

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Third Delegated Legislation Committee

DRAFT CONTRACTS FOR DIFFERENCE
(MISCELLANEOUS AMENDMENTS)
REGULATIONS 2021

Tuesday 22 June 2021

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The Committee consisted of the following Members:

Chair: †JAMES GRAY

Abrahams, Debbie (*Oldham East and Saddleworth*)
(Lab)

Caulfield, Maria (*Lewes*) (Con)

Cummins, Judith (*Bradford South*) (Lab)

Davies, David T. C. (*Parliamentary Under-Secretary
of State for Wales*)

Duguid, David (*Parliamentary Under-Secretary of
State for Scotland*)

† Fletcher, Mark (*Bolsover*) (Con)

† Greenwood, Lilian (*Nottingham South*) (Lab)

Harris, Rebecca (*Lord Commissioner of Her Majesty's
Treasury*)

McDonagh, Siobhain (*Mitcham and Morden*) (Lab)

† Mak, Alan (*Lord Commissioner of Her Majesty's
Treasury*)

Morris, James (*Lord Commissioner of Her Majesty's
Treasury*)

Rutley, David (*Lord Commissioner of Her Majesty's
Treasury*)

Thomson, Richard (*Gordon*) (SNP)

† Tomlinson, Michael (*Lord Commissioner of Her
Majesty's Treasury*)

† Trevelyan, Anne-Marie (*Minister for Business,
Energy and Clean Growth*)

† Whitehead, Dr Alan (*Southampton, Test*) (Lab)

Yasin, Mohammad (*Bedford*) (Lab)

Stuart Ramsay, *Committee Clerk*

† **attended the Committee**

Third Delegated Legislation Committee

Tuesday 22 June 2021

[JAMES GRAY *in the Chair*]

Draft Contracts for Difference (Miscellaneous Amendments) Regulations 2021

9.25 am

The Chair: I remind Members that in line with what we are doing in the main Chamber, we have narrowed the distance between Members in this Room to 1 metre. Please therefore sit in the spaces that have the rather nice blue tickets beside them.

The Minister for Business, Energy and Clean Growth (Anne-Marie Trevelyan): I beg to move,

That the Committee has considered the draft Contracts for Difference (Miscellaneous Amendments) Regulations 2021.

The regulations were laid before the House on 12 May 2021.

The draft instrument makes a number of amendments to three separate contracts for difference regulations: the Contracts for Difference (Definition of Eligible Generator) Regulations; the Electricity Market Reform (General) Regulations and the Contracts for Difference (Allocation) Regulations. The amendments will help to support the ambition for the next contracts for difference auction, planned to open in December this year, and help to make progress towards the 2050 net zero target.

The amendments include adding and removing technologies from the list of technologies eligible to compete in a CfD round and measures aimed at strengthening the supply chain plan process and extending the delivery years that can be set for successful projects. They also include some small technical amendments to the non-delivery disincentive rules, capacity cap rules and technical changes to improve the operation and clarity of the allocation regulations.

We are proposing the legislative amendments following two public consultations, during which our proposals received broad support. The CfD scheme is designed to offer long-term price stabilisation to new low-carbon generators, allowing investment to come forward at a lower cost of capital, and therefore at a lower cost to consumers. The scheme has been successful in driving substantial development and deployment of renewables at scale in Great Britain, while rapidly reducing costs to electricity consumers.

The most recent allocation round in 2019 saw contracts awarded to 5.8 GW of new renewable energy projects, with the costs of offshore wind generation falling by around 30% from the previous allocation round in 2017. We are laying the amendments today to give certainty to businesses on what basis projects will be eligible to take part in the next CfD scheme in advance of the round opening in December.

CfD applicants with a capacity for 300 MW or more are currently required to present a supply chain statement to the Electricity Market Reform Delivery Body as part

of their application. A statement is provided if a developer can demonstrate to the Secretary of State's satisfaction that the project will make a material contribution to the development of relevant supply chains. The aim of the policy is to encourage the effective development of open and competitive supply chains and the promotion of innovation and skills in the low-carbon electricity generating sector.

The Government believe that the current policy approach needs to be strengthened to boost competitiveness and productivity in places that stand to benefit the most, harness innovation and invest in skills while driving progress towards the UK's net zero target.

The regulations revise the criteria that the Secretary of State must consider when assessing an application for a supply chain statement. In addition, they create a new stage in the process, requiring a CfD generator to apply for a supply chain implementation statement in order to demonstrate the extent to which they have delivered on the commitments set out in their original supply chain statement. The regulations also set out the process for providing or refusing a supply chain implementation statement. That statement will enable a CfD generator to fulfil a condition of the CfD contract. Failure to fulfil that condition may lead to the termination of the contract. That new requirement will be inserted into all CfD contracts awarded from the fourth allocation round.

Biomass conversions have played a material role in helping to meet the UK's 2020 renewables targets by replacing coal-fired power stations with renewable energy generation. However, as electricity generation has become less carbon intensive, we have reviewed the role of biomass conversions. The regulations remove biomass conversion projects from the list of technologies eligible to apply for a CfD in future allocation rounds.

The Government have confirmed a new ambition for 1 GW of the new 40 GW offshore wind target to come from floating offshore wind on account of widespread agreement that floating offshore wind will play an important role in helping the UK to meet its longer term decarbonisation targets. That technology is currently in an earlier phase of development making it more costly than offshore wind that is attached to the seabed. It is therefore appropriate for floating offshore wind projects to be recognised as a distinct technology within the CfD scheme, one subject to its own administrative maximum strike price. The regulations therefore establish floating offshore wind projects as a category of technology eligible to take part in the CfD scheme and to compete alongside other less established technologies. In doing so, that delivers on our manifesto commitments.

The UK's new 2050 net zero emissions and carbon budget six targets, which we put into law yesterday, mean that we will continue to require substantial amounts of new, low-carbon power sources to be built before 2050. The changes in the regulations ensure that CfD allocation rounds can best support an increase in the pace of deployment of new renewable electricity generation needed to achieve our ambitions, while continuing to consider value for money for consumers. Subject to the will of Parliament, the arrangements will come into force on the day after the regulations are made.

I therefore commend the draft regulations to the Committee.

9.30 am

Dr Alan Whitehead (Southampton, Test) (Lab): The business before us concerns a number of miscellaneous amendments—as set out in the title of the statutory instrument—relating to the operation of CfDs. I do not think that either the Minister or the Committee will benefit from a recitation of what CfDs are, how they work, their benefits and so on. Suffice it to say, the Opposition are very supportive of their continuation as a method of securing capacity, and giving certainty to developers that the projects they are embarking on will have a secure future. CfDs have proved a good way of developing offshore wind generation in particular in the past, and hopefully they will continue to do so.

The amendments represent a minor tinkering with the process to achieve, as stated in the SI, a “better outcome” of the CfD process as it matures. The miscellaneous amendments offer good and bad news—there are good amendments and bad ones. The Minister has offered a general overview of their purpose. They are quite detailed, and I do not think the Committee will want to go into all the detail of all the amendments, but I want to highlight two or three that may have some question marks attached to them, and one in particular which I just think is a mistake and needs some earnest thought from the Minister about how she wants to proceed with it.

My first question relates to the idea that floating wind will be in a separate pot for future CfDs negotiations. I think that is a thoroughly good idea, which will enhance its ability to come to market more effectively and speedily. The CfDs rounds coming up will have a new condition attached to them, namely “hard and soft boundaries”. Quite simply, that means that where a round has a capacity limit attached to it in general, it appears that the amendments will enable that boundary to be furred over slightly as applications come in. My understanding is that if an apparently worthy scheme comes in and is right on the margins of the suggested capacity limit in a particular round of CfD auctions, it may be possible to rub that application in rather than rub it out, provided that the general capacity boundary is adhered to. According to the mechanism set out in the SI, a round is declared to have soft or hard boundary, and therefore might allow for different treatment to be given to particular schemes. I do not particularly dissent from that way of doing things, but I think the Minister should look a little carefully at the possibility that a particular scheme on a particular occasion might get in to the round, whereas another scheme on another occasion might not get in because of the apparent relative hardness or softness of the boundary, and for which no criteria are given in the amendments. That could give rise to possible legal action by a project that has not got in when it could have got in on a more furry boundary. I might be a good idea if the Minister checked that that proposal is reasonably proof against that scenario. In a competitive auction, the ability to get inside the capacity arrangement could be quite important for a project’s future, and therefore there would be quite a lot riding on it. The operation of the round needs to be as watertight as possible.

The Opposition do not have any problem with the biomass conversion proposal, under which CfD inclusion is ended for biomass plants that are converted from existing coal-fired power stations. This country has examples that have been successfully carried out under

previous CfD arrangements, one being Drax in the east midlands. Drax is an interesting example in as much as the statement in the explanatory notes relates to the idea that although the Government are, as it were, withdrawing favours from biomass conversion as it stands, they acknowledge that the role of biomass with carbon capture and storage is a high priority for the Committee on Climate Change and is considered by it and many others as a substantial contributor to future net negative emissions. Should bioenergy with carbon capture and storage proposals be made, the Government may want to review their decision on biomass conversions. It is not an academic issue precisely because not only has Drax involved itself in biomass conversion from an existing coal-powered plant, but it is implementing a CCS programme for the biomass conversion that has taken place. Circumstances could arise in which a developer came forward with a proposal for not only biomass conversion of an existing coal-fired power station but CCS attached to it. It would therefore fall into the BECCS area in terms of future biomass arrangements. It would well behove the Government to consider that possibility early rather than later, because that is likely to be quite a considerable portion of biomass activity in the future. It would be of concern were the Government not ready to support that in the best way possible.

The mistake, I think, is to deny floating wind the ability to phase its arrangements under a CfD in the same way as offshore wind does currently. I cannot see what advantage there is to the Department for Business, Energy and Industrial Strategy, or to anyone, of saying with specific reference to floating wind that no phasing will be allowed from applications for CfDs, whatever pot they happened to be in. The argument in the SI suggests that floating wind is a small scale operation and that the arrangements for its deployment can be successfully carried out on a one-phased basis. It is suggested that the problems of scale encountered by offshore wind—the time taken to erect large offshore wind platforms and so on—will not be replicated by onshore wind. However, the SI also makes it clear that the Government are prepared to look at the current arrangement again should the circumstances of offshore floating wind change—if it turns out that offshore wind is deploying at much wider scale than is currently the case. The problem is that it is inevitable that offshore floating wind will deploy at scale and simply looking at what has happened so far means looking at demonstration and proving models. It is right that those models should be created to establish the viability of offshore floating wind, but they bear no relation to what will happen in the commercial roll-out phase. As the Minister knows, in the Celtic sea and elsewhere, there are already proposals for much larger scale offshore floating wind installations than has previously been the case.

The 2019 Carbon Trust offshore floating wind joint industry project phase 2 summary report made the precise point about the necessity of scaleability for offshore floating wind and offered a clear indication that there were no perceived obstacles to the size of turbines being adapted from their present fixed arrangement to a floating one. There is nothing stopping developers from bringing forward offshore floating wind at scale, and indeed it is the declared intention of a number of them. The suggested course of action in the SI will actually impede the roll-out of offshore floating wind, which, as the Minister will be aware, is subject to a

[Dr Alan Whitehead]

target in the 10-point plan. It does not seem a smart idea to impede the progress of something for which the Government have set a target in the first place.

The Minister said that there were two consultations on the proposed amendments, one in the spring and one in the autumn, and that the responses were broadly very supportive of the changes proposed. That is substantially true, but not entirely so. The overwhelming response to the consultation on the phasing arrangements for offshore floating wind was opposed to that plan, for precisely the reasons that I cited. That was acknowledged in the report on the consultation, but in response the Government said that despite that overwhelming opposition, they would go ahead with their arrangements any way. That does slightly worry me about the purpose of the consultation in the first place.

I think that the Minister is moving towards a mistake, and I hope that she would want to review the arrangement at an early stage to see whether she is completely satisfied that it is as robust as suggested by the SI. If she is not satisfied, I hope that she can undertake a reasonably smart about-turn, and I for one will laud that and not criticise it, because we all want to see offshore floating wind succeed and its operation to be undertaken efficiently and effectively as possible.

The Opposition will not oppose the SI, and I hope that my comments are regarded as friendly advice as to how we should proceed with it. I hope that the Minister will take my comments in the spirit in which they are intended, and go away and think about how we best move forward, in particular on offshore floating wind.

9.45 am

Anne-Marie Trevelyan: I thank the hon. Member for Southampton, Test for, as ever, his valuable contribution. If I may, I will answer some of his concerns.

On the question of the hard and soft boundaries, each rounds will have specific aims about the amount of

new capacity to be supported, and will always look for the value for money balance. As we go through the next round, we will be able to assess the success of that approach.

On BECCS, I hope I can reassure the hon. Gentleman when I say that the biomass strategy will be published in 2022. It will consider how we move forward in terms of biomass with carbon capture and storage, because existing CfDs for the likes of Drax run out in 2027. We will then set out on the next phase.

The hon. Gentleman said that we have failed to provide a phasing framework for floating wind. The construction risks for floating wind are much lower because the constituent parts of the turbines and blades will all be joined in the port and not out at sea. At this stage, we are comfortable with that arrangement. At the moment, we are in the first stage of getting floating wind into action, and if the technology proves very successful, and we all hope that it will, but delivery develops not as we have predicted, we can always return to the House to make further amendments to regulations, as we are today. That is the beauty of wanting to keep CfDs up to date with the technological developments. I hope that reassures the hon. Gentleman.

We are trying to ensure that we build the capacity in renewable energies to help us to achieve net zero by 2050. No doubt more regulations will be introduced in due course to help us make sure that we can best support the increase in pace of renewable deployment, as well as always remembering that value for money for consumers is a critical part of delivery.

I hope that the proposed regulations give developers the certainty about who will be able to take part in the next CfD round in December, and I commend them to the Committee.

Question put and agreed to.

9.48 am

Committee rose.

