

RWE

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Powering Ahead: Accelerating offshore wind deployment

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As acknowledged in the <u>Clean Power Action</u> <u>Plan</u>, offshore wind is set to play a critical role as the 'backbone' of the 2030 clean power system.

As the UK's leading power generator, and a leading developer and operator of offshore wind globally, RWE knows first-hand the benefits offshore wind can deliver, which go far beyond just clean energy. For example, our Sofia offshore wind farm. currently in construction 195 kilometres off the North Sea coast. In addition to powering an estimated 1.2 million UK homes each year once fully operational in 2026, it will create an estimated 8,800 jobs¹, with c.2,000 jobs being supported during the peak of the project's construction. In addition, the Sofia project will provide an estimated £760 million boost to the UK economy², of which the majority will flow into coastal communities in the North East and the Humber.

The sheer scale of offshore wind that will be needed over the next five years therefore represents a fantastic opportunity for UK Plc. The government must procure at least around 12 GW in the next two Contract for Difference (CfD) auctions, compared to around 5 GW that was procured across the last two auctions (Chart 1).





Note: Assumes all capacity is procured via the CfD. AR6 = Allocation Round 6. Low-high range from the Clean Power Action Plan in 2030, 43-50 GW.

1 Defined as full-time equivalent person-years of employment, with up to 2,000 jobs supported at peak construction. 2 Wavehill, Sofia Offshore Wind Farm Socio-Economic Research Study. More information on Sofia available <u>here.</u>

RWE's offshore portfolio

RWE has been a pioneer in UK offshore wind for over 20 years, from installing the first offshore turbines at Blyth in 2000, to commissioning North Hoyle, the UK's first commercial-scale offshore wind farm, in 2004. The sector has since transformed beyond recognition, from a single 60 MW project to around 15 GW installed today.

RWE currently operates 19 offshore wind projects globally, of which 10 are in the UK. In development, in the UK we have a further nine offshore wind farms in the pipeline. Some are at an advanced stage, including our Norfolk Vanguard East and West projects, comprising a combined 2.8 GW. With many supply chain agreements already in place, including a multi-million pound contract for foundation construction at a facility in Teesside, these projects could be operational before 2030 and make a valuable contribution to meeting the Clean Power target.



¹ Total installed capacity.
 ² Owned renewables capacity as of March 2024. Pro rata capacity.



Welcome reforms on the path to clean power

Given the importance of the next CfD auction (AR7), it is absolutely right that the government is taking steps to ensure that it can deliver this increased ambition, and to this end it recently <u>consulted</u> on a number of proposed reforms.

1 Increasing the CfD contract

One important proposed reform is increasing the length of the CfD contract. Currently, UK CfD contracts last 15 years. At the end of the contract, the project is considered 'merchant' - i.e. it will receive revenue in the wholesale market (or as part of a power purchasing agreement). Due to advancements in technology, the asset life for a typical new offshore wind farm commissioned today is around 35 years. This means that, as it stands, the CfD offers revenue certainty for less than half of the asset's life.

The benefit of an extended CfD tenure is to lower the merchant exposure or "merchant tail" of projects and to increase revenue certainty. This is critical, as investors are currently facing considerable uncertainty over the future of the wholesale market, including whether the system will move from 'national' to 'zonal' pricing. Such a change would have a material impact on merchant prices, depending on where the project is located.

Increasing the length of the CfD contract will reduce uncertainty for investors and lower the required hurdle rate for the project to breakeven. In turn, this will reduce the strike price compared to a shorter contract.

We are recommending extending the contract to at least 25 years.

Extending the CfD contract to 25 years would increase revenue certainty & reduce strike prices vs 15 year contract.

Our analysis suggests this could have a material impact in terms of percentage reduction in the breakeven strike price for all technologies, including offshore wind, thereby lowering costs to consumers compared to a 15-year contract.

Other countries' support schemes have surpassed the tenure of the UK CfD, meaning that moving to a 25-year model would ensure the UK's position as a global leader (Chart 2).

Chart 2

CfD contract length in the UK vs other countries





Further welcome reforms

2 Tackling unused budget

In order to reduce the likelihood of unused budget, as was seen in AR6 for offshore wind, the government is also proposing providing the Secretary of State with the ability to view bidding data and set a clearing level after bids have been made. Whilst we support the intention to ensure optimal procurement, this would be a unique approach not observed in other markets in which RWE operates. Careful consideration is required on what information is provided, in order to ensure transparency on decision making.

Additionally, any plans to remove the pre-auction view of budgets must ensure that bidders are provided with sufficient certainty on auction procurement.

In place of a monetary budget, RWE recommends **setting a capacity 'minima' i.e. a minimum amount of capacity to be procured per pot.** It is also critical that the government sets out a long-term auction schedule out to at least AR10 (in 2028) in order to provide clarity on future capacity ambitions per pot.

3 Streamlining planning reform

The government has also taken welcome steps through the Planning & Infrastructure Bill to streamline and accelerate the planning process. For example, preventing objectors 'totally without merit' to frustrate and unnecessarily delay proceedings which has previously, in some instances, significantly prolonged the consent process for many offshore wind farms.

In addition, the proposed Marine Recovery Fund facilitates strategic solutions to manage and mitigate the environmental impacts of offshore wind. However, there remains some uncertainty over how the costs for the compensation measures will be calculated and implemented – we urge clarity on this ahead of AR7 to allow developers to bid with confidence. Removing the pre-auction view of the CfD budget must be accompanied by a capacity 'minima' to give adequate certainty on auction volume.



Providing an additional delivery year to technologies competing in the next CfD auction would help increase competition.

Blades for Sofia Offshore Wind Farm

Outstanding challenges

Whilst we welcome the progress to date, we observe three outstanding challenges which unduly add risk to delivery of the Clean Power 2030 (CP2030) target.

1

Proposed changes for the eligibility criteria for the CfD auction

In order to increase competition, the government is proposing to loosen the eligibility criteria for the CfD auction, to allow fixed-bottom offshore wind projects without planning consent to participate.

We believe such a change is unnecessary - if all projects are consented as expected by the time of AR7 opening, there will be record levels of eligible capacity, more than sufficient to reach the CP2030 target range. Furthermore, it could have a **destabilising impact on the supply chain,** as consented projects have progressed negotiations, and in many cases, agreed contracts with supply chain partners.

It is unlikely that pre-consented projects would be able to back-fill orders on a similar timescale. Furthermore, there is a **risk of increased consumer costs**, as projects without planning consent will have no choice but to price-in unknown risks - such as potential design changes stipulated by consent conditions and supply chain delays - into their bids.

An alternate solution is to **provide an** additional delivery year to technologies competing in AR7. 'Delivery Years' refers to the financial years in which a project could commission. Eligibility to bid in the CfD auction is based on having valid planning consent and a arid connection date for the relevant vear(s). For offshore wind, some projects have planning consent but are being prevented from delivering by 2030 due to grid delays and uncertainty. They are therefore ineligible, or only partially eligible with some grid capacity, for the expected AR7 Delivery Years. Although not part of the recent consultation, this simple change (which does not require consultation or legislative change) would enable more consented projects to bid, thereby increasing competition.



2 Wake effects

Wake effects describe a situation where one wind farm reduces the wind speed (and hence energy production) of a second wind farm. Recently, for some offshore projects these effects have been raised as a concern during the consenting process, with calls to assess or even mitigate these effects e.g. through compensation.

Uncertainty around how wakes are managed as part of the planning process is currently having a material impact on investor business cases. 'Buffer zones', imposed as part of the leasing process, are in place to limit wake effects, and for this reason we believe wake mitigation or compensation should not be enforced as part of the planning process.

3 Grid

Grid connections process

Whilst we fully support the steps currently being taken by the National Energy System Operator (NESO) to address the large queue of projects awaiting connection to the grid, the process itself is currently creating considerable uncertainty for projects working towards the next CfD auction. It is important that revised grid offers are issued prior to the start of bidding, i.e. before September, to allow for accurate bidding and to ensure that successful projects can be commissioned within their commissioning window.



Conclusion

Offshore wind is not only essential for clean power - it also brings growth and prosperity to many parts of the UK. We need a relentless focus on bringing forward shovel-ready projects to kickstart economic growth. To this end, we welcome the recent steps taken by the government, including extending the length of the CfD contract and reforming and streamlining the planning process.

To realise the true potential of offshore wind in the UK, it is crucial to address the challenges that remain. Ensuring that the eligibility criteria for the CfD auction does not compromise delivery, ensuring wake effects are not a topic for the planning process, and providing timely grid offers after the queue is re-ordered are all essential measures to secure the future of offshore wind projects. Addressing these issues will bolster investor confidence, optimise the supply chain, and ultimately support the timely and cost-effective delivery of the CP2030 target.



Learn more about RWE's offshore wind portfolio

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