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U.K. Renewable Energy: The 2019 Contract for Difference Auction Round, and the Future of Onshore Wind in the Scottish Islands

*By Paul Exley and Matt Lewy**

The authors of this article summarize the U.K. government's contract for difference feed in tariff scheme, the next auction round, and the implications for Scottish "remote island" onshore wind projects.

"We've placed clean growth at the heart of our new Industrial Strategy. We are cutting emissions while keeping costs down for consumers, creating high value jobs and growing the economy."

—Richard Harrington, U.K. Energy Minister, December 2017.

The U.K. government's contract for difference feed in tariff ("CfD") scheme, where the use of CfDs is designed to support the provision of new U.K. renewable energy capacity, is discussed herein. The article also discusses the next CfD auction round, which is currently scheduled for spring 2019, and explores the specific implications for Scottish "remote island" onshore wind projects.

A RECAP ON THE CFD PROCESS AND PRIOR AUCTION ROUNDS

The U.K. government has held two prior CfD auction rounds, completing in February 2015 and most recently in September 2017. At each auction round, energy generators were invited to submit bids to deliver renewable energy generation projects at a strike price for the offtake of electricity per megawatt hour. The winning (i.e., lowest viable) bids receive 15 year CfDs with a U.K. government counterparty. Once such projects are operational, to the extent the "reference price" (a measure of the average market price for electricity in the U.K.) is below the agreed auction strike price, the U.K. government counterparty will pay the difference to the generator (and vice versa, the generator will make a payment in the event the wholesale price for electricity is above the auction strike price). The overall aim is to provide energy generators who are awarded CfDs with normalized and stable long term returns for their investment into U.K. renewable energy infrastructure.

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In the 2015 auction round, the renewable technologies eligible to bid for a CfD award were divided into two categories—representing “more established” and “less established” renewable technologies.

The 2017 round was only open to the “less established” technologies category, with the government allocating a total of £176 million in CfDs to support such projects. The results of the 2017 round were announced in September 2017.

Of particular note is that the 2017 CfD auction round was open to the following categories of “less established” renewable technology:

- Offshore wind;
- Advanced conversion, with or without combined heat and power (“CHP”);
- Anaerobic digestion, with or without CHP (only projects of 5MW generation capacity or higher);
- Dedicated biomass with CHP;
- Wave;
- Tidal stream; and
- Geothermal.

During the CfD auction process in 2017, commentators noted that:

- Wave, tidal stream, and geothermal are fairly nascent technologies (at least in the U.K.), and as such it was unlikely that economically viable auction bids would be made for projects utilizing these technologies. This proved to be a correct prediction, and no such projects were awarded CfDs.
- “Fueled” technologies (advanced conversion, anaerobic digestion, biomass) were eligible for an aggregate maximum of 150MW CfD award capacity, on the basis that the requirement for large quantities of feedstock for these projects reduces their credentials as truly “renewable” sources of energy generation.
- Offshore wind was likely to be the most favored technology in that round, as the scale of such projects and the markedly decreasing cost of bringing this technology to market was likely to see several competitive bids made,

and offshore wind was the clear winner in the 2017 round—with 95 percent of the total awarded capacity being awarded a CfD being represented by three large offshore wind projects at Moray Firth, Triton Knoll, and Hornsea Two.

2019 AUCTION ROUND

On October 12, 2017, the U.K. government published a policy paper entitled *The Clean Growth Strategy: Leading the way to a Low Carbon Future*. The paper seeks to bring together various strands of U.K. government strategy regarding decarbonization and clean energy.

One of the flagship announcements was that there would be a further £557 million made available for a CfD auction in spring 2019, with that round to again only be open to less established technologies.

The policy paper made it clear that offshore wind would also be the focus of the 2019 round. The U.K. already has the world's largest installed capacity of offshore wind (with around 40 percent of global installed capacity), and this looks set to grow, not only through the support offered in the latest CfD round, but also through:

- a £177 million government innovation pot, designed to reduce the cost of renewables, including specifically through innovation in offshore wind turbine blade technology and foundations; and
- a proposal to develop a bespoke U.K. “sector deal” for offshore wind, which would potentially enable up to 10 GW of new offshore wind energy generation capacity being brought to market during the 2020s. We await further announcements on the results of the U.K. government's consultation in this area and firm plans (and/or details) regarding such a deal.

SCOTTISH ISLAND ONSHORE WIND

Onshore wind projects had previously been placed within the “more established” technologies pot by the U.K. government for the purposes of the CfD framework. Accordingly, onshore wind projects were not entitled to participate in the 2017 CfD round, and will not be entitled to participate in the 2019 CfD round.

However, there has been significant lobby activity in relation to onshore wind projects in the Scottish Islands. Proponents argued that onshore wind projects in the Outer Hebrides, Orkney, and Shetland Islands:

- would be located in areas with high levels of wind activity. Indeed, a 2013 study suggested that such projects could provide over three percent of the U.K.'s total electricity generation requirements;¹
- could contribute not only to a reduction to U.K. carbon emissions, but

¹ Studies include, e.g. *Scottish Islands Renewable Project*, Baringa Partners, May 14, 2013.

also support local economic growth and communities; and

- should be treated differently to standard mainland U.K. onshore wind projects, as the remote locations not only make such projects more costly to build and operate, but present significant challenges due to the use of long distance subsea transmission hardware necessary to feed generated electricity into the U.K.’s mainland national grid.

A U.K. government consultation, launched on December 15, 2017, confirmed that these “remote island” onshore wind projects would be placed into a separate sub-category of “less established” renewable energy projects, and would be eligible to participate in the 2019 CfD auction round. The relevant consultation paper contained a map, which it uses to show the locations of potential sites for remote island onshore wind.²

The opening strike price for such projects (i.e., the price per MW hour set for potential developers to bid against in the 2019 auction) is to be determined, though indications are that the U.K. government would like to see the asset class compete with offshore wind, and in the 2017 CfD round there were offshore wind projects awarded CfD’s with strike prices as low as £57.50 MW/hour.

For a project to be classified as “remote island wind” it would need to meet all of the following criteria:

- The project must be located on a “*remote island*” which is defined as an island:
 - located in the territorial sea of the United Kingdom (other than Northern Ireland); and
 - where all parts of its coastline are situated at least 10 km from mainland Britain;
- The *transmission connection* between the unit’s generation circuit and the main interconnected transmission system must require at least 50 km of cabling, of which at least 20 km must be subsea cabling; and
- Upon completion, the project must be connected to the *national transmission system, or the distribution system*, in Great Britain.

CONSIDERATIONS FOR INVESTORS

It seems clear that the 2019 CfD round will once again favor large scale offshore wind projects. However, the government’s recent focus on remote

² *Contracts for Difference for Renewable Electricity Generation: Consultation on Proposed Amendments to the Scheme*. UK Department for Business, Energy and Industrial Strategy, December 15, 2017.

island onshore wind suggests that there may also be CfD's awarded to a number of these, much smaller scale, assets. Also, given:

- the limited CfD capacity available for award to “fueled technologies” (advanced conversion, anaerobic digestion, biomass); and
- that the other eligible technologies (wave, geothermal, tidal) may be too expensive for developers to put together economically viable bids,

offshore wind and remote island onshore wind appear to be the technology sub-categories most likely to make successful bids for a significant number of CfD awards.

This analysis is underpinned by the fact there are over 700MW of wind projects on such remote islands which have planning consent, but that are without a revenue support mechanism.

The U.K. government's revised policy on remote island wind brings a degree of investment certainty and encouragement to this section of the market, and was expected by various market participants. The current U.K. government consultation into remote island wind closed on March 9, 2018. Announcements are then expected on the opening 2019 CfD (MW / hour) auction price for remote island wind, whether any set proportion of the £557m budget for the 2019 CfD round will be solely allocated to such projects, and the extent to which European state aid regulations are likely to present any significant hurdles.