

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Third Delegated Legislation Committee

DRAFT CONTRACTS FOR DIFFERENCE
(MISCELLANEOUS AMENDMENTS)
REGULATIONS 2024

Tuesday 3 December 2024

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Saturday 7 December 2024

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The Committee consisted of the following Members:

Chair: GRAHAM STRINGER

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| † Bowie, Andrew (<i>West Aberdeenshire and Kincardine</i>) (Con) | † Hamilton, Fabian (<i>Leeds North East</i>) (Lab) |
| † Brackenridge, Mrs Sureena (<i>Wolverhampton North East</i>) (Lab) | † Heylings, Pippa (<i>South Cambridgeshire</i>) (LD) |
| † Campbell-Savours, Markus (<i>Penrith and Solway</i>) (Lab) | † Khan, Afzal (<i>Manchester Rusholme</i>) (Lab) |
| † Cox, Pam (<i>Colchester</i>) (Lab) | † Logan, Seamus (<i>Aberdeenshire North and Moray East</i>) (SNP) |
| † Cross, Harriet (<i>Gordon and Buchan</i>) (Con) | † McDonald, Chris (<i>Stockton North</i>) (Lab) |
| † Darlington, Emily (<i>Milton Keynes Central</i>) (Lab) | † Thomas, Bradley (<i>Bromsgrove</i>) (Con) |
| † Fahnbulleh, Miatta (<i>Parliamentary Under-Secretary of State for Energy Security and Net Zero</i>) | † Turley, Anna (<i>Lord Commissioner of His Majesty's Treasury</i>) |
| Farron, Tim (<i>Westmorland and Lonsdale</i>) (LD) | † Yang, Yuan (<i>Earley and Woodley</i>) (Lab) |
| † Fleet, Natalie (<i>Bolsover</i>) (Lab) | Jonathan Edwards, <i>Committee Clerk</i> |
| | † attended the Committee |

The following also attended, pursuant to Standing Order No. 118(2):

Dean, Bobby (*Carshalton and Wallington*) (LD)

Third Delegated Legislation Committee

Tuesday 3 December 2024

[GRAHAM STRINGER *in the Chair*]

Draft Contracts for Difference (Miscellaneous Amendments) Regulations 2024

9.25 am

The Parliamentary Under-Secretary of State for Energy Security and Net Zero (Miatta Fahnbulleh): I beg to move,

That the Committee has considered the draft Contracts for Difference (Miscellaneous Amendment) Regulations 2024.

These draft regulations were laid before the House on 20 October 2024. Last week, the Secretary of State updated the House on COP29 and reiterated what we already knew—that speeding up our transition to clean power is in our national interest. It is the best way to bolster our energy security, getting us off the rollercoaster of fossil fuels, which we do not control. It is the best way to spark economic growth across the country, with hundreds of thousands of new jobs, particularly in our industrial heartlands, and to tackle the climate crisis for today's and future generations. That is why this Government are running at our clean power by 2030 mission, and this instrument will contribute towards that march.

The contracts for difference scheme is the Government's main mechanism for supporting new low-carbon electricity generation. CfDs are awarded through annual competitive auctions, with the lowest-priced bids successful. The sixth CfD allocation round, which ran earlier this year, was the largest round ever—more than double the size of last year's round under the last Government. It awarded contracts to 128 clean energy projects across Great Britain, capturing 9.6 GW of renewable capacity and generating enough electricity to power the equivalent of 11 million homes.

However, we must continue to build on that success, which means continually evolving the contracts for difference scheme to ensure that it reflects the global challenges and opportunities in the renewables sector. Building on AR6, we plan to update the scheme using this instrument to continue our march to clean power by 2030. First, we propose to extend the option of phased CfDs to floating offshore wind projects and, secondly, to enable repowered onshore wind projects to apply for CfDs.

On the first point, the Government have committed to radically increase the UK's offshore wind capacity, including floating offshore wind. As an emerging technology with less than 250 MW of capacity deployed worldwide, the floating offshore wind construction process is yet to be industrialised. Floating wind projects are likely to have a slower buildout rate, in part because of things such as capacity in ports and weather conditions. Phasing in the CfD allows projects to build in multiple stages. It allows for greater flexibility in the construction phase, enabling delivery to more realistic timelines and providing

more certainty and confidence to investors. In turn, the reduction in project costs increases investor confidence in the UK's growing floating offshore wind sector, unlocking the potential for us to massively expand.

On the second point, of enabling repowering for onshore wind, our analysis shows that approximately 1 GW of onshore wind is coming to the end of its operating life between 2027 and 2030. Repowering can help ensure that renewable generation capacity is not lost from older projects. It also provides an opportunity to increase the renewable generation capacity of existing sites through improvements in technology and more efficient use of sites. Enabling access to CfDs for repowered onshore wind projects offers revenue certainty for those projects in order to maintain and boost our capacity.

The CfD scheme did not previously have a policy on repowering built into it; these regulations will ensure that we do, to ensure that eligible generation capacity can apply for CfDs. In designing this policy, we are ensuring that we balance our objectives around decarbonisation, consumer value for money and security of supply by enabling repowering only for projects that both align with the fundamental aims of our CfD programme and, critically, have reached the end of their life and their operating life.

Our approach, and the approach that we are taking to everything we do as we make our march to clean power by 2030, will always ensure that we are protecting consumers, by intervening only when and where needed and where it is cost-effective to do so.

Before I conclude, let me say a word about the consultation process through which we sought views and evidence around the changes proposed for allocation round 7. We received a range of responses from across industry, including from developers, electricity traders and suppliers, businesses operating in the offshore wind sector, and consumer environmental groups. Most respondents agreed with implementing the phasing of floating offshore and repowering for onshore wind. Respondents also provided input into how we can implement these policies in the best way. The Department, as would be expected, will continue to engage with stakeholders in industry.

Let me end here. The instrument today is another important step towards delivering our clean power mission, shielding families from volatile fossil fuel prices that we know have been a result of the cost of living crisis that we face and establishing the UK as a clean energy superpower. It builds on the existing success of the CfD programme, but allows it to evolve to reflect the realities of the global market. Critically, we believe this is a step in ensuring that we can protect consumers and reduce bills.

9.32 am

Andrew Bowie (West Aberdeenshire and Kincardine) (Con): It is a pleasure to serve under your chairmanship, Mr Stringer. I welcome the amendments that this statutory instrument brings to contracts for difference regulations, extending the existing CfD to offshore wind and permitting repowering projects to apply for CfDs. Contracts for difference is a scheme that the official Opposition are immensely proud of—delivering 29.4 GW of power in six rounds of allocation since 2014. Indeed, it was the Conservative Government under Lord Cameron of Chipping Norton that introduced the scheme, to combine

the power of competition with certainty for investors for the strike price, to keep prices low while driving forward low-carbon energy projects. We are also proud of the consistency and certainty brought by annual licensing rounds, which we approved last year.

However, we have concerns about the direction of travel of the new Secretary of State for Energy and indeed that of the new Government. Their target for CfDs requires an almost hell-for-leather approach for which we worry that consumers and billpayers will shoulder the burden. In the Secretary of State's attempts to rush to 60 GW of offshore wind capacity, he would need to secure 28 GW in the next two allocation rounds. That is more than in the last six rounds combined. That will inevitably require ditching the competitive element of the allocation rounds entirely. We worry that that will push up the strike price. Even *The Guardian* does not think the Secretary of State's plans are realistic, claiming that his target of having 60 GW of installed offshore wind capacity by 2030 is

“still a long way from being credible”.

In the past, reasonable strike price mechanisms have enabled competition while encouraging new projects by providing certainty. However the new, ferociously ambitious targets will require a strike price which outstrips the reference price, meaning that the consumer is exposed to more of the burden. Industry knows that. The head of offshore development at RWE told a business conference that the

“consumer risks losing out”

under these plans. We must take very seriously his concerns that the rush to deliver by 2030 would

“create short-term resource constraints, spikes in prices”,

and that consumers will be the ones to bear the brunt.

It is no wonder, therefore, that the Government have backed down from claims of saving households £300 on their energy bills. It is clear that this rush for electricity decarbonisation by 2030 will see bills going up and up; the industry admits that. The signal to the market from the Secretary of State is “renewables at any price”—they will pay exorbitant amounts to create the capacity to

achieve a hugely ambitious political target. We cannot be naive about the economic implications of that political choice.

We do support the amendments. However, I would like to put on record our concern about the implication of the Government's politically motivated rush to the 2030 target, which it seems the Secretary of State will pursue at any cost.

9.34 am

The Parliamentary Under-Secretary of State for Energy Security and Net Zero (Miatta Fahnbulleh): Let me respond directly to the question on bills. We are as exercised by and committed to protecting consumers through the transition to net zero. I say this is as the Minister for Energy whose job it is to protect consumers. Our judgment is that we have seen sky-high energy prices as a result of our dependence on international fossil fuel markets. Families at the moment are suffering the impacts of that reliance. The way that we break that is to break the dependence on fossil fuels and make the transition to clean power. All our analysis suggests that if we get this right, combined with interventions on energy efficiency and upgrading people's homes, we will bear down on bills.

The status quo is not tenable—if you speak to any consumer, they will tell you that. We have made a strategic bet that if we can run clean power and break the link with gas and the dependence on fossil fuel, we will bear down on prices. The National Energy System Operator put out its publication on clean power and validated that. This approach will reduce costs in the system and, critically, bear down on bills. Consumers are at the heart of this transition for us. We are not doing this for ideological reasons. The status quo of people's energy bills and their affordability is not something that we are willing to countenance. It is something that the last Government were willing to put up with, but we absolutely will not. That is why we are making the march to clean power by 2030.

Question put and agreed to.

9.36 am

Committee rose.

