

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Fourth Delegated Legislation Committee

DRAFT CONTRACTS FOR DIFFERENCE (ALLOCATION) AND ELECTRICITY MARKET REFORM (GENERAL) (AMENDMENT) REGULATIONS 2022

Tuesday 28 June 2022

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The Committee consisted of the following Members:

Chair: †MR LAURENCE ROBERTSON

Afolami, Bim (*Hitchin and Harpenden*) (Con)
 † Brown, Alan (*Kilmarnock and Loudoun*) (SNP)
 † Buchan, Felicity (*Kensington*) (Con)
 † Cruddas, Jon (*Dagenham and Rainham*) (Lab)
 † Farris, Laura (*Newbury*) (Con)
 † Griffiths, Kate (*Burton*) (Con)
 † Grundy, James (*Leigh*) (Con)
 † Hands, Greg (*Minister for Energy, Clean Growth
 and Climate Change*)
 † Lewer, Andrew (*Northampton South*) (Con)
 Mahmood, Mr Khalid (*Birmingham, Perry Barr*)
 (Lab)
 † Rimmer, Ms Marie (*St Helens South and Whiston*)
 (Lab)

† Simmonds, David (*Ruislip, Northwood and Pinner*)
 (Con)
 † Tomlinson, Michael (*Lord Commissioner of Her
 Majesty's Treasury*)
 † Tracey, Craig (*North Warwickshire*) (Con)
 † Twist, Liz (*Blaydon*) (Lab)
 † Whitehead, Dr Alan (*Southampton, Test*) (Lab)
 † Whittome, Nadia (*Nottingham East*) (Lab)

Nicholas Taylor, Anna Kennedy-O'Brien,
Committee Clerks

† **attended the Committee**

Fourth Delegated Legislation Committee

Tuesday 28 June 2022

[MR LAURENCE ROBERTSON *in the Chair*]

Draft Contracts for Difference (Allocation) and Electricity Market Reform (General) (Amendment) Regulations 2022

9.25 am

The Minister for Energy, Clean Growth and Climate Change (Greg Hands): I beg to move,

That the Committee has considered the draft Contracts for Difference (Allocation) and Electricity Market Reform (General) (Amendment) Regulations 2022.

It is a pleasure to serve under your chairmanship, Mr Robertson.

The regulations were laid before the House on 11 May 2022. The draft instrument makes a number of amendments to the Contracts for Difference Regulations 2014 and the Electricity Market Reform Regulations 2014. Those amendments include changes to contracts for difference delivery and supply chain plan policy in preparation for the fifth allocation round. They will help support the ambition for the CfD allocation round, planned to open in March 2023, delivering on the ambitions set out in the “Net Zero Strategy” and the “British energy security strategy” to make progress towards the 2050 net zero target.

The CfD is the Government’s flagship renewable electricity support scheme. It is designed to offer long-term price stabilisation to new low-carbon generators, bringing investment forward at a lower cost of capital, and therefore at a lower cost to consumers. The scheme has been hugely successful in driving substantial deployment of renewables at scale in Great Britain while rapidly reducing costs to electricity consumers. CfD applicants with a capacity of 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 is likely to make a material contribution to the development of relevant supply chains. The aim of the policy is to increase productivity, competitiveness and capacity in our supply chains, promoting innovation and skills in the low-carbon electricity generating sector.

On 9 February 2022, the Government announced that CfD allocation rounds will run annually. The increased CfD round frequency underlines the Government’s commitment to achieving low-carbon electricity generation to achieve a fully decarbonised electricity system by 2035, subject to security of supply. The current policy approach to CfD delivery and supply chain plans needs to be strengthened in the context of annual allocation rounds. That will ensure the scheme continues to operate effectively, encourage low-carbon generation and provide confidence to investors and supply chain companies. It will support the delivery of those renewable technologies

identified in the “Net Zero Strategy” and the “British energy security strategy” that are key to decarbonising the power sector, such as offshore wind, onshore wind and solar.

The regulations amend the current non-delivery disincentive—NDD—exclusion period so that an application cannot be made in respect of an excluded site in the subsequent two applicable allocation round. That will strengthen the current policy of excluding a site from only one subsequent allocation round. That is a consequential effect of moving to annual options. The change will ensure that the NDD exclusion period is aligned with the decision to hold allocation rounds on an annual basis from 2023, ensuring the NDD remains an adequate incentive to deliver projects.

The regulations also bring alignment with a change to the valuation formula introduced to the allocation framework for allocation round 4. For that round, the Government introduced changes to the valuation formula to reduce the complexity of the auction and to ensure that the earliest possible date of CfD payments is considered when calculating the impact on the budget. The regulations now introduce this technical change—amending the corresponding Contracts for Difference Allocation Regulations to reflect the amended formula.

Changes to supply chain plans include amending the validity period of a supply chain plan statement so that it is valid for nine months rather than the previous 12 months. That ensures that in practice developers continue to submit individual supply chain plans for each CfD allocation round in the light of the move to annual auctions.

We are also amending the requirement to provide a supply chain plan statement so that it applies to all floating offshore wind projects. That allows the Government to support the development of supply chains for the more nascent floating offshore wind industry as it approaches significant commercialisation and deployment. We seek to make those amendments now to give certainty to businesses that might be planning to take part in the next CfD scheme opening, as I said, in March 2023.

We are proposing the legislative amendments following a public consultation that ran from 4 February to 15 March, which gave stakeholders the opportunity to scrutinise and test the policy proposals. The consultation generated 41 responses from a range of developers of renewable generating stations, trade associations and bodies, suppliers and public and investment bodies. Officials also engaged wider audiences through an online event.

Overall, the policy proposals received wide support. The consultation led to one policy change to the supply chain policy proposals in response to the feedback received. A minor adjustment was made to the proposal to introduce floating offshore wind projects into the supply chain plan process whereby a bespoke, less burdensome process will be required to account for the smaller size of their projects.

The Government have set out a clear vision for how we will transform the production and use of energy, in a decisive shift away from expensive fossil fuels. The regulations, together with annual CfD allocation rounds, will help to support an increase in the pace of deployment of new renewable electricity generation needed to achieve our ambitions, while continuing to consider the likely

cost to consumers and energy security. Subject to the will of Parliament, the arrangements will come into force on the day after the regulations are made.

Achieving our carbon budget and net zero targets will require deployment across a range of home-grown, green technologies at an unprecedented scale and pace that will support our transition from reliance on fossil fuels. Therefore, I commend the regulations to the Committee.

9.31 am

Dr Alan Whitehead (Southampton, Test) (Lab): The CfD proposals are essentially non-controversial and in the main pretty straightforward and minor amendments to the CfD regime. As the Minister said, those changes will be of particular relevance to the forthcoming changes in the allocation rounds, which will transfer to an annual basis. The arrangements for applicants who are applying for favour under those particular rounds will change from a year's duration to nine months, which will have a positive effect in making sure that those allocation rounds are carried out sensibly and reasonably. I am particularly pleased to see that change. Indeed, the Government have said that the arrangements that applicants make can be carried over to subsequent applications without being rewritten. That means that those who do not succeed in one particular allocation round are not faced with an onerous new series of actions in the forthcoming round.

I am not quite so taken with the other part of the regulations, which relates to the conditions under which floating wind must undertake supply chain plans to be eligible for the allocation rounds. I am sure that the Minister is absolutely on top of the fact that floating wind is largely new technology, which is making serious and considerable innovations and differences to the circumstances under which wind is deployed. The fixture is anchored rather than attached to the seabed and its technology is therefore available for application in much deeper sea areas, because it is not subject to the jacket and base that essentially applies to shallow seabed areas—essentially the case in most of the North sea.

The floating wind generation that is being developed for England and Wales will be largely sited in the Celtic sea, a predominantly deep-water area between Ireland, Wales, Devon and Cornwall and the west of England. The location of that generation is such that supply chains are not well developed. The back-up infrastructure for those developments is not well advanced, for example, in terms of the availability of ports for the development of the necessary infrastructure, given that the platforms on which floating wind installations are fixed are not easily imported from many other places. Those platforms will have to be fabricated at port, and there are various issues relating to the cables and the lack the necessary infrastructure.

It is clear that floating wind generation is developing under circumstances where the supply chain is not favourable to its support. When an offshore development applies for inclusion in an allocation round, a threshold of 300 MW of generating capacity must be exceeded and that application must have a supply chain plan attached to it. Supply chain plans are quite onerous in terms of the considerations that must be met, but given that almost all current offshore generation is above

300 MW, that criterion is regarded as a matter of course. The size of those offshore projects enables those plans to be developed and there is a well-established supply chain for North sea generation. That is not the case for floating wind generation, but somewhat perversely the Government have decided that the threshold for such generation's supply chain plans should be nil. Any future floating wind project—the Minister is aware that virtually none are up and running in the UK, but there are an encouraging number in the pipeline, particularly in the Celtic sea—will be under 300 MW and will have to develop in difficult circumstances, but will be expected to provide a full supply chain proposal as though they were akin to a large offshore wind proposal in the North sea. Contrary to the view that that policy enables the Government to develop supply chains on the back of a floating wind installation, I suggest that the current thinking impedes that development. The onus is on the floating wind projects to get the supply chain plans in place, but right now the onus should be on the Government to get those supply chains up and running in the Celtic sea. I am sure that the Government will address that.

We need to be clear that floating wind generation still has a way to go to getting itself established in the line-up of offshore wind generation. The Government have great ambitions, as set out in the energy security paper, to expand the capacity of floating wind generation rapidly—an increase from 1 GW, as cited in the 10-point plan, to 5 GW by 2030. By the way, the Crown Estate only seems to have an ambition to establish the equivalent of 4 GW of floating wind allocated sites by 2030, so perhaps the Minister should have a word with the Crown Estate so that its ambitions are aligned with the Government's.

Overall, the problem remains that the imposition of a supply chain plan for offshore floating wind based on zero capacity rather than 300 MW seems a little discriminatory against that generation in comparison with the requirements placed on standard offshore wind generation. The Minister said that of the 41 responses to the consultation, most were largely in favour of the proposal to include floating offshore wind projects that fall under the 300 MW in the supply chain process. I have spoken to representatives of the floating wind industry and they were not in favour of the proposals; perhaps others were in favour because they were not affected by it in any way. I suspect that is why only a minority of responses to the consultation said that the 300 MW threshold reduction to zero was not a good idea. I understand, however, that the Department for Business, Energy and Industrial Strategy has considered those comments and undertaken to propose

“a bespoke, lighter touch questionnaire for the relevant FOW projects”.

The key question is what that questionnaire will look like, and whether it will effectively give the floating wind developers a much better environment under which to bring their proposals forward to the allocation rounds. I would appreciate a response from the Minister about his intentions for that questionnaire, and whether he believes that it will largely overcome the problems that I have outlined regarding the apparent onus on floating wind generation to carry the supply chains on its back in contrast to the arrangements that attach for more established offshore generation.

[*Dr Alan Whitehead*]

I am sure that the Minister would not like to be party to holding back the development of offshore floating wind generation, because I think we both share a great enthusiasm for the strong role that it could play in our future renewable arrangements, particularly given how it could reach certain offshore assets that other wind generation would be unlikely to harvest. I am sure that he would agree that devices that would impede such development, or look like they might, are not to be welcomed. I will be interested to hear the Minister's justification for removing the 300 MW threshold from offshore floating wind projects, and his comments about the bespoke lighter touch questionnaire, and how its findings might ameliorate the problem I have set out.

9.44 am

Alan Brown (Kilmarnock and Loudoun) (SNP): It is a pleasure to serve under your chairmanship, Mr Robertson.

I take the view that the terms of the statutory instrument are quite benign. To be honest, I thought it was quite logical to extend the supply chain plan to the development of offshore floating wind. As the shadow Minister just said, the findings of the lighter touch questionnaire are also important to the development of floating offshore wind.

To me, it is critical that the supply chain plans are used to develop supply chains in the United Kingdom, and it cannot only be a tick-box exercise. The reference to UK content must mean exactly that and ensure that. In the past, the debate about offshore wind generation has centred on how the 60% content was measured, and whether companies were circumventing that requirement depending on where items were manufactured versus where they were fabricated. We must ensure that the proposals develop UK supply chain. The Government must work with companies to ensure that. If that means slightly higher CfD rates, I would argue that that is a price well worth paying if that means that UK supply chains are developed and expertise built up.

Scotland is already leading the world in the development of floating offshore generation, and the regulations and the target increase to 5 GW generation by 2030 are a great opportunity. That said, the 5 GW generation target for floating offshore by 2030, and the 50 GW target for total offshore generation, will need a lot more in terms of supply chain plans and development. We must look at grid charging in the round and anticipatory grid investment. We need an upgraded grid that is suitable for taking the planned 50 GW of electricity generation. That is key. We must look at the bigger picture, but I am largely in support of the SI, which seems logical to me.

9.46 am

Greg Hands: I thank the hon. Members for Southampton, Test and for Kilmarnock and Loudoun for their good, detailed questions and contributions.

I welcome the broad support of the hon. Member for Southampton, Test. It is worth noting that arrangements for one CfD application can be rolled over, but that does not obligate a supply chain plan to be unamended. Most would probably evolve their supply chain over the period, which is valid for nine months and not 12, to

reflect the move to annual auctions. That will ensure that applicants reflect changes in their commercial arrangements, and seek to innovate year on year, and not simply roll over supply chain plans. Industry acknowledged that and were supportive of the Government's proposals.

The hon. Gentleman asked why floating offshore wind generation has been brought into the supply chain process. I think that is incredibly important. It is a relatively nascent industry, and ensuring that there is a good supply chain right from the beginning, and doing what the Government can do to steer it in that direction, is really important. Contrary to the hon. Gentleman's suggestion that perhaps we should adopt a *laissez-faire* approach, I think there is a good reason for Government to be there right at the beginning to make sure that there is a strong supply chain for the UK to cement its place as a world leader in floating offshore wind, as we have been a world leader in fixed-bottom offshore wind, with Europe's largest installed capacity.

Dr Whitehead: For the sake of clarity, I certainly do not wish to propose a *laissez-faire* regime for floating offshore wind generation. I am not arguing that there should not be a good regime, but how that regime is brought in as that nascent industry develops. I certainly think it should be subject to either a reduced threshold or it should conform with the 300 MW. I would entirely support that, because supporting the supply chains as the industry develops is clearly a positive and good idea—as the hon. Member for Kilmarnock and Loudoun said.

Greg Hands: I am glad that we are in alignment on the need for supply chain plans. It is key to note that in its first phases, floating offshore wind will typically consist of significantly smaller projects. Therefore setting a different limit at which the supply chain must be submitted makes perfect sense if we are to capture floating offshore wind projects and make sure that there is taxpayer value for money. That is in all of our interests, not just the Government's. We must make sure that we are able to develop and cement our advantage in the UK. We have a fantastic technological advantage when it comes to wind. To start with, we have a fantastic geographic advantage, and making sure that we can cement our world leader position will depend upon making sure that there are good supply chains for those projects, which are necessarily smaller than fixed-bottom offshore projects. That is the reason for the different threshold.

Floating offshore wind is a technology on the verge of significant commercialisation and deployment within the next five years. Being at a key juncture in terms of its deployment means that certain emerging technologies, like floating offshore wind, have the potential to play a really important role in helping us to meet net zero. Bringing those projects into the supply chain process will allow BEIS to support the development of the associated supply chain at the earliest stage, by encouraging the industry to invest in competitive supply chains and accelerate cost reduction.

The hon. Member for Southampton, Test asked about engagement with the Crown Estate. I engage with it all the time, probably on a weekly or almost a fortnightly basis. I am happy to consider his specific point about the Celtic sea. That sea will be very important for us. At

the moment, offshore wind has been a huge success for this country, but it has been predominantly an east coast and Irish sea phenomenon. It is very strong in Scotland, the north-east of England, Yorkshire, Humberside, East Anglia, the Irish sea, and north Wales gets a piece of the action. But the developments in the Celtic sea enable us to bring extra places around the United Kingdom, most importantly south Wales and the west country of England, into the offshore wind industry. Our position as the world leader, and as Europe's largest installed capacity for offshore wind, is one of this country's really great success stories of the past 10 years. To bring the Celtic sea into that development will help to level up and make this an all-UK effort.

Alan Brown: I do not have a problem with the development of the Celtic sea, but obviously we cannot forget about the North sea. For the record, there has been a discussion about the Crown Estate of England and Wales allowing for the generation of 4 GW, and there is also Crown Estate Scotland and the ScotWind leasing round. That latter round had bids for 25 GW of offshore energy, but National Grid ESO is only allowing for 10 GW of that in its forward planning, so that is a real disconnect. Will the Minister allow for the full deployment of that 25 GW of ScotWind leasing?

Greg Hands: The hon. Gentleman is quite right; BEIS and the UK Government put a lot of effort and support into the ScotWind process. Of course offshore wind off Scotland is incredibly important to the country as a whole, and floating offshore wind will be a big part of that. On Crown Estate Scotland, the hon. Gentleman may be aware that I was involved in a lot of the legislation for the devolution of the Crown Estate to Scotland under the Scotland Act 2016. I am familiar with a lot of the issues in relation to Crown Estate Scotland. We have an excellent relationship with it. While recognising that Scotland has been a massive part of the delivery of our fixed-bottom offshore wind, and will be a massive part of the delivery of offshore floating wind, it is good to get all of the UK in on the action when it comes to offshore generation.

We are investing up to £160 million for new, large-scale floating offshore wind ports and manufacturing. That is a big investment of Government money to make sure that we have a great future when it comes to floating offshore wind. The funding, boosted by private sector investment, will develop port infrastructure capable of mass-producing floating offshore wind turbines and installing them out to sea, reducing the need to import from overseas. That will create thousands of new jobs in the UK's industrial heartlands and around our coasts. We have recently announced £31 million of UK Government funding to be matched by industry for research and development in this sector.

The hon. Member for Southampton, Test asked about the light-touch regime. Again, I think it is a question of balance. For the smaller projects, and to start with it will be predominantly smaller projects, we want to look at their supply chains. That is really important to us, but, equally, we do not want to make a regime that is too onerous on those smaller projects. That is why there is a lighter touch regime and questionnaire, but a deeper down, if you like, in terms of the size of the companies that must make supply chain plans. The consultation on the new supply chain questionnaire closed on 14 June. The Government's response detailing the new approach will be published in due course, and the updated questionnaire and guidance will be published this summer.

I think I have covered the removal of the 300 MW threshold from floating offshore wind. I think I have answered a few of the points raised by the hon. Member for Kilmarnock and Loudoun, and I think the anticipatory grid will be a key part of the debate. The criticism is that National Grid does not currently allow for anticipation of when projects will come on and provide for the grid. Ofgem is actively looking at that, and I expect that might be a key part of future debate. There will be a big scale-up in electricity generation, especially as our electricity demand will double by 2050. We need to have more grid, more network, more transmission network and more distribution network to make that happen. To make sure that our system is fit for that will be a key part of the energy security Bill to be considered in this parliamentary Session.

I hope that my responses have provided the necessary assurances so that Members can approve the SI. The changes in the regulations are essential to ensuring that the next CfD allocation round, which will start in March 2023—the first annual round—is a really important reform to drive through more renewable energy in this country. The regulations will help to make sure that our supply chains and other parts of the process are as best supported as possible, to make sure that we support the pace of renewable deployment while continuing to ensure value for money for consumers. That is why I urge the regulations to be made now, ahead of the next CfD allocation round in next March, so that developers have certainty as to who will be eligible to take part and on what basis. I therefore urge the Committee to agree to the regulations.

Question put and agreed to.

Resolved,

That the Committee has considered the draft Contracts for Difference (Allocation) and Electricity Market Reform (General) (Amendment) Regulations 2022.

9.57 am

Committee rose.

