

GOVERNMENT LOOKS TO STRIKE NEW DEAL WITH OFFSHORE WIND DEVELOPERS

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INTRODUCTION

No bids for offshore wind were received by the UK government in the Contracts for Difference (“CfD”) Auction Round 5 (“AR5”). This strengthened calls for a review of the scheme’s economic terms and, more specifically, the revenue support offered to offshore wind developers. In its latest announcement, the UK government looked to re-incentivise offshore wind by increasing the administrative strike price it will pay for electricity generated by offshore wind.

In this article, we look at the CfD auction scheme in more detail, with a particular focus on the importance of the “strike price” and why the economic benefits of developing offshore wind are crucial to promote investment in new offshore wind farms in the UK.

WHAT IS A CONTRACTS FOR DIFFERENCE AUCTION?

The UK government’s CfD auction invites companies to bid to develop renewable energy projects to supply electricity to the UK grid. The CfD scheme ensures projects receive a guaranteed price from the government based on the amount of electricity they will generate. This is otherwise known as the strike price. When the strike price is above the market price of electricity, a top-up payment is paid to generators by the government. However, if the strike price goes below the market price, generators are required to pay back the difference. This method, simply put, ensures that developers achieve the price promised by the UK. As such, the main incentive for generators of offshore wind is the certainty that the CfD arrangement offers by steadying an offshore wind project’s revenue and ultimately reducing the risks associated with developing the project.

However, despite the UK’s ambitious target to install 50 GW of offshore wind by 2030, no new bids were submitted by developers for offshore wind projects in the CfD AR5. This unprecedented response from developers was not only a result of higher inflation and increased development costs, but the advertised strike price of £44/MWh was widely considered far too low.

AUCTION ROUND 6 – WHAT’S NEW?

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Following an extensive review and as a response to AR5, the UK government announced on 16 November 2023 that the maximum strike price will be increased for AR6. Bottom-fixed offshore wind farms will see a 66% increase ahead of AR6, from £44/MWh to £73/MWh, and floating offshore wind projects will see a 52% increase, from £116/MWh to £176/MWh.¹ In its latest review, the UK government also recognised the appetite for offshore wind and decided a separate funding pot will be made available to support offshore wind.

In addition, as we have reported on previously, there is an increasing focus on the positive environmental and social impact that offshore wind projects offer the UK. The recent announcement confirmed that from 2025, projects will be assessed on how much they strengthen the environmental and economic sustainability of the industry. For example, the UK announced that projects will be rewarded financially if they are able to reduce carbon emissions in their supply chains and demonstrate positive social impact on local communities.

Although the UK already boasts being home to the world's five largest offshore wind farms, hopefully this recent announcement will allow the UK to continue to cement its position as a global leader in offshore energy.

[1] <https://www.gov.uk/government/news/boost-for-offshore-wind-as-government-raises-maximum-prices-in-renewable-energy-auction>

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