



Department for
Business, Energy
& Industrial Strategy

Contracts for Difference for Low Carbon Electricity Generation

Consultation on policy considerations for
future rounds of the Contracts for Difference
scheme

Closing date: 7 February 2023



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General information

Why we are consulting

Government is committed to strengthening our country's energy resilience and accelerating our country's domestic energy supply, especially considering the recent rises in global energy prices. Moreover, as part of the Government's net zero objective, we have committed to a fully decarbonised electricity system by 2035, subject to security of supply considerations. Delivering this will require a rapid and sustained scale-up of low carbon generation deployment.

The Contracts for Difference (CfD) scheme is fundamental to achieving this goal, supporting the construction of low cost, low carbon electricity generation. The CfD is an established and successful mechanism that provides greater confidence to investors of renewable electricity projects. Retaining this confidence is important and as we evolve the scheme to ensure this success continues; we intend to share new policy proposals with the sector. This allows interested parties to see how the scheme may change, and to feed in their views of those changes and any evidence they believe supports those views. Responses received will be considered before making final policy decisions.

Consultation details

Issued: 14 December 2022

Respond by: 7 February 2023

Enquiries to: BEISContractsforDifference@beis.gov.uk

Consultation reference: Contracts for Difference for Low Carbon Electricity Generation: Consultation on policy considerations for future rounds of the Contracts for Difference scheme

Audiences:

The government welcomes responses from anyone with an interest in the policy area. We envisage that the consultation will be of particular interest to those considering the development of new low carbon energy projects in Great Britain, electricity traders and suppliers, businesses operating in the energy sector, and consumer and environmental groups with an interest in the electricity sector.

Territorial extent:

The CfD scheme applies to the UK but does not operate in Northern Ireland.

How to respond

Your response will be most helpful if it is framed in direct response to the questions we have asked, though further comments and evidence are also welcome. When responding, please state whether you are responding as an individual or representing the views of an organisation.

Where possible, we would prefer responses to be submitted online via Citizen Space; however, we will also accept responses returned via email using the address below.

Respond online at: <https://beisgovuk.citizenspace.com/clean-electricity/changes-cfd-ar>

or

Email to: BEISContractsforDifference@beis.gov.uk

Confidentiality and data protection

The information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please tell us but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

We will summarise all responses and publish this summary on [GOV.UK](#). The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the government's [consultation principles](#).

If you have any complaints about the way this consultation has been conducted, please email: beis.bru@beis.gov.uk.

Introduction

On 7 April 2022, the Government published the British Energy Security Strategy, which set out steps to further accelerate deployment of low carbon generation and to create a more secure energy system that is less reliant on volatile fossil fuel markets. This is important now more than ever as consumers face an unprecedented rise in household energy bills, driven by high global gas prices. In the longer term, the Government is seeking to improve resilience in the energy market through increased renewable deployment. Renewables are now among the cheapest forms of electricity and accelerating domestic deployment is critical for reducing costs to consumers. This will also mean ensuring supply chain development keeps pace with the increasing demand for renewables.

The Contracts for Difference (CfD) scheme is the government's main mechanism for supporting new low-carbon electricity generation projects in Great Britain (GB). It has been hugely successful in facilitating high levels of renewable deployment. Our most recent allocation round delivered nearly 11GW of new renewable projects, almost double the capacity achieved in the previous round. It also struck record low prices for key technologies such as offshore wind, which cleared at £37.35 per MWh (2012 prices)¹. Deployment of renewables must continue to ramp up as we look towards our net zero and Carbon Budget 6 (CB6)² targets, including ambitions of up to 50GW of offshore wind by 2030 and up to 70GW of solar by 2035.

The CfD scheme plays a crucial role in protecting consumers from high wholesale electricity prices. Not only does it bring forward new low-cost generation, but the two-way design means these projects pay back when wholesale prices are high, removing the impact of gas setting the power price. It is vital that the CfD maintains this success and continues to facilitate high levels of deployment of low-cost renewable generation, while evolving alongside our changing electricity system to ensure it best meets the needs of a net zero system.

Aim of this Consultation

Our recent call for evidence outlined how we can enable a high renewable electricity system³. By 2030, the majority of GB's power is likely to come via generators operating under the terms of a CfD contract. As such, Government continuously reviews and adapts the CfD scheme to ensure it remains appropriate, whilst considering factors such as security of supply, carbon targets and budgets, and cost to consumers, as required by the Energy Act 2013⁴.

This consultation will seek views and supporting evidence on specific changes proposed for the sixth Allocation Round of the CfD scheme (AR6), as well as early views on longer-term policy considerations for future rounds. This reflects the recent move to annual auctions, which

¹ <https://www.gov.uk/government/publications/contracts-for-difference-cfd-allocation-round-4-results>

² <https://www.gov.uk/guidance/carbon-budgets>

³ <https://www.gov.uk/government/consultations/enabling-a-high-renewable-net-zero-electricity-system-call-for-evidence>

⁴ <https://www.legislation.gov.uk/ukpga/2013/32/contents/enacted>

will reduce the time between rounds, meaning that it is more important for government to consider policy multiple rounds ahead.

Proposals considered in this consultation aim to maintain the success of the CfD scheme while ensuring it evolves to keep pace with the wider sector and other Governmental priorities. Any potential changes to the CfD scheme will consider the scale of change needed in the power sector in line with net zero and CB6 targets, and our objective of energy security.

Wider and longer-term changes to the market are out of scope of this consultation, but are being considered by Government holistically as part of the Review of Electricity Market Arrangements (REMA). Options here are at a very early stage of development and were set out in a recent consultation⁵. A Government response to this consultation is expected to be published this winter.

This consultation on the CfD scheme is divided into three sections reflecting short-medium term considerations, as well as updates on specific policy areas of interest to stakeholders.

We are seeking views and supporting evidence from stakeholders and interested parties, including but not limited to, developers of new low-carbon energy projects in GB, businesses involved in low-carbon electricity generation supply chains, and consumer and environmental groups with an interest in the electricity sector.

1. Considerations for Allocation Round Six

To ensure alignment with Governmental priorities and policy objectives, we are consulting on the following change for consideration for AR6:

- **Private network agreements:** The Government is aware that more projects may apply for a Private Network CfD agreement in future to support the electrification of offshore oil and gas facilities. This could place a new burden on household energy bills. The Government is therefore reviewing the current private network arrangements within the CfD scheme to ensure that they continue to offer value for money to consumers and support our other objectives.

2. Considerations for future CfD rounds

This consultation will also gather views on the following longer-term issues. Government is not currently aiming to implement changes in these areas for AR6, but responses will help inform any policy decisions for future CfD rounds. This is without prejudice to the ongoing review of the role of CfDs in our future market arrangements as part of the REMA programme.

- **Definition of floating offshore wind:** Government is aware of potential ambiguity within the current definition of floating offshore wind in the CfD (Allocation) Regulations 2014, which may create uncertainty over whether new and innovative foundation types seeking to compete in the floating offshore wind category will be considered eligible. We are therefore seeking stakeholder representations on this matter.

⁵ <https://www.gov.uk/government/consultations/review-of-electricity-market-arrangements>

- **Offshore coordination:** Government's Offshore Transmission Network Review (OTNR)⁶ aims to improve the coordination of the offshore electricity network, which should help reduce project costs and minimise the impact on local coastal communities and on the environment. Government understands that projects wishing to coordinate may face different risks to uncoordinated projects, including potential risk of misalignment in the timing of coordinating projects. Government believes that Ofgem's Anticipatory Investment is able to help reduce the risk of coordinating offshore wind farms coming through at different times, whilst still maintaining competition in the CfD allocation process.
Additionally, the OTNR is considering the coordination of offshore windfarms with interconnectors. Government is currently unaware of any such project that would be seeking a CfD through AR6; nevertheless, we are keen to gather further evidence on this topic, with this consultation being used to inform future CfD rounds.
- **Offshore wind phasing:** Offshore wind projects within the same Crown Estate lease area can be built in up to three phases, with each phase being party to its own CfD agreement. Phasing policy was originally designed to provide support for early offshore wind projects; however, over the past decade the offshore wind sector has evolved, and projects are now using fewer, larger turbines with shorter installation times. This suggests that phasing policy has achieved its purpose. As such, we are reviewing phasing policy, to either restrict or remove the policy, for future allocation rounds.
- **CfD appeals system:** Currently, the CfD scheme has a two-tiered appeal system, which if triggered can delay the start of allocation rounds. Now we are moving from allocation rounds every two years to annually, Government wishes to review the current appeals process to ensure it is appropriate for annual allocation rounds.
- **Repowered renewable generation assets:** Government is seeking further evidence on whether projects that are derived from the repowering of existing projects should be considered in the CfD scheme, balancing increasing capacity with ensuring value for money and longer-term considerations of these projects in the electricity system.

3. Policy updates

Finally, Government is providing updates on several policy areas that may be of interest to stakeholders. We are not seeking views on these topics, instead the section aims to provide stakeholders with additional insight on current Government positions on topics they may consider important. Updates are given on:

- the appropriate level of market exposure for CfD generators and interactions with REMA,
- the interactions between the capacity market and the CfD, and
- the potential to include non-price criteria in the CfD.

⁶ <https://www.gov.uk/government/groups/offshore-transmission-network-review>

1. Considerations for AR6

1.1 CfD for Private Network Generators

Policy Context

The main incentive for supplying and receiving electricity via a private network, also referred to as ‘private wire’ supply, is driven by the fact that it avoids certain network charges and some policy costs, including those imposed on licensed supply to fund renewable support schemes, such as the CfD. The savings are shared between the generator and the end-user so that the latter buys electricity below the retail cost of grid electricity while the former sells above the wholesale market price.

For the purposes of the CfD scheme, and as set out in the most recently published Private Network (PN) CfD Agreement,⁷ a generator is deemed to be a Private Network Generator if:

- (A) it is exempt from the requirement to hold a licence for the generation of electricity pursuant to the Electricity (Class Exemptions from the Requirement for a License) Order 2001;
- (B) the Facility generates electricity solely or partly for supply to a Private Network; and
- (C) the Facility Metering Equipment is not, and is not required to be, registered in accordance with the BSC⁸ (except, where the Facility is a Dual Scheme Facility, in respect of the Boundary Point Metering System used to measure the Imported Input Electricity).

The CfD scheme currently recognises two forms of private network generation: ‘hybrid’ generation and ‘islanded’ generation.

The PN CfD Agreement defines a Hybrid Generator as ‘a Private Network Generator which has access to a Grid Connection and has a Market Supply Agreement with an Onsite Customer’.⁹

The PN CfD Agreement defines an Islanded Generator as ‘a Private Network Generator which has a Market Supply Agreement with an Onsite Customer, but which does not have access to a Grid Connection’.

Private Network Generators themselves may not own the network on which they are operating. Where this is the case, the generator must have a Private Network Use Agreement with the operator of the network. This agreement sets out the terms on which the generator can export electricity to the private network and the capacity that the generator may use. In the case of a

⁷ <https://www.gov.uk/government/publications/contracts-for-difference-cfd-allocation-round-4-standard-terms-and-conditions>

⁸ The Balancing and Settlement Code that is provided for in Standard Condition C3 (Balancing and Settlement Code (BSC)) of the Transmission Licence.

⁹ This has the same meaning as ‘partial connection’ in the CfD application process, i.e. where a generator’s output is exported to both the transmission or distribution system and a private network.

Hybrid Generator, this agreement also specifies the terms on which the generator can use the private network to obtain access to a grid connection.

In a CfD allocation round, if an applicant wishes to apply for a PN CfD Agreement (as opposed to a generic CfD Agreement or other contract variant), they must specify this in their application.¹⁰ As a prerequisite for applying for a PN CfD Agreement, the applicant must be a licence-exempt generator, in accordance with point (A) of the 'Private Network Generator' definition provided above.

The PN CfD Agreement allows a generator to receive CfD payments for electricity supplied via private wire. Under the generic CfD Agreement, electricity supplied via private wire cannot receive CfD payments due to the current licensing regime and Balancing and Settlement Code requirements.

Eight of the 179 CfDs awarded to date have been PN CfD Agreements. However, five of these contracts were subsequently terminated, either by mutual agreement or for failure to meet milestone requirements.

Electrification of Offshore Oil and Gas Facilities

The Government is aware that more projects may want to apply for a PN CfD Agreement in future to support the electrification of offshore oil and gas (O&G) facilities. This follows the emissions reductions committed to by the offshore O&G industry in the North Sea Transition Deal.¹¹ These commitments include a 50% reduction in offshore production emissions by 2030 against a 2018 baseline.

The offshore O&G industry is continuing to explore design concepts for the electrification of O&G platforms to contribute to the emission reductions it has committed to. Due to the distance of many of the platforms from shore, the cost of connecting to the grid directly may be prohibitive, and many of these electrification concepts therefore involve supply from fixed-bottom or floating offshore wind (FOW) projects. Typically, these concepts envisage offshore wind projects supplying their electricity to O&G platforms via private wire. As noted above, the main incentive for private wire supply is that it avoids network and policy costs.

Offshore wind projects are eligible to bid for support in CfD allocation rounds and may apply for a PN CfD Agreement. Currently, if an offshore wind project with a PN CfD Agreement supplied electricity to an O&G platform via private wire, it would receive CfD payments for this supply. These CfD payments would then indirectly reduce the cost of electricity for the O&G platform, effectively subsidising its electrification.

Other industrial installations may also receive electricity that is eligible for CfD payments via private wire. However, unlike offshore O&G facilities, these installations will typically be grid-connected, making them more exposed to wholesale prices. Moreover, by virtue of having a grid connection, these installations will also pay network and policy costs, including for the CfD, which unconnected offshore O&G facilities will be able to avoid.

Although offshore wind has seen considerable cost reductions in recent years, FOW is an emerging and relatively high-cost technology. Therefore, increased use of the PN CfD

¹⁰ Post-award, a CfD holder may agree bilaterally with the counterparty, the Low Carbon Contracts Company, to change the type of Agreement, but the counterparty is under no obligation to do so.

¹¹ <https://www.gov.uk/government/publications/north-sea-transition-deal>

Agreement by a number of FOW projects seeking to directly supply O&G platforms via private wire could place a significant new burden on household energy bills, without billpayers experiencing any direct benefits.

The Government has an ambition to achieve 50GW of offshore wind by 2030, with 5GW of this capacity coming from FOW. The key mechanism for achieving this ambition will be the CfD. The purpose of the CfD scheme is to encourage low-carbon electricity generation, and in doing so, the Government must have regard to the net zero commitment, energy security and the likely cost to consumers of electricity (who ultimately fund the CfD). The likely cost to consumers is particularly important in the context of the unprecedented rise in household energy bills.

The Proposal

In light of the above, the Government has reviewed the private network arrangements within the CfD scheme. The Government proposes to make electricity that is supplied via private wire to offshore O&G facilities ineligible for CfD payments. This may require legislative changes to the scheme and amendments to the PN CfD Agreement from AR6 onwards.

Under this proposal, if a project wished to supply electricity via private wire to an offshore O&G facility in addition to the national electricity grid, it could still apply into a CfD allocation round (subject to the round's specific eligibility requirements), but if successful, the project would only receive CfD payments for the electricity exported to the grid. Further, the unsupported electricity supplied via private wire would need to be metered separately from the CfD-supported electricity exported to the grid.

Consultation question

- 1. The Government welcomes views on its proposal to make electricity that is supplied via private wire to offshore oil and gas facilities ineligible for CfD payments from Allocation Round 6 onwards. What would be the likely impact of this approach, and should any alternative approaches be considered? Please provide evidence in support of your response.**

2. Considerations for future CfD Allocation Rounds

2.1 Defining Floating Offshore Wind

Policy Context

Floating offshore wind is an emerging technology in the offshore wind sector. This technology allows for the deployment of offshore wind in deeper waters than was previously commercially viable. The UK is a world leader in this field, with both the world's first and the world's largest floating offshore wind farms, Hywind Scotland and Kincardine. In the British Energy Security Strategy, Government set an ambition of delivering up to 5GW of floating wind by 2030. Floating offshore wind was introduced as a distinct CfD eligible technology in CfD Allocation Round 4, which saw the first ever CfD supported floating offshore wind project come forward, the 'Twinhub' project near Hayle, Cornwall.

Regulation 27ZA(4) of the CfD (Allocation) Regulations 2014¹² defines the parameters under which a CfD unit is considered to be 'floating offshore wind' and contains the requirement that:

"all turbines forming part of the relevant CfD unit—

(i) are mounted on floating foundations; and

(ii) are situated in offshore waters of at least 45 metres depth (measured from the seabed to chart datum);"

As the floating offshore wind sector matures, there is a case for refining this definition to reflect technological developments. Government is aware of novel foundation designs for which there may be uncertainty as to whether they can be considered to be 'mounted on a floating foundation'. It has been reported that ambiguity over these technologies' CfD eligibility may be hampering access to commercial opportunities.

Government believes it is undesirable that new or innovative foundation technologies with potential to unlock commercial deployment of offshore wind in deep waters should be blocked from coming to market due to uncertainty over whether they can be considered to be 'mounted on a floating foundation'. However, it is also critical to ensure a robust definition of floating offshore wind is in place to prevent gaming of the CfD regulatory system. Winners of floating offshore wind CfDs should offer a technology solution that has potential to unlock commercial deployment of offshore wind generation in deep waters.

A number of possible solutions could be considered, for example:

- Altering the requirement that *"all turbines forming part of the relevant CfD unit... are mounted on floating foundations"* to use a different definition for eligible foundations.

¹² Regulation 27ZA was added to the CfD (Allocation) Regulations 2014 as part of The CfD (Miscellaneous Amendments) Regulations 2021 <https://www.legislation.gov.uk/ukxi/2021/758/regulation/21/made>

- Creating a new technology category, 'Deep Water Wind' which has no restrictions on foundation type but a more stringent water depth requirement.
- A combination of a wider foundation definition and a more stringent depth requirement.
- Publication of guidance containing a list of technology types eligible for support under the floating offshore wind CfD.

Given the wide array of foundation designs currently in the market, and the constant innovation in fixed bottom technology which makes setting a clear water depth limit difficult, it remains unclear whether any of these solutions satisfactorily address the issue.

The Proposal

Government wishes to explore whether a change to regulation 27ZA(4) in the CfD (Allocation) Regulations 2014 would be desirable, and/or whether Government should publish accompanying guidance on eligible technology types. Stakeholder views, as well as supporting evidence, are sought on these matters.

Government is not proposing to make changes to regulations relating to this matter for AR6. We are not aware of any projects aiming to bid in AR6 which are affected by this issue. This is an evidence-gathering exercise at this stage, with a view to making any changes to regulations, if desired, for Allocation Round 7 and beyond.

Consultation questions

2. Would you support a change to Regulation 27ZA(4) in the CfD (Allocation) Regulations 2014? If yes, what would you suggest?

3. Would you support Government publishing a list of technology types which it considers eligible to compete for a floating offshore wind CfD? If yes, would you support this in addition to, or instead of, a change to Regulation 27ZA(4)? If yes, what technologies would you support including on the list?

4. Can you provide any further evidence of the impact of these changes to support your responses?

2.2 Facilitating coordinated infrastructure

Policy Context

The Offshore Transmission Network Review (OTNR) was launched to address the barriers to large scale deployment of offshore wind and consider how to deliver the required transmission connections, whilst minimising impacts on the community and on the environment. It looks to facilitate greater coordination of offshore transmission, incentivising offshore generation to share infrastructure, reducing overall costs and the impact on the local area.

Competitive allocation of CfDs has been at the heart of realising cost reductions, and increased coordination has the potential to impact on competition if the number of projects independently bidding into the auction is reduced. As coordination of offshore assets is increased in line with OTNR, it is essential that the CfD continues to support the sustainable deployment of offshore wind generation, whilst also ensuring competition is maintained in future allocation rounds.

Government is supportive of coordination and sought views on potential changes to the CfD scheme that could help facilitate coordination of offshore wind assets through our 'Enabling a high renewable, net zero electricity system' call for evidence¹³. As outlined in the Government response, the majority of responses considered risks that could arise if multiple projects were to share a transmission asset.

Government understands that offshore wind projects that may wish to coordinate will likely face dependencies between the other coordinating projects. Specifically, we are aware that projects could face risks associated with the coordination falling through, at least until all connecting projects are operational. This could create uncertainty for project developers and could act as a commercial disincentive for projects looking to pursue coordination. However, we consider that Ofgem's recent decision on Anticipatory Investment¹⁴, and planned gateway assessment process, mitigates this risk. If projects are successful in passing through the gateway assessment, this greatly reduces the commercial risk to developers. Through Anticipatory Investment, the Government believes that a balance can be achieved that reduces the risks associated with projects coming through different allocation rounds whilst maintaining the competitive elements of the CfD allocation process.

The Proposals

As part of the OTNR, Government is considering 'hybrid' or 'multi-purpose' interconnectors, whereby an offshore windfarm would connect directly to an interconnector, instead of using separate radial connections to GB's onshore electricity network. The interconnector and associated cable system that connects the offshore windfarm is termed a multi-purpose interconnector (MPI) (highlighted in orange in Figure 1 below). For the purposes of this consultation, the offshore windfarm connected to the MPI will be termed an MPI-OFW (highlighted in blue in Figure 1 below).

¹³ <https://www.gov.uk/government/consultations/enabling-a-high-renewable-net-zero-electricity-system-call-for-evidence>

¹⁴ <https://www.ofgem.gov.uk/publications/decision-anticipatory-investment-and-implementation-policy-changes>

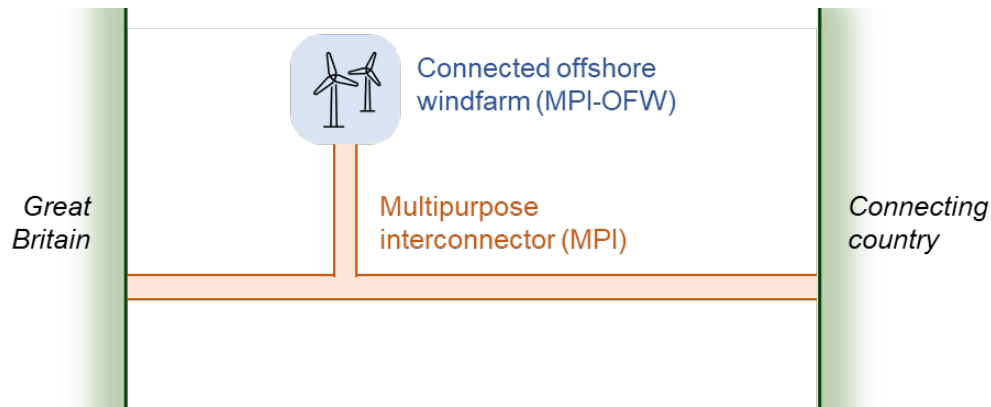


Figure 1: diagrammatic representation of an MPI. Note that this is one of many possible models and arrangements for an MPI and MPI-OFW.

The OTNR has considered how to best facilitate MPIs; both in the near-term and in the longer-term future framework. Last year, Government consulted on proposals for an enduring regime for MPIs¹⁵ and Ofgem have recently set out their minded-to decision on the interim framework¹⁶, as well as details of their upcoming MPI pilot scheme¹⁷. As part of these considerations, work is ongoing to understand how an MPI-OFW, as a low-carbon renewable generator, could operate in relation to the CfD scheme.

Radially connected offshore wind farms are classed as generation assets; the licensable activity to generate electricity (for the purpose of supply) is a legally separate activity from transmission, supply, distribution, as well as operation of an interconnector, as set out in the Electricity Act 1989¹⁸. Similarly, it is expected that the MPI-OFW will also be classed as a generation asset and will be a separately licensable activity from the MPI.

However, under the existing legislation and contract framework, there is no provision for a renewable generation asset that is connected to an interconnector to be eligible to apply for a CfD. As such, this would mean that an MPI-OFW would be ineligible to apply under current legislation.

As set out in the Energy Act 2013¹⁹, the CfD was set up to facilitate and encourage low carbon generation, whilst having regard for carbon targets and budgets, decarbonisation, security of supply and cost to consumers. Therefore, an understanding of how an MPI-OFW would address these considerations is crucial when reviewing whether to make changes that would allow such generators to be eligible to apply for a CfD.

¹⁵ BEIS (April 2022) Consultation outcome: Offshore Transmission Network Review: proposals for an enduring regime and multi-purpose interconnectors
<https://www.gov.uk/government/consultations/offshore-transmission-network-review-proposals-for-an-enduring-regime>

¹⁶ Ofgem (April 2022) Offshore Transmission Network Review – Multi-Purpose Interconnectors: Minded-to Decision on interim framework
<https://www.gov.uk/government/consultations/offshore-transmission-network-review-proposals-for-an-enduring-regime>

¹⁷ Ofgem (July 2022) Multi-purpose Interconnectors Pilot Regulatory Framework
<https://www.ofgem.gov.uk/publications/multi-purpose-interconnectors-pilot-regulatory-framework>

¹⁸ Section 4, Electricity Act 1989 - <https://www.legislation.gov.uk/ukpga/1989/29/section/4#commentary-key-8aa5205053754f023512348d72a1b98a>

¹⁹ <https://www.legislation.gov.uk/ukpga/2013/32/part/2/enacted>

- By allowing MPI-OFW to complete in the CfD, competition in the auction round could be increased (depending on pot structure), which could help reduce auction prices and improve consumer value for money. Reducing the amount of network infrastructure required to connect GB's increasing offshore wind generators could also help reduce potential costs to consumers, as well as reducing local impact on coastal communities and the environment. However, the Government would need to be confident that any CfD levies paid to the MPI-offshore windfarm are beneficial to GB consumers, even if the MPI is exporting electricity out of GB.
- As a low-carbon generator that is situated in GB waters, any power generated by the MPI-OFW, regardless of exporting or importing, would be accounted for in UK emissions reporting and thus contribute towards decarbonisation targets.
- The development of a MPI connected offshore windfarm would increase the generation capacity connected to GB, and, when importing, provide renewable power to GB consumers, and further increase security of supply.

There are currently two different proposed business models for an MPI, the Home Market (HM) model and the Offshore Bidding Zone (OBZ) model (see Box 1), with each model requiring consideration that extends beyond the CfD scheme and is outside the scope of this consultation.

Box 1: Current options proposed for the MPI business model

- **Home Market (HM):** the electricity generated by the MPI-OFW would be sold directly into the GB market. The MPI-OFW belongs to GB market, has priority access to GB market and will always trade at the GB price. It can sell electricity abroad if capacity on the interconnector is purchased, but this is unlikely due to having priority access and certainty of prices in the GB market.
- **Offshore Bidding Zone (OBZ):** the MPI-OFW belongs to a separate bidding zone outside of the GB home market. It is envisaged that the MPI-OFW generation could be matched with a buyer via a central capacity allocation algorithm, accessing other bidding zones and enabling price-efficient flows and dispatch. The MPI-OFW receives the day-ahead price of lowest of the two-markets it is connected to.

If changes were to be made to make MPI-OFWs eligible to apply for a CfD, then there would need to be specific amendments to the existing CfD framework to update connection agreements. Currently identified, for example, are amendments to the CfD contract documents as well as regulations 23 and 25 in the CfD (Allocation) Regulations 2014.

Government is currently unaware of any potential MPI-OFW projects that would be seeking a CfD through AR6. As such, Government is not currently proposing to make changes to the CfD scheme for AR6 in relation to MPI-OFWs but will continue to review the topic. This will enable Government to identify any further changes, if required, as additional details on the MPI business model, market arrangements, the operation and the standard conditions of an MPI are provided.

Consultation questions

5. Do you believe that an MPI-OFW should be eligible to apply for future CfD rounds? Please provide details/evidence of your reasoning, including around the impact of eligibility on the sector, decarbonisation, security of supply and cost to consumers of electricity.

6. What changes, other than those identified above, would be required to allow the participation of MPI-OFW in the CfD scheme?

2.3 Phasing

Policy Context

The CfD scheme provides offshore wind projects within the same Crown Estate lease area the option to be built in up to three phases, each phase party to its own CfD Agreement. The overall capacity of a phased project is capped at 1500MW and at least 25% of the total project capacity must be constructed and commissioned in the first phase. The Target Commissioning Date (TCD) of the final phase must be no later than 2 years after the TCD of the first phase, and the Target Commissioning Windows (TCWs) of phases can, but are not required to, overlap. Developers can re-designate turbines between phases to deliver the required capacity.

Phasing policy was designed to provide support for early offshore wind projects by mirroring as closely as possible the commercial realities of constructing those projects. When projects for the first CfD allocation round were planned, turbines were smaller (up to 7MW) and installation times per turbine were longer. Developers were also largely restricted to building in summer when sea conditions are likely to be calmer. By de-risking the construction process, phasing increased investor confidence, which helped to lower the overall cost of capital.

The phasing rules in combination (i.e. the 1500MW cap, a requirement to build within one lease area, and stipulations on the number of phases and timing) were deliberately designed to prevent applicants submitting one bid to develop several different projects. In doing that, they would receive the same strike price for each project and build out over many years, benefiting from cost reductions over time.

The Proposal

When the CfD was implemented, the offshore wind sector was less mature, and the phasing policy allowed project developers to manage construction risks. As turbines have become larger, projects now install fewer of them. Bigger installation vessels and experience also mean installation times are shorter and activity can take place throughout most of the year. Government believes that this indicates that the offshore wind phasing policy has achieved its purpose.

There are also indications from allocation round results that the use of phasing may have been more about bid optimisation strategies rather than construction risk mitigation. The flexibility of phasing means that there is a risk that some project developers may complete projects earlier than the 2 years before the TCW of the final phase and start generating on a merchant basis in order to take advantage of higher wholesale market prices in the short term. In doing so, projects could potentially generate on merchant terms for several years (i.e. until the Longstop Date) before facing the possibility of contract termination. This would contravene the spirit of the CfD which aims to balance the benefits and risks associated with renewable generation between consumers and generators.

Given that evidence suggests phasing policy has achieved its purpose, the Government is looking to review phasing policy for offshore wind units. The Government welcomes views on restricting or removing phasing policy for future allocation rounds. The Government welcomes evidence from stakeholders on the potential impact of restricting or removing phasing policy for future allocation rounds.

Consultation questions

- 7. The Government welcomes views on whether offshore wind phasing policy is still needed, now the offshore wind sector has matured.**
- 8. The Government welcomes views on the impact of restricting or removing phasing policy may have on offshore wind projects.**

2.4 Appeals

Policy Context

The CfD scheme timeline for an allocation round runs to one of five timeline scenarios. The length of the allocation round currently depends on whether any applicants make an appeal and dispute the decisions made by the Delivery Body (National Grid Electricity System Operator (NGESO)) at assessment or review stages.

Currently, the CfD scheme appeals process has two levels, Tier 1 and Tier 2. Tier 1 appeals occur when applicants who have been unsuccessful in their application for a CfD appeal to the Delivery Body to review that decision (10 working days, see Figure 2). Tier 2 appeals occur if, after the Delivery Body has reviewed the Tier 1 appeal and has upheld its original decision, the non-qualifying applicants requests an appeal, which is conducted by Ofgem (20 working days, see Figure 3).

All timeline scenarios are defined through the CfD (Allocation) Regulations 2014 and are communicated via the CfD microsite²⁰ and other channels. The shortest timeline occurs when all applicants qualify but triggering the appeals process results in longer timeline scenarios. The CfD timeline is not pot-specific, meaning that an appeal in one pot will shift all applicants to the longest timeline. The allocation process (auction) can only take place after the appeals window.

Figure 2: Tier 1 of appeal process:

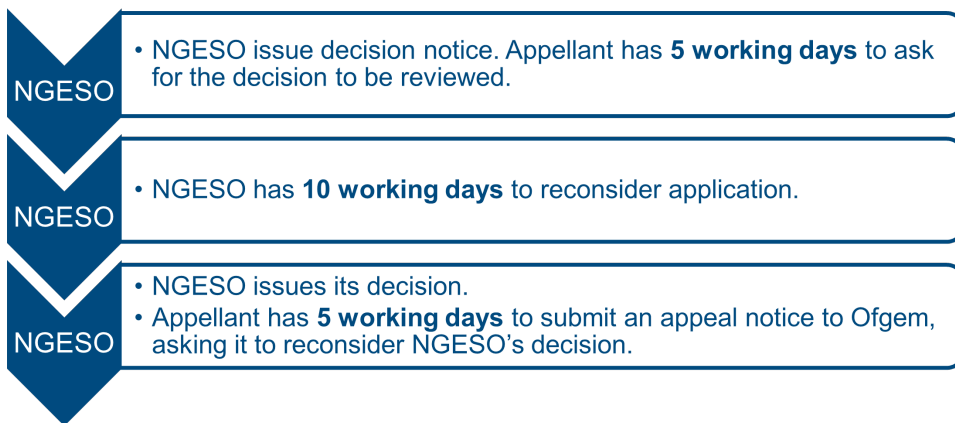
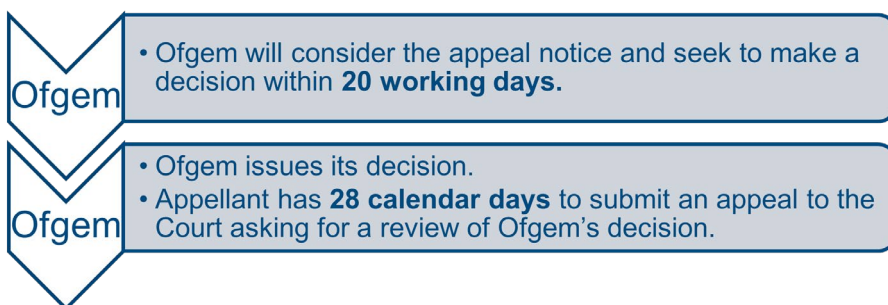


Figure 3: Tier 2 of appeal process:



²⁰ <https://www.cfdallocationround.uk/>

The Proposal

Government wishes to determine whether the current Tier 1 and 2 process is still appropriate for an annual CfD allocation round. There are several potential alternatives to the current process, all of which would require regulation changes. The options available include, but are not limited to:

- A Fixed Timeline – instead of publishing five timeline scenarios every year, we publish one fixed timeline that includes a window for the appeals process.
- Pending Applications – instead of running the allocation process once all appeals have concluded, Tier 2 appeals take place during the allocation process. The sealed bid and auction stages would run as usual and if Ofgem rules in favour of appellants, the successful appellants are factored into the allocation process.
- Pre-qualification – introduce a new process, where there is a pre-qualification period (similar to the process used in the Capacity Market²¹) before starting the allocation process.

We do not intend to make any changes to the appeals process for AR6, as this review is at an early stage; however, we welcome views from stakeholders on the appeals process and any potential changes for the future.

Consultation questions

- 9. The Government welcomes views on the current CfD appeals process now that we have annual allocation rounds.**
- 10. The Government welcomes views on potential changes and the potential options outlined, and if there are any other options for the appeals process.**

²¹ <https://www.emrdeliverybody.com/CM/Prequalification-Process.aspx>

2.5 Treatment of repowered projects

Policy Context

The objective of the CfD scheme (as set out in the Energy Act 2013) is to encourage low carbon electricity generation. The scheme was designed to support assets during the earlier stages of development and generation, with the asset expected to become fully exposed to market conditions towards the tail-end of its life. Contracts under the current CfD framework have been tendered on this basis.

As an increasing number of renewable electricity generation assets reach the end of their engineered life, developers have the choice to either extend the life of the asset, decommission the site, or to update/replace their existing capacity (“repower”). Based on current end of life (EoL) for existing technologies, Government believes that this issue is most applicable to onshore wind in the short-medium term. Using an anticipated EoL of 25 years, BEIS estimates that, by the end of 2024 (inclusive) we are likely to see nearly 400MW of onshore wind projects reach the end of their engineering lifetime (around 40 projects). By 2027 (inclusive), this increases to a total of around 600MW (approximately 70 onshore wind projects) and by 2030 this will increase again to account for around 1.4GW (approximately 100 projects)²².

Current CfD legislation puts limitations on sites looking to repower. Specifically, regulations 14(5), 14(9) and 14(13) in the CfD (Allocation) Regulations 2014 prevent assets that (i) have previously or currently been accredited under any of the Renewables Obligation Orders, (ii) have previously received funding under a non-fossil fuel order, (iii) currently have an investment contract; or (iv) currently hold a CfD, from being eligible to apply for a CfD. Furthermore, there are other non-legislative restrictions in previous allocation rounds that prevented repowered projects from applying; for example, paragraph 5.1 of the allocation framework for the fourth allocation round (AR4) states that “*no application may be made in respect of a CfD unit where the CfD unit is or is part of a generating station which has been commissioned*”²³. Additional aspects of the CfD framework and their applicability to repowered assets requires further review, such as planning considerations and delivery body approvals, as well as how a repowered asset would be defined.

The Proposals

Finding ways to efficiently re-use existing generation sites that otherwise might decommission could play an important role in maintaining our renewable generation capacity, which would help in the UK’s transition to net zero. Capacity of such sites could even be increased as older technology is replaced with newer more efficient versions, or models with a greater power rating.

Government believes that repowered generators could play an important role in our future electricity system. It is possible that participation in the CfD could be a way to bring these assets forward. Allowing repowered assets to compete for a CfD could also increase the number of prospective projects, which may help increase competition in the auction (depending on auction design and if repowered assets would compete against new builds).

²² Internal BEIS analysis (June 2022)

²³ <https://www.gov.uk/government/publications/contracts-for-difference-cfd-allocation-round-4-allocation-framework>

However, there are additional considerations that need to be reviewed, such as value for money, potential interactions with longer-term market arrangements and whether the timing of when projects repower is beneficial for the wider system. There is also limited evidence on the cost of repowering projects, and therefore how repowered assets might impact competition within allocation rounds.

If Government were to expand CfD eligibility to include repowered assets, then a clear definition and assessment of what constitutes 'repowering' would need to be defined in the Regulations. This definition would need to consider eligibility requirements already set out in the CfD (Definition of Eligible Generator) Regulations 2014²⁴; factors such as carbon targets and budgets, decarbonisation, security of supply and cost to consumers as per the Energy Act 2013; as well as the scale and cost of repowering that should be eligible, alongside any potential planning considerations.

Due to the interaction with wider market arrangements and longer-term strategy, further consideration of this topic is required; therefore, the Government is keen to gather further evidence and stakeholder views on repowered generation assets to help inform potential future policy decisions.

Consultation questions

- 11. Is the CfD an appropriate mechanism through which to support repowered assets, or are there other appropriate routes to market? If participating in the CfD, should these projects compete alongside new build projects?** Please, provide details and/or evidence for your reasoning. We are particularly interested in evidence on the impact of supporting repowered projects on decarbonisation, and the relative cost competitiveness of repowered projects.
- 12. In your opinion, how should a "repowered" project be defined? How does this definition align with current CfD eligibility?**
- 13. What are the main barriers to repowering projects in relation to the CfD? Are there any additional factors that are not outlined in the above text?**

²⁴ <https://www.legislation.gov.uk/uksi/2014/2010/contents/made>

3. Policy Updates

3.1 The balance between market exposure and investor certainty

Policy Update

The CfD provides investment security to developers by insulating them from fluctuating wholesale market prices, ensuring that generators can achieve their strike price for the electricity they generate²⁵. This security has helped to reduce risk to developers, which has, in turn, helped to keep capital costs low and reduce strike prices, thereby making renewables more cost effective for the consumer. As our electricity system evolves, we must ensure that CfD contracts do not create perverse economic incentives that result in inefficient operating behaviour or that limit the incentive for operators to think of innovative ways to generate electricity and to provide services to the system.

However, the drive for efficient operating behaviours and innovation must be balanced with providing revenue confidence and the best value for money for the consumer. Maintaining this confidence for developers will help prevent an increased risk to capital (with higher capital costs potentially risking an increase to overall costs and consumer bills). Government reviewed the level of price exposure for AR6 and, based on existing evidence, believes that it is appropriate to maintain the current level of exposure to wholesale market prices for AR6. Nevertheless, the level of price exposure for generators will continue to be reviewed after AR6 in order to ensure we maintain value for money whilst driving efficiency and innovation as our electricity system evolves, in line with our vision for a smarter, more flexible system²⁶.

The Review of Electricity Market Arrangements (REMA) was launched to tackle challenges faced by the electricity system in the longer term, focussing on delivering enduring reform. The first REMA consultation considers the role of CfDs in future market arrangements, given the potential for CfD-supported assets to become a greater proportion of the generation mix. This included seeking views on high level options for CfD variations, as well as the benefits of increased market exposure, and whether these benefits were likely to outweigh the potential increase in financing cost. The consultation closed on 10th October 2022²⁷, with Government looking to publish a response this winter.

²⁵ As long as wholesale market prices are positive (from AR4 onwards).

²⁶ <https://www.gov.uk/government/publications/transitioning-to-a-net-zero-energy-system-smart-systems-and-flexibility-plan-2021>

²⁷ <https://www.gov.uk/government/consultations/review-of-electricity-market-arrangements>

3.2 Interaction between the CfD and Capacity Mechanism on eligibility

Policy Update

Capacity Market (CM) regulations and rules currently allow a capacity provider (i.e. the holder of a capacity agreement) to withdraw voluntarily from the CM with a view to becoming eligible to participate in a CfD allocation round. However, the way in which these regulations and rules interact with that of the CfD scheme means that in fact capacity providers cannot effectively take advantage of this flexibility.

The Government intends to suggest proposals to address this issue in a separate consultation this winter, which will also make proposals on a range of potential changes to the CM scheme. It is expected that any changes to the withdrawal provisions will require amendments to the Electricity Capacity Regulations 2014. Given the move to annual CfD allocation rounds, it is not possible to consult and amend regulations in time for Allocation Round 5 which is due to commence in 2023. The Government therefore anticipates that any adjustments to the withdrawal provisions will be in place for AR6 of the CfD scheme.

The rules governing eligibility for the CfD and CM schemes are designed to prevent projects from receiving support from both schemes at the same time. For the CfD scheme, this is achieved through Regulation 14(10) of the CfD (Allocation) Regulations 2014²⁸, which excludes projects with a capacity agreement, or with a pending CM application, from participating in a CfD allocation round. The Government considers this to be an important safeguard against overcompensating projects. Stakeholders should note that this exclusion will continue to operate at this time (and until such time as any changes may be made) and that applications from projects with a capacity agreement at the point of application will therefore continue to be deemed ineligible for the CfD scheme.

²⁸ <https://www.legislation.gov.uk/uksi/2014/2011/contents/made>

3.3 Non-price criteria in the CfD

Policy update

The CfD scheme has been hugely successful in encouraging low carbon energy generation, helping us deploy more renewable energy while driving down the cost of renewable technologies. To maintain the scheme's success and ensure sustainable deployment at the scales required for our ambitions for energy security and net zero, it may be necessary to adapt the scheme to consider other factors beyond price that may be a barrier to deployment. This is increasingly worth considering at a time when geopolitical and cost pressures are affecting the ability to deploy renewable energy projects quickly across the globe, with risks to decarbonisation objectives and security of supply.

The GB system has prioritised securing low costs for consumers, and the purely price-based CfD is extremely well suited to this. Elsewhere, other countries such as the USA and many across the European Union, have begun to consider other objectives as well. In these countries' renewable energy CfDs, leasing rounds and tenders feature an increasing number of "non-price criteria", where outcomes are not solely determined on the financial value of a bid, but also on other criteria, for example sustainability, project resilience and system integration. There may be a case for valuing more of these objectives in the UK in a way which continues to encourage low carbon electricity generation. If so, this must be done in a way that allows industry to prepare. We also note that this must not come at an unreasonable cost to consumers, and that this should seek to minimise any risks of unintended consequences including undesirable bidding behaviours.

The Government will in due course engage renewable energy stakeholders on these matters and, if pursued, run a detailed consultation.

Next steps

Following the close of this consultation, we will analyse the responses, summarise the views expressed and set out final decisions in a government response. We intend to publish this in 2023 on the GOV.UK website.

Consultation questions

1. Considerations for AR6

1.1 CfD for Private Network Generators

- 1. The Government welcomes views on its proposal to make electricity that is supplied via private wire to offshore oil and gas facilities ineligible for CfD payments from Allocation Round 6 onwards. What would be the likely impact of this approach, and should any alternative approaches be considered? Please provide evidence in support of your response.**

2. Considerations for future CfD Allocation Rounds

2.1 Defining Floating Offshore Wind

- 2. Would you support a change to Regulation 27ZA(4) in the CfD (Allocation) Regulations 2014? If yes, what would you suggest?**
- 3. Would you support Government publishing a list of technology types which it considers eligible to compete for a floating offshore wind CfD? If yes, would you support this in addition to, or instead of, a change to Regulation 27ZA(4)? If yes, what technologies would you support including on the list?**
- 4. Can you provide any further evidence of the impact of these changes to support your responses?**

2.2 Facilitating coordinated infrastructure

- 5. Do you believe that an MPI-OFW should be eligible to apply for future CfD rounds? Please provide details/evidence of your reasoning, including around the impact of eligibility on the sector, decarbonisation, security of supply and cost to consumers of electricity.**
- 6. What changes, other than those identified above, would be required to allow the participation of MPI-OFW in the CfD scheme?**

2.3 Phasing

- 7. The Government welcomes views on whether offshore wind phasing policy is still needed, now the offshore wind sector has matured.**

8. The Government welcomes views on the impact of restricting or removing phasing policy may have on offshore wind projects.

2.4 Appeals

9. The Government welcomes views on the current CfD appeals process now that we have annual allocation rounds.

10. The Government welcomes views on potential changes and the potential options outlined, and if there are any other options for the appeals process.

2.5 Treatment of repowered projects

11. Is the CfD an appropriate mechanism through which to support repowered assets, or are there other appropriate routes to market? If participating in the CfD, should these projects compete alongside new build projects? Please, provide details and/or evidence for your reasoning. We are particularly interested in evidence on the impact of supporting repowered projects on decarbonisation, and the relative cost competitiveness of repowered projects.

12. In your opinion, how should a “repowered” project be defined? How does this definition align with current CfD eligibility?

13. What are the main barriers to repowering projects in relation to the CfD? Are there any additional factors that are not outlined in the above text?

This consultation is available from: www.gov.uk/government/consultations/considerations-for-future-contracts-for-difference-cfd-rounds

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