

Energy UK response to BEIS' Contracts for Difference for Renewable Electricity Generation – Consultation on Proposed Amendments to the Scheme

8th March 2018

About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests £12bn annually, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT.

Executive Summary

Energy UK and our members welcome the opportunity to respond to this consultation from the Department for Business, Energy and Industrial Strategy (BEIS) on proposed reforms to the CfD scheme. We and our members believe that the CfD scheme is at its most effective when operating in a more technology neutral way and we support measures from Government to enable new applications of existing technology as well as emerging technologies to participate in the scheme. In allowing all technologies to compete, the best value can be delivered for the consumer. For more detail regarding our views on competition and technology neutrality please see our 2017 report [Energy in the UK](#).

The investment and success of the sector to date has been predicated upon the CfD, a predictable Government support mechanism that has given developers and investors the visibility and confidence needed to invest. The competition facilitated by Electricity Market Reform (EMR) and the renewables industry has enabled significant cost reduction and further innovation, innovation encapsulated in the Government and industry's intention to develop remote island wind projects.

We believe that much like other energy and renewables developments, remote island wind projects will generate a high level of enduring benefits for local communities and the local economy. As with offshore wind we are confident that investment in island wind and further onshore wind will build the UK's domestic supply chain even further. Much of the employment this has galvanised is in coastal regions – outside of the South East – in areas characterised by low productivity. The Siemens turbine factory in the Humber region and General Electric's new research, design and development facility in Southampton are excellent examples of how manufacturing supply chain development can support regional growth; bringing employment, income, exports and skills to an area.

We and our members believe that the Government already has clear definitions of remote islands to which we have added further detail and clarifications. This consultation provides the Government with a prime opportunity to give a clear, definitive steer of which islands are eligible to be considered for remote island wind.

For more detail about the questions posed within the consultation document please refer to the responses submitted by our members.

Should you have any questions regarding this consultation response then please do not hesitate to get in touch via the details below.

I can confirm that this response may be published on the BEIS website.

Yours sincerely,

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Responses to Questions

1. The Government welcomes views on whether the proposed approach is an effective means of supporting onshore wind on remote islands.

Energy UK and our members support the recommended approach set out by the Government for remote island wind to be delivered via the CfD mechanism. We believe that remote island wind is one of a number of technologies which can make a valuable contribution to decarbonising electricity at least cost to the consumer.

As mentioned in our [earlier consultation response](#), Energy UK considers that the CfD is the appropriate mechanism for bringing non-mainland onshore wind projects to market. Island wind should be given the opportunity to compete in a CfD auction to provide best value for consumers through the CfD auction process.

For more information about the issues outlined in this question please refer to the submissions made by our members.

2. The Government welcomes views on whether the proposed definition is a suitable definition of those wind generation projects located on islands which should be distinguished from onshore wind, and in particular on what evidence prospective generators should be asked to supply in order to demonstrate that they have the required characteristics.

Energy UK and our members agree that the definition articulated in the consultation is the most appropriate. However, we would recommend that the reference to the Main Interconnected Transmission System is not necessary, instead we would like this reference to be 'the mainland transmission system'.

We would additionally recommend that BEIS provide a list of eligible islands (potentially included in the allocation framework) so each project does not have to evidence that not only is it on a remote island, but it also qualifies as a remote island wind CfD unit.

The UK Government has a clearly defined and uncontested map of its territorial sea boundary available [here](#). It is clear from this map that all the proposed remote islands identified in the consultation document are within the territorial sea boundary. However, there are two zones inside this boundary – these is an “Internal Water” zone in addition to “Territorial Sea”. Strictly speaking, some of the remote islands are located in the Internal Water zone, rather than in the Territorial Sea itself, according to this map. However, the criterion currently states “located in the territorial sea”.

To avoid any possible misunderstanding in future, we think it would be better to remove any ambiguity in this criterion. We propose that the definition of a remote island is modified to specify:

A remote island is an island:

(i) Located within the boundary of the territorial sea of the United Kingdom, other than the part adjacent to Northern Ireland, and we believe that the evidence required should be as straightforward as possible. For each element of the definition, our proposals for the evidence to be submitted are set out in Table 1 below.

Table 1 – Evidence of Project Characteristics to be submitted by prospective generators

Remote Island Wind Project Characteristic	Evidence to be Submitted
A remote island is an island: (i) Located in the territorial sea of the United Kingdom, other than the part adjacent to Northern Ireland;	Map of the island on which the project is located, showing the island’s location within the boundary of the territorial sea of the United Kingdom.
A remote island is an island: (ii) Where all parts of its coastline are situated at least 10 kilometers from mainland Great Britain.	We recommend that BEIS produces and issues a definitive list of the islands which meet this requirement and include this in the Allocation Framework for the CfD auction. This will be simpler for developers to demonstrate compliance and for National Grid to check compliance.
To qualify as a remote island wind CfD unit a project would have to meet all of the following criteria: (i) The project is located on a remote island.	Map of the island on which the project is located showing the project location. Confirmation (as above) that the island is a remote island.
To qualify as a remote island wind CfD unit a project would have to meet all of the following criteria: (ii) The connection between the unit’s generation circuit and the Main Interconnected Transmission System (MITS) will require at least 50 km of cabling, of which 20 kilometres must be subsea cabling.	Map of the transmission connection route that must be constructed between the project and the existing transmission system, with the distances of overland and subsea cabling stated.
To qualify as a remote island wind CfD unit a project would have to meet all of the following criteria: (iii) Upon completion, the project must be connected to the national transmission system for Great Britain or the distribution system.	Grid connection agreement.

3. The Government welcomes views on how local communities, developers and other stakeholders can work together to ensure that these remote island wind projects will deliver lasting benefits to the islands.

The Government hasn’t proposed any more formal requirements or obligations and Energy UK and our members would agree with this. We would also note that community benefits generally fall under devolved government guidance.

In responses to the previous consultation on remote island wind in 2017, a substantial body of evidence was submitted by many of our members showing that remote island wind projects will generate a high level of enduring benefits for local communities and the local economy. It should be noted that onshore wind in general delivers significant, long lasting benefits to rural areas and surrounding communities. Building on this foundation of an inherently high degree of local benefits, local communities, developers and other stakeholders have a wide range of opportunities to maximise the benefits that are delivered. The benefits that flow from remote island wind projects go further than simply those that flow directly from the projects. The range of opportunities to actively deliver local benefits include:

- Local economic benefits to the community; there a number of independent studies which forecast the significant benefits to the local community of remote island wind projects progressing.
- Community payments; a number of developers have already made binding commitments to this.
- Rental payment to community landowners/crofters.
- Infrastructure improvement; remote island wind will generally include a program of infrastructure improvements which are required to deliver their projects.
- Local supply chain benefit.
- Shared Community Ownership and community investment.
- Employment.
- Exports (of people, skills and products).

It is likely that the detailed opportunities to deliver benefits will be bespoke to each remote island wind project. It is anticipated that each developer would map out the suite of methods that are being delivered.

4. The Government welcomes views on the proposal to use higher load factors in the valuation formula, rather than central estimates – including on whether this approach is sufficient to mitigate the risk of overspend and protect consumers from unexpected costs.

Energy UK and our members support this recommendation and believe it is the most light touch proposal. However, should this change be implemented Energy UK and our members would advise that this be a final adjustment so as to avoid continuous amendments which would impede investor confidence in the CfD scheme. Furthermore, if Government were to propose a load factor that is unrepresentative of commercial operation this could have a detrimental effect on the level of renewable capacity procured and hinder further decarbonisation. We suggest that BEIS engage with industry and ensure that there is sufficient transparency around the load factor methodology.

We agree that this approach should mitigate the risk of overspends and protect consumers from unexpected costs agree that government assumptions are more accurate and the risk of overspend has reduced (partly driven by the success of the CfD and rapid cost reductions)

5. The Government welcomes views on the proposal to potentially use different load factors for subsets of the same technology in the valuation formula, and welcome thoughts on how subsets might best be defined.

We would refer BEIS to our response to question four but would be interested in discussing this issue in greater depth with officials should further detail be provided. Based on the information available Energy UK and our members support these recommendations providing they are practical and reflect commercial reality. In principle, we would only support the use of subsets where they better reflect the commercial operation of projects, there is clearly significant variation in load factors, there are no foreseeable unintended consequences and subsets do not place an additional burden on developers or the administration of the CfD

We recommend that government undertakes a substantive data collection exercise and engages with industry when accessing the possible use of load factor subsets

6. The Government welcomes views on whether the proposed approach of generators submitting their expected load factors/generation output to the LCCC is the best way to obtain accurate estimates of load factors for successful CfD projects

Energy UK and our members are reasonably comfortable with this proposal. As with all technologies, the most effective way to identify a load factor is to gather data from technology types which are already in widespread use. However, the technology behind wind projects – both offshore and onshore – is evolving adding another dimension of load factor differential to the existing hub height, rotor size, wind speed and location.

The proposals do not give generators an adequate amount of time to collect the required information. As a result, Energy UK and our members would encourage the approach to be as light touch as possible.

7. The proposal does not require generators to provide evidence to the LCCC alongside their load factor estimate. The Government welcomes views on whether a requirement for supporting evidence and/or a Director's Certificate would be a suitable means of ensuring that generators submit estimates of their load factors that are, to the best of their knowledge, accurate, and on whether there are alternative approaches that might be more effective.

Energy UK and our members wholly appreciate the Government's need to be assured of the extent of the demand placed on the public purse through regimes such as the CfD. Foresight of this draw-down enables the Treasury to plan accordingly. Generators participating in the CfD scheme are content to provide whatever relevant information is readily available to them. However, considering the size of many of our members, the practicality of securing a director's certificate is challenging.

We would like to stress the commercially sensitive nature of the information and support BEIS' approach to submit under the existing confidentially provisions.

26. The Government welcomes views on all aspects of the proposed approach, including:

- a) Setting a new (and lower) criterion than the one used up to now**
- b) Using recent performance under the existing criteria as a basis for defining a new criterion**
- c) Defining a single criterion applying across five commissioning years**
- d) Setting a criterion that will remain constant for the duration of a 15 year CfD contract**
- e) Which of Option 1 and 2 appears most appropriate**
- f) The proposal to not to change the emissions limit for single consignments**
- g) Scope for unintended consequences**

The methodology used to calculate the historic GHG emissions using a mean of the average from each power plant is not a reasonable representation of what is achievable. It would exclude almost 80% of the biomass that is currently used in the UK. The proposed limits represent a dramatic reduction from the current downward trajectory.

The existing limits should be retained and we would encourage BEIS' decision to reflect the policies in place under RED II so as to align with European policy. This will enable the UK to remain aligned with EU Standards and avoid any competitive disadvantage. We do support the proposals set out to not change the emissions limit for single consignments¹.

27. The Government proposes to make these proposed clarifications but is consulting to allow respondents to highlight if they consider that they could lead to any unintended adverse consequences which the government should properly take into account before making any such changes and/or which may impact the way the proposals are drafted.

Concerning the proposals for Force Majeure conditions, Energy UK would not support the introduction of any further restriction or conditions on the Force Majeure relief provisions. However we would require the legal text to be provided so it can be reviewed with the appropriate level of due diligence in order to give a definitive response. We would request that BEIS provide us with the legal text at the first available opportunity.

¹ On this item Innogy's position differs to that of Energy UK, please refer to their submission for more information.

28. The Government welcomes views on these proposed amendments including, but not limited to, whether they could lead to any unintended consequences.

Energy UK does not support of the proposal to amend the contract to stipulate that a Force Majeure event must not be the result of pre-existing factors of which the Generator was aware, or could reasonably be expected to be aware, on or prior to the Agreement Date. We would require the legal text in order to give a definitive response.