Cyfoeth Naturiol Cymru
Natural Resources Wales

Contracts for Difference Team
Clean Electricity Directorate
Department for Business, Energy and Industrial Strategy
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Email: BEISContractsforDifference@beis.gov.uk

Dear BEIS,

Re: The Contracts for Difference (CfD) proposed amendments to the scheme 2020.

Thank you for the opportunity to comment on the above consultation.

The Contracts for Difference regime has been instrumental and a main source of support for new-build renewable energy projects since 2014, when the first CfD allocation round was launched. It has been a key policy vehicle for supporting the delivery of low carbon electricity which provides long-term price stabilisation for low carbon plant, allowing investments to come forward at a lower cost of capital and therefore at a lower cost to consumers.

Given the scale of the energy transition required, and the opportunity, for the energy sector to support UK's Net Zero target, the CfD will continue to play a vital part in this equation and it needs to be assessed and amended as necessary to help achieve this ambition.

NRW therefore, welcomes the 'CfD Proposed Amendments to the scheme 2020' consultation which will 'continue' to provide a platform for renewable generators and help increase investors in the renewable energy sector. However, it is vital for the CfD to continuously develop to provide the right framework that encourages the development of low carbon generators in the right places, delivering multiple benefits.

The Role and Purpose of Natural Resources Wales

Our comments are provided in the context of our purpose to ensure that the environment and natural resources of Wales are sustainably maintained, sustainably enhanced, and sustainably used.

Natural Resources Wales has multiple roles in supporting the delivery of renewable energy schemes, including supporting the delivery of appropriately located 'locally owned renewable energy' through our advisory, regulatory, land owner and land manager roles.

- We own land in various parts of Wales where renewable energy development may take place. We also manage the Welsh Government Woodland Estate (WGWE) where we help enable the deployment of renewable energy including windfarms and hydropower.
- We have a statutory duty in relation to permitting a wide range of energy facilities. This varies according to the types of facility – ranging from nuclear power stations to hydropower.
- We are a statutory consultee in the planning process, which would include commenting on plans where these projects are proposed

We have set out our comments in relation to some of the consultation questions and recommendations below.

In doing so our focus is on how the CFD mechanism can continue to support decarbonisation, optimise the sustainable management of natural resources and minimise adverse environmental impact.

I hope you find our comments useful and constructive. Please contact Kalpana Balakrishnam on Kalpana.Balakrishnam@cyfoethnaturiolcymru.gov.uk or Andrew Hill on Andrew.Hill@cyfoethnaturiolcymru.gov.uk if you would like to discuss in detail.

Yours sincerely,

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Summary of our views and recommendations;

1. We acknowledge and support that if the UK and Welsh Governments are to meet their net zero and energy targets, it must optimise the engagement and benefits to and from, the local/community sector in delivering large scale renewable energy developments. For this purpose, the UK and Welsh Government, must make use of the wider shifts and transition currently taking place within the energy landscape, including the CfD mechanism to explore new opportunities which includes improved engagement with local communities on renewable energy. This is also in line with the Welsh Government`s target which requires every renewable energy project to have an element of local ownership from 2020.

2. The proposals for future offshore wind, and for promoting Floating Offshore wind (FLOW) seem to be a sensible way of balancing the need to expand low carbon energy generation capacity with encouraging a robust mix of technologies and maintaining competition. It is beyond NRW's remit to comment in detail on technical aspects of these proposals but, noting that the reorganisation of CfD funding pots will provide a clearer route to market for less established technologies such as wave and tidal stream, we have taken this opportunity to comment on how consenting risk associated with these technologies can be avoided to ensure the right development in the right place optimising natural resource management and avoiding adverse environmental impact. Specifically, we have highlighted the need for strategic planning and assessment and development of the evidence base to improve the efficiency of the consenting process.

3. Natural Resources Wales' State of the Natural Resource Report (SoNaRR) and Area Statement Profiling are our structured and innovative way of setting out opportunities for ecological enhancements and environmental benefits which could support renewable energy development. It has the potential to add value to inform the decision-making process in relation to the location or layout of renewable energy schemes by providing information on the ecosystem resilience and benefits of place. These products can support innovative ways of engaging with communities explaining the benefits of renewable energy development (among others) and how development can support wider economic, social and environmental well-being at the local level whilst delivering national decarbonisation targets.

Consultation questions

Community support

1. How can the government better ensure that the local impacts and benefits of renewable energy developments are considered across the whole of GB?

Natural Resources Wales has multiple roles in supporting the delivery of renewable energy schemes, including supporting the delivery of appropriately located 'locally owned renewable energy' through our advisory, regulatory, land owner and land manager roles

Details about our role on energy can be on our energy guidance note.

https://naturalresources.wales/about-us/what-we-do/energy/energy-in-wales/?lang=en

Our approach is to provide evidence and advice to ensure the right development in the right place optimising natural resource management and avoiding adverse environmental impact.

As a requirement of the Environment (Wales) Act 2016, NRW prepares a five yearly report called the State of the Natural Resources Report (SoNaRR) together with Area Statements. The SoNaRR assesses the extent to which natural resources in Wales are being sustainably managed and recommends a proactive approach to building resilience. The SoNaRR report which includes a dedicated energy chapter will help produce a building block for how energy will be integrated with our Area Statements. Each Area Statement outlines the key challenges facing that particular locality, what can be done collectively to meet those challenges, and how to better manage our natural resources for the benefit of future generations. The Area Statement will be updated regularly and improved year-on-year as we engage with more people, gather new evidence, put forward ideas and work across boundaries to create opportunities.

From an energy perspective Area Statements will enable the unique characteristics and priorities of different local areas to be considered in the context of the opportunities and challenges of the whole energy system and enable the planning and design of cost-effective local energy systems for Wales.

The Welsh Governments' Natural Resource Policy (NRP) which sets out the national priorities, opportunities and challenges for managing Wales' natural resources sustainably, identifies renewable energy and energy efficiency as a key priority. The NRP along with Low Carbon Wales Plan also recognises the opportunity for Area Statement to help deliver the desired policy in a local context.

You can find more information about the SoNaRR and Area Statement on our website.

https://naturalresources.wales/evidence-and-data/research-and-reports/the-state-of-natural-resources-report-assessment-of-the-sustainable-management-of-natural-resources/?lang=en

https://naturalresources.wales/evidence-and-data/research-and-reports/state-of-natural-resources-interim-report-2019/?lang=en

https://naturalresources.wales/about-us/area-statements/?lang=en

2. What exemplifies 'best practice' when it comes to engaging with and supporting local communities on renewable energy developments? Examples of specific projects and/or developers would be welcomed.

Natural Resources Wales has significant knowledge and experience of facilitating the development of renewable energy projects on the land we own and manage through our Commercial Development Programme. We currently use our powers to work with developers through lease ownership to ensure obligations within the Options Agreement and Lease, to provide wider social and environmental gains. As such, all our energy projects include a traditional model of Community Trust Fund.

The success of this can be seen through the Pen Y Cymoedd project where the developer, Vattenfall, established a Community Trust Fund that would contribute £1.8 million annually until 2043 to the neighbouring communities. This is the largest such fund in the UK and is administered by its own board of directors who operate independently of the wind farm operation and will invest in projects identified by the community. The project undertook extensive consultation with stakeholders and community groups and a prospectus was developed outlining all potential actions and developments. This was summarised under nine key themes including local jobs and the economy, transport, health and well-being, safety and housing, community spaces, environment, tourism, culture and schools and training.

Two grant schemes have been established, - the 'Micro Fund' which offers one-off grants of up to £5,000 and the 'Vision Fund' for grants of more than £5,000. And a total of 48 brand new jobs have been created.

To date the fund has supported seven new start-ups and helped 14 businesses including chocolatiers, organic soap makers, florists, cafés, window cleaners, furniture businesses and campsites creating 48 new jobs.

More recently in response to the Covid-19 Pandemic, Pen y Cymoedd Wind Farm Community Fund is making emergency, fast-track funding available for organisations in the Fund area.

https://penycymoeddcic.cymru/community-covid-19-emergency-funding/

In addition to Pen Y Cymoedd, NRW has also encouraged developers of the Alwen project to offer local ownership through share options - a clear indication on how we integrate and

improve the element of local energy/community benefits within our developments. Community and local benefits are a key element of consideration considered through the bidding process.

We would also like to highlight some community funds for offshore renewables project in Wales – such as the Gwynt Y Mor and Rhyl Flats setup up by Innogy Renewables UK to develop and promote voluntary and community action in North Wales.

https://cvsc.org.uk/en/funding/gwynt-y-mor-community-fund

https://cvsc.org.uk/en/funding/what-is-rhyl-flats

4. How should the government update the existing community benefits and engagement guidance for onshore wind to reflect developments in best practice for engagement between developers and local communities?

In September 2017, Welsh Government set out three key ambitious energy targets for Wales which are;

- Wales to generate 70% of its electricity consumption from renewable energy by 2030.
- A target of 1GW of renewable electricity in Wales to be locally owned by 2030.
- All renewable energy projects to have an element of local ownership.

In helping to achieve the local energy targets, Welsh Government ran a series of workshops and developed guidance for the relevant stakeholders which is strongly linked to community benefits and engagement. More information on this can be found here

https://gov.wales/sites/default/files/publications/2020-02/policy-statement-local-ownership-of-energy-generation-in-wales.pdf

https://gov.wales/locally-owned-renewable-energy-call-evidence

https://gov.wales/community-energy-toolkit

The Welsh Government's Energy Service (WGES), which supports public sector organisations and local communities to progress energy efficiency and renewable energy schemes, are currently working on a guidance for 'Developers, Local Communities and Decision Makers'. The Energy Service established a working group to help in developing this guidance on increased shared and local ownership. The report titled 'Local and Shared Ownership of Energy Projects in Wales' will soon be published.

In 2019, the Institute of Welsh Affairs (IWA) and Regen SW published a report – 'How to protect, promote and achieve scale in community and local ownership of renewable energy in Wales' as part of IWA's Re-energising Wales 3-year Programme. The report which explores some of the more specific levers and unique Welsh factors that could be used to drive more community and local ownership of onshore renewable electricity generation in Wales, also includes a set of recommendations. The report can be found here.

https://www.iwa.wales/wp-content/media/2018/11/IWA_Energy_WP4.1-1-1-1.pdf

4. Should the Government consider creating a register of renewable energy developments in England that lists available projects and associated community benefits?

We support suggestion to establish a register of projects and community benefits, in the interests of sharing best practices.

We would also welcome a similar approach in Wales.

Pot structure

5. The government welcomes views on whether, compared to maintaining the existing two pot structure, the proposed option of introducing a new Pot 3 for offshore wind is an effective means of ensuring value for money and achieving our decarbonisation and other objectives in the long term. We welcome the submission of supplementary evidence to support views on this.

Firstly, NRW support the re-inclusion of established technologies like onshore wind and solar back into the CfD as CfD has been instrumental in increasing the proportion of these technologies towards renewable energy generation in the UK. However, we recognise that there are currently significant challenges in Wales, including access to grid infrastructure and/or the lack of new business models for smart grid infrastructures which needs to be addressed to optimise the benefits of CfD.

With regards to offshore wind there has been a long-standing interest in how to better secure local benefits – including for developments offshore. A study into the feasibility of offshore wind commissioned by Welsh Government investigated the mechanisms for securing such benefits and includes a detailed and recent analysis for Wales.

https://gov.wales/sites/default/files/publications/2019-07/future-potential-for-offshore-wind.pdf.

6. The government welcomes views on whether the proposed options are an effective means of bringing forward a greater diversity of low carbon electricity generation.

Whilst new fixed offshore wind will continue to make a significant contribution to decarbonisation goals, the area available for new development is becoming increasingly constrained with consenting risks increasing as a consequence. In addition, sensitivity to development (and consenting risk) decreases further offshore. Reorganising the CfD pots to promote diversification and encourage FLOW in deeper waters should therefore provide a wider choice of deployment locations that will help to manage the overall consenting risk.

Nevertheless, as space in the marine environment becomes more constrained, it is increasingly important that the location of new developments is planned strategically, especially large footprint development that FLOW has the potential to become. Spatial planning is an important way of maximising deployment whilst at the same time avoiding or

minimising impacts on the environment and other users. Sectoral planning is therefore critical, and it may be appropriate to revisit the UK Offshore Energy Plan and the accompanying Strategic Environmental Assessment, as previous versions of that plan and assessment were only able to undertake a very preliminary consideration of FLOW. In Wales, it is also important that any planning takes place in the context of the newly adopted Wales National Marine Plan.

Effective planning and efficient consenting are heavily reliant on good evidence to inform the assessments of plans and projects. It is particularly important that gaps in evidence about the impacts of less established technologies are identified and addressed at an early stage so as not to unnecessarily hamper project consenting. The Offshore Renewable Joint Industry Project (ORJIP) for Offshore Wind has proved a useful mechanism for achieving this for fixed offshore wind, and some of this will be relevant for FLOW. An ORJIP has been established for FLOW (https://www.carbontrust.com/our-projects/floating-wind-joint-industry-project-jip) but it is focused on commercial deployment challenges and accelerating technology. This might be expanded to specifically consider the consenting issues that FLOW might face.

The changes to structure may also be of benefit to wave and tidal development. However, consenting of wave and tidal development is currently constrained by a lack of evidence about environmental risks (e.g. collision risk and displacement of protected species). Addressing these evidence gaps has had only limited support in England and Wales and although ORJIP Ocean Energy has been useful in identifying evidence gaps through its 'Forward Look' there is only limited funding for environmental research, evidence gathering or information sharing. This should be addressed as a matter of urgency as it has created problems and delays in consenting wave and tidal stream projects in Wales which has limited the scaling up of the sector.

7. The government welcomes views on whether there are alternative approaches to be considered considering net zero.

No comment

Floating offshore wind

8. The government welcomes views on whether the proposed approach is an effective means of supporting floating offshore wind.

No Comment

9. The government welcomes views on whether the proposed definition is a suitable definition of floating offshore wind projects, which should be distinguished from fixed bottom offshore wind, and what evidence prospective generators should be asked to supply in order to demonstrate that they have the required characteristics.

The restriction of eligible FLOW development to depths greater than 60m seems sensible given what we know about the suitability of the technology in deeper waters and the extent of activities already located in shallower waters. However, it is entirely possible that the

effects of these developments interact with the effects of other projects, especially on mobile protected species, resulting in a consenting risk for FLOW and other energy developments such as wave and tidal that may also influence the same populations. This further underlines the need for careful strategic planning and assessment for the sector.

10. The government welcomes views and evidence on any potential wider benefits or disadvantages that floating offshore wind may bring to the UK, in respect of wider system impacts.

There may be value in exploring how floating offshore wind might be deployed in areas where fixed offshore wind faces consenting risks. For example, where the noise associated with piling of fixed turbines is likely to reach unacceptable levels due to the presence of mammals or fish, it may be preferable to choose floating designs that do not involve noisy construction activities. To allow these options to be explored it may help to be flexible about the depth criteria for floating wind to allow a choice between both fixed and floating options (i.e. reduce the depth over which floating wind might be eligible for CfD to below 60m).

11. The government welcomes views on the need to deploy floating offshore wind at scale through the 2030s to meet net zero, and what trajectories for deployment and cost reduction are realistic and feasible, both globally and in the UK.

No comment

12. What further amendments to the CfD allocation process could be necessary to facilitate floating offshore wind technologies?

No comment

13. Are there additional measures to support for pre-commercial deployment and cost reduction which would be more effective than the CfD, or which could enhance the effectiveness of the measures under the CfD?

Cost reduction is an important way of ensuring continued deployment of offshore wind at scale and CfDs are integral its success. However, reducing the higher cost of initial deployment of FLOW should not come at the expense of good design and minimisation or avoidance of environmental impacts.

There should also be sufficient flexibility in deployment timescales to allow time between deployment activities so that effects do not act cumulatively (e.g. by suitably spacing out noisy activities). Any milestones that developers need to meet to comply with a CfD should be designed to allow for such flexibility.

It may also be helpful for eligibility to allow for hybrid projects that allow for a mix of fixed and floating offshore wind technologies. https://ore.catapult.org.uk/blog/hybrid-sites-floating-wind/.

Extending delivery years

14. Should the government amend the Contracts for Difference (Allocation) Regulations 2014 in order to extend the delivery years specified in those regulations to the 31st March 2030?

No comment

Supply chain plans

15. The government welcomes views on whether the Supply Chain Plan process for all technologies should be more closely aligned with the Industrial Strategy, for example with criteria headings to reflect a focus on competition, innovation, people and skills, infrastructure, and regional growth, and within this what other measures the government could adopt and consider to support its objectives, for example, in offshore wind, the Offshore Wind Sector Deal.

No comment

16. The government welcomes views on strengthening the powers to fail SCPs on the basis that the Applicant has not demonstrated compliance with a past SCP.

No comment

17. The government welcomes views on whether requiring an updated SCP at a later stage after a CfD is awarded, for example at FID or after MDD, when major contracts would have been awarded would deliver more focused and deliverable commitments.

No comment

18. The government welcomes views on the current compliance process for SCPs for failure to implement an approved SCP. Is it sufficient and if not, what other potential compliance options could be considered, for example by linking non-compliance to CfD payments?

No comment

19. The government welcomes views on any impact of reducing the threshold limit for the submission of a Supply Chain Plan to capture offshore wind extension projects (which were not envisaged when the policy was first drafted) and to reflect that projects below 300MW will also have a material impact on supply chains and if so, what the limit should be.

No comment

20. The government is committed to achieving net zero by 2050 and how it could encourage the growth of sustainable, efficient supply chains through consideration of the carbon footprint of supply chains. We welcome views on how the industry takes account of the carbon footprint of their supply chains. What methodologies are being used or could be developed to take greater account of the carbon intensity of supply chains when considering Supply Chain Plans.

No comment

Coal-to-biomass conversions

21. Views are welcomed on the proposal to exclude new biomass conversions from future CfD allocation rounds, on the likely impact of this approach, and on any alternative approaches

In principle NRW is supportive of biomass as a technology as it helps to displace coal. However, the sustainability of biomass energy conversion is a complex issue, dependent on the entire energy chain, from natural resources to energy conversion technologies, from pollution and end use, to demand. The energy returns on the energy invested for biomass is also critical and requires better understanding of its implications on the economy and society. Biomass for energy has major implications on water, land, and nutrient systems therefore every project, especially the large ones, requires careful modeling methods to assess its true sustainability and how it can contribute to the energy transition. If the CfD allocation process allows for careful calculation and monitoring on the supply chain of resources and the conversion of energy technologies, then we support the role for biomass in the energy transition and the continued inclusion within the CfD pot.

Decommissioning plans

22. The government welcomes views on how best to link the OREI decommissioning regime with the CfD scheme to ensure that offshore renewable projects that are party to a CfD fully comply with their obligations under the Energy Act 2004.

No comment

Administrative strike prices

23. The government welcomes views on how we might change our approach to administrative strike prices to ensure value for money in future.

No comment

Non-delivery disincentive

24. The government welcomes views on extending the exclusion period for sites excluded under the Non-Delivery Disincentive, including on whether 36 months is a suitable period, or a longer period is needed.

No comment

25. The government welcomes views on whether different forms of disincentive are needed for technologies at different levels of development and on what basis such differentiation might work most effectively.

No comment

26. The government welcomes views on the advantages and disadvantages of introducing a new requirement for a bid bond where applicants provide a deposit, either by cash payment, bank guarantee or letter of credit.

No comment

27. The government welcomes views on whether a bid bond would be practical for smaller projects. If difficulties are foreseen, what are they, what mitigation might apply and in respect of what size of project?

No comment

28. The government welcomes views on what a suitable level for a bid bond would be: would £10,000 per MW be effective and practical?

No comment

29. The government welcomes views on alternative approaches to the Non-Delivery Disincentive and how they might work in practice.

No comment

Technical changes to future rounds

The government welcomes views on:

30. Whether you agree the government should introduce the flexibility to apply any capacity cap, maxima and minima as either a soft or hard constraint, set on a round by round basis?

No comment

31. The type of soft constraint (including those proposed) that could be deployed in future allocation rounds;

No comment

32. And any further evidence on benefits and disadvantages of a soft capacity cap constraint.

No comment

Storage

For renewable generation, which suffers from intermittent provision of supply, to be more effective, there needs to be additional investment in improving and supporting emergent storage technology. It is important for government to embrace approaches and technologies that compliment renewable generation. As such NRW supports the inclusion of storage into the CfD round allocation which highlights the importance of the technology/infrastructure to the wider system integration of renewable capacity. Energy storage and other emerging

technologies should receive enhanced government support through appropriate mechanisms, drawing on the successful impact of CfDs on the renewable energy market.

33. What storage solutions could generators wish to co-locate with CfD projects over the lifetime of the CfD contract?

No Comment

34. What, if any, barriers are there to co-location of electricity storage with CfD projects?

No Comment

35. What, if anything, could be changed in the CfD scheme to facilitate the co-location of storage with CfD projects?

No Comment

Negative pricing

36. Do you have any views on the proposal to extend the negative pricing rule? Please include in your response any specific evidence in relation to the incidence and impact of negative pricing.

No comment

Phasing

37. The government welcomes views on the preferred approach to maintain the cap on phased projects at 1500MW. 38. The government welcomes views on whether there are any barriers to developing a phased offshore wind project on a part-merchant basis.

No comment

Milestone delivery date

39. The government welcomes views on the benefits, such as successful delivery of projects or reduced costs for consumers, that would result from extending the Milestone Delivery Date for: (i) the project commitments route only, or also (ii) the 10% spend route.

No comment

40. The government welcomes views on whether an extension should apply to all projects or only to technologies or sizes of projects.

No comment

41. The government welcomes views on the length of an effective extension and the implications. Would an extension to a 15-month deadline be effective and if not, why?

No comment

Miscellaneous Allocation Regulation Changes

42. Do you agree with the government's proposal to remove all references to "end date of the allocation round"?

No comment

43. Do you agree with the government's proposal to add more detail on when key dates can be varied using a round variation notice?

No comment

44. Do you agree with the government's proposal to remove the requirement to publish certain dates in the allocation framework?

No comment

45. Do you agree with the government's proposal to provide an extra scenario under which the allocation process must commence?

No comment

46. Do you agree with the government's proposal to make explicit the ability to amend the overall budget before the commencement of an allocation round?

No comment

47. We would welcome views on adding additional powers to allow revision of a capacity cap before an allocation round commences.

No comment

48. We would welcome views on adding additional powers to pause an allocation round between the commencement of the round and the issuance of CfD notifications.

No comment