BEIS: Consultation on proposed amendments to Supply Chain Plans and Contracts for Difference Delivery

The Marine Energy Council (MEC) welcomes the opportunity to respond to this consultation and strongly supports the Government's ambition to rapidly scale-up low carbon deployment in a manner that creates opportunities for, and supports the development of, UK supply chains.

The MEC is the representative body for the UK's tidal stream and wave energy industries. Established in 2018 the MEC has over 50 members representing technology and project developers, consultants, associations, and small and medium sized enterprises working in the supply chain. Our vision is for the marine energy sector to support a secure, cost-effective, and fair transition to net zero, creating investment, export, and employment opportunities across the UK and beyond.

In November 2021, the UK Government announced the ring-fencing of £20m for the tidal stream sector. This is a welcome and important first-step in unlocking significant benefits including: supporting energy security through delivering an entirely predictable source of renewable energy; ensuring the UK economy benefits from an industry forecast to be worth £76bn internationally by 2050; creating 4,000 sustainable jobs by 2040; and crucially in supporting the development of UK supply chains and levelling up coastal communities, and beyond, across the UK.[1]

Key Points

MEC supports the Government seeking to maximise the supply chain benefits that can be created through the CfD process.

The transition to net zero creates an opportunity to secure investment from the private sector that delivers green growth in communities across the UK. Tidal stream projects have been delivered with a significantly higher percentages of UK content than other renewables. The UK is also strongly positioned to benefit from developing the wave energy sector and grow a supply chain that exports internationally. This wider benefit to the UK economy is not captured by measuring bids on Levelised Cost of Energy (LCOE) alone.

The UK will benefit from securing first-mover advantage in developing tidal stream energy and an associated indigenous supply chain. According to research by the University of Edinburgh global deployments of wave and tidal stream could produce a total of £2.8bn to £8.85bn in Gross Value Added to the UK economy, dependent on supply chain assumptions by 2050.[2]

MEC is concerned that the wider supply chain benefits of projects below 300MW is not adequately considered as part of the Allocation Round process.

Our members want to have the opportunity to highlight the significant supply chain benefits that, for example, tidal stream projects will deliver to the UK. Projects that are in the water, generating energy, already have up to 90% UK content.[3]

The Marine Energy Supply Chain Gateway, which was established to provide a comprehensive guide and for companies to register interest, has over 800 companies registered. In the absence of other funding mechanisms that will grow UK supply chains, the Government should consider how these wider benefits are considered and accounted for in future allocation rounds.

[1] Catapult ORE (2018) *Tidal Stream and Wave Energy Cost Reduction and Industrial Benefit*. Available online.
[2] Supergen, Cochrane et al (2021) *What is the value of innovative offshore renewable energy deployment to the UK economy?* Available online.
[3] In 2016, Nova Innovation's Shetland Tidal Array was delivered with over 90% of its supply chain spend in the UK. For further information please see here. In 2021, Orbital Marine Power successfully launched its 2MW Orbital O2 project with 80% of supply chain spend in the UK. For further information please see here.

The UK Government should consider the nature of emerging technologies and projects to ensure the CfD rules are fit for purpose.

The decision to move to annual CfD auctions will increase renewable generation capacity at a pace that the climate change challenge demands. However, to truly secure the supply chain benefits being presented by the UK's world leading tidal stream and wave energy industries, the UK will need a truly industrial response to secure UK manufacturing and production. This is will only be made possible by original equipment manufacturers (device developers) placing consistent annual orders through the supply chain, that will in turn will only be possible through allocating ringfenced support for tidal technology on an annual basis. A stop/start stochastic manner of support will send mixed messages to the supply chain and prevent the sector from progressing through the next barrier of cost reduction, economies of scale.

For emerging technologies, like tidal stream and wave energy, bids may be put in successive annual auction rounds to grow existing projects, rather than delivering separate standalone projects. It is imperative that the CfD process is managed in a manner that supports this incremental approach for emerging technologies.

Long-term policy support for the tidal sector will deliver the Government's aims for SCPs, net zero and building back better.

The tidal stream sector is strongly positioned to support the ambitions of the UK Government, building back better, building back greener, levelling up, the Union and energy security. Long-term support for the sector will deliver these benefits while reducing the cost of generation to below £90 per MWh at the point of 2GW of deployment and has the potential to provide 11% of the UK's current energy demand.[4]

To secure these cost reductions there needs to be long-term certainty to support investor confidence and build supply chain capabilities. As noted, this can be achieved by ensuring an annual minima of support for tidal stream and wave energy within the CfD system.

Beyond AR5 the Government should consider how the CfD process can support developments that 'co-locate' multiple technologies.

Processes that promote integration of marine energy technologies into more mature offshore renewable developments should be encouraged to create a pathway for applying innovation at lower cost. This will also deliver a more robust and resilient energy system less reliant on one single source of energy and develop indigenous supply chains.

Targets for applying innovative, alternative UK energy generation technologies within mature CfD contract pots would be a significant enabler for the marine energy sector, and in unlocking multiple benefits for the UK. Wave energy could potentially be worth £4bn to the UK economy by 2040, supporting over 8,000 jobs, with 50-60% of the economic benefit in terms of GVA and jobs expected to be in coastal areas.[5]

[4] Coles et al, Royal Society (2021) *A review of the UK and British Channel Islands Practical Tidal Stream Energy Resource*. Available online.
[5] Catapult ORE (2018) ibid.

QUESTIONS

Supply Chain Plans: Interviews

1. **The government welcomes views on whether "Interviews with applicants" could help facilitate the application process, and lead to the publication of clearer, more precise Supply Chain Plans.**
2. **The government welcomes views on how to make the process as transparent as possible for applicants, while respecting the need to protect commercial sensitivities.**

MEC supports the Government maintaining dialogue with applicants during the CfD process. A non-compulsory interview stage therefore is a reasonable proposal to give applicants the opportunity to clarify and address any queries the Government has following an initial review. Agreement on the specific questions asked during this process will be key in informing applicants of the desired outcomes the Government is seeking.

As a means of reducing the administrative burden of interviews, the Government could consider allowing applicants to submit written responses and evidence to clarify any issues within a SCP.

Raising the standard of Supply Chain Plans

3. **The government welcomes views on raising the pass mark in each Section to 60%.**
4. **The government welcomes views on giving meaning to "scale of ambition" in the scoring criteria and welcomes suggestions on what else could be clarified in the scoring criteria.**

MEC strongly supports action to maximise the benefits felt by communities across the UK in the transition to net zero. Increasing the minimum requirement within the SCP could be a useful means of achieving this.

In absence of other funding mechanisms to accelerate deployment of emerging renewable technologies, including tidal and wave, the broader benefits projects deliver to the UK should be considered as an integral part in the process of choosing winning applications. The MEC supports the UK's ambition to level up, securing investment across the UK and maintain global leadership in the transition to net zero.

The marine energy industry has a strong track record of using high levels of UK content in projects. As the sector continues to grow, and if it is supported to do so, the UK can grow indigenous supply chains and sustain a large domestic market. For example, Nova Innovation's Shetland Array had over 90% and Orbital delivered its O2 device comprised of over 80% of UK content.[6] This is significantly higher than other renewable technologies which import a significant amount of content.

Supporting the development of indigenous supply chains and emerging industries such as tidal stream and wave energy, could support the UK being a leader in an export market forecast to be worth £76bn by 2050.[7] The UK should seek to emulate the Danish experience in supporting the wind industry and benefitting from its commercialisation internationally. Denmark acted and supported this emerging renewable industry in the 1980s and created a domestic environment that encouraged and grew indigenous supply chains. In 2019 the wind sector was worth £7.7bn per annum to the Danish economy.[8]

These benefits can be secured through the CfD process, and ongoing ringfencing for tidal stream energy. The SCP process provides a potential means of judging the benefits outside of reduced Levelised Cost of Energy (LCOE) for renewables. The Government could, for example, consider export potential that can be unlocked through providing long-term support for a diverse range of renewable projects.

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[6] See footnote 2.

[7] Catapult ORE (2018) ibid.

[8] Wind Denmark (2020) *Wind in Denmark: Statistics*. Available online.

Finally, MEC welcomes consideration of how projects are taking action to reduce the carbon footprint of project deliver. Projects that avoid carbon emissions through using local supply chains and capabilities, rather than importing technologies should be supported in the CfD and SCP process.

Clearer expectations under the Supply Chain Plan Questions

5. **The government welcomes views on whether the example template would provide greater clarity to applicants as to the government's expectations.**

N/A

Duration of Supply Chain Plan Statement of Approval

6. **The government welcomes views on whether the validity period of the Supply Chain Plan Statement of Approval should be linked to the allocation round for which it was produced (from Allocation Round 5), or whether alternative approaches would be better.**

Linking the Statement of Approval to the Allocation Round in which it was obtained would be reasonable. MEC also supports the Secretary of State having flexibility regarding this matter and projects should not be unfairly hampered, for example, due to events outside of a project developer's control.

Supply Chain Plans for Emerging Technologies

7. **The government welcomes views on whether all floating offshore wind projects should be required to submit a Supply Chain Plan from Allocation Round 5 onwards.**

8. **The government welcomes views on whether any other emerging technologies should be included in the Supply Chain Plan process from Allocation Round 5 onwards or in subsequent allocation rounds.**

MEC supports the Government seeking to maximise the supply chain benefits that can be created through the CfD process. The transition to net zero creates an opportunity to secure private sector investment in a manner that delivers green growth in communities across the UK. To achieve this the UK should provide clear, long-term policy signals to investors and project developers and seek to create a domestic market. This in turn will create significant export opportunities.

By providing clear, long-term signals to investors and project developers and maintaining policy support and an environment that allows technologies to reach commercialisation, the UK will secure the industrial benefits.

MEC is concerned that for projects bidding into the CfD process below 300MW that wider supply chain benefits will not be considered. Tidal stream projects have been delivered with a significantly higher percentages of UK content than other renewables. This wider benefit to the UK economy is not captured by measuring bids on Levelised Cost of Energy (LCOE) alone.

Tidal stream is entirely predictable and provides near-baseload energy. The UK has significant potential both in resource and in developing it as in industry to benefit from export opportunities. In terms of resource tidal stream is estimated to be able to provide 34TWh/year, equivalent to 11% of the UK's current annual electricity demand.[9] As the UK becomes increasingly dependent on intermittent sources of renewable energy tidal stream will have an important role in maintaining energy security.

The Government is right to, where possible, reduce the potential administrative burden for emerging renewable technologies. Our members want to have the opportunity to highlight the significant supply

[9] Coles et al (2021) ibid.

chain benefits that, for example, tidal stream projects will deliver to the UK. Projects that are in the water, generating energy, already have up to 90% UK content.[10]

MEC would support the Government considering how supply chain benefits, delivering green growth across the UK, can be accounted for in future allocation rounds. This will be key in securing diverse energy sources.

Non-Delivery Disincentive

9. **The government welcomes views on strengthening the Non-Delivery Disincentive by extending the exclusion period to prohibit a CfD application from an excluded site for the next two applicable allocation rounds. Views may wish to be shared on whether this proposal should be considered conditional on increasing auction frequency, or whether it should be considered independent of any changes to auction frequency.**

MEC supports a non-delivery disincentive that deters actors from submitting bids that they have not properly costed or are prepared to deliver. If a project that has been awarded a CfD contract fails to deliver, the money set aside for that project should be returned to the ringfence in the next allocation round process.

In addition, the UK Government should consider the nature of emerging technologies and projects to ensure the CfD rules are fit for purpose. The decision to move to annual CfD auctions will increase renewable generation capacity at a pace that the climate change challenge demands. For emerging technologies, like tidal stream and wave, bids may be put in successive auction rounds to grow existing projects, rather than delivering separate standalone projects.

Developing projects in an incremental manner may be more financially attractive and lower project costs than in delivering large projects in one CfD round. CfDs should not discriminate against projects that are using a single cable to export the energy the project is generating.

[10] See footnote 2.