

CONSULTATION RESPONSE

# **Proposed amendments to Allocation Round 7 and future Contracts for Difference rounds**

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Response from Regen

07 March 2024

# About Regen

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Regen provides evidence-led insight and advice to transform the UK's energy system for a net zero future. 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 more than 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 Regen's input into conversations on energy market reform, where we have previously highlighted the need for radical reform of the electricity system and markets to unlock the accelerated scale and pace in renewable energy deployment needed to achieve net zero. In our response to the government's Review of Energy Market Arrangements (REMA) consultation,<sup>1</sup> we called for a full review of the current CfD mechanism to better understand the challenges faced within a future system and gauge how targeted reform of the CfD could better address these challenges. We also called for the need to encourage and incentivise meaningful action that increases the economic, environmental and social sustainability of renewable projects within our response to the government's consultation on introducing a Sustainable Industry Reward into the CfD.

## **Continuing engagement**

Regen is keen to continue our engagement with the Department for Energy Security and Net Zero team in the development of the CfD scheme.

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<sup>1</sup> Regen, 2022. [Review of Electricity Market Arrangements: consultation response from Regen.](#)

# Introduction

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Since its introduction in 2014, the Contracts for Difference (CfD) mechanism has successfully incentivised investment in low-carbon electricity generation. The current mechanism has facilitated a significant reduction in the cost of electricity from low-carbon resources. It has, so far, awarded contracts totalling over 30 GW of renewable capacity across low-carbon technologies. Significantly, in the context of consumer value, the CfD has a built-in value share arrangement with consumers – via the negative payment clause – which, assuming competitive auctions, offers consumers a fair and low price for energy in exchange for long-term revenue certainty for the generator.

The CfD, despite recent auction travails,<sup>2</sup> is still regarded as the best mechanism to support variable renewable generation and many EU countries are moving towards a CfD-type model.

However, the landscape of the low-carbon sector is constantly evolving and the now-annual CfD Allocation Rounds need to be able to support the scale and pace of renewable deployment needed to reach the UK's 2050 net zero emissions<sup>3</sup> target and 2035 power sector decarbonisation<sup>4</sup> target, all whilst considering the potential cost to electricity consumers. As the government's prime support mechanism for low-carbon generation, the CfD needs to evolve to accommodate the complex challenges and configurations expected of this transition to enable the UK to meet decarbonisation targets both quickly and sustainably.

In terms of the wider market design and energy system impacts the CfD scheme faces several challenges:

1. How do CfDs value **“non-price factors”** including economic development, UK and regional supply chains, environmental value and wider system benefits?
2. How do CfDs affect **market behaviour and create potential distortions** in the market such as negative price periods and the loss of liquidity in forward markets?
3. Could CfDs also **inhibit generators from participating in ancillary service markets**, or “behind the meter” type applications in storage and hydrogen production?
4. If nearly all new generation is CfD backed, does this create a **more fundamental market distortion** e.g. putting non-CfD projects at a terminal disadvantage or preventing other forms of forward market hedging?

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<sup>2</sup> The Round 5 CfD auction was a success for onshore wind, tidal and solar, but failed to attract bids for offshore wind. The general consensus was that the reserve strike price (the ASP) was set too low given cost increases in the supply chain and capital markets.

<sup>3</sup> Department for Business, Energy and Industrial Strategy & Department for Energy Security and Net Zero, 2021. [Net Zero Strategy: Build Back Greener](#).

<sup>4</sup> Department for Business, Energy and Industrial Strategy, 2021. [Plans unveiled to decarbonise UK power system by 2035](#).

This consultation response details our thoughts on the proposed amendments to Allocation Round 7 and future CfD allocation rounds. The government's previous consultation on introducing a CfD Sustainable Industry Reward<sup>5</sup> aims to address the unsuitable conditions currently facing the offshore wind sector. This consultation builds on these plans and aims to address the longer-term policy considerations reflected in the shift to more frequent, annual CfD rounds.

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<sup>5</sup> Department for Energy Security and Net Zero, 2023. [Introducing a Contracts for Difference \(CfD\) Sustainable Industry Reward](#).

# Summary response

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**Regen is supportive of the need to review the current CfD scheme. The amended scheme needs to ensure that the future scale and pace of low-carbon projects are supported, all whilst considering the potential wider market and system impacts and the cost to electricity consumers. In a broad sense, the proposed changes are a positive step for the UK's net zero trajectory, yet the government should review each proposition in detail to ensure that the CfD scheme does not disincentivise developers from participating.**

In particular, the following areas should be considered further by the government to ensure the CfD mechanism sufficiently reflects the evolving state of the industry:

- The proposed CfD eligibility criteria for repowered onshore wind projects are likely to become obstacles which will disincentivise applicants from considering repowering as a possible option. The eligibility criteria need to acknowledge the technological nascency and commercial arrangements of the early-generation onshore wind projects and should be adjusted accordingly.
- Furthermore, the government should award repowered projects a separate pot within the CfD mechanism. This would remove direct competition between repowering and new-build projects – of which the cost comparison is still uncertain – and would ensure strike prices are reflective of repowered projects.
- The extension of the phasing policy to floating offshore wind is supported given the technology's current nascency and need for supply chain development. However, we suggest reviewing the 1.5 GW capacity cap to better align with the scale of projects being developed and the trajectory of future capacity.
- Regen supports the proposed hybrid metering; however, further clarification is needed on the application of Transmission Constraint Licence Condition rules to a single Balancing Mechanism Unit. The government should also consider the impact of existing negative price rules on the effectiveness of hybrid metering in promoting flexibility.
- The CfD mechanism is not best placed to incentivise specific technological innovation within an asset class (e.g., innovation in floating wind substructures). Regen suggests that other mechanisms may be better placed to support the progression of floating wind substructures that are at an earlier stage of readiness.
- While transitioning to a Producer Price Index-based inflationary index for the pre-construction phase could theoretically better reflect construction cost changes, the significantly higher volatility compared to the Consumer Price Index will affect project financing and feasibility. The government should continue with the CfD's current indexation and engage closely with industry to set appropriate and sustainable Administrative Strike Prices ahead of each Allocation Round.

## Response to questions 1-3

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**Q1. Do you agree that the eligibility criteria for full repowering appropriately balances CfD policy objectives of supporting decarbonisation, ensuring security of supply and minimising costs to consumer?**

**Q2. Do you agree that use of the power generation cost assumptions to define end of operating life is an appropriate metric to capture those projects which will be seeking to fully repower in each allocation round?**

**Q3. Do you consider that each project should need to at least retain capacity, or do you foresee any challenges with this assumption?**

Repowering existing onshore wind projects is a vital part of the UK's transition to net zero, as well as improving the UK's energy security. Repowered sites benefit from existing transport and network infrastructure alongside active and ongoing relationships with the local community and landowners – favourable components for renewable developments that can help to both reduce capital costs and provide significant community and environmental benefits. Repowered sites should be supported alongside new developments and, to this end, Regen supports the government's suggestion to incorporate onshore wind repowering within the CfD mechanism. However, careful consideration is needed to ensure that the eligibility criteria adequately reflects the advancements made by the sector across the past few decades.

The consultation document states that repowered projects must adhere to the following criteria to be eligible to apply for a CfD:

- Technologies must already be eligible for the relevant Allocation Round.<sup>6</sup>
- Projects must have at least reached the end of their operating life by/before the end of any applicable Delivery Year for each Allocation Round and projects must not be receiving any electricity generation subsidy at that point.
- Projects must be able to retain their current capacity across the contract term.
- Projects must align with the CfD case for intervention, including high upfront costs.

However, Regen believes that the combination of these criteria may hinder developers to consider repowering as a possible option.

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<sup>6</sup> Technologies would need to abide by the specific eligibility criteria under the CfD, including size and sustainability requirements. These are to be reviewed ahead of each allocation round and are included in the Allocation Framework.

## End of operating life

Ensuring projects reach the end of their operational life rightly removes incentives for developers to deliberately close operational and commercially viable projects earlier to receive additional subsidies. However, the methodology used to define 'end of operational life'<sup>7</sup> could become a hindrance to increasing renewable generation capacity across the UK as it overlooks the technical and commercial realities of early-generation assets – projects that are now approaching decommissioning. These include:

- **Shorter assumed operational lifespans** – early-generation sites typically assumed a shorter operational lifespan than suggested by the Electricity Generation Costs Report.
- **Heavily subsidised revenues** – for example, Renewable Obligation support.
- **Technical development** – turbine efficiency has significantly increased since early-generation projects.

Necessitating early-generation projects to wait until the prescribed 'end of operational life' before being eligible for repowering may incur additional maintenance costs (exacerbated by certification and warranty costs, in addition to the availability of replacement parts) and leave previously subsidised projects at merchant risk. If a project's costs exceed revenue projections, then the operator is likely to decommission the generator rather than wait to be eligible for repowering, irrespective of the operational lifetime reached. This cumulative loss of generation will be a significant lost opportunity for the UK's renewable generation mix. Technical development also means that electricity generation can be significantly increased through early repowering of sites. This is particularly true for the oldest generation sites which are subject to lower efficiencies where the greatest increases in installed capacity are likely to occur.

## Capacity retention

The first 22 sites in the UK that had been granted repowering permission by 2019 demonstrate an average increase in installed capacity.<sup>8</sup> However, several factors outside of the developer's control will determine whether the existing capacity can be retained:

- **Technology specifications** – i.e. rated power of operational versus new turbines, increases in height and rotor diameter, number of turbines needed.
- **Environmental conditions** – i.e. size of the development site, ground conditions of the expanded site.
- **Local network conditions** – existing grid connection could cap the capacity of the repowered site which will limit configurations. Applying for a capacity increase can be a lengthy process and will risk project delays.

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<sup>7</sup> The government proposes to define 'end of operating life' in line with operating life assumptions drawn from the published 2023 DESNZ Electricity Generation Costs Report. This data suggests 25 years to end of operating life for onshore wind, 30 years for offshore wind and 35 years for solar PV.

<sup>8</sup> Windemer, R., 2019. Considering time in land use planning: An assessment of end-of-life decision making for commercially managed onshore wind schemes. Land Use Policy, 87, p.104024.

- **Social factors** – community response to the application to repower (this can be managed through community engagement and transparency on local benefits provision, but is not guaranteed).

Developers typically seek to maximise the commercial viability of a site – subject to planning and environmental constraints – and so the inability to retain capacity typically stems from a combination of the above factors. Developers should not be limited by external factors outside of their control.

Ensuring developers retain capacity in repowered sites may also limit the ability to co-locate other technologies, such as battery storage or solar PV. In response to the government’s previous consultation on the proposed SIR scheme<sup>9</sup> alongside our flagship thought-leadership piece ‘Go West’,<sup>10</sup> Regen highlighted the need to support diversification of renewable generation to benefit the whole electricity system. Co-locating renewable assets will provide complimentary flexibility solutions and offer whole system benefits that will become increasingly sought after as more renewable generation connects to the grid. The government should not negate the importance of system benefits over the need to retain capacity.

Regen suggests that repowering should be given a separate pot of funding within the CfD mechanism to ensure maximum consumer value and to remove competition between repowered sites and new-build projects. Although the exact cost of repowering remains uncertain, these projects may have a lower upfront capital cost than new builds – due to site-specific factors. Giving repowered projects a dedicated pot, particularly across the first few allocation rounds, will allow the cost of repowering to be gauged (by driving competition) and could prevent repowered projects from receiving additional subsidies if the cost of repowering is compared to that of new builds.

### Summary

Repowering is a key component to the UK’s energy security and net zero target and Regen is supportive of its inclusion within the CfD mechanism. However, careful consideration is needed to ensure that the eligibility criteria for repowering projects do not hinder the UK’s ability to retain renewable generation capacity and provide whole system benefits.

Regen suggests that repowering projects are given a separate pot within the CfD mechanism to prevent competition between existing and new developments and allow for maximum consumer value.

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<sup>9</sup> Regen, 2023. [Introducing a Contracts for Difference \(CfD\) Sustainable Industry Reward \(SIR\)](#).

<sup>10</sup> Regen, 2022. [Go West!](#).



## Response to questions 13–15

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**Q13. The Government welcome views on whether CfD phasing policy should be extended to floating offshore wind.**

**Q14. The Government welcomes views on the potential impact of extending phasing, or not, to floating offshore wind projects.**

**Q15. If extending phasing to floating offshore wind, the Government welcomes views on whether the existing rules for fixed-bottom offshore wind project phasing, including the 1500 MW cap, are appropriate for the technology, and if not, why?**

Regen supports extending the CfD phasing policy to floating offshore wind. The introduction of the CfD phasing policy significantly supported the build-out of fixed offshore wind, acknowledging the commercial complexities of offshore wind projects but helping to reduce overall project costs through de-risking the construction process and increasing investor confidence. Extending this policy to floating offshore wind is crucial for its commercialisation, emphasised by the technology's ability to support the UK's net zero electricity generation mix.

Despite the sector's promising future, challenges such as station-keeping and limited port capacity pose significant risks during construction and deployment. These challenges, compounded by constraints in the offshore wind supply chain, have hampered the sector's growth, evident in the lack of bids during Allocation Round 5.

Extending the CfD phasing policy to floating offshore wind offers developers flexibility and risk mitigation, potentially reducing overall project costs. With each phase eligible for CfD payments, revenue can be secured early, easing the financing burden and allowing for a more manageable construction schedule. This phased approach not only facilitates supply chain development but also demonstrates a steady pipeline of work, crucial for attracting investment in large-scale facilities like ports.

In extending the existing phasing policy, the consultation is proposing that the current criteria for fixed offshore wind be applied to floating offshore wind. Based on these criteria, all eligible projects must:

- Have an overall capacity of no more than 1.5 GW.
- Be built in up to three phases.
- Build all phases within one lease area.
- Have at least 25% of the total project capacity constructed and commissioned within the first phase.

- Achieve a Target Commissioning Date (TCD) for the final phase no later than two years after the TCD for the first phase.

Regen agrees that the existing conditions for fixed offshore wind phasing are suitable for the floating offshore wind sector, given its current nascent state of development. In particular, a phasing cap is appropriate to ensure that there is minimal scope for gaming, particularly as developers will be committing to a single strike price across the full project's construction. As floating wind is an emerging technology, it could be expected that its future strike price trajectory in the following Allocation Rounds will follow a similar reduction seen in fixed offshore wind. Thus, implementing a phasing cap is an appropriate starting point to ensure that projects are delivered promptly and at lowest cost to the consumer.

While 1.5 GW was appropriate for the fixed offshore wind industry at the beginning of its technology development, we would recommend that government consider whether this is still an appropriate cap based on the development of the sector, in particular the average size of project and average development timelines. As the industry matures, there will be scope to increase the capacity cap to better reflect the scale of projects being developed. This predominantly applies to fixed offshore wind projects which are eligible in the next Allocation Rounds but will also need to be considered for floating offshore wind in the future.

### **Summary**

Regen is supportive of extending the CfD phasing policy to floating offshore wind. By allowing large-scale projects to be built in phases, the construction of the project is significantly de-risked. Not only will this reduce project costs for this emerging technology, benefitting consumers, but it will also increase necessary investor confidence and provide the supply chain with a more manageable construction schedule needed for its development.

We believe that a capacity cap is sufficient to ensure minimal gaming at this early stage of development, yet we believe there will be scope to increase the cap to better reflect and support the development of the supply chain and deployment of larger floating projects as the sector matures.

## Responses to questions 16–20

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**Q16. To what extent do you agree with the identified challenges that the current CfD metering requirements creates, as set out above?**

**Q17. To what extent do you agree that introducing hybrid metering would support innovation and more flexible use of CfD-supported renewable generation?**

**Q18. Specifically, to what extent could hybrid metering remove barriers to the deployment of low-carbon hydrogen?**

**Q19. Could you provide any evidence on the potential cost savings that could arise from introducing hybrid metering?**

**Q20. What would be the potential drawbacks or unintended consequences, including any potential for gaming, of introducing hybrid metering?**

We agree with the challenges identified in the consultation document and are supportive of the hybrid metering approach proposed. As our energy system continues to decarbonise and the proportion of variable renewable generation grows, support mechanisms such as the CfD must evolve to better value the provision of flexibility and operability services. This is particularly the case given that a growing number of energy storage projects in the pipeline are co-located, highlighting the potential for market growth and innovative business models in this area.

However, while we anticipate that such a hybrid metering approach could be relatively simple to implement for onshore technologies, further clarification is required to better understand how this might work in practice for renewable projects located offshore. This is particularly important when also considering future CfD-backed projects might be connected to multi-purpose interconnectors or non-radial transmission ‘bootstraps’. Therefore, the government should explore the introduction of hybrid metering for offshore projects in tandem with changes to support delivery of improved coordination of offshore transmission infrastructure.

### **Transmission Constraint Licence Condition (TCLC) and wider market access**

In our recent response<sup>11</sup> to Ofgem’s consultation on future changes to the Transmission Constraint Licence Condition<sup>12</sup> (TCLC), we highlighted the need for Ofgem to provide further guidance and examples of how the TCLC applies to storage and how excessive benefit is

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<sup>11</sup> Regen, 2024. [Regen and ESN’s response to Transmission Constraint Licence Conditions call for input.](#)

<sup>12</sup> Ofgem, 2023. [Transmission Constraint License Condition guidance consultation – December 2023.](#)

defined for this set of technologies, given their differing characteristics and business models in comparison to traditional, large-scale thermal plants.

The Introduction of hybrid metering similarly necessitates further guidance and clarification as to how the TCLC rules – and other market behaviour regulations – might be applied to a single Balancing Mechanism Unit (BMU) which represents both generation and demand assets. Furthermore, as hybrid sites form a new category of market participant, Ofgem should explore whether a bespoke approach to such sites would be most appropriate.

Further clarification is also needed as to whether CfD-backed hybrid sites represented within a single BMU will be able to access other services such as Dynamic Containment and Response, and the implications of this from a subsidy perspective.

### **Negative pricing**

Negative price rules, introduced to address a perceived market distortion, currently apply to CfD payments in a negative day-ahead power price scenario. The introduction of more variable, renewable power increases the chance (and duration) of periods of negative day ahead wholesale prices, and the prevalence of negative wholesale pricing is expected to rise well above 10% into the 2030s.

However, the consultation does not address these rules or clarify how they might apply under a hybrid metering approach. The success of the current hybrid metering proposal to meaningfully incentivise co-location might be limited if CfD generators are incentivised to turn off in negative price periods, rather than make best use of co-located assets. Therefore, if the purpose of introducing hybrid metering is to support greater levels of generation flexibility and reduce the impact of market distortion, then the government should both a) provide clarification on how the negative price rules would be applied or b) explore the suitability of current negative price rules and whether these should be revised.

### **Alignment with wider market reform**

Our extensive engagement with the REMA process over the past 18 months has highlighted that the CfD mechanism in its current form is not perfect, with concern particularly concentrated around the way in which CfD-backed generators operate once they begin generating and the impacts of this on the system. We understand that REMA will be taking forward all the CfD reform options proposed in the initial consultation – we ask that the second REMA consultation be shared with industry as soon as possible, as the current policy uncertainty is impacting decisions on participation in future auction rounds. It also impacts our ability to answer to questions laid out in this consultation, as it is challenging to speak to future requirements without having clarity on the current possible pathways of CfD reform.

For example, reforms as part of the REMA process looking at deeming (decoupling CfD payments from metered generation) might have a material impact on the potential cost savings that could arise from introducing hybrid metering. As such, any changes to the CfD enacted as

part of this consultation must align with the potential reforms implemented as part of the REMA process, to ensure clarity and consistency for developers.

### **Unintended impacts – retrospective application**

The consultation states that the government *'intends to consult on contract changes to allow CfD generators to use non-BSC metering for the settlement of the CfD where appropriate and by agreement with LCCC'*. It does not make clear whether these contract changes would apply only to future CfD holders, or whether existing CfD holders would be able to apply for, and take advantage of, hybrid metering for the remainder of their contracts.

#### **Summary**

Regen is supportive of the hybrid metering approach proposed, to encourage the development of co-located projects and encourage CfD generators to export in a flexible manner that is beneficial to the system.

The introduction of hybrid metering necessitates further guidance and clarification as to how the TCLC rules might be applied to a single BMU which represents both generation and demand assets. Additionally, the impact of existing negative prices rules on the success of hybrid metering in incentivising flexibility should be explored.

It is important that any changes to the CfD enacted as part of this consultation align with the potential reforms implemented as part of the REMA process, to ensure clarity and consistency for developers.

Section 4: How could the CfD support innovation in floating offshore foundation technology as the sector develops?

## Responses to question 21

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**Q21. What are your initial views on the proposed approach to determining technological eligibility for established and emerging technology tariffs in the CfD scheme? Include any early concerns or potential risks you may foresee. We are particularly interested in any potential gaming risks or unintended consequences you have identified.**

Regen is supportive of technology innovation and agrees it is a key factor in providing cost reductions to consumers. However, Regen argues that the CfD may not be best placed to incentivise innovation in floating substructures and, instead, suggests that other mechanisms may be better placed to support asset-based technologies that are at an earlier stage of technology readiness.

The CfD mechanism already allows projects to financially benefit from innovative and emerging technologies, based on the principle that cost reduction is the main driver for innovation. Regen highlighted this in our response to the call for evidence on 'Introducing non-price factors into the CfD scheme'.<sup>13</sup>

That being said, the standardisation of technologies is pivotal in driving down costs by streamlining fabrication and deployment and allowing projects to benefit from economies of scale. Explicitly incentivising the development and use of innovative fixed-bottom foundation types within the CfD may shift focus away from the standardisation of floating foundation technologies – something which is seen as a key metric for technology maturity and cost reduction.

The decision to support emerging fixed-bottom foundation types needs to be assessed against the possible cost reductions and deployment benefits the technology will offer in the long term. Future deployment of offshore wind will access areas of the seabed that are economically unviable for current fixed foundation types. Innovation in fixed-bottom technologies could help speed up deployment and reduce project costs in the short-to-medium term. However, support is also needed to develop and commercialise the floating foundation technologies that will enable the sector to expand into deeper waters in the long term.

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<sup>13</sup> Regen, 2023. [Call for Evidence on introducing non-price factors into the Contracts for Difference scheme: Response from Regen.](#)

## Summary

Regen is supportive of technology innovation and agrees it is a key factor in providing cost reductions to consumers. However, the decision to support innovation for a specific asset-based technology (e.g., floating wind substructures) within the CfD needs to be carefully evaluated against the possible cost reductions and deployment benefits that standardisation can offer.

Regen argues that the CfD may not be best placed to incentivise innovation across floating substructures and, instead, suggests that other mechanisms may be better placed to support asset-based technologies that are at an earlier stage of readiness.

## Responses to question 33

**33. The Government is interested in views and evidence on whether indexing strike prices to PPI during the construction phase of a project would better reflect increases in project costs than CPI. Please provide supporting evidence where possible. We are interested in an assessment of both the short-term and long-term impacts that this change could have.**

Regen welcomes efforts from the government to learn from AR5, exploring options to mitigate against future macroeconomic shocks. However, we do not consider a change to the Producer Price Index (PPI) the best way to achieve this as, while it is intended to better reflect increases in project costs than Consumer Price Index (CPI), this is unlikely to be a good fit for the large range of technologies supported through the CfD.

The CfD’s design entails a time gap between awarding contracts and Final Investment Decision (FID), during which costs can fluctuate. The volatility of the PPI poses higher risks for developers, who often lock in PPI values well in advance of FID. For example, between 2015 and 2017, the PPI increased from -6% to 7% (13% increase), while between 2022 and 2023, the PPI decreased from 20% to 2% (18% decrease). In contrast, the slower-changing CPI has proven easier to model and has worked effectively for years, allowing developers to manage risks according to their appetite. Introducing a new CfD indexation at a pivotal stage in the UK’s net zero trajectory is likely to introduce more uncertainty into the process and could see developers incorporate greater risk-mitigation through inflated strike prices.

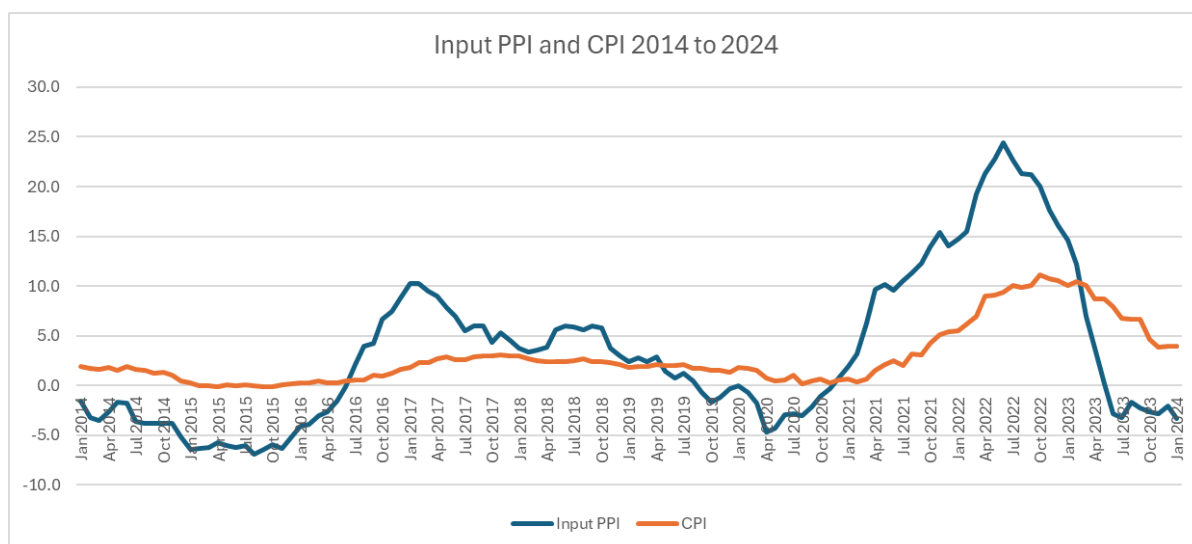


Figure 1  
**Input PPI and CPI across the past decade (2014-2024)**



Rather than changing inflation-indexation, Regen suggests that the most effective approach to mitigate future macroeconomic shocks involves setting appropriate, sustainable Administrative Strike Prices (ASPs) in each Allocation Round, through close engagement with the industry and accurate project cost estimation. In our response to the AR5 results in September 2023, we noted that the government and industry would need to *“move forward with a fresh approach, building an open and honest relationship based on a firm understanding of the industry’s cost model and financials”*. We also called on the government to *“reset the ASPs and budgets for offshore wind based on the evidence of a task force cost review and assessment of the cost of capital”*. This has seemingly been acknowledged in the setting of ASPs for AR6 and we would encourage the government to continue in this vein for future Allocation Rounds.

If sustainable ASPs are set, based on annual engagement with industry, the CPI can resume its role of providing certainty of inflation protection, which enables developers to reduce inflation risk, attract low-risk capital to projects and ultimately lower project costs and strike price bids.

### **Summary**

Regen welcomes efforts from the government to learn from AR5, exploring options to mitigate against future macroeconomic shocks.

However, while a shift to use a PPI based inflationary index for the pre-construction phase would theoretically better reflect changes to construction costs, in reality the PPI index is significantly more volatile than CPI. Greater volatility would affect the cost and ability to raise project finance and so, on-balance, and having spoken with industry colleagues, we would recommend sticking to the CPI index.

The most effective way to mitigate such macroeconomic shocks in the future is to set appropriate, sustainable ASPs in each Allocation Round based on close engagement with industry and an accurate estimate of project costs.



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