



# AR7 and future rounds Consultation

OEUK response

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## 1 Introduction

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Offshore Energies UK is the leading trade body for the UK's integrating offshore energies industry. Our membership includes over 400 organisations with an interest in offshore oil, gas, carbon capture and storage (CCS), hydrogen, and wind. From operators to the supply chain and across the lifecycle from production to decommissioning, they are safely providing cleaner fuel, power, and products to the UK. Working together with our members, we are a driving force supporting the UK in ensuring security of energy supply while helping to meet its net zero commitments.

OEUK and our members are committed to working, together with the UK Government, industry, and regulators, to help deliver net-zero by 2050 in an efficient, affordable, and timely manner. As a sector we are equally committed to producing the cleaner oil and gas that the UK will continue to need in the decades to 2050 and beyond – with lower emissions than imported options. Achieving this will bring huge economic and environmental benefits across the breadth of the UK.

The offshore energy industry is a fundamental pillar of the UK economy supporting hundreds of thousands of jobs and contributing billions of pounds to the exchequer annually while powering homes and businesses across the breadth of the country. Our sector has the potential to spend almost £200 billion over this decade in the energy sector and continue to support hundreds of thousands of jobs across the UK. The majority of this could be spent in offshore wind, CCS, and hydrogen in the right investment environment.

The companies investing in and supporting nascent opportunities like floating offshore wind and CCS will require the cash flow from a stable and predictable oil and gas business to help fund these opportunities. The UK has a significant opportunity to be an energy transition leader, while retaining its core function of supporting energy security. To do this, though, we need a long-term, stable and competitive policy that gives investors, companies, and supply chain the confidence to commit to the UK. The carbon budget is a key pillar, reinforced with policy decisions, to attract this investment.

## 2 Overview

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## 3 Responses

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### Section 1 – Proposals for Allocation Round 7

#### Repowering

1. 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?

*It is time-consuming and difficult to develop a wind farm site. Therefore, repowering appears to be a useful option to maintain or increase production. In light of the ambition of the UK target for wind, all solutions should be considered. However, repowering shouldn't be at the detriment of new technology development such as floating wind. The repowering sites have already been de-risked. They have passed the consenting and original economic hurdle. They have an extensive database of wind data and other performance parameters. Therefore, they can't be put on the same footing as new projects.*

*Furthermore, the overall impact of repowering should be considered, including supply chain greenhouse gas emissions. We should avoid situations where repowering leads only to marginal gains in term of decarbonisation.*

2. 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? *In an ideal world, repowering would be viable based on the merchant market as they are partly derisked, and some development costs don't need to be repeated. However, they might still need support to handle the cost of transformation. "End of operating life" is a very uncertain concept as this time varies with electricity market conditions, costs, and inflation, among other factors. The associated danger is to award CfD to projects that are still viable with the current conditions, and conversely, the site may stop production before they could get the support to repower.*
3. Do you consider that each project should need to at least retain capacity, or do you foresee any challenges with this assumption? *A certain level of flexibility should be maintained to enable phasing up repowering. However, a financial incentive could be considered for projects that are upscaling.*

4. Do you agree full repowering of onshore wind sites meets each of the repowering eligibility criteria and should therefore be eligible for AR7? What evidence do you have to support this?

*Due to the limited availability of site repowering, it should be supported. However, the government could consider incentivizing sites that keep producing in their current configuration to avoid the arbitrage between existing conditions and CfD support. Furthermore, the government should incentivize sites that are upscaling their capacity. In summary, the scheme should give priority to sites that wait the longest to repower and that repower at scale.*

5. Do you agree that all other technologies do not meet the eligibility criteria for AR7? If not, why not and what evidence do you have to support this position? We are particularly interested in any costs data and definitions you may be able to provide on the full repowering of respective technologies.

*CfD support should focus on technology providing large emission abatement, and that required support to be investable. Those two criteria should be used to select technology eligible for CfD. These technologies should not displace support for new technology that has higher decarbonisation potential but is still emerging. Overall, CfD support should focus on emerging technology with high decarbonisation potential that needs support to start their cost reduction journey. As technology matures, CfD support should relatively decline.*

6. Is enabling forward bidding for repowered projects required to better enable repowering via the CfD? What impact would enabling forward bidding have on reducing non generation periods between decommissioning and recommissioning of the site?

*Forward bidding should be allowed to avoid drops in production. Again, priority should be given to sites that have long production lives and are planning to scale up.*

## Appeals

7. What are your views on the three options outlined? Is there one option in particular which, in your view, would be the most suitable to take forward in helping to deliver an increased certainty of delivery timelines for applicants?

*Clarity on a timeline that avoids delaying future deployments should be the preferred route. One could consider eligibility for future rounds as a way to avoid a long appeal process. If a prequalification route is preferred, could it be done in parallel with the SIR process, which is somehow a prequalification process?*

8. If we were to follow Option 2, i.e. changing the grounds for appeal, what kind of reasons for an appeal should be ruled out? Would there be any unintended consequences in taking this approach e.g. by removing the right to appeal due to clerical errors?

9. If an appeals process happens ahead of the allocation round formally opening, as with Option 3, should projects be able to be approved with conditions, provided they are met before the formal application window closes? If yes, what conditions might be appropriate?

*Yes, it could be a way to enable the project to move through the process, like a stage-gate system.*

10. If an appeals process happens ahead of the allocation round formally opening, as with Option 3, should we require developers to agree that they will not change the capacity of their main bid post submitting their application, to increase certainty when setting auction budgets?

*Distortion of the actual auction process should be avoided. Therefore, it seems reasonable to fix the capacity or at least to keep it within a reasonable range.*

11. If we were to change the application and appeals window for AR7, or later allocation rounds, are there any transitional impacts that we need to be aware of?

*Delay to AR7 award should be avoided.*

12. Are there times in the year where you would prefer not to have the auction results released (which in turn may trigger contractual and milestone processes)?

*Ideally, auction results should be aligned with the project's timeline. There is seasonality in terms of site survey and ideal deployment weather window. Therefore, the timing of auction results should take project constraints into account.*

### **Phased CfDs for floating offshore wind**

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

*Floating wind projects will likely be bigger, further offshore, and more complex, and they will likely take more time. To avoid extended delays, incentives to deliver in a timely manner could be considered.*

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

*The main concern of phasing is that it may induce delays in reaching government targets. As projects get bigger and bigger, a fixed timeframe no longer seems appropriate. Government could consider a bonus/malus scheme that allows flexibility while maintaining a certain time pressure. In any case, projects have a natural incentive to produce as soon as possible.*

15.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?

*As projects are getting bigger and bigger, a fix cap doesn't seem to be relevant.*

### **Co-located generation and hybrid metering**

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

*Renewable energy generators are likely to attract other consumers than the grids (hydrogen and derivatives generation, alternative fuel, desalination, O&G platform electrification, terminals electrification, CCS, DACCS, etc.) Furthermore, different renewable energy sources, such as wind and wave, can benefit from being generated in the same location by reducing installation costs and increasing capacity.*

*Colocation of those different activities should be encouraged to limit social and environmental impact. Colocation can also lead to cost reduction that can be transferred to the customer via a lower CfD bid.*

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

*The CfD scheme should promote technical and business model innovation. So, hybrid metering or any other way to provide flexibility within the system should be explored.*

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

*We are moving toward a hybrid system in which low-carbon gas will compensate for some of the rigidity of the electrical system (manage energy surplus, reduce curtailing, provide transport and storage options, and access to the international market for both export and import). Hybrid metering could help generate hydrogen in times of surplus, reducing the need for CfD protection and optimising energy use.*

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

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

*We invite the government to model different market behaviours to identify any gaming opportunities and to consider any relevant mitigations.*

## Section 2 – Considerations for future allocation rounds

### How could the CfD support innovation in floating offshore wind foundation technology as the sector develops?

21. 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.

*As technology evolves and their reach expands, the boundary between technology might become blurrier. There are two approaches to handle this issue. One would be to have a set of “maximum” criteria, and the project would qualify if it met any of the criteria (for instance, water depth above 100m, floating foundation, or >X distance to shore, or requires DC system ...). An alternative would be to have a set of “minimum” criteria, and the project would only qualify if it met all the criteria (water depth above 50m and distance from shore and foundation type, etc.). Those criteria should evolve at each auction round.*

22. If Government was to consider more tightly defining ‘established fixed-bottom’ offshore wind, with a view to then considering anything else eligible as an emerging foundation technology, do you have any initial suggestions on appropriate definitions or metrics by which to define ‘established fixed-bottom’?

*See above multi-criteria approach.*

23. The Government recognises the limitations of water depth for use in such definitions.

However, should this be necessary, the Government welcomes views on the appropriate minimum depth requirement for emerging foundation technology deployment.

*See above multi-criteria approach.*

### How could the CfD support delivery of improved coordination of offshore transmission infrastructure?

24. Do you agree with the Government’s assessment of bootstrap-connected projects?

*Anything that reduces infrastructure build should be promoted.*

25. Do you agree with the Government’s assessment of the role of the CfD in the HM and OBZ models?



*In the same spirit of infrastructure minimisation and cross-border grid balancing, connecting windfarm to MPI should be promoted.*

26. Do you have any evidence on the additional costs and benefits to consumers of an OWF-MPI arrangement?

*The infrastructure minimisation should produce cost reduction that can be passed on to end consumers.*

27. Are there other options that could better address the issues outlined in this consultation?

*OWF-MPI could explore the opportunity to simplify the commercial arrangement and ownership along the network. Government should evaluate if there are still benefits of having multiple ownership of generation and network or if an alternative construct would be more efficient for faster deployment.*

### **Should CfD indexation be updated to better reflect inflation risks?**

28. The Government is interested in views on whether a change in the inflation-indexation of CfDs could help to future-proof projects against macroeconomic shocks in future. Please provide supporting evidence where possible.

*The wind industry has faced a high-amplitude inflation shock that has jeopardized projects with an inherent low margin. Inflation indexation should be in tune with the specificity of the wind supply chain.*

29. Do you consider that a change to the way CfDs are indexed in future could better protect against inflation risk for developers, whilst also protecting electricity consumers from unreasonable costs? Please provide supporting evidence wherever possible.

*Commodity prices are cyclical, so an index that follows the wind supply chain cost would also benefit the consumers when the price is going down. Furthermore, incentives to reduce turnaround between CfD awards and first-generation could help mitigate inflation risks for consumers.*

30. Do you think electricity consumers, who ultimately fund CfDs, should bear greater construction risk through more comprehensive inflation protection to accommodate commodity price increases?

*Consumers could be exposed to both the low-side and the upside, so they could benefit in times of subdued inflation. Other mechanisms to spread inflation cost overtime could also be considered.*

31. The Government is interested in views on the significance of commodity price risk for developers. How significant are these risks compared to labour costs, cost of debt and exchange rate risk?

*OREC has published the LCOE for fix-bottom wind:*

<https://guidetoanoffshorewindfarm.com/wind-farm-costs>

And floating wind:

<https://guidetofloatingoffshorewind.com/wind-farm-costs/>

*Government could use those LCOE breakdown to estimate the sensitivity of the different elements.*

32.The Government is interested in views on how to define the period in which renewable generating projects are most likely to be exposed to fluctuations in key input costs, and therefore benefit from greater inflation protection. Please provide supporting evidence wherever possible.

*Consumers could be exposed to both the low side and the upside to benefit in times of subdued inflation. Other mechanisms to spread inflation cost over time could also be considered.*

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.

*We recommend an industry specific index based on LCOE breakdown.*

34.The Government is interested in views and evidence on the implications of indexing strike prices to PPI in the construction phase of a CfD project on investor confidence, and the overall effect this could have on project hurdle rates.

*See response to 33*

35.Over the last 10 years, PPI has historically been more volatile than CPI, but has also tracked higher overall. What effect do stakeholders think this could have on CfD bids? Please provide supporting evidence wherever possible and assess both the short-term and long-term impacts.

*See response to 33*

36.What trade-offs (for example, partial indexation later in the contract) or protections should the Government consider to retain consumer value for money?

*See response to 33*

37.Are there alternative proposals that could offer similar benefits that the Government should explore and if so, what are these and why? Please provide supporting evidence

*See response to 33*