CfD SIR Consultation

OEUK Response

16/01/2024

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1 Introduction

1.1 Offshore Energies UK

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 whilst 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 cashflow 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, whilst retaining its core function of supporting energy security. To do this though, we need 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 Summary

2.1 Purpose

The UK offshore energy sector has built an industry capable of creating a secure, skilled, and sustainable future. To unleash our potential and power our future, we ask those seeking to lead the next UK government to choose a homegrown energy transition.

If we get this right, with an attractive investment environment and a strong industrial economy, UK offshore energy companies could invest £200 billion in homegrown energy production this decade alone. We believe the UK can become a leading green industrial power, offering high quality employment for a skilled workforce driving strong economic growth.

Government has an ambition of 50GW of offshore wind by 2030 including up to 5GW of floating offshore wind. To deliver this, it will require rapid and sustained scale-up of deployment for which Contracts for Difference (CfD) are fundamental. Recent geopolitical, economic and industry events have made the supply chain for offshore and floating offshore wind increasingly challenging environment. Unsustainable approaches to contracting alongside the current reward framework have contributed to underinvestment in supply chain capacity and capability despite growing demand. Furthermore, increased global demand are exacerbating difficulties in obtaining key materials and deployment at pace. Our steelyards and heavy industry hubs require investment if they are to produce assets such as wind turbines. UK companies need to secure early strong positions to maintain their competitiveness in the face of international competition for UK and global energy projects. This in turn require early investment in future technologies and infrastructure. The CfD Sustainable Industry Reward Scheme should aim at providing non-price factors to address these issues.

The CfD SIR scheme presents an opportunity to encourage much needed investment in UK energy supply chains and support a domestic energy transition. The process should be optimised to ensure that the UK builds the foundations for the supply chains serving these future facing technologies, with sustainability and longevity being an outcome of the scheme. To drive the energy transition there need to be supply chains that are resilient, sustainable and ready for deployment. They should also promote a competitive market while generating domestic capabilities, driving down operating costs and benefiting communities through employment and economic opportunities.

2.2 OEUK Recommendations

OEUK identified areas of risk in the CfD SIR scheme which should be considered:

(i) The system and criteria combined may increase overall risk for developers which may eventually pass on to consumers via increased cost.

(ii) The deprived area criterion could be at odds with the strategic areas of anticipated investment and ambition to build and grown the UK's existing domestic supply chain.

OEUK recommendations:

(i) OEUK supports a progressive approach to CfD SIR implementation (including no minimum standards for AR7) to avoid unintended consequences from increased risk and asks for visibility on the long-term criteria evolution.
(ii) OEUK recommends separating SIR and “minimum standards” and instead include “minimum standards” in CfD process as prequalification criteria.
(iii) Mitigation measures should be introduced to limit the increased risk on developers which may be induced by the SIR process.
(iv) Adopt a reverse engineering approach to determine criteria that develop sustainable domestic supply chains.
(v) SIR criteria should aim at strategic priorities such as increased efficiency and cost reduction (achieved by automation, industrialisation, etc.).
(vi) Criteria should avoid undermining the nascent part of a transitioning supply chain and focus on promoting the transition and growth of existing supply chains.

The CfD SIR presents an opportunity to develop sustainable supply chains, at present it is a complex reform with transparency for only 3-years (AR7, AR8 and AR9). This needs to be a long-term policy intervention and be seen to be so to have the desired impact. It is recommended that the policy should reiterate that it is part of a long-term vision. It needs to coordinate with existing and future regulations and initiatives, existing and future lease criteria, Strategic Investment Model, Industrial Growth Plan, Green Industries Growth Accelerator and Review of Electricity Market Arrangements.

OEUK recommends a progressive but long-term approach to converge to a consistent policy from lease to project execution that enables early investments in the UK supply chain. The current proposal is complex and hard to model. The proposed system is likely to yield conservative bidding, reducing its impact and some of the criteria may be exposed to gaming risk. The system and criteria combined may increase overall risk for developers, which may eventually be passed on to consumers via increased costs. SIR criteria should seek to promote investment in technology and operational efficiency (automation, industrialisation) to continue the wind energy cost decline that will lead to consumers price reduction.

OEUK recommends not to use the “minimum standards” initially (at least for AR7) as such a requirement could undermine the round. The “minimum standards” are in effect prequalification criteria, and OEUK suggests that if government wishes to introduce them, that they are integrated within the CfD process with a long-term visibility of the way they will evolve. If the “minimum standards” are instead included in the CfD process, the SIR will come back to its original intention of rewarding investment in sustainable supply chain.

To develop sustainable supply chains through the SIR process, it is recommended that the criteria are developed by conducting a reverse engineering approach. Government should leverage existing supply chain capability studies, and work that is soon to be published, to enable criteria to be selected and parameters to be set such that existing capabilities are enhanced and developed. OEUK have commissioned an independent study on the UK oil and gas supply chain capabilities, and transferability to new energy vectors. This study will specifically consider how existing capabilities can be further leveraged into these new energy sectors, including offshore wind. The report is due to

be published in Q1 2024 and will provide a good overview that could aid the development of the criteria.

Government should consider providing more flexibility into the SIR scheme, through front loading to enable pre-investment in the supply chain. The scheme should recognise investment for future projects and therefore future CfD rounds. It is recommended that joint or consortium investments should be allowed to bid for a SIR to grow sustainable supply chain capacity. If this option is permitted, mitigation should be allowed in case some of the partners failed to secure CfD. It would be beneficial if government would consider transferability of the SIR investment in cases where the named project does not obtain a CfD.

It is also recommended that the scheme should reward existing “good behaviour” from developers that have already implement investment in the UK Supply chain.

2.3 Proposed Delivery Model Response

In its current form, the proposed delivery model addresses some of the issues with supply chain development but may expose or unintendedly generate deployment issues.

It is currently proposed that minimum standards are implemented before a project is eligible to enter CfD Allocation Rounds with the government proposing two possible options.

In the first option, a project must secure funding for one SIR proposal before it is eligible to enter a CfD Auction Round. Due to the proposed funding allocation mechanism, it may mean a project will not receive the funding it has ‘won’ due to the size of the budget and its position in the ranking.

The second option would make it a contractual requirement for applicants to submit SIR ideas for each of the three categories and to satisfy a minimum standard in order to be able to enter the CfD AR. This second option creates a situation like the first where due to budget size and position, an applicant may have to make significant investment in all three areas but not actually receive funding. Further, the implementation of minimum standards may mean that developers with mature projects may not be able to access CfD Allocation Rounds and as such, the targets mentioned above are put at risk.

The process is currently presented as a two-stage process whereby the quality of the SIR proposal for a project is assessed against pre-determined criteria first and then this is considered alongside the price and an overall ranking is given. This process may mean that projects that surpass the criteria are assessed, and resources utilised when the price they put forward subsequently may mean they will never get access to the funding pot.

There is the potential for overcompensation in certain circumstances when the SIR is combined with the CfD as part of the project funding mechanism. To an extent the CfD is aimed at the developer and the SIR is aimed at the supply chain and clarity on their interactions will be beneficial.

The proposal for CfD SIR appears to be most beneficial for investment in expanding or evolving supply chains, and therefore could be detrimental to existing supply chain companies. A developer with an existing supply network may have to overhaul their supply chain choices to ensure that minimum standards and SIR criteria are met, disincentivising investment in established and stationary supply chain companies. Additionally, projects due to bid for AR7 and onwards may have already invested significantly in leases, business cases, consents and in their supply chains, in its current format the CfD SIR may demand significant project changes or create risk and price increases, both of which have been attributed to the failure of offshore wind development and Allocation Rounds in the past.

In relation to performance related adjustments and failure of delivery, there are some concerns about the perception and enforceability. The proposal for payments on partial or non-delivery of the SIR commitments are similar to existing CfD requirements and therefore understood by industry. The proposal for not delivering minimum standards and being penalised may be difficult to enforce given the complexity of amending the CfD regulations. Further, penalising and termination of the CfD contract due to not meeting minimum standards highlights that the CfD SIR process may not be a 'reward' system was as intended and undermine key offshore wind targets.

2.4 Proposed SIR Criteria

The criteria have visible links to sustainability, but the criteria and parameters proposed may not realise impactful supply chain investments in the domestic supply chain.

The SIR criteria to the CfD scheme aim to reward projects that develop supply chains when considering sustainability from an economic, social and environmental perspective. The outcomes of considering each of the criterion in isolation means that there may be a tri-directional tug-of-war and as such, achieving minimum standards across all criteria or providing suitable proposals may not be possible.

The criteria suggested aim to increase the sustainability of the supply chain. However, given the timescales of the proposed implementation period of the CfD SIR, the criteria and how it demands investments and actions to be made is relatively short to medium term thinking. In order to have confidence to invest, supply chain companies require a long sustainable pipeline of work.

The Deprived Area Criteria appears to primarily benefit expanding or evolving supply chains. If an existing supply chain does not have facilities in a deprived area (as specified within the consultation), then this may demand investment in new facilities when existing facilities are already operational.

It is important to ensure that the SIR criteria reflect the growing nature of the market and support the scaling up of existing supply chain companies. Supply chain companies sited away from deployment zones may require the volume of work to grow before investing in additional capacity close to deployment zones - SIR criteria should support this necessary stage in building domestic supply chain capacity. The SIR requirements must support economies of scale that are appropriate for the amount of demand, as well as potential developer collaboration, as indicated by the Strategic Investment Assessment.

Additionally, the Deprived Areas classified by the criteria stated in the consultation mean that the areas considered include areas that may not be located closely to deployment zones for offshore wind, and this may cause increases in emissions associated with increased distances. Further, there is a question as to how sustainable a supply chain would be if it was located in a deprived area not close to deployment zones, as they would be less competitive with those more closely located.

The criteria related to SMEs aims to encourage SMEs in the supply chain, as mentioned in the consultation, a potential issue may be the gaming of the system in which subsidiaries are created to classify as an SME. This could be mitigated by industry initiative on good governance. Additionally, there may be the risk that if a developer opts to use an SME, they may not then be able to achieve criteria for deprived areas and decarbonisation with that same section of the supply chain, as an SME is unlikely to have access to funds to encourage investment in deprived areas or significant decarbonisation efforts.

The decarbonisation-outputs criterion, using the upcoming methodology from the Sustainability Joint Industry Programme, would be a standardised method to assess the carbon emissions of a supply chain. A potential issue associated with this criterion is where the jurisdiction for calculating the emissions lie. Enforcing this upon businesses that may not have the current resources to calculate the emissions may undermine the effectiveness of this criterion. Currently under GHG protocol, SME companies have no obligations to assess their carbon footprint. There might be conflict between the sustainability criterion and the SME criterion.

The use of science or evidence-based targets is supported for the decarbonisation criterion for inputs. However there is an issue with Science-based Targets Initiative (SBTi) current methodology that is likely to exclude many existing supply chain companies due to their revenue from ‘fossil fuel’ companies. Alternatives to this methodology should be considered. It should also be noted that not all supply chain companies will have resources to register for the SBTi programme.

3 Consultation Question Responses

1. **Is the government's preferred model for allocating and valuing SIR proposals an appropriate delivery model to avoid overcompensation, while giving applicants flexibility on how they deliver their proposals? What could be the unintended consequences and value for money concerns, if any?**

The current proposed model for allocation and valuation is quoted as an "industry-led reward mechanism", in its current form and with some information of key aspects of the process unavailable it is not possible to fully comment on the suitability of this method. The current method where applicants provide proposals on delivering commitments, creates concerns over the system underdelivering due to conservative or unviable bidding and may limit impactful supply chain investments. A government led approach, where supply chain commitments stipulated were rewarded would carry less risk of under delivering policy objectives and 'gaming' issues.

There are value for money concerns, firstly for where overcompensation may occur due to CfD's supporting the development of projects by providing certainty on the cost of capital. Therefore, the compensation environment between capital and supply chains may be obscure. Secondly, value for money on investments may be low as in its current format the system is likely to encourage cautious proposal development and may lead to speculative bidding.

The proposed system is complex and may increase overall risk for developers which may pass on to consumers by increased costs. An incremental approach and transparency on the future of the scheme are needed to minimise risks and encourage investment in the development of domestic supply chains.

The current proposed process (discussed in further questions) is likely to bring about unintended consequences, with one of the most significant being that it may cause uncertainty and difficulties accessing the CfD allocation rounds and as such impede the scale up of the offshore wind sector. The current proposed methodology weighs in the material contribution to supply chains but not the contribution of developers towards generation targets. The current methodology suggests that the highest ranked applicant will receive access to the budget pot for their delivery of the criteria. The 'delivery' of their criteria may be significant investments in the supply chain, which may not be representative of the generation from the associated offshore wind sector development or the investment leverage effect. Therefore, it is proposed that generation capacity is considered within the scoring of criteria or the assignment of the budget.

The SIR criteria should clearly be differentiated from "minimum standards" allowing the SIR mechanism to operate as a 'reward' system for those developers that go above and beyond the minimum standards.

It is crucial that CfD allocation criteria is visible alongside the SIR criteria to ensure that SIR commitments made in advance of the allocation round do not become null dependent on the content of the CfD criteria.

There are some concerns over the two-step process where the price of a proposal is not considered until after the dispute resolution process where resources for government, the independent panel and developers will have been used on proposals that may never be realised given their price. Currently, this is a speculative comment as the size of the budget is unknown but if suggestions like those discussed in Question 2 are implemented it may be possible to bring price considerations into the assessment process earlier.

To ensure delivery of commitments and ability to more easily monitor the process as it develops OEUK view that payment of the SIR reward as a series of lump sums is preferred.

2. **What kind of backstop or mitigation would you suggest the government introduces to prevent a small number of large projects capturing the vast majority of the SIR budget?**

The current methodology states that “proposals could be awarded the funding they bid for based on their position in the ranking”, implying that the full cost will be given. It is suggested that an incremental system is adopted, that is to say that the cost of implementing the SIR criteria above that which the developer would have already carried out is provided as payment. In its current format the process may see developers producing bids that just achieve the minimum standards but not much more, as they will identify that there will be a risk, they will not be able to receive any funds should they not be near the top of the ranking. Although providing a cost comparison of projects with and without SIR criteria considered may demand more upfront workload for developers it may incentivise more impactful supply chain investments given that the ability to receive funding for their actions is more likely.

In order to stop a small number of large projects capturing the vast majority of the SIR budget, a limit on the proportion of the budget that can be accessed by a single developer could be implemented. This in turn could encourage developer collaboration which may diversify and strengthen sustainable supply chain investments. Additionally, an upper limit could be implemented for the value of bids proposed in order to minimise the chance of a small number of projects accessing the budget. The upper limit would need to be dynamic and not fixed to reflect that some proposals will inherently be more expensive than others due to the scale of the investment.

3. **Would it be of value to Applicants to allow multiple SIR bids? What should the limit be on multiple bids per criteria? Please explain your answer.**

OEUK recognises the potential to allow applicants to submit multiple SIR bids for each criterion they choose to apply for (only applying for some criteria is expanded in Question 6). It should be ensured that the possibility to submit multiple bids is within reason and successful bid allocation does not undermine the aim of strengthening and diversifying the supply chain.

Multiple bids would act as an insurance mechanism for applicants to know that they have more chance to be considered for the SIR funding and, dependent on the mechanism chosen, the likelihood of entering the CfD round (should government utilise minimum standards). As the administrative requirements for the process, for both developers and

government, might be quite high, 3 applications for each criterion should be implemented as the maximum.

OEUK also note potential opportunity for joint bids, i.e. multiple projects coming together, in the process. This is proposed as the government's aim of having a more sustainable supply chain may be realised if the supply chain companies had multiple order streams.

A potential issue with multiple applications is the scoring and ranking of such and if multiple bids are to be allowed, clarity on how multiple bids are assessed is needed. If applicants are scored against their own applications, this may mean the optimum combination of proposals to create a sustainable supply chain may not be met. This would most likely be pertinent if the applications were scaled variations of the same commitment. A possible method to avoid this issue would be to allow developers to rank their preferred options when they submit proposals.

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

The current proposal states that 6 months in advance of CfD applications opening, "developers would have narrowed many of their project design and procurement choices". This is likely to be the case and means that many supply chain decisions may have also been made, so if their existing supply chain investment decisions do not address the SIR commitments, developers would have to overhaul their proposal. Given the likely rigidity of project pipeline and supply chains at the proposed stage, it may be more beneficial to provide SIR criteria as early as possible, alongside the CfD criteria so that developers can develop projects and supply chains in tandem.

Further, given the proposed timelines for implementation, it is recommended that any minimum standards or SIR criteria are not mandated for AR7, as a lot of the procurement and project development will have been carried out. The SIR proposal is potentially a big change to the system and given the uncertainty that may be associated with that, it is recommended that SIR is softly launched and then it is a progressive system which implements the requirements as time goes on. A structured implementation plan needs to be published to make clear to developers how the system will develop and key implementation milestones.

5. **What is the right weighting between marks awarded for quality and marks for the price of delivery when determining the overall combined score of a proposal? Provide a reason why.**

The optimal weighting between marks for quality and price is difficult to comment on without visibility on the size of the budget or the finalised criteria. Constraints associated with the budget would mean that the price of proposals becomes more critical when there is less budget available to deliver SIR commitments. We anticipate the importance of the

impact assessment of the policy ahead of publication of any legislation and take a reverse engineered approach to determine best parameters.

Ranking proposals against the criteria in their proposed form only assess the ability of a project and its supply chain to fund enablers of sustainable supply chains and not the impact that these investments will have. It is not possible for developers to assess the sustainability of the supply chain based on their investments and highlights that there are limitations in assessing them against arbitrary criteria. This is mentioned here as too much emphasis on the quality scoring of the proposal may not realise the aims of the SIR process. However, given that the SIR was created as a non-price factor, it is pertinent that the quality score accounts for more than the pricing to reflect this.

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

OEUK view that the proposed 'Option 1', where applicants are barred from the CfD auction if they have not obtained at least one SIR reward award should not be taken forward. This option has the potential to undermine offshore wind generation targets if credible projects and their developers are unable to access the CfD auction.

Rather than carry forward with Option 2 as proposed, OEUK suggest minor amendments to this option. In its current form the CfD SIR process could be seen as a pre-qualification process to the CfD rather than a reward mechanism. Therefore, minimum standards for the criteria could be implemented within the CfD process to ensure sector wide contributions to the sustainability of the supply chain are carried out and then actions above these minimum standards is the SIR process whereby additional investments are rewarded. For this proposed method, applicants would not need to submit proposals for each criterion rather for the criteria where their proposals go above and beyond the minimum standards. Government should provide long-term visibility to minimum standards (prequalification criteria) trends.

There may be an issue associated with implementing minimum standards due to the complexity of amending the CfD regulations.

7. **Are the government's proposals on performance related adjustments (i.e. to address non-delivery) proportionate and enforceable? Please answer in relation to:**

a. Performance related adjustments for non-delivery or partial delivery of SIR commitments.

OEUK agree with the performance related adjustments whereby non-delivery of a commitment would not receive payment and partial delivery of a commitment would result in partial payment.

The proposed monitoring and assessment mechanism for the performance related adjustments has the potential to be resource intensive but would nonetheless be the most appropriate way to allow developers to fairly be assessed and dispute any claims. It is welcome that it has been acknowledged that some aspects are out with developer control and may result in non or partial delivery, however caution must be applied to the standards set through the mitigation assessment as there could be room for interpretation. If there was not the availability to receive partial payment it is likely that most bids would be very conservative to minimise risk of partial or non-delivery of the SIR commitments.

b. Performance related adjustments for non-delivery of minimum standards.

OEUK do not agree with the proposal to penalise applicants based on their initial SIR bid as this will likely cause conservative bidding to ensure that the risk, should non-delivery of standards occur, is minimised.

The relevant section of the SIR process firstly mandates minimum standards to be met and then for SIR criteria to be bid, as discussed previously, if minimum standards are considered separately to the SIR criteria and rewards, then a more representative penalty could be applied regarding minimum standards.

It could be possible to apply a performance-based approach where a certain percentage is deducted from the SIR payment if certain commitments or key performance indicators (KPIs) aren't met.

Possible appropriate penalties would be similar to those as set out in either the Supply Chain Plans or the structure as used in ScotWind.

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

No, we do not agree that the CfD payment is adjusted based on the initial SIR bid.

9. **When considering dispute resolution mechanisms (at both application and payment stage), what sort of independent panel body, or independent members, would be appropriate for DESNZ to appoint?**

OEUK is suggesting to use a similar process than for CfD for the SIR as we should minimise novelty in the first iteration of the policy.

With regard to the proposed SIR criteria:

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

The policy objective is to encourage investment in a sustainable supply chain for offshore wind, considering economic, environmental and social sustainability and it is possible to see the links between each area of sustainability and the proposed criteria categories. However, it is not possible to see how the criteria categories will interact as they are currently considered in isolation and the outcome of each summed to provide an overall score.

The criteria need to be selected to ensure that it promotes a competitive market while supporting the growth of domestic capabilities and capacities, thereby increasing supply chain resilience. Furthermore, there is opportunity to simplify the SIR criteria, and take a more targeted approach in areas of strategic priority, for example to promote investment in technology and operational efficiency (automation, industrialisation) to drive down operating costs and continue the wind energy cost decline. This in turn will support growing UK supply chain capability and capacity in areas of strategic priority. As UK companies scale up to meet demand this will benefit communities through employment and economic opportunity.

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

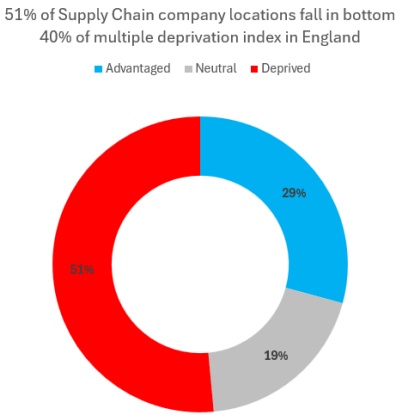
As stated previously, the Deprived Area Criteria should align with the strategic areas of anticipated investment and ambition to build and grown existing domestic supply chain.

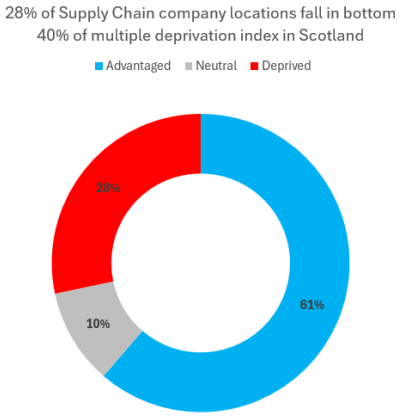
In the commentary of the consultation, it is indicated the need to invest in facilities near to deployment zones is needed to ensure that there is not an impact on environmental footprint associated with this criterion. This aspect has not been carried through to the proposed criteria and as such we ask that the proximity to deployment zones is embedded in the required criteria so not as to undermine emissions considerations.

The aims of implementing the deprived area criteria are visible, however there is some concerns over the longevity of supply chains that are invested in for the purposes of achieving the SIR standards. As the proposed process is only visible for three rounds, this may incentivise short term investment in facilities that achieve the required standards but do not actually result in a sustainable supply chain.

It Is proposed that the criteria relating to both 'skills training centres' and 'Research and Development' are modified to reflect that generally skills and research facilities are often not an individual developer asset but rather they facilitate multiple developers and their supply chains. To assess applicants against these as individual sections for the criteria may present unintended bias, it is likely that developers will share these facilities and as such the ability to reflect this in the assessment of proposals should be permitted, as should the ability to provide joint bids (as discussed previously).

OEUK has conducted an analysis based on 172 supply chain locations in England and 104 in Scotland showing that the current criteria might be detrimental to the current supply chain, in particular in Scotland. A way to mitigate this issue could be to introduce a radius around deprived area.





12. Will rewarding applicants with projects spending a greater percentage of total DevEx and CapEx spending on SMEs lead to an increase in the amount of project spend that goes to SMEs? Please say why.

A healthy SME environment is key to stimulate innovation and support local community. However, they are important risk of unintended consequences in this approach. The policy needs to include mitigation measures to ensure that the relevant target SMEs are rewarded by the scheme.

Furthermore, the more SMEs involved in a project the higher the complexity and therefore risk and management costs are. Firstly, this cost will be more difficult to establish especially within the timescales of the SIR process and the cost presented for the SIR criterion may not be best value. Secondly, it is possible that due to the increased complexity, some of this risk translates into the CfD cost presented. Derisking measures need to be considered to help the developers in managing the risk of a complex supply chain.

13. To what extent would it be burdensome for developers and tier one suppliers to collect the requested information project DevEx and CapEx spend that goes to SMEs?

It is assumed that the process to collect the relevant information will be both complex and could implicate the standard procurement process of developers and tier 1s.

One method to avoid this possible complexity is to have a minimum spend threshold that must be reached before a developer is able to consider supporting SME content.

14. What would you deem to be appropriate minimum, medium and maximum thresholds by which to score applicants against the SME SIR criteria and why? For example, a minimum threshold might be that at least 5% of a project's DevEx and CapEx spend goes to SMEs.

As stated above, the SME criterion is not the most robust of those proposed and it is recommended that this is not carried forward in its current form. If this criterion is to be carried forward, then caution will need to be applied when selecting any thresholds.

An issue associated with applying thresholds is that an understanding of quantity and capabilities of the SME section of the supply chain has not been established at this time. If SME minimum standards and criteria are carried forward then mandating this could cause three main issues. The first would be the disparity of requirements for small and large projects, mainly associated with risk and administration. A large project having to achieve a set percentage of spend on SME is likely to have a more complex risk profile for their project associated with engagement, contingencies and project interfaces which may impact the CfD bid that is put forward. Further, SMEs engaging with developers with a complex supply chain may not have resources to uphold complex administration associated with this.

The second potential issue could be that as there are only so many SMEs that project developers could engage with and there may be issues associated with existing SME capacity. New SMEs may form in response to the SIR however it may take some time before their capabilities reach that of existing companies and this will again be reflected in the risk or cost profile, as well as project timelines to reflect infancy.

The third possible issue is that SMEs may be engaged through the minimum standard and SIR criteria processes but may in the end not be used due to capacity and/or developers not accessing the SIR budget. This would mean SME order books are less predictable and could create poor relations between developers and SMEs.

15. Is the Carbon Trust's Joint Industry Programme methodology an appropriate, and effective, means by which to measure the CO2 emissions of offshore and floating offshore wind projects? Please say why.

Government should seek to allow flexibility to reflect the evolving nature of emissions accounting, and to ensure that the methodology adopted efficiently and effectively measures emissions.

16. Are science-based targets an appropriate standard by which to determine the sustainability of suppliers' manufacturing and procurement practices? Are there alternative measures the government should be considering that are easily measurable and verifiable?

See response to 17.

17. What would you deem to be appropriate minimum thresholds by which to score applicants against the SBTi criteria and why? For example, a minimum threshold might be that at least 20% of a project's Tier 1 suppliers have set, and are pursuing, science-based targets that have been submitted for validation and communicated.

OEUK are highly supportive of the role of climate-disclosures and as a sector committed to their own emission reduction pathway in 2019 setting clear sector emission reduction targets until 2050 to reach net-zero which we continue to make progress on. In addition, we were also highly supportive of the UK's leadership to introduce mandatory taskforce on climate related disclosure (TCFD) reporting in 2023 for large companies as a key step to delivering certainty in the market. On top of this, many of our members have set their own targets and produce annual sustainability reports outlining the progress to date.

Whilst we do see an important role for science-based targets in the application and monitoring of SIR, we remain concerned the infancy of the science-based targets initiative's sector coverage would lead to additional complexity and distortion in the market. At present, SBTi guidance[1] for oil and gas companies is in development[2]. Until this is in place companies that derive more than 50% of revenue by providing equipment or services to fossil fuel companies will not be considered by the SBTi. Through the North Sea Transition Deal the government recognises the clear need for determined action to be taken to build on the proven capabilities within the oil & gas sector to support the transition to net zero. The UK oil and gas supply chain can play a critical role in delivering the next generation of wind capacity, however whilst the wind sector remains in its infancy revenue streams for these expanding supply chains will continue to be dominated by oil and gas. Therefore, we believe that compliance with TCFD reporting requirements should be considered alongside SBTi to avoid segregation.

We would welcome the opportunity to explore further with DESNZ the integration of appropriate science-based targets that is accessible by the broad spectrum of companies that will be key to successfully delivering future auction rounds.

[1] Oil and Gas TOR (sciencebasedtargets.org)

[2] Oil and Gas - Science Based Targets