RWE

Achieving the 2030 Clean Power Target

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Clean Power 2030

We cannot underplay the impact that the 2030 Clean Power target will have on the energy system, energy consumers and local communities.

In their recent advice, the National Energy System Operator concluded that the 2030 target pushes at the limits of what is feasible, and will require annual investment of around £40 billion, of which the vast majority will need to come from the private sector. To put the scale of the challenge into perspective, it is worth reflecting on what has been achieved to date:

- Over the last five years, renewable generation grew by only 20 TWh – in the next five years, it will need to grow by almost 200 TWh.
- This requires around three times more offshore wind capacity to be installed over the same period, and a doubling and tripling of onshore wind and solar capacity respectively.
- In addition to more generation, we also need to build a lot more grid – more specifically, twice as much transmission capacity in the next five years as has been built in the last ten.

While there is no doubt the target is challenging, it also has the potential to bring growth and prosperity to many parts of the UK, as underlined by RWE's contribution.

RWE's contribution in the UK

RWE is a world-leading energy company and the UK's leading power generator. Between 2021-2023, RWE invested €3 billion into clean energy infrastructure in the UK, with an ambition to invest a further €8 billion net 2024-2030.

We are deeply committed to fostering growth, resilience, and sustainability via our local community benefit funds. Each year, UK wind farms operated by RWE invest more than £6.1 million into community funds, with funding decisions made by local representatives. Over their lifetime, funds set up by RWE will invest over £160 million in local communities.

Click here for more information including case studies of beneficiaries of RWE community benefit funds

The tangible benefit of our investment is evident with our Sofia offshore wind farm. Currently in construction in the North Sea and set to power 1.2 million typical UK homes per year once operational in 2026, Sofia will create an estimated c.8,800 jobs[1], with up to 2,000 jobs supported during peak construction.

In addition, it will provide an estimated £760 million boost to the UK economy, of which the majority will flow into coastal communities in the North East and the Humber, driving growth in these regions[2].

1 Defined as full-time equivalent person-years of employment
2 Source: Sofia Offshore Wind Farm Socio-Economic Research Study, Wavehill Social and Economic Research, available here

Welcome first steps to Clean Power

Overall, the Clean Power Action Plan published in December brings together a number of welcome actions in addition to some new commitments, including:

Removing barriers to project delivery
Since July, the government has taken a number of positive steps to proactively work with industry to identify and remove barriers to project delivery, including the establishment of Mission Control within DESNZ.

Ambition on renewables deployment
The Plan acknowledges the need to step up the deployment of renewables, including at least 12 GW of offshore wind in the next two contract for difference (CfD) auctions – Allocation Round 7 (AR7) this year and AR8 in 2026.

Positive steps already taken to accelerate delivery of clean power

- Establishment of 'Mission Control' within the Department of Energy Security and Net Zero, tasked with delivering Clean Power as a 'one stop shop' to break down barriers and accelerate progress on energy projects.
- Encouraging further development of onshore wind by immediately removing the de-facto ban on new onshore wind in England, and bringing larger onshore wind projects in development in England back into the Nationally Significant Infrastructure Projects (NSIP) regime.
- Further reform to accelerate the planning process including a commitment in the Clean Power Action Plan to review long-term resourcing across relevant bodies, and proposals to stop objectors without merit from frustrating the process leading to unnecessary delays.

Procurement of at least 12 GW of offshore wind is required in the next two CfD auctions - AR7 and AR8

Welcome first steps to Clean Power

Reforms to the CfD
AR7 will therefore be the first real test of Clean Power 2030, and it is vital that it procures enough capacity to stay on track. As such, we welcome most of the targeted reforms of the CfD, currently subject to consultation. We believe that these are necessary to make sure the next auction is a resounding success.

Recognition of ongoing role for gas
The Plan reaffirms the continued need for both abated and unabated gas: i.e. roughly the same as today (35 GW) into the 2030s, in order to ensure security of supply. It will be crucial to ensure that gas plants can continue to operate safely and reliably whilst operating very infrequently: i.e. on average less than 5% of the year. As part of our Clean Power Reflections series, we will explore some of these challenges in more detail.

Proposed CfD reform

The government is currently consulting on reforms to the CfD scheme. The key ones that we believe will help accelerate renewables deployment are:

- **Increasing the length of the CfD contract from 15 years**, for wind and solar PV. We recommend an increase to at least 25 years, to minimise 'merchant tail' risk given the current uncertainty over future electricity market arrangements. Providing greater revenue certainty would lower required strike prices.
- **Allowing an extension to the target commissioning window from three to six months for solar PV** will provide more flexibility for projects to construct and deliver during their CfD window.
- **Removal of the budget cap for all technologies, replaced with 'capacity ambition' targets and a forward capacity schedule for future auction rounds,** which could provide more transparency and visibility for developers.

> **We recommend extending the length of the CfD contract, from 15 to 25 years.**

- **Allowing the Secretary of State more flexibility** to adjust the budget for fixed bottom offshore wind after the auction, in order to meet the desired capacity level.
- **Accelerating offshore wind allocation** if there are no appeals. This could allow the auction for this technology to run up to two months earlier than other technologies. We welcome this, and would argue there is a strong case for applying the same principle to other technologies.

We will explore CfD reform in more detail in our forthcoming papers.

Looking ahead

Decisions made in the next few months will determine whether the target will be met.

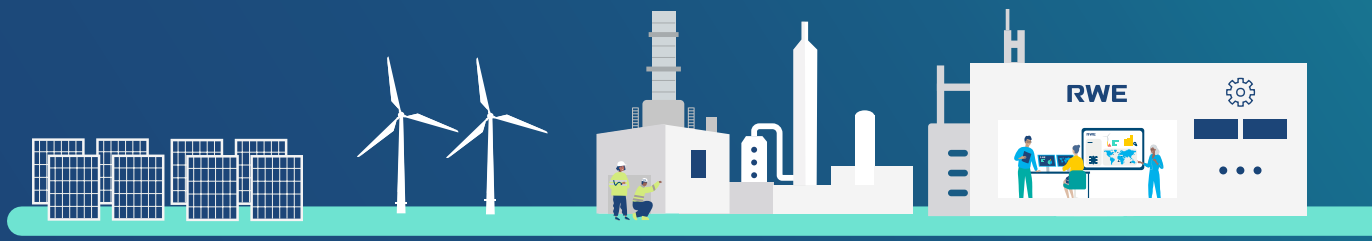
We must see action on several critical fronts in order to keep the 2030 target within reach.

This includes procuring a record amount of renewables in the next CfD auction, publication of the long-awaited Solar Roadmap and the report of the Onshore Wind Industry Taskforce.

The timely passage of the Planning & Infrastructure Bill – due to be introduced to Parliament shortly – should cement reform of the planning process, to accelerate the approval of critical energy infrastructure.

Over the next few months, action is critical to keep the target within reach

2025



March

- Planning & Infrastructure Bill published
- HM Treasury 'Spring Statement'
- Solar Roadmap

April

- Onshore Wind Task Force Report

June

- Comprehensive Spending Review
- Industrial Strategy

July

- AR7 CfD auction application opens. Results October - December depending on appeals.

Estimated dates for illustrative purposes only.

> **With no time to lose, we need a relentless focus on bringing forward shovel-ready projects that can kick-start economic growth.**

The outstanding challenges

Focus on shovel-ready projects

It is clear that there needs to be a step change in both pace and volume of renewables deployment.

Last year's record CfD auction (Allocation Round 6) saw contracts awarded to over 9 GW of renewable capacity, including around 1 GW onshore wind, 3.3 GW of solar PV and 3.4 GW of new fixed bottom offshore wind (excluding capacity rebidding from Allocation Round 4). To stay on track to meet the 2030 target, assuming all capacity is delivered via the CfD, the next auction (AR7) will need to procure at least ~3 GW of onshore wind, ~6 GW of solar and ~6 GW offshore wind.

As the government looks to align the auction with new supply chain policy ('Clean Industry Bonus') and enact further targeted reforms, it's likely AR7 will be delayed until later this year. Whilst it is important to take the time to get the auction 'right' it is also imperative that it is not delayed into next year (2026), as this will disrupt the regular run rate of one auction per year, upon which developers and investors so greatly depend.

Therefore, with no time to lose, we need a relentless focus on bringing forward shovel-ready projects that can kick-start economic growth as soon as possible.

Encouragingly, there is already a strong competitive pipeline of offshore wind projects with planning consent to meet the 2030 target.

It is therefore concerning that the government is consulting on proposals to loosen the eligibility criteria for offshore wind to allow projects without planning consent to bid in the forthcoming auction. Not only is this unnecessary, it also risks delivery and could be costlier for the consumer: projects at an earlier stage of development, without planning consent, will be delivered later and are less assured in terms of delivery.

The outstanding challenges

Rule out zonal pricing

In order to deliver, it is vital that investors have clarity on the future electricity market arrangements and, in particular, whether GB will move from national to zonal pricing.

RWE fully supports, and has long advocated for, locational signals in order to encourage efficient siting of generation and demand. The existing network charging arrangements already do this, and there is scope to reform them to sharpen signals even further. That the government is therefore considering moving to zonal pricing at the same time as industry is required to invest around £40 billion per year is inconsistent with providing investors the certainty they need to deliver as much investment as possible, at the lowest possible cost.

The sheer scale of the investment required in the next few years means the complexity and disruption of introducing zonal pricing in parallel cannot be ignored or underplayed. Rather than reducing costs, a move to zonal pricing could drive-up costs. For example, for CP2030 to stay within reach, AR7 must be the biggest renewables auction by far.

Bidders will not have the full detailed design for zonal pricing ahead of the auction, therefore they will not be able to fully price in the risks and complexities of a new zonal market.

Introducing such a significant risk premium at this time could significantly increase costs to consumers - if we assume zonal pricing adds just one percentage point risk premium, this could increase the overall cost of reaching CP2030 by around £4-8 billion[3].

In summary, **a decision to move to zonal pricing will significantly increase the cost of meeting CP2030 and potentially make it unachievable**. Government should rule out moving to zonal pricing and focus on reaching CP2030 – it cannot do both – and instead focus on strengthening locational signals through reforms to the existing national market.

[3]Illustrative figure – assuming 12.0, 8.4 and 21.2 GW of offshore, onshore and solar procured via CfD at 1 ppt increase in cost of capital – low/high range reflects low/high strike prices. There is uncertainty as to the impact of introduction of zonal pricing on investor certainty - in their recent report on locational marginal pricing, Aurora used a top estimate of 3% increase.

Conclusion

The Clean Power Action Plan is extremely ambitious. The government is currently consulting on targeted reforms of the CfD, some of which we believe will help accelerate deployment. However, as we will explore in our forthcoming Clean Power Reflections series, key challenges remain. The government's early steps towards clean power are welcome, but further detail is needed to mitigate risks and support long-term investment.

RWE knows firsthand the benefits that investment in clean energy can bring, and is committed to continuing to work in partnership with government to deliver further deployment, jobs and prosperity on the road to 2030 and beyond.