

# WINDEUROPE WORKSHOP

## Price vs beauty: evolving allocation models for offshore wind sites

25 November 2021

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UK 2021

IN PARTNERSHIP WITH ITALY

# AGENDA

- Introduction to SSE Renewables
- Comparing different regimes
- UK models for seabed leasing
  - ScotWind (Scotland)
  - Round 4 (England & Wales)
- What works well
- Possible future approaches to offshore wind development in the UK



# INTRODUCTION TO SSER

- Portfolio of 4GW of onshore wind, offshore wind and hydro across UK and Ireland.
- Currently building more offshore wind than anyone other company in the world (~5GW), including the world's largest offshore wind farm at Dogger Bank
- Together with Marubeni and Copenhagen Infrastructure Partners, we are participating in ScotWind
- Through our £12.5bn 'Net Zero Acceleration Programme' we will have the scale to enable the delivery of over 25% of the UK's 2030 offshore wind target of 40GW
- Expanding into other offshore wind markets, including Japan, Denmark, U.S., Poland, Spain and Portugal



# TYPES OF SEABED LEASE REGIMES

## Seabed only

Pros	Cons
<ul style="list-style-type: none"> <li>Large areas offer developers opportunity to identify optimal sites</li> </ul>	<ul style="list-style-type: none"> <li>Longer development timelines needed for permitting and then offtake</li> <li>Consent risk</li> <li>Offtake risk</li> </ul>

## Seabed + Offtake

Pros	Cons
<ul style="list-style-type: none"> <li>Lower risk profile as a lot of consenting and grid risk is removed</li> <li>Development times can be reduced</li> </ul>	<ul style="list-style-type: none"> <li>Significant delays can represent poor consumer value</li> <li>Trend to low value offtake</li> </ul>

## Price capped 'beauty contest'

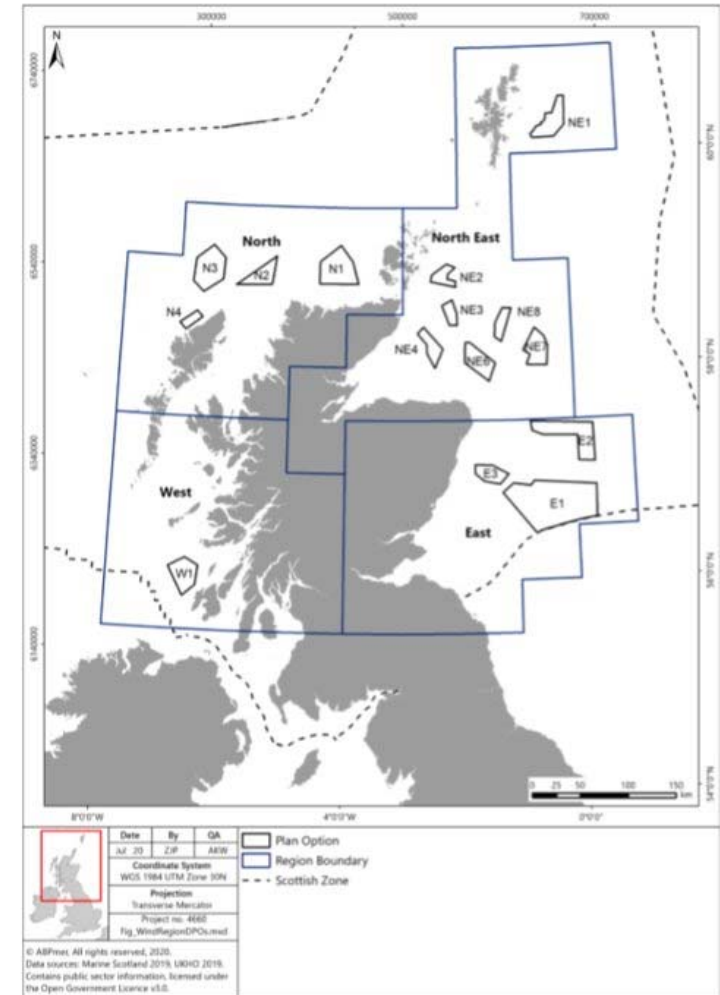
Pros	Cons
<ul style="list-style-type: none"> <li>More focus on project quality and developer capability</li> <li>Can limit cost inflation impact on power prices/ projects/ supply chain</li> <li>Opportunities to drive behaviour towards policy outcomes such as Innovation, supply chain development, P2X</li> </ul>	<ul style="list-style-type: none"> <li>Seabed holder not maximising revenue from the process</li> </ul>

## Uncapped auction

Pros	Cons
<ul style="list-style-type: none"> <li>Maximise revenue for the seabed holder</li> </ul>	<ul style="list-style-type: none"> <li>Favours larger balance sheets and could limit competition</li> <li>Doesn't necessarily lead to the most capable developer winning</li> <li>Extremely high lease fees could lead to higher power prices, reducing project returns and reducing local economic benefits</li> </ul>

# SCOTWIND

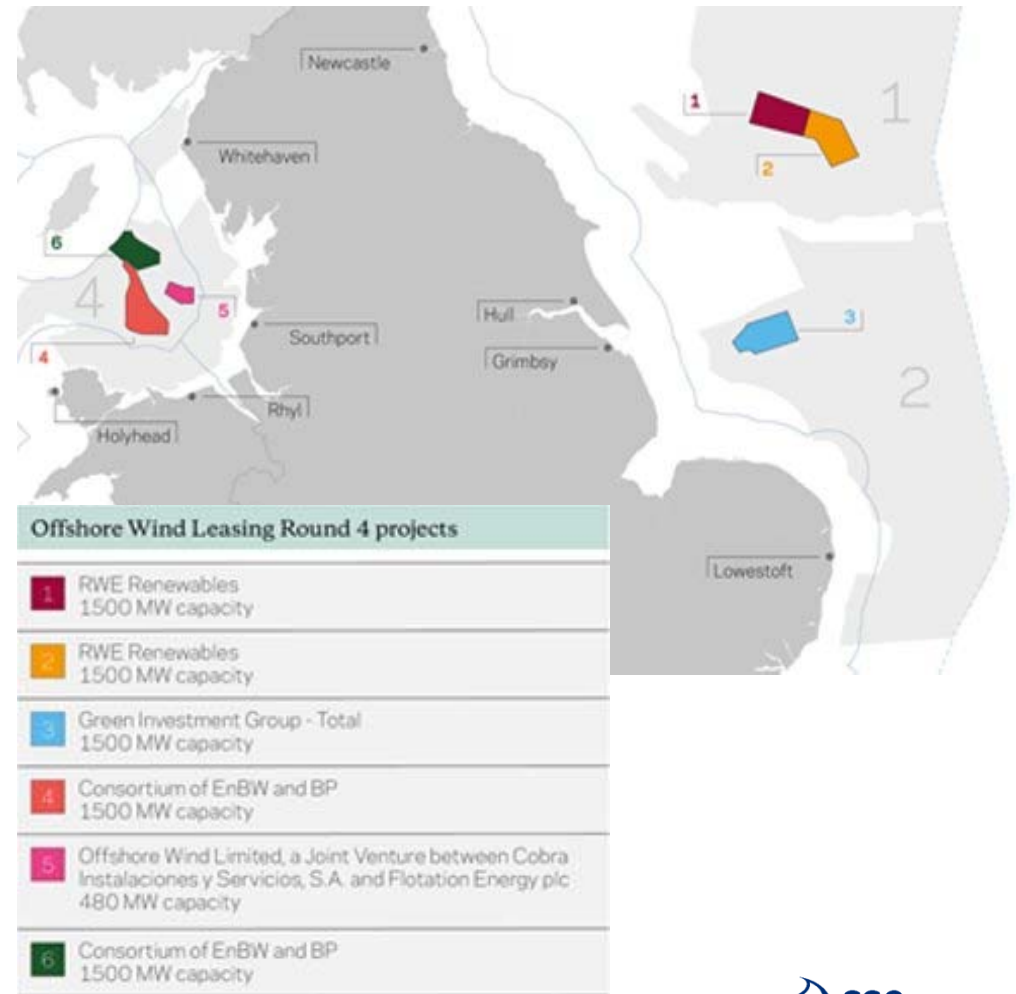
- Qualitative & Quantitative structure with fee cap
- Key things for the client:
  - Technical capability
  - Financial standing
  - Site credibility & development plan
  - Preparedness
- 10-year Option Agreement
- Development risk and offtake risk exposure
- Sectoral Marine Plan de risked development aspects
- Process
  - Duration
  - Communications & clarifications
  - Evaluation





# UK R4

- Competing for 10-year Option Agreement for sites within four large areas
- Process:
  - Pre qualification
  - Stage 1 – Sites selected & plans
  - Stage 2 – Bid, daily auction, uncapped
- Development risk and offtake risk exposure
- Habitat assessment retrospective, increases development risk



# WHAT WORKS WELL

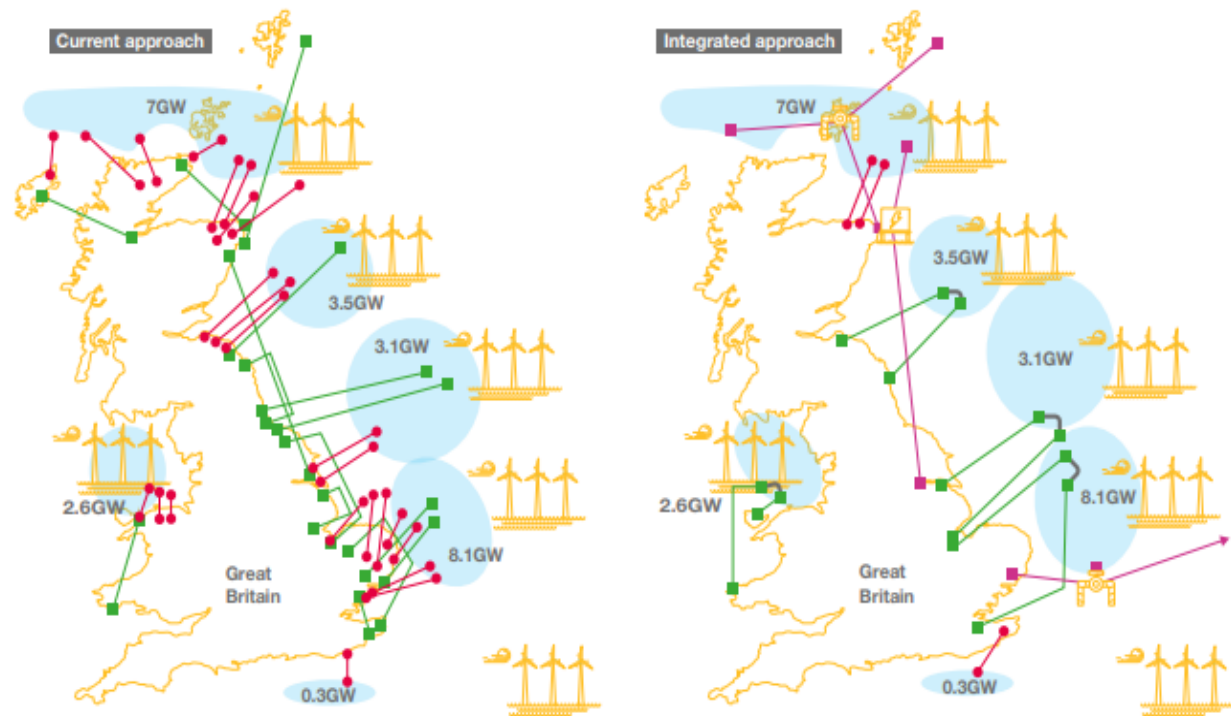
- ✓ Regular rhythm of competitions clearly aligned to Government Net Zero pathways
- ✓ Early developer/ seabed holder engagement to inform site selection
- ✓ Shared site information to de-risk development/ grid connections/ avoid duplicative developer work/ shorten timeline
- ✓ Clear language, process and evaluation measures including price caps
- ✓ Open communication channels & tutorials
- ✓ Fixed milestones and timeline
- ✓ Robust IT platforms, website portals, auction tools, and document library
- ✓ Defined route to permitting and delivery



# HOW THE UK MODEL IS EVOLVING

Moving to a more centralised & coordinated approach to offshore transmission

- A more coordinated approach to offshore transmission is needed to deliver on the UK's offshore wind ambitions in the timescales required
- Coordinated approach should **deliver fewer cables, reduced landfall locations and improved consumer savings** compared to radial point-to-point connections



Comparing approaches of the GB Network Design in 2030

Source: National Grid ESO



# LOOKING TO EUROPE

Possible new approaches to offshore wind development

- The UK Government is also consulting on exploring the possibility of **combining the seabed lease auction with the allocation of government support into a single competitive process** for projects commissioning post-2030
- Models being explored:
  - German model** - single competitive process followed by developers seeking planning permission
  - Dutch model** - single competitive process with construction permits granted at the same time



# SUMMARY

- Variety of leasing models exist with different pros/ cons. Pricing caps can provide more chance of optimal developer/ project choices and more favourable policy/ socio economic outcomes
- Aligning leasing opportunities with deployment ambition, grid infrastructure & consenting capability is key
- Visibility and stability of opportunities is attractive
- Lots of opportunities ahead to share best practice and optimise leasing competitions across the industry

