Consultation on further reforms to the Contracts for Difference scheme for AR7
Marine Energy Council response

Introduction

The Marine Energy Council (MEC) welcomes the opportunity to respond to the consultation into Allocation Round 7 (AR7) reform.

The MEC is the voice of the UK's tidal stream energy and wave energy industries. Established in 2018, the MEC's membership spans technology and project developers, key sites, manufacturers, academia, investors, and small and medium sized enterprises working in the supply chain. Our vision is for the marine energy sector to support a secure, cost-effective, and fair transition to net zero, enabling investment, exporting British innovation, and creating employment opportunities across the UK.

We strongly support the Government's ambition to make the UK a Clean Energy Superpower and to deliver green economic growth. Marine energy can make a strong contribution to both ambitions, with projects currently in our seas with over 80% UK supply chain content spend. As the Contracts for Difference mechanism is the Government's primary means of securing renewable deployment, it is critical that changes enable the UK to realise its marine energy potential. The CfD should enable UK content to be embed in marine energy projects deployed here and around the world. [1]

A recent report into the economic benefit of marine energy to Scotland alone, found that marine energy could add £37bn to Scotland's economy by 2050, with £28bn of this coming from exports. The global marine energy market could support 62,000 jobs in Scotland. The benefit across the UK will be greater.[2]

In addition to the economic benefit, the technology will provide key service to the UK's energy system:

- **Tidal stream** is entirely predictable and could provide up to 11%[3] of the UK's current electricity demand. This predictability can help reduce supply/demand mismatch in the energy system and reduce dependence on fossil fuels and imports. TSE can be deployed rapidly, with the potential construction time of a consented site being less than three years.
- **Wave energy** is the world's largest untapped renewable energy resource, with 29,500TWh of potential. This is equivalent to 10x Europe's annual electricity consumption. Wave energy could provide over 20%[4] of the UK's current electricity demand. In addition, its harmonious relationship with wind means it can be co-located at offshore sites supporting a more cost-effective and efficient energy system. [5]

Tidal stream has benefited from a ringfence in the last three allocation rounds, and over 130MW is due to be deployed by 2028. Wave energy has not had a ringfence and there is no contracted capacity due to be deployed. Changes in AR7 provides an opportunity to build on the positive progress being made in tidal stream and provide a route to market for wave energy.

[1] University of Edinburgh (2021), What is the value of innovative offshore renewable energy deployment to the UK economy?
[2] University of Edinburgh (2025) *Future Economic Potential of Tidal Stream and Wave Energy in Scotland. Available online.*
[3] Coles et al (2021) *'A review of the UK and British Channel Islands practical tidal stream energy resource'*. Available online.
[4] Jin et al (2021) '*Wave energy in the UK: Status review and future perspectives'.* Available online.
[5] In this response 'marine energy' refers to tidal stream and wave energy.

UK MARINE ENERGY COUNCIL

Executive Summary

Further clarity is required on the change from budgets to capacity ambitions being announced prior to AR7, and the risk of ringfences

- The decision to not set clear ringfences in advance of the bid process could be damaging for investor confidence, unless DESNZ is clear that 'ambitions' represent a hard target or will function in a similar way to ringfences in previous rounds.
- We would welcome capacity ambitions being set for all renewable technologies that qualify for AR7.

The Government should consider setting capacity ambitions for multiple rounds.

- Setting capacity ambitions for multiple rounds could help address the current lack of certainty around marine renewables having a consistent route to market, and boost investor confidence.

The Secretary of State should be empowered to receive Pot 2 bid stack information.

- The MEC supports DESNZ's efforts to maximise the allocation round for offshore wind and believes this should be applied to all renewable technologies.

The MEC supports increasing CfD contract lengths to 20 years.

- Increasing contract length for all technologies could reduce the cost of capital and provides the opportunity to better align CfDs with debt repayments
- If the Government does change CfD contract length it should do so for all technologies. Whilst it has a different generation profile, complimentary with other renewables, the need for greater price risk protection will support the development of the UK's marine energy industry.
- The MEC welcomes that the Government does not see a case for reducing the Administrative Strike Price for floating offshore wind from AR6 to AR7. To provide certainty to the marine energy sector the Government should commit to retaining the AR6 ASP for tidal stream for AR7. In addition, the Government should increase the wave energy ASP aligned with the increases for other renewable technologies prior to AR6.

The relaxation of eligibility requirements provides an opportunity to expediate renewable deployment and should be extended to tidal stream and wave energy projects.

- The relaxation of eligibility requirements could better encourage the development of non-pre consented sites and help finance an increased number of projects.
- If applied to marine energy this change could enable the Government to be more ambitious in terms of the capacity ambitions it sets, which in turn could support getting projects deployed quicker, and expediating the journey down the cost reduction curve.
- If the relaxation of eligibility requirements is not applied to marine renewables, the Government should consider addressing regulatory decision length and ensure decisions are taken in a timely manner.

The Government should consider providing test and demonstration opportunities for technologies beyond floating wind in future allocation rounds.

- The Government is right to acknowledge the importance of test and demonstration (T&D) projects in building a renewable industry and should take action to support T&D projects in other emerging renewable technologies.
- Looking beyond AR7, we believe the current competitive auction environment and short-term CfD cycles create substantial barriers for emerging technologies on their journey toward price discovery, industrialisation, and cost reduction. MEC recommends a review of Pot 2 to ensure it adequately supports emerging technologies.

MEC response to questions

1. **Are there any further measures you believe are necessary to facilitate the Government's intention to support multiple Test & Demonstration scale floating offshore wind projects in AR7, whilst considering potential impacts on auction dynamics? If so, what and why?**

The MEC supports the Government recognising the importance of test and demonstration projects and looks forward to understanding how these will be facilitated in AR7 and via the CfD mechanism. Whilst we understand that for the next round this will be limited to floating offshore wind, it is our hope that if the model proves to be effective that this could be rolled out to other technologies. Confirmation that this is a possibility would be welcomed.

The Government is right to consider setting project sizes as a good metric as to whether a project is at T&D or commercial scale. There should be greater clarity on the limitations beyond project size for technologies seeking to bid at the T&D level.

The Government should consider whether the CfD is the right mechanism for T&D scale projects. We will expand on this point throughout our response, but there should be a recognition that just because the CfD has been tremendously successful in delivering mature renewable technology deployment, does not mean it will be the most effective at growing a UK industry, onshoring jobs and enabling emerging technologies to support the UK's ambition to be a clean energy superpower. Wind and solar had already reached the point of commercialisation when the CfD was introduced. The Government should demonstrate flexibility and consider other mechanisms that might be at its disposal to support T&D projects.

Emerging technologies face unique barriers such as higher capital costs, limited operational experience, and the need for extensive supply chain investment to scale. Given these factors, tailored support and adaptations to the CfD system are essential to ensure that emerging technologies can mature, attract investment, and make a meaningful contribution to the UK's renewable energy goals.

2. **Do you support the general proposal to relax eligibility requirements to enable projects to apply for a CfD while awaiting their planning consent? Yes, No, Unsure? Please provide any further comments to support your answer.**

Yes, the MEC supports the relaxation of eligibility requirements that allows projects to apply for a CfD prior to securing planning consent. The current arrangements, and particularly the lack of certainty in terms of ringfenced support for marine energy, poses a significant barrier to investment. This proposed approach, if applied to marine energy technology, could significantly reduce the time it takes to create eligible capacity and project deployment.

The relaxation of eligibility requirements could better encourage the development of non-pre consented sites and help finance an increased number of projects.

The Government is right to note that the relaxation of eligibility requirements could raise the risk of non-delivery and harm the development of the UK's renewable sectors. The Government could explore the introduction of other metrics, which are less time consuming than planning, to ensure that bids being entered have a strong chance of being delivered.

The relaxation of eligibility requirements would shift development risk. If a project secures a CfD and then fails to get planning consent the capacity awarded should be reallocated or added to the following

allocation round. There should also be strict rules in terms of non-delivery to ensure that only projects with a high chance of securing planning consent bid into the CfD mechanism.

Planning decisions should be taken in a timely manner, and the bodies responsible for these given the necessary capacity to process submissions. The Government should consider introducing measures to avoid deadlines not being met that can hamper project development.

3. **The proposal outlines two options for the Consent Eligibility Date. Which option do you prefer? Eligibility proposal A, Eligibility proposal B, No preference? Please provide any further comments to support your answer.**

No preference. If accounting for marine energy in the future it would be preferable if the industry was provided with sufficient notice and confirmation that the rules had changed. Therefore 'Eligibility proposal B' would be more appropriate.

4. **Are newly eligible (unconsented) projects likely to take advantage of the proposed relaxation of eligibility requirements? Yes, No, Unsure? Please provide any further comments to support your answer.**

Yes, it is expected that projects that are unconsented, but eligible under these new rules, would take advantage and bid in to the CfD mechanism sooner than they would have previously been able to.

This also has the added benefit for emerging technologies to increase ringfenced support, or capacity ambition, in recognition of the greater number of eligible projects that could be delivered. This in turn could support getting projects deployed quicker, and expediating the journey down the cost reduction curve.

In addition to relaxing eligibility requirements, the Government should explore providing support for research and pre-consenting of marine sites where we know there is a good resource. Monitoring on a project-by-project basis on the interaction with fish, seals and dolphins is a significant barrier, which could be addressed via a programme which undertook broader monitoring exercises.

5. **Is this change likely to reduce development timelines for newly eligible projects (either now, or in future once the change can be adjusted to)? Yes, No, Unsure? Please provide any further evidence to support your answer.**

Yes. If applied to marine energy this could reduce development timelines by a year, and potentially up to two years.

The current eligibility requirements are holding back marine energy projects. For example, in Scotland the consenting process can take, at a minimum, 4 years, and often longer.

Relatively small-scale marine energy projects are required to go through the same consenting process as multi-GW offshore wind farms and face greater hurdles than onshore projects where a Section 36 consent is required for projects over 50MW (offshore requires a Section 36 consent for projects over 1MW). These issues are exacerbated by consenting agencies not having the capacity to respond in a timely manner to applications.

If projects that had started the Section 36 consent process could bid into the CfD this could quicken renewable deployment by allowing hurdles to be addressed concurrently.

6. **Are there any challenges or barriers a developer would face in preparing a bid for a newly eligible (unconsented) project compared to a consented project? Yes, No, Unsure? Please provide any further evidence to support your answer.**

The challenges will broadly remain the same. Regulatory decisions not taken in a timely manner poses a significant challenge to developers, and particularly for those working in the emerging renewable technology space. Developing and deploying a marine energy project is a costly and time-consuming process. The MEC welcomes that the Government is considering removing barriers to address the latter. For the former developers will need to justify a significant cash commitment, prior to knowing if a project will have support and a route to market. A project may not be able to commit to cash investment until planning consent has been gained. This ongoing uncertainty is damaging for technologies that are at the point of development that tidal stream and wave energy are currently.

Whilst emerging wind and solar energy benefited from a clearer route to market which created the key conditions for development. The CfD should where possible seek to emulate these conditions for renewables that do not have significant deployment before starting the cost-discovery and competitive process.

7. **Would the proposed changes have a positive, negative or neutral impact on supply chains? Positive impact, Neutral/No impact, Negative impact? Please provide any further evidence to support your answer.**

Eligibility requirements should be relaxed to enable increased ambition, and to grow the UK's marine energy deployment pipeline.

If eligibility requirements are relaxed in tandem with an increase in deployment ambition for marine energy this could have a positive effect in increasing supply chain demand.

If eligibility requirements are relaxed but deployment ambition and ringfenced support for tidal stream and wave energy are not increased this could have a negative effect. This is due to projects that have been awarded a CfD have additional barriers to address prior to placing orders.

8. **Do you agree that the Non-Delivery Disincentive should apply to unconsented projects that fail to return a signed CfD contract by the statutory deadline? Yes, No, Unsure? Please provide any further evidence to support your answer.**

Yes, the Non-Delivery Disincentive should apply to all projects that secure a CfD with adjusted timescales for successful unconsented projects.

9. **Do you agree that certain contractual obligations and milestones should be deferred or some flexibility permitted for unconsented projects until a planning decision is issued? Yes, No, Unsure? Please provide any further evidence to support your answer.**

Yes, the time expected for planning approval should be considered in terms of contractual obligations and milestones. A project should not be unfairly punished if there is a delay to approval if the project developer is not responsible for said delay.

A project that secures a CfD but has not yet had planning consent could be prioritised by the regulator, and there be clear repercussions if decisions are not taken in a timely manner.

10. **Do you support the following flexibilities in the CfD contract to accommodate unconsented projects?:**
    a. **Deferment of the Milestone Delivery Date until a planning condition is issued. Yes, No, Unsure?**

Yes. Assuming this question means planning consent (by condition) there needs to be flexibility in terms of Milestone Delivery Dates. DESNZ should provide clarity on how these will work with unconsented projects, and what flexibility LCCC will have to accommodate these.

    b. **Ability to leave contract early without penalty if planning consent is delayed beyond a certain date. Yes, No, Unsure?**

The expectation should be that projects should not be able to leave a contract due to a planning consent being delayed. However, there needs to be clear expectations on the consent bodies for a timely response. One measure the Government could consider is encouraging planning bodies to expediate the process for projects that had secured a CfD.

    c. **Provision to allow unconsented generators to adjust their contracts to accommodate planning conditions imposed on their projects following consent approval. Yes, No, Unsure?**

Yes.

11. **Are there any other contractual obligations and milestones that you think should be deferred or granted flexibility not mentioned above? Please provide further details to support your answer.**

There could be additional flexibility introduced in regard to grid connection, particularly if a project is unfairly delayed due to issues around network constraint.

To foster a more stable and sustainable market for emerging technologies such as tidal stream energy, the UK government could explore bilaterally allocated CfDs for Pot 2 technologies, similar to the existing arrangements for the nuclear sector. This framework would provide guaranteed minimum prices and capacity commitments, helping to facilitate a path toward price discovery as further capacity in these technologies builds out.

A potential approach would involve the government contracting approximately 1GW of tidal stream energy at a set price, to be delivered by around 2035, but with a commitment to be made by 2030. Such an arrangement would provide critical market assurance to the supply chain, project developers, and equity investors, thereby minimising risks associated with financial investment decisions in this early stage of development.

Key features of such a system could include:

Commitment to Capacity and Pricing:

- The government would establish a fixed capacity commitment at a predetermined price, offering a stable, long-term financial environment for developers.

Long-Term Delivery Timeline:

- The capacity could be made available for up to 10 years to ensure developers have sufficient time for project development and construction. This would allow for long-term planning while ensuring projects are committed by 2030 with delivery expected by 2035.

Milestone and Recycling Mechanism:

- Capacity would be allocated on a first-come, first-served basis, linked to the Financial Investment Decision (FID), meaning projects must reach FID before being awarded a CfD. If projects fail to progress within an agreed timeframe, the allocated capacity could be recycled back into the pot for reassignment, ensuring that projects maintain momentum and avoid speculative or stagnant bids.

Utilisation of Comprehensive Spending Review:

- Funding for these emerging sectors could be accommodated within the existing Comprehensive Spending Review (CSR), helping to enhance financial stability and predictability. This would prevent the need for a new or separate budget and ensure that the government's spending commitments remain in alignment with long-term policy objectives.

This approach would provide price certainty and a stable investment environment for emerging technologies such as tidal stream energy. These sectors typically face higher levels of financial risk due to uncertainties in both technology performance and market conditions. By mitigating the risks associated with volatile auction pricing, this model enhances investor confidence, attracts the necessary capital for project development, and accelerates the commercialisation of new technologies.

12. Is it important to receive a monetary budget in advance of the sealed bid window? Yes, No, or Unsure. Please provide your view on whether it is important to receive a monetary budget in advance of the sealed bid window.

Yes this is important. The DESNZ briefing session held on 12th March made clear that ringfences will only be announced prior to the sealed bid window if monetary budgets are announced. DESNZ should consider setting indicative budgets **and** capacity ambitions.

For emerging technologies like tidal stream and wave energy what is important is understanding the ringfenced support the Government is making available. If a ringfenced amount is replaced by a capacity ambition, it is important that the Government makes clear whether this is a 'hard' or 'soft' ambition.

By hard ambition we mean the Government setting a capacity and concluding the bidding within that technology when that ambition has at least been met.

By soft ambition we mean the Government setting a capacity and not contracting that amount. This would have a negative impact on investor confidence unless there were unexpected circumstances (for example if there were not a sufficient number of bids that took technology to that amount).

A budget provides a signal of intent to investors and companies working in the marine energy supply chain, that historically has been helpful in communicating the UK's support for specific sectors.

13. Would replacing a monetary budget with a capacity ambition impact participation in the allocation round? Yes, No, or Unsure Please provide your view on whether replacing a monetary budget with a capacity ambition would impact participation in the allocation round.

It is currently not clear what impact a capacity ambition will have on participation in the allocation round as there is insufficient information about how the ambition will work. For example, if the

Government commits to procuring 50MW of tidal stream capacity and makes clear that is the amount that will be contracted, it could incentivise bids.

The primary challenge for tidal stream is that, while the UK has demonstrated international leadership in setting a ringfence, the size has not been sufficiently large to contract capacity at a level that supports high levels of UK content being retained. Committing to a larger ringfence would, the MEC believes, be a useful intervention. We have advocated for this to be set at £30m for Allocation Round 7.

If the Government does not announce a ringfence in advance it should set an ambitious capacity ambition and be unambiguous that provided LCCC receives bids underneath the Administrative Strike Price that all capacity shall be procured until that ambition is contracted.

Wave energy can bid into Pot 2, but in the absence of a ringfence it cannot currently compete with other technologies and does not have a realistic route to market in the UK. However, wave energy has enormous potential to make the UK a Clean Energy Superpower, adding £19bn GVA to the economy via exports,[6] reduce system cost by over £1bn p/a, [7] whilst potentially meeting 20% of the UK's electricity demand.[8]

The United States recently announced it will invest $112m over the next five years to advance the commercial readiness of wave energy, China recently deployed its first full scale wave energy converter in Guangdong, and in Europe Portugal and Spain both have ambitions targets to deploy 70MW and 60MW by 2030 respectively.

The introduction of a capacity ambition for wave energy would be a positive step forward in providing a route to market and ensure the UK is not left behind and encourage participation from the sector.

The introduction of a capacity ambition may add additional uncertainty which is detrimental for emerging technologies. In the absence of a clear target and strategy for delivery, the industry is currently expected to invest to develop eligible capacity, to bid into an auction in which it only finds out months beforehand whether there will be a route to market, and the size of the funding on offer.

The Government should consider setting a capacity ambition for in advance of and covering multiple Allocation Rounds. For example, setting a target to contract 400MW of tidal stream capacity in the next four auction rounds. This ambition will send a clear signal to investors about the opportunity tidal stream presents.

Setting the ambitions four year in advance would provide sufficient time to create more eligible capacity and incentivise investment in UK infrastructure and supply chains.

The previous three allocation rounds, the CfD mechanism has procured 40MW, 55MW and 28MW of tidal stream capacity respectively. The MEC strongly believes to realise the full potential to the UK economy this needs to be ramped up. Through our previous engagement we understand that setting budgets and ringfences in advance is not possible with how the CfD mechanism is managed. However, there is no reason that the MEC is aware of that would prevent DESNZ setting capacity ambitions in advance, which would provide significant benefit to the emerging renewable industry.

14. Would publishing a budget notice after the sealed bid window have a negative impact on:

[6] University of Edinburgh (2022) *What is the value of innovative offshore renewable energy deployment to the UK economy?*
[7] University of Edinburgh (2023) *What are the UK power system benefits from deployments of wave and tidal stream generation?*
[8] EVOLVE (2023) *A review of practical deployment locations for European ocean energy projects.*

a. **Competition and bidding behaviour: Yes, No, Unsure.**

Yes. A lack of clarity on ringfenced support for emerging technologies adds increases uncertainty and reduces the likelihood of securing investment to create eligible capacity in the future. Clarity on capacity ambitions and how these work in practice could help address these concerns, for example making clear these are 'hard' ambitions, and setting these across multiple allocation rounds.

b. **Boards / developer decision making timelines / processes and whether this could impose any unintended consequences / additional costs on developers: Yes, No, Unsure.**

Yes. As noted, there is an opportunity to set longer term ambitions which could support developers create eligible capacity to support delivery. However, as proposed publish a budget notice after the sealed bid window adds ambiguity for technologies that already face a great deal of uncertainty.

c. **Non-delivery/withdrawal from auction: Yes, No, Unsure. Please provide further evidence on this/these impacts.**

Unsure.

15. **Are you in favour of the auction process being run for parts of the allocation round, whilst other parts proceed with an appeals process? Yes, No, Unsure. Please provide further evidence in support of your views.**

Unsure. The MEC welcomes DESNZ's appetite to speed up the renewable contracting process. Provided each Pot is run at the same time this should not cause an issue, and that there is clarity that capacity ambitions will be delivered if there are sufficient bids. The amount of capacity contracted in Pots 1 and 3 should not have an impact on what is contracted in Pot 2. The Government should clearly set out this out as part of AR7.

16. **Are you in favour of the Secretary of State having the power to see anonymised bid stack information. Yes, No, Unsure. Please provide further evidence in support of your views.**

Yes. The MEC supports the Secretary of State being able to see anonymised bid stack information to help avoid a situation where good projects miss out on contracts. These new powers should help maximise each Allocation Round's contracted capacity, whilst ensuring value for money for UK households.

These changes should not necessarily preclude the setting of indicative budgets, which will be helpful in providing clarity to the sector.

17. **Would the Secretary of State seeing anonymised OFW bid information have a negative impact on:**
    a. **Bidder behaviour: Yes, No, Unsure.**

No. We do not believe this would have an impact on bid behaviour.

b. **Investor confidence in the CfD scheme: Yes, No, Unsure.**

No. Provided clarity is given on the implications of capacity ambitions we believe this could have a positive impact on investor confidence in the CfD scheme.

c. **Consumers: Yes, No, Unsure. Please provide further evidence in support of your views.**

No. DESNZ rightly notes that renewable deployment helps shield consumers from global fluctuations in fossil fuel cost. Maximising the amount of contracted renewable capacity in each round is therefore beneficial to the consumer.

18. **Do you believe this proposal could increase the likelihood of a preferable outcome for both industry and consumers? Yes, No, Unsure. Please provide further evidence on why this proposal may increase the likelihood of a preferable outcome for both industry and consumers.**

Unsure. Provided the assumption is towards maximising the amount of renewable capacity contracted this change should be a positive one for both industry and consumer.

For industry, it will increase the deployment pipeline creating investment opportunities in UK supply chain, skills and communities.

For consumers, securing a diverse renewable energy mix will support energy security, and lower the UK's dependence on fluctuating international fossil fuel markets, and could therefore support lower bills.

We believe this new approach, if applied to marine energy, could also support the UK's ambition to be a Clean Energy Superpower, by improving the renewable investment climate. This will create jobs in coastal communities and in supply chains across the UK.

Setting the budget after a review of sealed bids could reduce the risk of budget underspend in Pot 2, will lead to a more efficient allocation process that benefits both industry and consumers. In AR6, a budget underspend of approximately £251m was observed. Had the budget been set based on sealed bid data, this shortfall might have been avoided, allowing for the procurement of at least one additional high-quality project.

By ensuring that budgets more accurately reflect market conditions, the capacity ambition/auction schedule approach can accelerate the deployment of new capacity. This is crucial for achieving the Government's Clean Power 2030 targets

A recent report has shown that marine energy could add £37bn GVA to Scotland's economy by 2050, with £28bn of this coming from exports. If Scotland leads marine energy could create 62,400 Scottish jobs. For context there are currently around 20,000 people employed by the wind industry. Around half of these jobs will be from device construction. 15,000 of these jobs will be high-value jobs located in coastal communities.[9]

19. **Do you believe any further assurances, other than those in the Contract Allocation Framework, are required? Yes, No, Unsure. Please list any further assurances which would be required.**

No answer provided.

20. **Do you agree with the rationale to only apply the new bid stack approach to fixed-bottom offshore wind, for now: Yes, No, Unsure [If 20 = "No" or "Unsure"] Please select which other technologies you think the new bid stack approach should apply to: Solar PV, Onshore Wind, Tidal, Geothermal, Wave, Floating Offshore Wind, Unsure. Please provide any further comment on your view on the rationale to only apply the new bid stack approach to fixed-bottom offshore wind, for now.**

[9] University of Edinburgh (2025) *Future Economic Potential of Tidal Stream and Wave Energy in Scotland. Available online.*

No.

The MEC strongly believes that the SoS should access the bid stack information for tidal stream and wave energy in addition to fixed offshore wind.

In Allocation Round 6, £2.5m of the ringfenced amount for tidal stream was not secured. One of the issues with the way the CfD is currently managed is that the project that takes tidal stream over the ringfenced support, will only be successful if it can increase the cost of the rest of the technologies in Pot 2, without going over budget.

This could be addressed by setting auction parameters that means that technology types within Pot 2 do not increase the cost of over competing technologies, to concentrate competition within technology types. The other approach that could be considered is to allow the Secretary of State to be informed of the final project that exceeds the tidal stream budget to take a strategic decisions as to whether this should be supported.

The MEC strongly supports the logic presented in the consultation as to why the Secretary of State should have access to more information when making decisions on budget for bottom offshore wind. The logic applies to emerging technologies. The consultation notes the difficulty of presenting anonymised data for emerging technologies, but this is not accurate. There may be multiple bids of varying sizes from different sites, and it would be simple to present this information in a way that the Secretary of State can make informed, yet state-aid compliant.

21. Do you agree with the rationale for flexible bids being closed for OFW projects? Yes, No, Unsure. Please provide further evidence on your view on flexible bids being closed for OFW projects.

No response provided.

22. Do you expect that new renewable electricity projects operating on a 15-year CfD will be exposed to greater market price risk than was originally conceived in the EMR (2013)? Yes or No? Please explain why, providing evidence where possible.

Yes, projects operating on a 15-year CfD will be exposed to greater market price risk than originally conceived in the EMR (2013).

The evolving energy landscape presents increasing risks for renewable generators, particularly for emerging technologies like tidal stream energy. Several key factors contribute to this:

- **Merchant Risk Beyond the 15-Year CfD**
  Tidal stream projects have long asset lifetimes, often exceeding 30 years, meaning the CfD only covers half or less of the project's operational life. This exposes projects to significant merchant risk in the post-CfD period, which was not a major concern when the EMR was first designed. Investors require greater certainty beyond the CfD term, especially for innovative technologies like tidal stream energy.

- **Inflation of Strike Prices in AR7 and Beyond**
  Without longer-term revenue certainty, investors will price in these risks, leading to higher strike prices for tidal stream energy in upcoming CfD rounds. Studies by Frontier Economics

and LCP Delta suggest that these risks could increase clearing prices by as much as 50% across renewable technologies.

Recommendations for Mitigating Market Price Risk for Pot 2 technologies:

1. **Extend CfD Contract Length**
   Given the long lifespan of tidal projects, extending CfD contract lengths to 2o years would better align with asset lifecycles and de-risk investment.
2. **Introduce Floor Pricing or Merchant Risk Mitigation Mechanisms**
   A price floor mechanism post-CfD could protect against excessive merchant exposure and enhance long-term investor confidence.
3. **Ensure marine energy benefits from future market reforms**
   Any changes to the CfD framework (such as bid stack visibility or alternative pricing mechanisms) should be applied equally to tidal stream energy, ensuring it receives fair treatment compared to other emerging renewables.

Tidal stream energy is a strategically important technology that offers predictable, high-value renewable generation with strong UK supply chain benefits. However, the 15-year CfD structure no longer provides sufficient certainty given market risks that were not foreseen in 2013. Without reforms, these risks could hinder investment and increase strike prices, delaying the UK's ability to scale up tidal energy. Therefore, extending CfD contract lengths and introducing post-CfD revenue support would be critical to ensuring tidal stream energy can reach its full potential in the UK's net-zero transition.

23. In your view, do you have concerns about the economic viability of CfD assets once they have reached the end of their CfD term? Yes or No? Please explain why, providing evidence where possible.

Yes.

For emerging technologies that provide broader benefits that are not captured in the Levelised Cost of Energy, including green jobs, supporting supply chains and energy system security, the 15-year cliff edge does pose a challenge to investment.

Increasing the CfD contract length should apply to all CfD-eligible projects.

The MEC is keen to understand how the Government proposes to support emerging technologies that are coming to the end of CfD contracts re-bid in a manner that supports increased and existing deployment.

24. If yes to 22 and/or 23, where possible, please provide evidence quantifying the impact you believe this may have on CfD strike price bids (% and/or £/MWh).

It is currently unclear what impact this would have on CfD strike bids for marine energy.

25. Do you agree that increasing the contract term will reduce cost of capital? Yes or No? If yes, please state the breakdown of impacts on i) cost of debt, ii) cost of equity, and iii) gearing. If no, please explain why, providing evidence where possible.

Yes, increasing the length of contract could reduce the cost of capital and support renewable projects aligning with debt repayment periods. As a contract length is extended it provides greater certainty around the price projects will receive. This should in turn reduce the cost of debt and equity.

Extending the CfD term may not materially impact the required strike price. What it does provide however is a greater runway for equity distributions which will be viewed by project investors and lenders as providing material contingency if things don't go as well as planned within the first 15 years.

Debt terms are driven by strength of cashflows, cover ratios and risk. In addition, lenders want debt to be repaid as quickly as possible for emerging technologies, so even if we do see an increase in contract term, it may not automatically assume an increased debt tenor.

On this basis, it's not yet fully clear if longer contracts will significantly change the cost of capital upfront, or the strike prices, but they will have a substantial influence on the risk profile investors are faced with when considering making the decisions get projects constructed. Therefore, we see the application of longer contracts for tidal as being highly beneficial in getting more capacity constructed, and quicker.

Tidal stream energy is a capital-intensive technology with long asset lifespans (30+ years). Extending CfD contract lengths beyond 15 years would significantly de-risk investment, ~~leading to a~~and will in time lower cost of capital and ultimately reduc~~ing~~e the strike price needed to finance projects quicker.

Breakdown of Impacts on Cost of Capital

1. **Cost of Debt**
    - Longer CfD terms provide a longer period of revenue certainty, reducing lender risk.
    - Banks and institutional lenders may but are not guaranteed to offer lower interest rates on project finance due to reduced exposure to post-CfD market risks.
    - Impact: Lower loan interest rates could be achieved over time, increasing debt affordability as the market grows.
2. **Cost of Equity**
    - Investors require higher returns for riskier projects, particularly when post-CfD revenue is uncertain.
    - Extending the CfD reduces post-CfD merchant risk, making projects more attractive to infrastructure and pension funds, which have lower required returns than venture capital or private equity.
    - Impact: Reduced expected returns for equity investors could be achieved over time, lowering overall WACC for future projects.
3. **Gearing (Higher Debt Ratio Possible)**
    - With a longer CfD, projects become more bankable, allowing a higher proportion of debt financing compared to equity.
    - Higher gearing means projects can rely more on low-cost debt rather than expensive equity capital.
    - Impact: Higher gearing if achieved, reduce overall financing costs.

Extending CfD terms for tidal stream energy is a cost-effective mechanism to accelerate reduction of capital costs over time, resulting in lower strike prices, and accelerate deployment. Without this, projects will continue to factor in high-risk premiums, delaying the UK's ability to capitalise on predictable, high-UK-content tidal energy.

26. If yes to 25, where possible, please provide evidence to quantify the impact you believe this may have on CfD strike price bids (% and/or £/MWh) via i) reduced cost of capital, ii) increased subsidy period, and iii) details of discount rates applied.

It is currently unclear what impact this change will have on strike prices.

27. To what extent would a potential reduction in strike price from longer contracts be limited if there was insufficient competition in auctions? Please provide evidence where possible, specifically, detail on the justification for your assessment of the extent would be appreciated.

The MEC understands that for AR7 there will only be a single contract length available. Therefore, as companies do not know what competitors will be bidding in, the competitive conditions would remain consistent whether 15- or 20-year contracts were offered.

For future rounds, the ability to bid for different contract lengths provides an opportunity for the Government to assess energy system need and contract the desired mix into the 2040s. However, until the additional parameters are made clear potential impacts are difficult to understand. The Government should consult on proposed changes and give industry sufficient time to analyse proposed changes for allocation rounds beyond AR7.

28. Are there any further changes to auction rules or design that the Government could make to increase the likelihood that project cost savings feed through to strike price bids, and so billpayers, and/or offset the limitations from insufficient competition?

Providing advanced sight of ambitions or ringfenced support will help develop marine energy sites, create more competition and ultimately drive tidal stream and wave energy down the cost reduction curve.

For the UK to cement and establish a strong domestic supply chain, DESNZ should seek to reduce investment risk for marine energy projects. A predictable and scalable deployment pathway will allow manufacturers to invest in automation, economies of scale, and efficiency improvements, driving down costs while delivering high UK content and energy security.

29. Do you agree that increasing contract term for CfD assets would increase wholesale electricity price cannibalisation? Yes or No? Please explain why, providing evidence where possible.

Extending the contract term for CfD assets does not inherently increase wholesale electricity price cannibalisation. Price cannibalisation occurs when a high proportion of low marginal cost renewables generate at the same time, pushing wholesale prices down during periods of high renewable output. The length of the CfD contract does not directly influence when generation occurs but rather how long a project receives price certainty. Tidal stream energy does offer some insulation against this, due to its inherent predictability and green power offering at time of low wind and sun.

Wave energy, which is high complimentary with offshore wind, could support offshore sites maximising infrastructure. Companies like Wave Piston and Orsted are exploring the potential for co-location. Co-

locating wave and wind energy will deliver a saving of up to 12% in the Levelised Cost of Energy for wind, and up to 40% for wave energy.[10] Co-location is currently not supported by the CfD mechanism.

30. If yes to 29, do you consider that this could materially impact security of supply? Yes or No? Please explain why, providing evidence where possible.

No answer provided.

31. Do you consider that increasing the contract term would materially increase overall investor confidence in the renewable electricity industry? Yes or No? Please explain why, providing evidence where possible.

Yes. As noted above longer contracts provide greater certainty to investors regarding returns for a longer period.

32. Do you consider there are any unintentional consequences that this policy change could create which have not been considered within this consultation? Yes or No? If yes, please provide evidence where possible.

No answer provided.

33. Considering the factors of i) the impact on the wholesale market and security of supply, ii) the impact on CfD strike price bids and billpayers, and iii) overall investor confidence in the renewable electricity industry, in your view, what contract term best balances these factors? Please provide evidence to support your view.

The MEC supports CfD contracts being set at 20 years. This will improve investor confidence both in the mechanism and qualifying technologies and provide clarity for emerging renewables for a longer period in terms of returns.

We are keen to work with Government to create the conditions that support tidal stream and wave energy coming down the cost reduction curve. This proposed increase in contract length will be a helpful intervention but insufficient without other measures to expediate this process.

34. Do you consider that an alternative approach to price indexation (currently CPI) may be required in any additional years of the contract to better balance the risk between generator and consumer? Yes or No? Where possible, please set out which mechanism you believe is most appropriate and why.

No. We believe that the CPI remains the most appropriate mechanism for price indexation. The UK's CPI approach is widely regarded as a gold standard, offering stable and secure investment conditions. While no index perfectly correlates with the cost base of renewable energy projects, the CPI is a well-accepted proxy for general inflation. Its long-term hedging capability enables developers to effectively manage inflation risk, attract low-cost capital, and ultimately lower project costs and strike price bids

35. Do you consider that increasing the contract term from 15 years should apply to all renewable technologies currently supported under the CfD? Yes or No? Please explain why, providing evidence where possible.

Yes.

[10] Offshore Wind Consultants Ltd (2023) Wave and Floating Wind Energy. Available online.

Pot 2 technologies should be included in any change to contract length. The potential benefit of increasing contract length for emerging technologies will be significant. The MEC also supports the option for projects to bid in various contract lengths in future CfD auctions and increased flexibility to encourage greater renewable deployment.

36. **If no to 35, what unintended consequences do you consider there may be for enabling longer contract term for i) OFW only, ii) OFW and ONW only, iii) OFW, ONW and solar only. Please provide evidence where possible.**

One of the unintended consequences of renewables being contracted at different lengths is that it will become more difficult to understand and compare cost.

Tidal stream, via economies of scale, volume and accelerated learning, is on a similar cost reduction curve as wind and solar. The technology is projected to reach £78/MWh by 2035 and could fall below £50MWh. At 1GW of deployment tidal stream will be cheaper than new nuclear.[11]

Demonstrating and communicating the difference in cost may become difficult if other renewables are offered longer contracts.

37. **Do you agree with the Government's proposal to increase the current TCW for Solar PV from 3-months to 6-months with effect from AR7. If not, please tell us why and provide evidence to support your position. If you wish to propose a different length for the solar TCW, please explain your rationale together with evidence. We would particularly welcome evidence on any commercial, technical or supply chain challenges that would prevent larger solar projects commissioning within a 6-month window**

No answer provided.

38. **Do you have any views on any of the impacts explored in the assessment? In particular, we would welcome further evidence on: a. The benefit that could be captured in the near-term (AR7 and AR8) for solar PV projects from extending the TCW, or any risks of the proposal; b. Any alternative design options that you consider might better balance the need for increased flexibility for some solar projects whilst ensuring that developers are still incentivised to build out efficiently.**

No answer provided.

39. **Do you agree with the Government's proposal to apply a temporary restriction on CfD capacity released by generators through the permitted reduction and FIC flexibilities being entered into AR7, and the proposed drafting in the Contract Allocation Framework to achieve this? If not, please tell us why and provide evidence to support your position. We would particularly welcome evidence from any existing CfD generators that may be adversely affected by this proposal.**

No answer provided.

40. **Do you agree with the confirmation and documentary evidence that applicants will have to provide to demonstrate that their applications do not contain any capacity which was previously subject to a CfD awarded in Allocation Rounds 1-6? If not, please tell us why and provide evidence to support your position.**

[11] ORE Catapult, Cost Reduction Pathway of Tidal Stream Energy in the UK and France, October 2022

Yes. This proposal is sensible to avoid previously awarded capacity being bid into AR7.

41. **Do you have any views on any impacts explored in the assessment? In particular, we would welcome further evidence on:**
    a. **The assessment of benefits and risks identified in this assessment, including any additional evidence on the likelihood and significance of benefits and risks identified;**
    b. **Whether there are further benefits or risks to this proposal which are not explored in this assessment**

The MEC agrees that preventing surrendered capacity being rebid into the AR7 could help avoid previously awarded capacity getting a higher strike price and improve certainty on build out for supply chain if the deployment timeline doesn't change.

It is unclear whether the public perception of the CfD mechanism would change a great deal due to this change. Fixing the prices at 2025 levels will likely have a much greater impact on perception than this proposed change.

42. **Do you agree with the proposed changes to the Contract Allocation Framework proposed above? If you disagree, please tell us why and support your answer with evidence.**

No answer provided.

43. **Do you agree with the documentary evidence and eligibility checks proposed above? If you disagree, and/or wish to suggest alternative evidence/checks, please tell us why and support your answer with evidence.**

No answer provided.

44. **Do you agree with the definitions to be added to the Contract Allocation Framework proposed above and in the CfD Agreement and Standard Terms and Conditions published alongside this consultation? If you disagree, please tell us why and support your answer with evidence**

Yes we agree this is appropriate for AR7. It is critical that when appropriate and in future rounds there is a repowering route provided for other CfD technologies.

45. **Do you agree that applicants should be required to demonstrate at the point of application that the existing onshore wind station for which they are seeking CfD support will, or would have but for decommissioning, have reached the end of its operating life by the Target Commissioning Date? If you disagree, and/or wish to suggest an alternative cut-off point, please tell us why and support your answer with evidence.**

Yes.

46. **Do you agree to allowing a more flexible approach to demonstrating that the existing generating station has reached the end of its operating life through fulfilment of an Operational Condition Precedent?**

Yes

47. **Do you agree with the proposed contract changes outlined above and shown as tracked changes in the CfD Agreement and Standard Terms and Conditions published alongside this consultation? If you disagree with any of the proposed changes, or have alternative suggestions, please tell us why and provide evidence to support your position**

No answer provided.

48. Do you agree with the Government's proposed amendments to ensure the separation between the CfD facility and the existing decommissioning plant as outlined above? If not, please tell us why and provide evidence to support your position.

No answer provided.

49. Do you agree with the proposed amendments to the phased CfD contract terms to implement fully the Government's policy to extend phasing to Floating Offshore Wind? If not, please tell us why and provide evidence to support your position.

While this consultation question pertains to floating offshore wind, we provide our response from a marine energy perspective.

We support the Government's approach to extending phasing, as it is a well-established mechanism that allows projects to begin commercial generation earlier while maintaining a realistic construction schedule. This is particularly relevant for emerging technologies like tidal stream energy, where staged deployment can support cost reduction, supply chain development, and investor confidence.

Marine energy projects share key characteristics with floating offshore wind, particularly in their need for flexible deployment strategies to manage construction risks and supply chain constraints. Phasing could provide similar benefits for tidal stream projects, including:

- De-risking deployment by allowing projects to scale up incrementally rather than requiring full capacity installation upfront.
- Facilitating learning curves by enabling developers to optimise technology and installation techniques as projects expand.
- Ensuring earlier revenue generation by allowing a proportion of the project to begin operations before full build-out is completed.

Unlike offshore wind, tidal stream resources are geographically discrete and highly site-specific. Suitable sites are limited, and once identified, they represent valuable long-term energy generation assets. A phasing approach tailored to tidal stream would ensure that these high-quality resources can be developed effectively while managing infrastructure and financial risks.

As tidal stream energy matures and larger projects are planned, we encourage the Government to consider extending phasing to tidal stream within the CfD framework. A tailored approach to phasing would support the scaling-up of the sector, aligning with the UK's leadership ambitions in marine energy and net zero commitments.

50. Please flag any unintended consequence of these changes that Government may need to consider, and let us know if you think any other changes ought to be considered as a result of the establishment of NESO.

The establishment of the National Energy System Operator (NESO) will reshape how the UK's electricity network is managed. Given that marine energy is still an emerging technology with geographically constrained resource locations, NESO's decision-making could have the following unintended effects:

Grid access

- Grid Connection Delays: If NESO prioritises mature technologies like offshore wind in grid planning, marine energy projects may face longer delays in securing connections, slowing deployment and commercialisation.

CfD eligibility

- Risk of One-Size-Fits-All CfD Mechanisms: If CfD eligibility or auction rules evolve based on changes in NESO's market design, tidal stream must remain recognised as a distinct technology. A lack of tailored CfD rules for emerging technologies could result in marine energy projects being unable to compete effectively in auctions.

Supply Chain and Infrastructure Challenges

- NESO's Role in Infrastructure Planning: If NESO's remit extends to broader energy infrastructure planning, marine energy must be factored into long-term strategies, particularly regarding port infrastructure, manufacturing supply chains, and grid integration.
- Potential Bottlenecks in Supply Chains: If NESO's focus remains on large-scale offshore wind, tidal stream supply chains could struggle to secure investment, particularly in specialist manufacturing for subsea components.

The Government should ensure that NESO accounts for marine energy in future energy system modelling, recognising its unique characteristics such as predictability, site specificity, and potential for baseload generation. Additionally, safeguards must be in place to protect CfD mechanisms for emerging technologies, ensuring that NESO's establishment does not create contract structures that hinder projects from accessing support. Finally, marine energy infrastructure needs should be integrated into NESO's long-term plans, including grid expansion, port investment, and supply chain resilience, to support the scaling-up of tidal stream and wave energy and maximise its contribution to the UK's energy transition.

51. Do you agree that the amendment to the conditions relating to CfD payment suspensions is sufficiently clear and fit for purpose? If not, please state your reasons and an alternative proposal.

No answer provided.

52. Please flag any unintended consequence of this change that Government may need to consider.

There are several important considerations for marine energy that the Government should consider:

- **Local Content and Clean Industry Bonus (CIB) Considerations:**

Marine energy projects often do not qualify for the traditional Clean Industry Bonus. The current amendments propose accounting for CIBs within the strike price, effectively discounting the strike price based on the level of local content. This mechanism is intended to quantify and reward the additional domestic benefits, such as local supply chain investment and job creation, but it fails to achieve this for marine energy.

- **Protecting the Additional Value of UK Content:**

The UK can lead the world in developing marine energy supply chains and exporting to global markets. Most tidal technology developers are established, UK-based entities that have historically achieved high levels of UK content (often 80%+ of CAPEX). Their requested strike prices already reflect the high early-stage costs and significant domestic benefits. Without a transparent bonus mechanism, this extra value, both in economic terms (GVA and job creation) and strategic benefits, is not clearly recognised.

- **Implications for Consumers and Industry Stability:**

Linking a bonus directly to the level of local content incentivises early and growing UK supply chain investments and safeguards against supply chain leakage to low-cost centres overseas.

By addressing these points, the Government can ensure that the proposed changes do not inadvertently disadvantage marine energy projects. Instead, they would reward high levels of UK content, fostering early investment, protecting domestic supply chains, and delivering wider economic benefits.

53. Are there exogenous issues not covered elsewhere in this consultation that you are particularly concerned about when it comes to Allocation Round 7?

No answer provided.