mechanism.

This consultation response details our thoughts on the proposed introduction of a Sustainable Industry Reward (SIR) into the CfD mechanism. The SIR is intended to encourage meaningful action to increase the economic, environmental and social sustainability of offshore wind and floating offshore wind deployment. The SIR does not, at this stage, include energy system benefits and we feel that this area still needs to be considered. Encouraging developers to increase supply chain resilience, mitigate against environmental stressors and provide visible social benefits will help address the unsustainable nature of the conditions currently facing the sector. In turn, this will improve the UK's ability to deliver renewable energy at a sustainable cost to the consumer.

Our key recommendation is that government should consider the differentiation of minimum SIR standards and an enhanced SIR scheme, and implement these in appropriate ways.

² Regen, 2022. [Go West!](#)

³ Regen, 2022. [Regen's REMA Consultation Response October 2022.](#)

⁴ Regen, 2023. [Call for Evidence on introducing non-price factors to the Contracts for Difference scheme.](#)

Summary response

Regen is supportive of the introduction of SIR criteria to encourage and incentivise meaningful action that increases the economic, environmental and social sustainability of offshore wind projects. The government should consider how the SIR is implemented and, in particular, should differentiate between minimum SIR standards and an enhanced SIR scheme. Any reward mechanism must also align with wider strategies to build the UK's offshore wind industry, such as the Industrial Growth Plan, to ensure sufficient strategic investment into the UK supply chain.

In our response we have differentiated between:

- **Minimum SIR standards** which could be introduced as entry criteria for the CfD scheme.
- **Enhanced SIR scheme** (beyond the minimum) which could be introduced as a separate reward/penalty contract and could be offered to non-CfD projects, partial CfD projects and existing CfD contract holders.

In particular, the following areas should be considered further by the government to ensure this scheme is as effective as possible.

- Regen supports the establishment of **minimum SIR standards** as a qualification requirement to participate in the CfD scheme. However, the government needs to ensure that the minimum standards introduced and the process of monitoring applicants' progress against such standards is fair and does not disincentivise developers from participating in the CfD process.
- The government should consider whether an **enhanced SIR scheme** would stimulate greater levels of investment if it were set up as a standalone incentive mechanism, separate from the introduction of minimum standards within the CfD mechanism. A separate enhanced SIR scheme would encourage greater levels of collaboration between projects, while still encouraging new CfD developers to meet minimum standards.
- The government should consider the best route to enable significant investment to be made as soon as possible into the UK supply chain. Setting up an enhanced SIR scheme as a standalone incentive mechanism would open up the incentives to projects developing with merchant risk, projects with a partial CfD or projects already with a CfD contract to undertake SIR-compliant initiatives.
- Future development of the offshore wind supply chain and related infrastructure relies heavily on stimulating co-investment between developers. The SIR scheme needs to facilitate collaboration between applicants and should not be a barrier to co-investment. This notion is also applicable to the associated CfD mechanism. Any SIR mechanism should also look to align with wider strategies to build the UK's industry to support offshore wind,

such as the Industrial Growth Plan, with applications reviewed to ensure they align with industry-wide initiatives.

- Encouraging SIR-backed initiatives to target deprived areas and the levelling up agenda is welcome. In practice, developers should be encouraged to work with, and through, regional and local governments to ensure that initiatives funded under the SIR scheme are aligned with local socio-economic strategies. Initiatives could also be targeted at the energy transition, for example targeting areas with energy-intensive industries and fossil fuel industries as part of a wider net zero industrial strategy.
- The government should consider how best to reward energy system benefits in the CfD process, to ensure new offshore wind developments are being strategically located to support efficient system operation across the GB network. This area has so far been overlooked but is becoming more important as the UK deploys higher levels of renewable energy.

Response to Question 4

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

Significant investment must be made as soon as possible into the UK supply chain to properly support upcoming fixed and floating offshore wind deployment. In particular, the UK has a unique opportunity to learn from the development of fixed offshore wind to inform its floating offshore wind strategy. One key learning should be to invest early in UK manufacturing facilities and supply chains to ensure that the UK does not lose out to international competition.

Minimum SIR standards

Further information on the minimum SIR standards needs to be shared with developers with sufficient foresight to help them prepare their applications and accommodate this work into the already extensive CfD process.

Enhanced SIR scheme

The government should consider whether completing the SIR awarding process ahead of a CfD auction round is the most appropriate time. Undertaking an enhanced SIR scheme in parallel to or after the award of CfDs instead could streamline the process and allow the SIR budget to be opened up to projects currently in development. This would form the quickest route to new investment, as initiatives funded through AR7, AR8 and AR9 are unlikely to materialise until the late 2020s/early 2030s. This would also encourage greater collaboration between developers, which is discussed more in our [response to Question 10](#).

Summary

The government should consider how the SIR is implemented and the best route to enabling significant investment to be made as soon as possible in the UK supply chain. In particular, the government should consider whether an enhanced SIR scheme would stimulate greater levels of investment if it were set up as a standalone incentive mechanism, separate from the introduction of minimum standards within the CfD mechanism.

Response to Question 6

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

The consultation presented two options for consideration:

- Option 1 – all applicants must secure funding for at least one SIR proposal to be eligible to enter the CfD Allocation Round.
- Option 2 – all applicants must submit proposals for each SIR category to be eligible to enter the CfD Allocation Round, and must achieve minimum standards on all SIR categories to bid for a CfD.

Of these, option 2 appears better suited to ensure material societal, economic and environmental change across industry while ensuring that the CfD remains an attractive proposition for developers

Regen is supportive of introducing **minimum SIR standards** for CfD applicants – a recommendation that was promoted in our response to government’s original Call for Evidence on the inclusion of non-price factors in the CfD mechanism. Minimum standards will ensure that applicants make material contributions to the sustainability of their supply chains and will encourage continued best practice among industry participants. In turn, this will lead to the increased supply chain resilience needed to support the deployment of offshore wind at the required pace.

Introducing **minimum SIR standards** as a contractual element across projects looking for CfD support will encourage best practice and elevate standards across all developers. However, if the government is to introduce and mandate minimum standards as a contractual element of the CfD mechanism, a careful balance must be struck to ensure that any requirements and associated processes undertaken by applicants do not disincentivise developers from bidding into the CfD in the first place, or drive up CfD strike prices.

Summary

Regen supports the establishment of minimum SIR standards as a qualification requirement to participate in the CfD scheme. However, the government needs to ensure that the minimum standards introduced and the process of monitoring applicants’ progress against such standards is fair and does not disincentivise developers from participating in the CfD process.

Response to Questions 7 & 8

Are the government’s proposals on performance-related adjustments (i.e. to address non-delivery) proportionate and enforceable?

- a. Performance related adjustments for non-delivery or partial delivery of SIR commitments.**
- b. Performance related adjustments for non-delivery of minimum standards.**

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

As an industry-led reward mechanism, proper processes must be in place in the event of non-delivery of SIR commitments.

If a developer does not meet the minimum SIR standards set out, Regen agrees that there should be a penalty system in place.

In the case where a developer does not deliver (fully or partially) on its enhanced SIR commitments, Regen agrees that it should not receive full SIR payments. Whether the wind farm operator should also face a penalty (malus) needs to be considered. In principle, there should be appropriate penalties, due to the negative impact and potential long-term effects on the supply chain and other stakeholders. However, the level of penalty and whether it is considered fair or arbitrary may also impact investment risk, especially in cases where the developer does not have full control over the delivery of SIR benefits.

The link between the performance-related adjustment of CfD payments and the original SIR delivery cost, as outlined in the consultation document, seems arbitrary. As a standalone fund, separate from the mandating of minimum standards within the CfD process, the enhanced SIR scheme could act as a true reward mechanism – as opposed to the framework for a penalty system – whereby applicants are rewarded for initiatives above and beyond those identified as minimum standards.

A reward mechanism detached from the CfD would provide the added benefit of incentivising offshore projects developing using merchant risk (i.e. not applying for a CfD), applicants that only bid a proportion of their project to get a CfD or projects already with a CfD to undertake SIR-compliant initiatives. This would support greater collaboration between developers – something we discuss in our [response to Question 10](#). In addition, the SIR budget could be made available to projects in development who are in the process of undertaking, or have already undertaken, said initiatives. This would reduce the risk of non-delivery of commitments.

Summary

The government should consider the best route to enable significant investment to be made as soon as possible into the UK supply chain. Setting up an enhanced SIR scheme as a standalone incentive mechanism would open up the incentives to projects developing with merchant risk, projects with a partial CfD or projects already with a CfD contract to undertake SIR-compliant initiatives. This would still encourage CfD developers to meet minimum standards.

Response to Questions 10 & 11

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

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

Regen is supportive of the three SIR criteria identified within the consultation: deprived areas, small and medium-sized enterprises and decarbonisation. We would also add the energy transition and the transfer of skills, people, assets and capabilities from fossil fuel-dependent industries as an important objective.

It is encouraging that government has identified criteria that can mitigate supply chain barriers and economic difficulties – factors that have contributed to recent challenges identified within the industry. This is particularly important for floating offshore wind as an industry that is yet to fully establish itself. To maintain the UK’s position as a leader in offshore wind development, and to capitalise on the opportunity presented by the floating offshore wind market, the SIR criteria must ensure the UK remains an attractive place to invest.

Deprived areas and local content

Regen is pleased to see a direct focus on deprived areas and the levelling up agenda within the SIR criteria. However, we suggest the best way to deliver on these objectives is to encourage developers to work with, and through, regional and local governments to identify opportunities for synergy between offshore wind development and the levelling up agenda. This needs to be approached in a pragmatic way to ensure initiatives funded through the SIR scheme are aligned with local socio-economic strategies. The government should consider the following areas:

1. While the DLUHC’s indices of multiple deprivation dataset is a good way of identifying deprived areas, we would suggest that the most important criterium is that developers are actively working with local authorities, devolved governments and regional stakeholders to ensure that their SIR proposals are aligned with local and regional levelling up and socio-economic strategies. Rather than a scoring system based on a deprivation index, it would be more appropriate to score based on alignment with regional levelling up strategies. It should also be recognised that the choice of location for supply chain development is heavily influenced by the location of lease opportunities, port infrastructure and the wider UK Industrial Growth Plan, which can in turn be targeted at deprived areas.

2. In addition to deprivation and levelling up, we would suggest including the energy transition as an objective, for example, targeting areas with energy-intensive industries and fossil fuel industries as part of a wider net zero industrial strategy.
3. By nature, the investments specified will deliver holistic economic benefits. However, the effect on people already living in these deprived areas could be tenuous without a dedicated effort to upskill and invest in local initiatives. The government should mandate that manufacturing facilities funded through the SIR should be combined with skills and R&D investment, as proposed in the consultation, to help build and upskill the local workforce and deliver more direct benefit. This should also not all be placed at the feet of developers, but should be accompanied by a wider effort as part of other government policy objectives, for example the Offshore Wind Sector Deal⁵, the Levelling Up initiative and the UK's Industrial Growth Plan.
4. The consultation states that deprived areas "within countries that have a direct border with the North Seas Energy Cooperation (NSEC) area" will be included for consideration. The deployment of offshore wind and floating offshore wind in the UK will draw on international facilities and UK-based companies can benefit from a large export market. Hence, we are supportive of the focus on the development of the North Sea area, as long as reciprocal support is provided to the UK by other NSEC states. It would be good for the government to explain in the consultation response exactly how these reciprocal arrangements would work and what arrangements have been put in place with the NSEC states.

Regen would also encourage the government to consider setting up best practice principles for developers looking to deliver initiatives in deprived areas under the SIR criteria. Proper community or local stakeholder engagement can be challenging to do well, however it is an essential part of delivering meaningful local value. As these initiatives will be funded by the UK government, we think there is sufficient scope for the government to set out principles, guidelines and case studies that developers could refer to in delivering initiatives for deprived areas specifically. Lessons could be learned from sectors such as onshore wind, building on examples such as guidance set out by Scottish Government to support the delivery of community benefits in the onshore sector⁶.

Summary

Encouraging SIR backed initiatives to target deprived areas and the levelling up agenda is welcomed. In practice, developers should be encouraged to work with, and through, regional and local governments to ensure that initiatives funded under the SIR scheme are aligned with local socio-economic strategies. Initiatives could also be targeted at the energy transition, for example targeting areas with energy-intensive industries and fossil fuel industries as part of a wider net zero industrial strategy.

⁵ The Department of Business, Energy and Industrial Strategy, 2020. [Offshore wind sector deal](#).

⁶ Scottish Government, Good Practice Principles for Community Benefits from Onshore Renewable Energy Developments, 2018. https://consult.gov.scot/energy-and-climate-change-directorate/onshore-renewable-energy-developments/user_uploads/community-benefits-onshore-revised-gpp.pdf

Collaboration between applicants and alignment with wider strategy

Investment in the wider supply chain and associated infrastructure relies heavily on the transparency of the offshore wind project pipeline. This allows the supply chain to determine the optimal size, scale and location of assets and necessitates commitments from a series of project developers.

As the deployment of low carbon projects moves to a more strategic delivery plan, projects are becoming more dependent on co-investment in supply chains and shared infrastructure. Key players across the offshore wind and floating offshore wind supply chains have been calling for increased collaboration between developers and their associated projects in light of this strategic shift. In response to this, the Offshore Wind Industry Council is developing a strategic plan for the sector through the Industrial Growth Plan (IGP)⁷.

It is not currently clear how the proposed SIR mechanism would look to align with wider strategies to build the UK's industry to support offshore wind. The consultation notes that SIR applications can include "any investments made through an industry-led, collaborative programme to develop supply chains that was established as part of the Offshore Wind Sector Deal or the Scottish Strategic Investment Model". Regen would suggest that the link to the Industrial Growth Plan is made more explicitly and that applications are reviewed to ensure they align with industry-wide initiatives.

It is also unclear how the mechanism would facilitate collaboration and co-investment and whether developers are allowed to jointly apply to undertake shared initiatives. By separating the enhanced SIR scheme from the minimum SIR standards as part of the CfD, government can encourage collaboration through joint applications and avoid the challenges of each project needing to be successful in that CfD round. It would also allow new CfD developers to partner with existing CfD holders or projects developing at merchant risk in the same area of seabed to undertake shared activity for the benefit of all projects.

Summary

Future development of the offshore wind supply chain and related infrastructure relies heavily on stimulating co-investment between developers. The SIR scheme needs to facilitate collaboration between applicants and should not be a barrier to co-investment. This notion is also applicable to the associated CfD mechanism. Any SIR mechanism should also look to align with wider strategies to build the UK's industry to support offshore wind, such as the Industrial Growth Plan, with applications reviewed to ensure they align with industry-wide initiatives.

⁷ RenewableUK, 2023. [Industry plots course for new industrial vision for offshore wind sector](#)

Recognising whole system benefits

The proposed SIR criteria identify key challenges currently faced by the deployment of offshore wind and Regen agrees with rewarding applicants who have invested time and resources into progressing these criteria.

In Regen's response to the previous non-price factors Call for Evidence, we highlighted capacity building (i.e. supply chains, skills development and UK content) as a key opportunity area for targeted support. Hence it is encouraging to see that several of the proposed SIR criteria value the impact that these areas can have on the future of offshore wind deployment.

Regen also identified whole system benefits as a key area that should be recognised and rewarded through the CfD. This primarily relates to diversification of renewable generation, through both technology type and project location. These whole system benefits will become increasingly sought after as more renewable generation connects to the grid.

Consideration of the impact of renewable generation on the energy system as a whole is not currently included as part of the SIR criteria, and Regen would suggest that government consider rewarding developers who take targeted and meaningful action to benefit the whole system in future iterations of the CfD mechanism, either through the SIR or through the Allocation Rounds.

Summary

The government should consider how best to reward energy system benefits in the CfD process, to ensure new offshore wind developments are being strategically located to support efficient system operation across the GB network. This area has so far been overlooked but is becoming more important as the UK deploys higher levels of renewable energy.



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