



Date: 27th May 2020
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BEIS
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London
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BY EMAIL

Dear Sir / Madam,

Contracts for Difference for Low Carbon Electricity Generation - Consultation on proposed amendments to the scheme

Suffolk County Council welcomes this opportunity to contribute to this consultation on Allocation Round 4 of Contracts for Difference, for Low Carbon Electricity Generation projects. The Council's key issues are set out here, whilst the full response is appended to this letter.

Suffolk is a key location for the delivery of Net Zero projects, it has shallow seas offshore that are ideal for fixed foundation turbines, is well located for interconnectors, and it has also attracted a proposal for the largest onshore solar development in the UK. In addition, it has an allocated nuclear site at Sizewell. The wider region is critical for the delivery of further new nuclear and offshore wind. The region also has the potential to accommodate hydrogen production with an established gas sector and a natural gas terminal.

The Council believes that development of energy projects to deliver Net Zero will play an important part in the post Covid-19 economic regeneration, both nationally and locally. The Council welcomes the recognition of this by Government, as the Energy Minister, Kwasi Kwarteng, said in a statement to the G20 Energy Ministers on the 10th April:

"Beyond the current health emergency, the energy sector will have an important role to play in driving a clean and resilient global recovery. Through the ongoing transformation of our energy systems we can secure livelihoods, drive development, and deliver on the Paris Agreement."

Although the current and future developments have a significant impact on our communities, they are at the same time an important opportunity to secure much needed economic and skills development.

Suffolk County Council asks that future rounds of CfD should ensure local communities are supported, to gain maximum economic benefits from hosting energy projects. Therefore, genuinely local economic and skills benefits must be secured through the CfD process and developers must be held properly to account for delivering a meaningful Supply Chain Plan, across all tiers of the supply chain.

Suffolk does not have a recent history of extensive infrastructure development or industrial activity. The current and future development of generation and connection infrastructure is, as a result, a very significant challenge for our communities.

Therefore, the Council welcomes the statement by the Secretary of State Alok Shama on the 2nd March in which he said that:

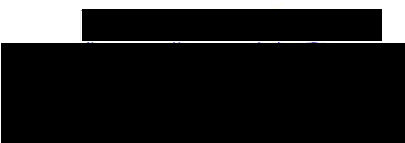
“Delivering net zero will require change across the whole of society, and I am therefore more mindful than ever of the importance of meaningful engagement with local communities on the measures in this transition that affect them the most”

The Council asks that future guidance and requirements for Community Benefit Schemes should be clear and robust, setting out binding tariffs on developers to ensure that communities impacted by net zero projects, for both generation and connection, receive appropriate community benefits or profit share for the lifetime of the project. The Council considers that binding tariffs are a reasonable approach, given the huge increase that is required in generation and connection infrastructure to support the goal of Net Zero by 2050. This approach will also create closer alignment between the unique status of onshore wind in England, that the Secretary of State set out clearly on the 2nd March, and other types of highly intrusive Low Carbon Electricity Generation developments.

Furthermore, we ask that future guidance and requirements for developers engaging with communities on these issues should be robust, recognising the inherent imbalance of power between the parties, and include measure to redress that imbalance. Such an approach would give communities the confidence and understanding to engage effectively with developers, early in the process.

In summary, the Council considers that the Contract for Difference process should not just be focussed on securing broad UK content from projects at lowest cost to the consumer. Rather, it should be designed to provide a framework to secure compensation for local communities, to support local skills infrastructure and to drive local economic regeneration.

Yours sincerely



Richard Rout
Cabinet Member for Environment & Public Protection

Contracts for Difference for Low Carbon Electricity Generation – A consultation Response from Suffolk County Council

The Council welcomes the recognition in this consultation that the goal of Net Zero is its key driver. We agree that this requires a fundamental review of all processes related to the delivery of generation and connection infrastructure, including Contracts for Difference (CfD).

We also recognise that the support of Pot One for established technologies, such as onshore solar and onshore wind, is likely to be necessary to deliver the goal of Net Zero by 2050.

Since this consultation began, it has become clear that the development and operation of Net Zero infrastructure will be a key component of post Covid-19 economic recovery. Given the emerging challenges of progressing the current pipeline of projects resulting from the pandemic, the Council suggests it would be beneficial to consider running CfD Allocation Rounds on an annual basis.

This would reduce delay and uncertainty for both communities and supply chain businesses. It would also minimise artificial deadlines for developers, which in our experience can hamper effective community consultation and resolution of issues at the project consenting stage.

Given this infrastructure is essential to delivering Net Zero and supporting post Covid-19 recovery, the Council considers that it must deliver a fair deal for communities and genuinely local economic and skills benefits.

Therefore, this response is focussed on two areas of the consultation, *supporting communities* and *advancing the low carbon economy*.

Supporting Communities

Although this consultation refers to “community benefits”, it also notes that the landscape and visual harm of a project should be a consideration. It does not, however, make a clear distinction between mitigation/compensation funding and community funding *unrelated* to the impacts of the proposal. This response therefore covers both these matters on the basis that any revised guidance will need to do so.

Summary of the Council position on Community Benefits

- **Clear requirements for developers on how and when to engage with communities and Local Authorities on Community Benefit, Mitigation and Compensation funding.**
- **Clear guidance for all parties on the appropriate legal structures required and the status of discussions, in relation to any objections to the scheme by Communities and Local Authorities.**
- **Minimum tariffs for community benefit schemes, that can be adjusted for inflation.**
- **That the scope of any guidance should include all net zero projects, for both generation and the connection of electricity, as well as projects to meet the net zero heat challenge.**
- **The Council considers that all projects seeking to secure support through the CfD mechanism (or Regulated Asset Base), should be subject to compulsory minimum tariffs for Community Benefits.**

Engagement with Communities

The Council welcomes the recognition of the need for increased and more effective engagement between developers and communities on benefits packages, and the important role of Government in providing guidance and frameworks for discussion between the parties.

In respect of the following paragraph in the consultation:

“Whilst community benefits are a feature of many developments, we consider early, consistent and transparent engagement between developers, local communities and local authorities to be key to ensuring local communities are aware of developments and can outline their views. Conversely, developers can gauge the views of local communities early in the process, leading to productive engagement and continued dialogue.”

Whilst we welcome the approach, we are concerned this assumes there is parity between the parties in discussions and negotiations. In our experience this is not the case, and the process is overly reliant on the goodwill of developers to engage in effective discussion. Furthermore, there is an imbalance between developers and communities in terms of knowledge of the proposal and understanding of relevant legal frameworks. In this context, local communities often *perceive engagement as undermining their objections or concerns*, and reference to compensation and community benefit funding as a bribe, or a sop, from the developer. As a result, effective engagement can be stymied.

To overcome these issues, we suggest that revised and updated guidance should include:

- 1) Clear instructions for developers as to how and when they are expected to engage with communities and Local Authorities on Community Benefit and mitigation/compensation funding issues. This should emphasise that this is in parallel to engagement on the project itself. Developers should be encouraged to set out their engagement plan with communities and Local Authorities at the outset.
- 2) Clear guidance for developers, communities and Local Authorities on the range of appropriate legal frameworks for securing mitigation and compensation for the impacts of any proposal, and for delivering community benefits.
- 3) Clear assurances for local communities regarding the value and status of this engagement, explicitly that they are without prejudice to any detailed or in principle objections or concerns they have regarding the proposals.

This will enable communities to take part in these discussions with developers, at an appropriate early stage of the process, effectively and with confidence.

The use of past “Best Practice” as a guide to the future

The transition to Net Zero is expected to require moving from about 155TWh of output to between 540 – 645TWh of output by 2050 according to Committee on Climate Change (CCC) modelling. The Future Energy Scenarios (FES) 2019 (NGESO) indicates a change from 108GW of installed capacity (in 2018) to 263GW by 2050 under Net Zero.

As well as electrical infrastructure, the guidance should also cover the development of infrastructure associated with the use of blue and/or green hydrogen to meet the heat challenge. This is likely to be significant, given that 804TWh of the 1,089 TWh total current heat demand in the UK is from natural gas (FES 2019). It will include new infrastructure for Carbon Capture and Storage (CCS) as well as the production of hydrogen by electrolysis or by methane reforming from natural gas. The Council considers that all Net Zero infrastructure should fall within the scope of future guidance.

The approach also needs to reflect the geographical shift in where generation and connection infrastructure is required, which is to rural and less developed areas where communities and landscapes have a higher sensitivity to change. This is analogous to the approach to onshore wind developments in England.

There has historically been an aversion to obligatory requirements on developers in terms of best practice for Community Benefits and mitigation and compensation funding. Whilst the Council accepts that past practice can inform future guidance and practice, given the scale of the infrastructure required to reach Net Zero, we do not believe this will be sufficient, and that a more prescriptive and comprehensive approach is now essential to ensure a fair deal for affected communities.

Future guidance and the associated practice should therefore address matters of:

- 1) **Scope** - Connection projects and infrastructure delivered solely by National Grid Electricity System Operator (NGET), or by them as associated development should be included as well as generation and interconnection projects.
- 2) **The Role of the State** - The Government committed, in 2013, to deliver a benefit package to communities who will host new nuclear power stations¹, recognising the scale and duration of the impact of new nuclear power stations and the role that communities will play in hosting nationally significant infrastructure.

BEIS confirmed in March 2017 at the New Nuclear Local Authorities Group (NNLAG) conference that their commitments from 2013 still stood. The Council considers that this provision should be expanded to include the largest and most damaging Net Zero generation *and* connection projects, that is, Nationally Significant Infrastructure Projects. An appropriate tariff will be required, including provision for inflation adjustment.

- 3) **The definition of legal frameworks and clarification of the status of Community Benefits** - Definition of suitable legal frameworks for Mitigation or Compensation funding for both significant residual impacts (via s106)² or residual effects (via s106 or s111)³ of any scheme.

It must be clear that these agreements and funds are separate from any Community Benefits Agreement and, unlike CBA, should be capable of being considered in the overall planning balance by the Examining Authority.

- 4) **A minimum obligation for developers** - A minimum floor tariff for developers (including provision for inflation adjustment) based on MW/installed capacity for Community Benefit Schemes (CBS).

This minimum floor tariff should be designed to provide no more than the starting point for negotiation of what is required, based on specific project and community issues.

¹ <https://www.gov.uk/government/speeches/community-benefits-for-sites-that-host-new-nuclear-power-stations-michael-fallon>

² <http://www.legislation.gov.uk/ukpga/1990/8/section/106>

³ <http://www.legislation.gov.uk/ukpga/1972/70/section/111>

Possible Frameworks for Community Benefits

The principles of the approach above is exemplified in the UK by the Round 2 project the Gwynt y Mor offshore wind farm. RWE npower distributes £768,000 per year (linked to inflation), making a total of £19m over 25 years. The project has an operational capacity of 567MW, so this equates to just under £1,400 per MW per year. Additionally, the project pays into a tourism fund, £690,000 over three years to support local tourism initiatives.

Another framework that could be included within any new guidance is the use of community shares in renewable energy projects. As far as we are aware this approach has not yet been adopted in the UK but it has been used in Denmark.

The Middlegrunden offshore wind⁴ farm (40MW, costing €49m in 2000 prices) was developed between Copenhagen Energy (the local utility, owned by the Municipality of Copenhagen) and the Middelgrunden Wind Turbine Cooperative.

The cooperative's ownership extended to 40,500 shares, which by October 2000 were all privately held, "primarily from the local area". In 2005, only 100 shares were owned by people outside Denmark. Each share was sold for €567. Under assumptions about the financial return, estimate that the project paid an annual return to shareholders of 7.5%.

In the UK, onshore solar has embraced the community share approach through for example, *Community Owned Solar LLP*⁵ and there is no reason why this framework could not form part of the structure of the very large (NSIP) solar projects that are now being promoted and developed, as well as other renewables including Offshore Wind.

⁴https://www.researchgate.net/publication/237683135_Experience_with_and_strategies_for_public_involvement_in_offshore_wind_projects

⁵<https://www.powertochange.org.uk/get-support/programmes/core-partners/>

Community Benefits for each unit of installed capacity

A best practice tariff for onshore wind has been suggested by Renewables UK of £5000/MW/pa for projects greater than 5MW⁶. This tariff is included in the guidance from the Highland Council⁷ for both onshore and offshore wind. The Council understands that in no case have any projects reached this level of community benefits. The failure of these best practice tariffs to deliver the desired level of Community Benefits that has led the Council to propose a minimum binding tariff from Developers and a role for the State beyond new nuclear for the largest schemes.

In respect of solar generation, we recognise that output and profitability varies significantly across the country, and therefore any community benefit tariff for onshore solar would need to reflect that differential.⁹ We note that the Solar Trade Association has argued against such a tariff of £5/MW/pa⁸ on the basis that it would jeopardise delivery of "subsidy free" solar projects. However, given the inclusion of solar projects in Pot One we believe this approach requires further consideration.

⁶[Onshore Wind: Our Community Commitment Renewable UK - October 2013](#)

⁷[Community Benefit Policy June 2014](#)

⁸[Community Benefits form onshore renewable energy developments – May 2019](#)

⁹ <https://solargis.com/maps-and-gis-data/download/united-kingdom>

The Council considers that all projects seeking to secure support through the CfD mechanism irrespective of size or how they are consented¹⁰, should also be subject to compulsory minimum tariffs for Community Benefits. Where projects fall outside CfD, or do not seek to use it, the tariff approach should be strongly recommended.

There are some useful case studies of past and current practice in *Good Practice Principles for Community Benefits from Offshore Renewable Energy Developments* published by the Scottish Government.¹¹

¹⁰ Planning Act 2008; Town and Country Planning Act 1990; Electricity Act 1989

¹¹ <https://www.gov.scot/publications/consultation-scottish-government-good-practice-principles-community-benefits-offshore-renewable-energy-developments/pages/8/#CS4>

Advancing the Low Carbon Economy

The Council welcomes the intention that the proposed changes to CfD to ensure renewable energy deployment delivers genuinely local economic growth. Achieving local benefits through skills, employment and economic growth is vitally important to the communities who will host these significant infrastructure projects, in addition to the national benefits of helping to deliver net zero.

Summary of the Council position on Economic Growth Skills and Local Content

- **There is a need for much greater coordination and alignment between local and national strategies and Supply Chain Plan processes, this should include data collection and sharing.**
- **Genuinely local economic and skills benefits are not being fully realised from these projects. Insufficient attention is given to local suppliers and they are often effectively excluded from tendering opportunities.**
- **Reporting and monitoring of Supply Chain Plans (SCP) is not robust and is not shared appropriately at a local level, to facilitate supply chain development across multiple projects.**
- **The current arrangements do not ensure that local communities are supported to gain maximum advantage from hosting large scale developments. Unless the proposal has significant adverse socio-economic effects, Local Authorities must rely solely on a positive working relationship with the developer to secure positive benefits. Therefore, it is imperative that the CfD process holds an applicant fully to account for delivery of a SCP.**
- **Non-compliance with a SCP should be linked to the withholding of CfD payments as well as be taken into consideration if an applicant wants to be considered for any subsequent Allocation Round (AR). Government should also consider termination of a contract after a significant period of noncompliance.**
- **The threshold limit should be reduced to include all projects being considered in an AR where there are existing projects with emerging supply chains that can be supported to grow.**

Alignment with local & national government strategy

The current SCP processes would be strengthened by being closely aligned to the key themes of the Industrial Strategy and other strategic drivers such as the Offshore Wind Sector Deal.

Strong links should also be made with the Local Industrial Strategies that have been developed in each region by introducing Key Performance Indicators that are consistent at both national and local level in areas such as skills, employment and innovation.

Local Authorities (LA) alongside their Local Enterprise Partnership (LEP) partners are strategic drivers for local economic growth and boosting productivity. There should be a mechanism that includes these senior local stakeholders in both data collection for reporting purposes and sharing of the achieved outcomes. This will be of benefit to all, as it will ensure robustness in data

collection whilst also providing useful information that will assist the LA's and LEP's when they strategically plan sustainable growth for their local region.

The Council would support the sharing of SCP's where there are several applicants in a geographical area, irrespective of what stage they are in the AR. To enable the identification of elements that are currently unable to be sourced within the UK and which of these, at scale, would be an opportunity for local inward investment or supply chain growth.

Increasing Local Economic Benefits

Most of the negative impacts from major energy developments (such as environmental issues) are concentrated at a local level whilst the most significant positive impacts (such as progress to net zero) are national. New mechanisms are therefore required to ensure that this imbalance is minimised, and local economic benefits are leveraged wherever possible through the new SCP process.

Appropriate weighting should be given in the new proposals to the use of small contractors. Including these smaller companies in the supply chain often adds as much if not more value for local economies in terms of skills, innovation and productivity benefits.

The SCP process could also increase local benefits by encouraging greater collaboration between individual developers and operators working on projects within the same local area. The SCP's in a region like East Anglia (which currently hosts a wide range of major energy projects) should reflect this. Transformational benefits could be achieved by all applicants working to a common goal. SCP's are currently binary relationships between government and the applicant, much more value could be achieved by securing the positive cumulative effects of having many developments, in close proximity. The Council suggests that BEIS should facilitate, applicant collaboration ensuring the coordination of overlapping Supply Chain Plans.

The timing after Final Investment Decision (FID) is crucial for regions to maximise the opportunity for local supply chains to be involved in any project. Time is needed to support local businesses to be ready to meet the needs of Tier 1 contractors. Hinkley Point C has already shown us that with the right support, Joint Ventures (JV) for Tier 2 and below is a successful way for local companies to engage with applicants and their projects. The Council would encourage a strategic approach to supporting JV's through collation of SCP's regionally to truly assess demand and opportunities. Central oversight of applicant's procurement procedures, and a best practice guide, will enable Small & Medium Enterprises (SME's) to be Pre-Qualification Questionnaire (PQQ) ready.

This PQQ is a time consuming and expensive procedure for an SME to undertake, and if they are only considering a single project it will be a significant barrier to participation. A best practice model could be developed with clustered applicants, that ensures SME's are 80% ready thus decreasing time and effort so reducing barriers to entry.

Greater local benefit could also be achieved by supporting collaborative supply chain and skills growth clustering. For example, where there is an established or emerging cluster. This could be particularly helpful to deal with the proposed lower thresholds for AR4. Applicants looking to enter an AR could submit an SCP under a common framework, thereby supporting a multi-project approach and integrating the SCPs. This would support the ambition of the Offshore Wind Sector Deal to maximise the established benefits of cluster identification and support.

Improving Compliance & Local Monitoring

The Council supports the government's proposals to strengthen compliance with SCPs and would advocate greater local involvement in the compliance process.

Whilst the Planning Act process supports local communities faced with infrastructure developments, it is very difficult for Local Authorities to argue that from a socio-economic perspective (not including tourism), that most projects will have a significant negative impact. In the absence of significant negative impacts Local Authorities rely on a positive working relationship with the developer to deliver economic and skills benefits. Therefore, it is imperative that the CfD process holds an applicant accountable for achieving the required outcomes.

As SCPs are prepared well in advance of project delivery, requiring developers to provide an updated SCP after FID would ensure that it reflects the local and regional economic conditions the applicant will be constructing and operating in when the project commences.

This would enable the applicant to maximise local and regional benefit whilst also ensuring that commitments made in the SCP are owned by the Tier 1 contractors who will be delivering the project on behalf of the applicant.

We would still advocate early submission of a SCP for an applicant intending to take part in any CfD Allocation Round (AR) to allow early identification of elements not currently sourced from the UK. In a region such as East Anglia, that is hosting multiple projects, this will support sharing of knowledge across different sectors and opportunities for inward investment or supply chain growth that companies can then seek to convert to new business.

The subsequent update to the SCP, after FID and as part of the procurement process, would also recognise the role of Tier 1's in delivering local content that maximises local and regional economic benefits for communities through the applicants contracting processes. .

The applicant must be held properly accountable throughout the whole of the process that the SCP covers. The current process could be strengthened by involving local partners to validate projected impacts and support implementation. A Post Build Report (PBR) taking into account the points raised earlier, that an applicant is always working from a best intent imperfect model is also too late in the process to make fundamental changes to a SCP. Working with local stakeholders on a three-month monitoring schedule would allow for identification of any issues and help manage change to objectives and commitments in the SCP.

The Council considers that non-compliance should be linked to the withholding of CfD payments and should weigh against the applicant if they wish to be considered for any subsequent Allocation Round. Government should also consider termination of a contract after a significant period of non-compliance.