

Energy Law

Offshore wind wins big in advance of the fourth CfD allocation round

The offshore wind industry has received a tangible boost from the UK Government following a change in the way that its investment backing is allocated.

In November 2020, following a consultation, the UK's Department for Business, Energy and Industrial Strategy (**BEIS**), announced changes to the way in which contracts for difference (CfDs) are awarded. CfDs are the UK government's primary method for investing in the generation of low carbon electricity. Previously, CfDs were allocated between two "pots" or groups of bidders, namely (i) established technologies and (ii) less established technologies.

The BEIS announcement confirmed the creation of a new dedicated 'pot' for bids specifically for fixed-bottom offshore wind projects. As a result, (1) fixed-bottom offshore wind projects will no longer compete with other technologies for a share of investment in its pot; and (2) floating wind projects will compete only with other 'less established technologies' and do not need to compete with fixed-bottom wind projects. The announcement increases the likelihood of offshore wind projects being awarded CfDs in the UK's fourth round of allocation (**AR4**).

What are CfDs and how are they allocated?

The CfD scheme is the UK government's primary method for investing in the generation of low carbon electricity. First introduced in 2014, there has been three allocation rounds to date in 2015, 2017 and 2019. The government currently plans to open the fourth round later this year. All coal-based technologies have been phased out of the UK's CfD scheme in order to best progress the UK Government's ambitious green energy procurement plans¹.

CfDs are awarded through an auction process, whereby an energy developer applies for a CfD through submitting a sealed bid. Successful bidders are thereafter offered a contract with the Low Carbon Contracts Company (a private company owned by BEIS).

The CfD enables the developer of an energy project who has to bear the high upfront costs to reap the benefit of energy price protection from volatile pricing throughout the life of the project. This allows developers to raise finance from private capital.

What is new in AR4?

1) Fixed Offshore wind 'pot'

AR4 will introduce a third dedicated "pot" for those developers specifically bidding for CfDs for fixed-bottom offshore wind projects². This allows a specific budget for offshore wind, to support the industry in achieving the significant growth required by the recent 10 point plan ([see here for our update on this](#)).

The latest announcement confirms the division between the pots and how many MW the UK Government is allocating to each pot:

¹ You can find Stephenson Harwood's update on the UK government's announcements here: https://www.offshoreenergylaw.com/sites/default/files/pdf/The%20UK%20government%20has%20set%20out%20its%2010-point%20clean%20energy%20plan_what%20comes%20next.docx.pdf

² In 2014, the UK Government used this concept of an additional designated pot for biomass and coal projects

Pot 1: Established technologies	Pot 2: Less-established technologies	Pot 3: Offshore wind
<ul style="list-style-type: none"> ▪ Onshore wind (>5 MW) ▪ Solar photovoltaic (>5 MW) ▪ Energy from waste ▪ Hydro (>5 MW) ▪ Landfill gas ▪ Sewage gas 	<ul style="list-style-type: none"> ▪ Advanced conversion technologies ▪ Anaerobic digestion (>5 MW) ▪ Dedicated biomass with CHP ▪ Floating offshore wind ▪ Geothermal ▪ Remote island wind (>5 MW) ▪ Tidal stream ▪ Wave 	<ul style="list-style-type: none"> ▪ Offshore wind (dedicated to fixed-bottom offshore wind projects only)

The Government has not yet determined budget allocations, administrative strike prices or capacity caps between these pots. These are expected later this year.

2) Floating Offshore Wind

BEIS has also confirmed that offshore wind generation 'pot' shall distinguish between the (1) fixed-bottom 'pot' and (2) floating offshore wind. BEIS confirmed that floating wind will be classified as a "less established technology" because it is currently less developed and therefore more expensive than fixed-bottom.

The UK Government also confirmed that the minimum water depth criteria for floating offshore

wind projects will be reduced in round four from 60m to 45m. It is hoped that this change will further incentivise offshore wind developers to use shallow sites for cheaper floating wind projects.

Conclusion

The proposed changes in AR4 support aim to level the playing field for renewable energy sources by ensuring that the correct technologies receive government backing in a fair competitive process (which pits appropriate bidders against one other). This is important to enable emerging technologies to be tested and ultimately utilised on a commercial scale.

Get in touch



Tom Adams
Partner
T: +44 20 7809 2628
E: tom.adams@shlegal.com



Cathal Leigh-Doyle
Senior associate
T: +44 20 7809 2658
E: cathal.leigh-doyle@shlegal.com



Charlotte Coleman
Associate
T: +44 20 7809 2663
E: charlotte.coleman@shlegal.com