



Consultation Response

Further reforms to the

Contracts for Difference

scheme for Allocation

Round 7

March 2025

About us

Since 1978, Solar Energy UK has worked to promote the benefits of solar energy and to make its adoption easy and profitable for domestic and commercial users. A not-for-profit association, we are funded entirely by our membership, which includes installers, manufacturers, distributors, large-scale developers, investors, and law firms.

Our mission is to empower the UK solar transformation. We are catalysing our members to pave the way for 70GW of solar energy capacity by 2035. We represent solar heat, solar power and energy storage, with a proven track record of securing breakthroughs for all three.

Respondent details

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Introduction

Solar Energy UK welcomes the opportunity to respond to the DESNZ consultation on CfD AR7. Our response focuses on key areas critical to the success of the solar sector: the Target Commissioning Window (TCW), CfD contract length, and reducing uncertainty from zonal pricing and grid connection reforms.

Key Recommendations

Target Commissioning Window (TCW)

We strongly advocate for extending the TCW to 12 months for all solar projects, with an additional delivery year for projects over 300 MW (the rationale for this number is that this is when developers have to submit a supply chain plan to DESNZ).

Larger projects, particularly those under the Development Consent Order (DCO) regime, face significant delays due to grid connection and construction complexities. A 12-month TCW would align solar with other technologies, ensuring **technological neutrality** in the CfD process. Currently, most CfD technologies benefit from a 12-month TCW, while solar is limited to 3 months. This discrepancy disadvantages solar projects, particularly as modern utility-scale solar projects now have construction timelines comparable to other technologies like onshore wind. Extending the TCW would level the playing field, reduce the risk of CfD erosion, and ensure timely delivery, supporting the UK's 2030 Clean Power Mission.

CfD Contract Length

Extending the CfD contract term to 25 years is essential to reduce market price risk, lower the cost of capital, and enhance investor confidence. Solar projects now face greater exposure to negative prices and reduced CfD coverage (as a % of project life) due to extended project lifespans of new modern solar farm. A longer contract term would align with modern project lifespans, reduce financing costs, and improve auction competitiveness. This change would also provide greater revenue certainty, attracting a broader range of investors and supporting the UK's decarbonisation goals.

Reducing Uncertainty from Zonal Pricing and Grid Connection Reforms

Uncertainty around zonal pricing and grid connection reforms poses significant risks to project viability and investor confidence. The potential transition to a zonal market under REMA, coupled with unpredictable Transmission Network Use of System (TNUoS) charges, could lead to higher risk premiums, increased strike prices, and reduced auction competitiveness. To mitigate these risks, we urge the government to:

1. Protect projects with pre-December 2024 planning applications.
2. Provide clarity on REMA and TNUoS decisions to ensure stable and predictable project revenues.
3. Consider heavily the unintended consequences of moving to zonal pricing.

Solar Energy UK believes that extending the TCW, increasing CfD contract lengths, and addressing uncertainty around zonal pricing and grid connection reforms are essential to ensuring the success of AR7 and future allocation rounds. By **enhancing technological neutrality** in the CfD process, these changes would boost investor confidence, reduce costs for consumers, and support the UK's transition to a low-carbon energy system.

Consultation Questions

Chapter 2.2 - Amending the budget publication process and information received

Budget Notice publication

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.

Answer: There is a disagreement in views around this topic amongst Solar Energy UK members: for and against.

Notwithstanding this, there is a shared view that the proposal to move the monetary budget notice to after the sealed bid window would be a major change to the auction process. There are other options that could promote the objective of improving budget utilisation. For example, after the sealed bids are received, NESO could advise on what more capacity could be procured if the budget was increased. This would still allow a minimum budget to be set ahead of the auction.

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.

Answer: Yes, replacing a monetary budget with a capacity ambition would likely impact Solar's participation in the allocation round positively. A capacity ambition provides clarity on the scale of deployment the government aims to achieve, which can help developers align their projects and investment strategies with national goals. This approach may encourage broader participation, as it signals a long-term commitment to solar energy deployment and reduces uncertainty about the volume of projects being sought.

However, it is essential that the capacity ambition is specified as a minimum that cannot be subsequently reduced. This will provide confidence to auction participants that the costs of participation are worthwhile and minimise the impact of replacing the budget. Without this advance commitment, developers may be reluctant to proceed with projects they assess as marginal, as the

absence of a clear minimum ambition or budget makes it difficult to assess the probability of a project's success in the auction.

This uncertainty could reduce the incentive to participate at all or diminish the drive to submit more competitive bids by exploring all possible opportunities. In summary, while a capacity ambition can positively influence participation by providing clarity and long-term direction, its effectiveness depends on ensuring a firm minimum commitment to maintain developer confidence and incentivise robust engagement in the allocation round.

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

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

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

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

Answer: The answer to all three questions is yes, as this change would likely have a negative impact. The common underlying reason is that participants would face greater uncertainty regarding the likelihood of their success. However, this impact can be mitigated if the capacity ambition is clearly defined as a minimum threshold that cannot be reduced after being set.

Expediting the process for offshore wind

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. Removing restrictions on available auction information

Answer: Assuming the offshore wind auction process does not interfere with the process for other pots (i.e. solar), we see no fundamental objection to this proposal. It could offer significant benefits by allowing projects to receive auction results earlier, rather than having to wait for the appeals process for other projects to conclude. This would provide greater certainty and efficiency for participants in the offshore wind pot.

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.

Answer: Any flexibility provided by this power must not come at the expense of other technologies. It should only be used to determine whether to increase a pot's budget and the total budget, not to reallocate budgets between pots. This ensures that the process remains equitable and maintains trust among all participants.

17. Would the Secretary of State seeing anonymised OFW bid information have a negative impact on:

a. Bidder behaviour: Yes, No, Unsure.

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

c. Consumers: Yes, No, Unsure.

Please provide further evidence in support of your views.

Answer: We consider these questions in terms of the impact that these changes may have on other technologies / pots:

a. Bidder behaviour:

Yes. It is possible that bidder behaviour could be influenced, even if the information is anonymised. This is more likely to stem from investor sentiment – from a read across to potential changes to solar – rather than any concrete reason for concern.

b. Investor confidence in the CfD scheme:

Yes. Investor confidence in the CfD could be affected if there is a perception that the Secretary of State might make arbitrary decisions based on the bid information. To mitigate this, it is crucial that the auction decision process remains as mechanistic and rule driven as possible. Specifically, any additional decision-making powers granted to the Secretary of State should be governed by transparent rules established in advance.

c. Consumers:

Unsure.

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.

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.

Answer: No, provided that the auction decision process remains as mechanistic and rule driven as possible. Specifically, any additional decision-making powers granted to the Secretary of State must be governed by transparent rules established in advance, to maintain confidence in the CfD as a whole. These rules should outline the circumstances under which the Secretary of State would request the bid information, how that information would be used to inform the final budget decision, and how it will be securely stored. Furthermore, when the final budget is published after the auction, it should clarify if the mechanism was utilised. This ensures clarity, fairness, and confidence in the process without the need for further assurances beyond those outlined in the Contract Allocation Framework.

Chapter 2.3 – Increasing the contract term for future CfD projects Market failure

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.

Answer: Yes, solar projects operating on a 15-year CfD are likely to face greater market price risk than originally envisaged under the Electricity Market Reform (EMR) in 2013. This increased risk stems from three key factors.

Firstly, the removal of negative pricing protections for CfD projects starting from Allocation Round 4 means CfD assets are now more exposed to negative market prices, similar to fully merchant projects. While initially limited, the frequency of negative prices is projected to rise significantly, increasing nearly tenfold by the end of the decade. According to Modo Energy, the number of negative price hours is expected to grow from approximately 150 in 2024 to

around 1,000 in 2028. This equates to over 40 days per year without revenue—a risk that projects in 2013 did not face.

Secondly, solar project lifespans have extended over the past decade, increasing from 25 years to 35–40 years, depending on the technology. In particular, the lifetime of a modern large-scale utility solar farm can now be **25 to 30 years**, with many new systems gaining planning consent, and expected to continue operating, for ~40 years.

As a result, a 15-year CfD, which previously covered 60% of a project's lifetime, now accounts for only 40%–50%. This leaves a significantly larger portion of project revenues exposed to market price fluctuations. Merchant revenue is perceived as higher risk by investors, leading to an increased weighted average cost of capital (WACC). This, in turn, raises the CfD bid required for projects to remain financially viable.

Thirdly, real interest rates between 2008 and 2022 were in a historical abnormal situation, often at zero or negative levels, which artificially lowered financing costs. However, real interest rates have now returned to positive levels, increasing the cost of capital for renewable projects and limiting access to capital pools. This rise in WACC further exacerbates the financial challenges for renewable projects, as higher financing costs translate into higher CfD bids to achieve project viability.

In summary, the combination of exposure to negative prices, the reduced proportion of a solar project's lifespan covered by the CfD, and the return to positive real interest rates has significantly heightened market price risk for solar electricity projects compared to the original EMR framework.

In addition, the impact of a potential move to zonal pricing also needs to be considered within the context of investor nervousness to allocate capital to infrastructure given rising interest rates. The scale of capital required for the UK's decarbonisation means that the Government needs to be careful about increasing risks – to ensure that the solar sector does not become considered an unattractive market in which to invest. Solar Energy UK, alongside many other trade bodies, does not support moving to zonal pricing.

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.

Answer: Yes, there are concerns about the economic viability of CfD assets once they reach the end of their CfD term. While most solar projects are expected to perform well economically post-CfD, those with high rental costs or elevated operational expenses (OPEX) face significant challenges in continuing operations beyond the CfD period. These challenges have been exacerbated by rising supply chain costs, which have been heavily impacted by inflationary pressures, and changes in the freedom of movement between the UK and EU, placing additional strain on merchant projects struggling to cover their operating costs.

Although most CfD assets are not yet nearing the end of their contracts or their viable lifespans, there are examples from non-CfD assets that highlight the economic hurdles of operating in a merchant environment. For instance, some onshore projects with the potential for extended operation are being decommissioned prematurely due to unviable business cases under merchant conditions. It is plausible that similar challenges could arise for solar CfD projects as they approach the end of their contract terms. Premature decommissioning of solar projects before the end of their viable lifespans could negatively impact future energy security and renewable energy deployment strategies.

Extending the contract length for CfDs could help reduce overall project risk and support the long-term operation of these assets, ensuring they contribute to energy security and renewable energy goals for their full lifespans.

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).

Answer: While increased market price risk, higher operational costs, and rising financing costs (due to positive real interest rates) would likely lead to higher CfD strike price bids, the exact magnitude of this impact would require detailed, long-term modelling. This level of analysis is not feasible within the current timeframe given for the consultation response.

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.

Answer: Yes, we agree that increasing the contract term will reduce the cost of capital for all technologies. The additional security provided by a higher volume of regulated revenues will significantly lower the cost of capital.

For example, we estimate that a 10-year contract extension could reduce the weighted average cost of capital (WACC) by approximately 100 basis points for both onshore wind and solar projects.

A combination of reduced financing costs and improved access to funding sources will be crucial for enabling larger solar projects to proceed. This is especially important given the limits on how much developers can invest from their balance sheets.

Extending the contract length will allow projects to take on more debt, as the revenue risk is reduced, and the debt servicing period aligns with the longer contract term. This provides greater flexibility, optionality, and confidence for both developers and financiers, leading to cost savings.

For projects that are constrained by gearing levels, a longer contract term could enable higher gearing, allowing more developers to compete on larger projects. Additionally, the perception of solar energy projects as stable, consistent, and reliable income sources could broaden the pool of investors, encouraging lenders to offer more favourable loan rates.

Other Benefits of Increasing Contract Length:

1. Consumer Protection: The CfD shields consumers from price spikes and prolonged periods of high prices. In an increasingly volatile macroeconomic environment, extending this protection offers real value to consumers. While quantifying this benefit is less straightforward than assessing changes to the cost of capital or strike prices, it should be considered when evaluating the advantages of a longer contract term.

2. Post-CfD Flexibility: A longer CfD term allows generators greater flexibility in negotiating shorter-term Power Purchase Agreements (PPAs) for post-CfD revenues. By securing a larger portion of the project's required return during the

CfD period, generators can take on more risk in post-CfD revenue streams. This aligns with the preferences of many PPA offtakers, who often seek shorter-term agreements.

Extension CfDs for Existing Projects:

In addition to implementing longer contract terms for new CfDs, another option would be to offer an "extension CfD" to projects with existing 15-year contracts. This would extend the benefits outlined above to existing projects, particularly those from Allocation Rounds 4, 5, and 6, which face significant challenges due to the adverse macroeconomic climate. Many of these projects are at risk of not proceeding under their current CfDs, and an extension CfD could help mitigate this risk.

In summary, increasing the CfD contract term would reduce the cost of capital, enhance consumer protection, and provide greater post-CfD flexibility, while also offering a potential lifeline to existing projects through extension CfDs.

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.

No comment.

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.

Answer: Insufficient competition in auctions would indeed limit the potential reduction in strike prices, even with longer contract terms. Historical evidence, such as the 2017 CfD auction where offshore wind strike prices fell to £57.50/MWh (in 2012 prices), demonstrates that strong competition, alongside technological advancements and supportive contract terms, played a critical role in driving down prices SEUK believes there is a read across from this to the solar sector. While longer contracts can contribute to cost reductions, the level of competitive tension in the auction remains a fundamental determinant of how these savings are reflected in strike prices.

The extent to which cost reductions – whether from longer contracts or other

factors — are passed through into lower strike prices depends on the competitive dynamics of the auction. If there is a significant risk that a project may not succeed unless it submits its most competitive bid, developers will incorporate all available cost reductions into their bids. This principle applies universally, not just to contract length.

If there are concerns about auction competitiveness, these should be addressed directly, as they affect all cost factors. It would not be appropriate to withhold measures, such as extending contract lengths, that can reduce bid prices and lower costs for consumers solely due to concerns about competition. Doing so would mean missing an opportunity to achieve savings while leaving the underlying issue of insufficient competition unresolved. The CfD auction design includes various features to ensure competitiveness, which should be leveraged to address such concerns.

Moreover, extending contract lengths can itself enhance auction competitiveness. Internal analysis suggests that longer contracts could have two positive effects:

1. **Increased Participation:** By reducing bid prices, longer contracts enable more projects to bid below the Administrative Strike Price (ASP) and participate in the auction. Given the significant impact of extended contract terms on bid prices, the number of additional projects able to compete could be substantial.
2. **Compressed Bid Prices:** Longer contracts disproportionately benefit higher Levelised Cost of Energy (LCOE) projects, narrowing the gap between the most and least competitive bids. While this does not alter the merit order, it creates a more competitive auction environment and promotes more efficient allocation.

These effects would increase pressure on bidders to submit their best possible prices to secure a CfD, further driving down strike prices.

Additionally, as project sizes grow and reliance on debt increases, smaller developers may struggle to compete due to weaker credit ratings compared to larger firms. Longer contract terms, by reducing the cost of debt and enabling higher gearing levels, can help level the playing field. This would allow smaller developers to continue competing at scale, fostering a more diverse and competitive pool of participants in future auction rounds.

In summary, while insufficient competition can limit the potential reduction in

strike prices, extending contract lengths can enhance competitiveness by enabling more projects to participate, compressing bid prices, and supporting smaller developers. Addressing competition concerns directly, rather than withholding beneficial measures, is the most effective way to ensure efficient and cost-effective CfD auctions.

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? Costs / unintended consequences

Answer: Yes, the government could seek to Encourage and/or facilitate Consortium Bidding or Joint Ventures.

Rationale: Allowing or incentivizing consortium bidding could attract new entrants (e.g., smaller developers or supply chain companies) who may not have the capacity to bid alone.

Benefits:

- Increases competition by broadening the pool of potential bidders.
- Encourages innovation and collaboration within the supply chain.

While not linked to auction rules or design, Solar Energy UK suggests that detailed consideration of a Reformed National Market, and a decision not to pursue zonal pricing, would stimulate competition.

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.

Answer: No, we disagree with the assertion that increasing the contract term for CfD assets would lead to greater wholesale electricity price cannibalisation. Extending the CfD contract length is unlikely to have a noticeable impact on price cannibalisation for several reasons:

Firstly, the primary driver of price cannibalisation is the overall volume of renewable generation on the system at any given time, rather than whether that generation is supported by a CfD or operating in a merchant capacity. Renewable generators, particularly those with low marginal costs such as solar, tend to produce electricity when conditions are favourable, leading to periods

of high supply. This can depress wholesale prices, regardless of whether the generation is under a CfD or not.

Secondly, generators will continue to operate after the initial 15-year CfD period, whether under an extended CfD or in a merchant environment. The key factor influencing their operation will be the prevailing market conditions and their ability to cover operational costs, not the presence or absence of a CfD. As such, extending the CfD term does not inherently increase the risk of price cannibalisation, as the underlying dynamics of renewable generation and market pricing remain unchanged.

Additionally, the introduction of the negative pricing rule in recent CfD auctions has significantly mitigated the potential for CfD-supported generation to exacerbate price cannibalisation. Under this rule, CfD generators are exposed to negative prices, meaning they must pay to generate during periods of oversupply. This incentivises them to align their generation patterns with market demand, reducing the risk of excessive price suppression.

Furthermore, the impact of price cannibalisation is more closely tied to the penetration of renewables in the energy mix and the flexibility of the grid to manage supply and demand. As the share of renewables grows, system-level solutions such as energy storage, demand-side response, and interconnectors will play a critical role in balancing the grid and mitigating price volatility. These factors are independent of the CfD contract length and are more influential in determining the extent of price cannibalisation.

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.

N/A (answered 'No' to 29)

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.

Answer: Yes, we strongly believe that increasing the contract term for solar electricity projects would materially enhance overall investor confidence in the renewable energy industry. This is particularly important in the current context of heightened instability and uncertainty, both within the sector and the broader macroeconomic environment.

Extending the CfD contract term would provide greater revenue certainty, which is a critical factor for attracting investment. With market appetite for merchant projects declining due to increased exposure to price volatility and risk, the additional security offered by a longer, regulated revenue stream would significantly strengthen the appeal of renewable energy investments. This would not only lower the cost of capital but also attract a broader range of investors, including institutional investors who prioritise stable, long-term returns.

Evidence from both the UK and international markets underscores the importance of longer contracts in driving investment in renewable energy. Such contracts enable the deployment of new technologies and infrastructure by reducing financial risks and improving project bankability. For developers, the extended revenue certainty would support long-term planning and encourage new entrants into the market, fostering greater competition and innovation.

Moreover, the wider industrial and residential sectors would benefit from increased confidence in more stable, long-term energy prices. This stability is crucial for supporting the transition to a low-carbon energy system and achieving national decarbonisation targets.

While there are potential challenges associated with longer contract terms, such as ensuring competitive tension in auctions and managing system flexibility, these can be mitigated through careful design of the CfD scheme and auction process. For example, maintaining robust auction rules and incorporating mechanisms to address price cannibalisation would help balance the benefits of longer contracts with the need for efficient market operation.

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.
Implementation

Answer: We are not aware of any consequences that have not been addressed in this consultation.

The only unintentional consequence that we have highlighted is if the change is not implemented for AR7 or instead signalled for AR8, there are real risks for competition and distortion and projects will be incentivised to wait for AR8 to

secure a longer contract which would undermine the CP 2030 targets.

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.

Answer: Balancing the factors of wholesale market impact and security of supply, CfD strike price bids and billpayer costs, and overall investor confidence requires a carefully considered approach to contract term design. Based on evidence and analysis, a contract term of 25 years is optimal, though a 20-year term also offers significant benefits. Below is a detailed explanation, supported by evidence, for why these terms best balance the competing priorities:

1. Wholesale Market Impact and Security of Supply

A 25-year contract term would limit price cannibalisation risks by ensuring that projects are not exposed to excessive wholesale market volatility for their entire lifespan. While solar generation may continue to operate beyond the CfD period, the negative pricing rule already mitigates the risk of price suppression during the CfD term. A longer contract term would also enhance energy security by providing greater certainty for project development, enabling a larger and more diverse pipeline of renewable projects to be built. This includes co-located battery energy storage systems (BESS), which are critical for balancing supply and demand.

2. Impact on CfD Strike Price Bids and Billpayer Costs

Extending the contract term to 25 years would significantly reduce CfD strike prices by lowering the cost of capital for solar developers. This is achieved through increased revenue certainty, which attracts institutional investors and reduces the risk premium included in bids. Lower strike prices directly benefit billpayers by reducing the overall cost of solar energy deployment. Additionally, a longer contract term would enable more projects to compete in auctions, as the reduced cost of capital allows a greater number of developers to submit bids below the Administrative Strike Price (ASP). This increased competition further drives down strike prices.

3. Overall Investor Confidence

A 25-year contract term would materially boost investor confidence by providing a stable, long-term revenue stream. This is particularly important in the current macroeconomic climate, where market appetite for merchant projects has declined due to increased volatility and risk. The extended revenue certainty would support long-term planning, encourage new entrants into the market, and attract a broader range of investors, including those with lower risk tolerance. This would strengthen the competitiveness of the CfD mechanism and ensure a more diverse and resilient solar energy sector.

Evidence and Rationale

Historical Context: The original 15-year CfD term was designed to cover 60% of the typical solar project lifespan when the CfD scheme was introduced in 2013. However, project lifespans have since increased meaning the CfD now covers a smaller proportion of a project's lifetime (40-50%). A 25-year term would restore the original intent of the CfD by covering a similar proportion of the extended solar project lifespan.

Cost of Capital: industry analysis suggests that a 25-year contract term could reduce the weighted average cost of capital (WACC) by approximately 100 basis points for technologies like onshore wind and solar. This reduction would translate into lower strike prices and greater savings for billpayers.

Competitiveness and Participation: A longer contract term would enable smaller solar developers to compete more effectively, as the reduced cost of debt and increased gearing levels would level the playing field. This would foster greater competition in auctions, leading to more efficient allocation and lower strike prices.

Energy Security and Stability: A 25-year term would provide long-term stability for both industry and household electricity prices, supporting the transition to a low-carbon energy system. It would also encourage the development of co-located BESS, which is increasingly important for grid flexibility and security.

Incremental Benefits and Trade-offs:

While a 25-year contract term offers the greatest benefits, the incremental gains from extending the term beyond 20 years diminish with each additional year. A 20-year term would still deliver significant advantages, including

reduced strike prices, improved investor confidence, and enhanced energy security. However, a 25-year term aligns more closely with the original intent of the CfD scheme and provides greater long-term stability for developers, investors, and consumers.

Conclusion

A 25-year contract term best balances the competing priorities of wholesale market impact, strike price reduction, and investor confidence. It would significantly lower the cost of capital, enhance energy security, and provide long-term price stability for consumers. While a 20-year term also offers substantial benefits, a 25-year term aligns more closely with the extended lifespans of modern utility scale solar projects and ensures the CfD scheme remains fit for purpose in a rapidly evolving solar landscape.

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.

Answer: No, we do not believe that an alternative approach to price indexation (currently CPI) is required for any additional years of the CfD contract. Altering the indexation mechanism would introduce unnecessary complexity and cost, undermining the balance of risk between generators and consumers. CPI remains the most effective and efficient method for managing inflation risk, and any deviation from this approach would likely result in higher costs for consumers and reduced investor confidence.

Why CPI is the Best Option

1. **Cost Efficiency for Consumers:** CPI indexation ensures that consumers only pay for actual cost increases due to inflation. If generators were to assume some or all of this risk, they would inevitably price this risk into their bids, accounting for worst-case scenarios. This would lead to higher costs of capital and, ultimately, higher strike prices, increasing the financial burden on billpayers.
2. **Simplicity and Certainty:** CPI is a widely understood and accepted measure of inflation, particularly among large financial institutions such as pension funds. Its simplicity allows for straightforward analysis and predictable

outcomes, which are critical for maintaining investor confidence. Introducing a more complex indexation mechanism would create uncertainty, potentially leading investors to discount the value of the indexation. This would reduce the benefits to consumers and increase the cost of financing projects.

3. Market Acceptance: CPI is the standard indexation mechanism in financial markets and is well-suited to the long-term nature of CfD contracts. Deviating from this established norm would require additional measures to manage risk, adding unnecessary expense and complexity for all parties involved.

Potential Alternative: Capped CPI

While we strongly advocate for maintaining CPI as the sole indexation mechanism, one option that could be considered—though not without reservations—is to cap the inflation indexation rate for the additional contracted periods (e.g., years 15–25 indexed at CPI capped at 3%). This approach might address concerns about excessive inflation risk while retaining the simplicity and predictability of CPI. However, even this modest adjustment would introduce additional complexity and could dilute the benefits of indexation for investors.

Conclusion

There is no compelling case for altering the current CPI indexation mechanism. CPI provides a cost-effective, simple, and widely accepted method for managing inflation risk, benefiting both consumers and investors. Any alternative approach would likely increase costs, introduce unnecessary complexity, and undermine the stability and predictability that are essential for the success of the CfD scheme. We strongly recommend retaining CPI as the sole indexation mechanism for the entirety of the CfD contract term.

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.

Answer: Yes, we believe that increasing the contract term from 15 years should apply to all renewable technologies currently supported under the CfD. Extending the contract term would deliver significant benefits across the board, enabling all technologies to reduce CfD bid prices and ultimately providing a net benefit to consumers.

Each technology would gain from the increased revenue certainty and reduced cost of capital associated with a longer contract term. This would enhance investor confidence, support long-term planning, and encourage greater participation in CfD auctions. By lowering strike prices across all technologies, the overall cost of renewable energy deployment would decrease, delivering savings for billpayers.

In summary, extending the contract term for all CfD-supported technologies would create a more level playing field, drive down costs, and foster innovation across the renewable energy sector. This approach aligns with the objectives of delivering value for money, enhancing energy security, and supporting the transition to a low-carbon energy system.

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.

n/a answered 'Yes' to 35

Chapter 3.1 – Solar PV Target Commissioning Window

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.

Answer: SEUK strongly supports an increase in the current Target Commissioning Window (TCW) for Solar PV projects. However, we believe there is a compelling case for extending the TCW to 12 months, rather than the proposed 6 months. This longer window would provide developers with greater flexibility to manage project timelines, account for potential delays, and ensure successful delivery. Alternatively, we recommend introducing an additional (third) delivery year for Solar PV projects. This additional time would help address challenges such as supply chain disruptions, planning delays, and other unforeseen obstacles that can impact project delivery.

Our key recommendation is that, at a minimum, either a 12-month TCW or an additional delivery year should be implemented. Both measures would

significantly improve the feasibility and success rate of Solar PV projects, particularly in the current environment of increased market volatility and logistical challenges. Furthermore, there is a strong case for implementing both changes simultaneously for larger Solar PV projects. Larger projects often face more complex planning, construction, and grid connection processes, making them particularly vulnerable to delays. By extending the TCW to 12 months and adding a third delivery year, developers of larger projects would have the necessary flexibility to navigate these complexities and deliver projects on time.

Consistency in Treatment of Technologies

A general principle underpinning the CfD process is that technologies with similar characteristics should be treated similarly, particularly if they compete in the same auction pot. Currently, the majority of eligible CfD technologies have TCWs of 12 months, while Solar PV has a 3-month TCW. The consultation justifies this discrepancy by stating that Solar PV has a faster build time than other technologies. While this may have been true in 2013, when most solar projects were smaller in scale, the construction timelines for modern, larger-scale Solar PV projects are now comparable to those of other technologies, such as onshore wind.

Given this similarity, it is unreasonable to cap the TCW for Solar PV projects at 6 months while other technologies with comparable construction times benefit from a 12-month TCW. This discrepancy can distort the competitiveness of Solar PV in CfD auctions, as shorter TCWs increase the risk of eroding the full 15-year CfD term. To ensure a level playing field and avoid distortions in the auction process, Solar PV should be granted a 12-month TCW, aligning it with other technologies.

The Need for a 12-Month TCW for Solar Projects

The consultation notes that, had a 12-month TCW been available in Allocation Round 6 (AR6), developers choosing the second delivery year would have had approximately four and a half years to commission without financial penalty. While this may seem sufficient, there are several reasons why a longer period could be required. Project timelines are influenced by factors beyond a developer's control, such as site availability, access restrictions, supply chain delays, contractor availability, and grid connection requirements. For larger Solar PV projects, these factors can extend the commissioning period beyond four years, meaning a 6-month TCW could still result in CfD erosion.

The consultation also highlights that some larger Solar PV projects have secured CfDs with a 3-month TCW, suggesting that delivery within this window is feasible. However, it is possible that these projects tolerated some degree of CfD erosion, which was factored into their clearing strike prices. As the pipeline of future Solar PV projects increasingly consists of larger-scale developments, the TCW will become a more significant factor in determining project viability. A 12-month TCW would mitigate this risk and ensure that Solar PV remains competitive in future auction rounds.

38. Do you have any views on any of the impacts explored in the assessment? In particular, we would welcome further evidence on:

Answer: We have the following views on the impacts explored in the assessment, particularly regarding the benefits and risks of extending the Target Commissioning Window (TCW) for Solar PV projects, as well as alternative design options to balance flexibility and efficiency.

a. Near-Term Benefits and Risks of Extending the TCW for Solar PV (AR7 and AR8)

The consultation suggests that resetting the Solar PV TCW to 6 months aims to balance providing a reasonable timeframe for project delivery with ensuring contributions to the 2030 Clean Power Mission. However, we challenge this reasoning. If the TCW is insufficient to allow projects to deliver without CfD erosion, it will not accelerate project timelines. Instead, it will worsen project economics, increasing the risk that projects do not proceed at all. This would undermine their contribution to the 2030 target.

Large-scale Solar PV projects face fundamental constraints, such as site availability, grid connection timelines, and supply chain delays, which cannot be overcome by shortening the TCW. An insufficient TCW would not expedite delivery but could instead deter investment, reducing the likelihood of projects being built. Therefore, extending the TCW to 12 months would provide the necessary flexibility to ensure projects can be delivered efficiently and contribute meaningfully to the 2030 Clean Power Mission.

There are clear near-term benefits to extending the TCW for solar for AR7 and AR8 more than 6 months. The recent experience of a leading solar developer and SEUK member reinforces this, whereby a 20 MW solar project took five months from commissioning to exporting 100 per cent energy to the grid. We

expect that the timeline would be significantly longer for a DCO solar project (typically 500 MW).

b. Alternative Design Options to Balance Flexibility and Efficiency

We understand concerns that a 12-month TCW might be longer than necessary for smaller Solar PV projects and could reduce the incentive for early delivery. However, even for smaller projects (e.g., 50 MW or less), the risk and financial impact of a 3-month TCW remain significant. For this reason, our preference is for a single 12-month TCW for all Solar PV projects, regardless of size. This would simplify the process and ensure consistency across the sector.

If concerns about smaller projects persist, an alternative option could be to implement a 12-month TCW only for larger Solar PV projects, defined as those with a capacity of 100 MW or more. This threshold aligns with the updated planning threshold for Nationally Significant Infrastructure Projects (NSIPs) subject to the Development Consent Order (DCO) process. This approach would provide the necessary flexibility for larger projects while maintaining a shorter TCW for smaller projects, if deemed appropriate.

We also believe CfD AR7 should include a third delivery year for solar projects greater than 300 MW, which is critical to accommodate transmission-connected DCO solar projects.

In AR6, the CfD only had two delivery years for solar, whereas it had three delivery years for other technologies. This reflected the fact that solar projects are typically quicker to build, and that the CfD auction only wants to procure projects that are ready to build quickly.

However, more recently solar projects have become much bigger, e.g 500 MW, with several projects being approved in the Development Consent Order (DCO) planning regime by the Secretary of State. These DCO projects take longer to build than smaller ones, due to their size and the fact that they typically connect to the transmission network (where equipment has longer lead times for procurement and it takes longer to build the connection infrastructure).

If CfD AR7 doesn't include a third delivery year for solar projects greater than 300 MW, then some recently consented DCO solar are likely to be either:

- Ineligible to bid in this round as they hold 2029 connection dates, which may be beyond the delivery years for AR7 (we estimate at least 1 GW of solar projects could be affected); or
- Will have to commit to a delivery timescale that may not be deliverable, as it could take longer than to build the project than the two delivery years allows; or
- Will have to wait for AR8, which would require developers to commit tens of millions of pounds in design and capex in advance of being awarded a CfD, or risk failing to deliver in time for the delivery years.

These risks that we have identified, if unaddressed, would all make it more difficult for DCO solar to contribute to the Government's Clean Power 2030 Mission.

Chapter 3.2 – Eligibility of surrendered CfD capacity for AR7

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.

Answer: Solar Energy UK supports the Government's proposal to implement a temporary restriction on CfD capacity released by generators through permitted reductions and FIC (Force Majeure, Insolvency, and Change in Law) flexibilities for projects entering Allocation Round 7 (AR7). This measure is a reasonable step to ensure stability and fairness in the CfD allocation process during this round.

Additionally, Solar Energy UK welcomes the Government's commitment to consult on the eligibility of surrendered CfD capacity to participate in future allocation rounds, with the aim of clarifying its policy in time for the launch of AR8. Solar Energy UK believes there may be a strong case for retaining this eligibility in future rounds, as it could provide flexibility and encourage efficient use of CfD capacity. However, it is essential that this issue is thoroughly examined through consultation to ensure that any policy changes are well-

considered and aligned with the broader objectives of the CfD scheme.

In summary, while Solar Energy UK agrees with the temporary restriction for AR7, it urges the Government to carefully evaluate the potential benefits of allowing surrendered capacity to re-enter future allocation rounds and to engage stakeholders in this process to develop a balanced and effective policy.

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.

No identified issues

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

Answer: Overall, Solar Energy UK believes that, in a market environment that is becoming increasingly uncertain, it is beneficial to retain optionality and flexibility within the CfD terms and conditions, provided this aligns with the overarching objectives of the CfD scheme.

Solar Energy UK recognises the Government's concern that the current rules on capacity adjustment may incentivise generators to optimise the CfD scheme to increase their income beyond the levels agreed in their original contracts, potentially at the expense of consumers. Solar Energy UK also acknowledges the Government's view that the macroeconomic circumstances of the past few years have been largely exceptional.

However, based on Solar Energy UK's members experience in preparing project investment cases and feedback from supply chains, the macroeconomic conditions for renewable energy development are likely to remain challenging and uncertain for the foreseeable future.

In the face of this uncertainty, developers can strive to manage the risk of cost increases, as suggested in the consultation, by pricing a proportionate level of

risk into their bids and negotiating terms with the supply chain. However, determining what constitutes a "proportionate level of risk" can be difficult, and this uncertainty may lead developers to seek higher CfD strike prices as a precautionary measure. Retaining flexibility within the CfD framework could help mitigate this effect, and this approach merits further consideration.

Solar Energy UK notes the Government's statement in the consultation that it will consult in due course on proposals regarding the eligibility of surrendered CfD capacity to enter future allocation rounds, along with associated matters, with the aim of clarifying its policy in time for the launch of AR8.

Solar Energy UK welcomes this commitment to further consultation, which will provide developers with additional time to assess the impacts and risks associated with this issue. It will also offer an opportunity for developers to submit more detailed evidence on both the risks and benefits of maintaining this flexibility within the CfD scheme. This collaborative approach will help ensure that any policy changes are well-informed and balanced, supporting the long-term success of the CfD mechanism.

Chapter 5.1 – Changes relating to implementation of Part 5 of the Energy Act 2023 (establishment of NESO)

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.

We have no comment on this question.

Chapter 5.2 – Changes relating to Clean Industry Bonus payment suspensions

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.

Answer: The Clean Industry Bonus (CIB) has been established to support local and sustainable supply chains within the offshore wind sector. Given there are no current plans to make the CIB available to solar projects applying to the Contracts for Difference scheme in Allocation Round 7, Solar Energy UK does not have any specific comments on the points regarding implementation raised in this question. It does though provide an opportunity to highlight a more general point around the potential benefits of introducing solar-specific supply chain

initiatives in future Allocation Rounds, which we believe would be a positive development for the industry.

There are significant opportunities to develop the UK supply chain for certain key solar products, for instance in the manufacture of 'balance of systems' components such as racking and cabling used in various types of installation. However, in order to realise these opportunities and the associated economic benefits the solar industry will need support, just as the offshore wind industry has had in the past. The Contracts for Difference scheme prospectively represents a valuable mechanism for delivering this.

Solar and offshore wind are different technologies and the two industries are at different stages in their development. If the solar industry is to capitalise on UK supply chain opportunities it will need the same level of support and commitment that the offshore wind sector has received from Government over roughly the last 15 years, for example around the development of manufacturing infrastructure. Introducing an initiative similar to the CIB specifically for the solar industry in future Allocation Rounds would represent an important step in this regard.

This could also provide an opportunity to drive investment into building the skilled workforce needed to deliver national solar deployment targets, which is an equally important part of developing the industry's UK supply chain (we note that skills is one of the key strands of the supply chain plans currently required for large solar projects applying to the Contract for Difference scheme). Solar Energy UK believes there is a strong case for establishing a network of regional green skills hubs in areas where large renewable developments are underway or planned, which could also be aligned with relevant manufacturing clusters, to train the workforce needed to enable the net zero transition. Exploring ways to support this through an initiative like the CIB is something we feel is worth consideration.

Chapter 6.1 – Changes to regulations relating to the Clean Industry Bonus

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

See answer to question 51

Chapter 6.2 – Wider Risks that may impact the Allocation Round

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

Answer: To ensure the continued success of the Contracts for Difference (CfD) scheme and the broader renewable energy sector, it is critical to address both immediate and long-term challenges.

First, projects that submitted planning applications on or before 20th December 2024—the date when NESO indicated alignment with the Clean Power Action Plan would be required—should be protected. These projects have made significant investments in good faith and should be allowed to proceed towards upcoming CfD allocation rounds, provided they demonstrate planning consent, which serves as the appropriate milestone for eligibility. Additionally, increasing the capacity pots to account for attrition and enabling flexibility is essential.

In parallel, the decision under the Review of Electricity Market Arrangements (REMA) on whether to transition to a zonal market, expected by summer 2025, would have profound implications for future project revenues. Even if an enhanced national market is retained, the stability and predictability of Transmission Network Use of System (TNUoS) charges are equally critical. These factors are vital for the financial viability and risk assessment of projects participating in CfD auctions. Without clear and timely decisions on REMA and TNUoS, **developers will struggle to quantify future risks, likely leading to higher risk premiums in AR7 bids, increased strike prices, and higher costs for consumers.** Furthermore, uncertainty could deter many projects from participating, reducing auction competitiveness and undermining the CfD mechanism's ability to drive down costs and accelerate renewable energy deployment.

Solar Energy UK (SEUK) highlights additional concerns, particularly the potential decline in project volumes entering AR7, AR8, and AR9 due to flaws in the Clean Power Action Plan's technology allocations and their impact on grid connections.

These measures would safeguard existing projects, optimise grid utilisation, and sustain competitive tension in future auctions. Additionally, SEUK calls for

extending protection to projects with 2027 grid connection dates, ensuring full bay capacity utilisation at substations for hybrid projects, and removing cost barriers for developers reducing Transmission Entry Capacity (TEC) contracts. Promoting design optimisation and extending the 'TEC amnesty' would further support innovation and efficiency.
