UK content and EMR *or* Between a ROC and a hard place

Alun Roberts

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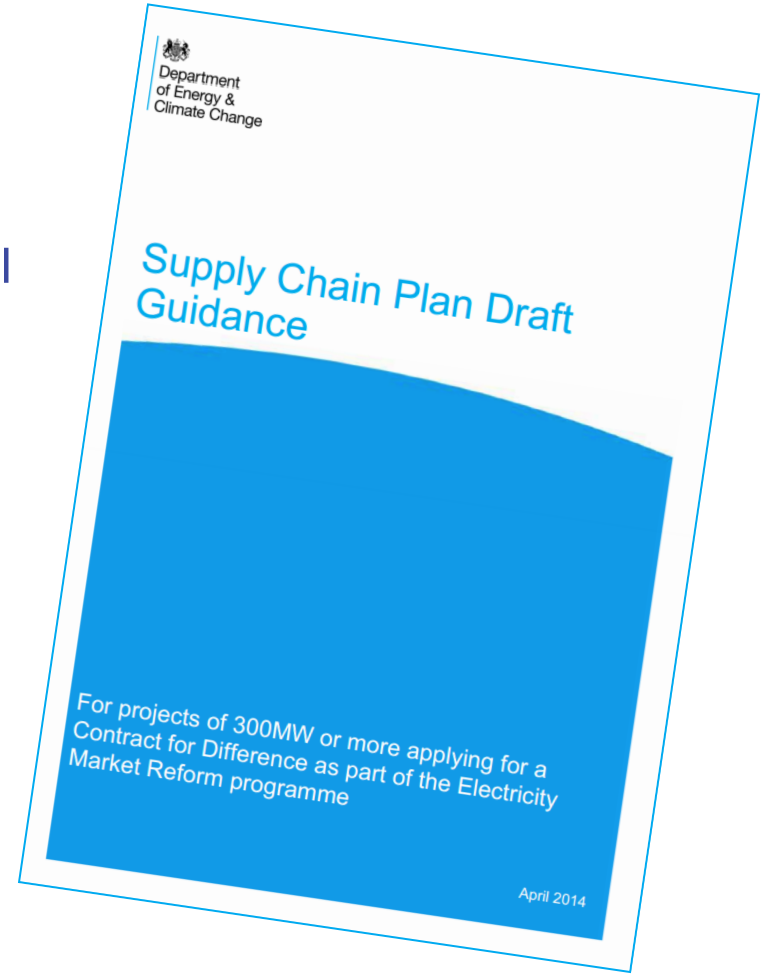
DECC has a cunning plan

- All developers wishing to secure a contract for difference need to submit a supply chain plan
- Without an accepted plan, developers will not be able to apply for a contract
- This year SCPs need to be submitted in August to apply for a CfD in October
- Plan based around three criteria:
  - Competition
  - Innovation and
  - Skills


Department of Energy & Climate Change

Supply Chain Plan Draft Guidance

For projects of 300MW or more applying for a Contract for Difference as part of the Electricity Market Reform programme

April 2014

Criteria in more detail

- **Competition**
  - Support new entrants to the sector
  - Identify and remove barriers to entry for new supply chain companies
  - Share best practice and lessons learned
  - Improve awareness of the commercial opportunities to companies
  - Encourage competitive procurement processes and more open competition across the supply chain
- **Innovation**
  - R&D, including links to universities, testing and demonstration
  - Technological development
  - Innovative procurement or contracting practices
  - Innovative or new installation methods
  - Innovative or new O&M methods
- **Skills**
  - Investments in skills and training
  - Internal training or working in partnership

Summary of the UK content requirements in DECC's draft guidance document

- Er – that's it

Look a little closer

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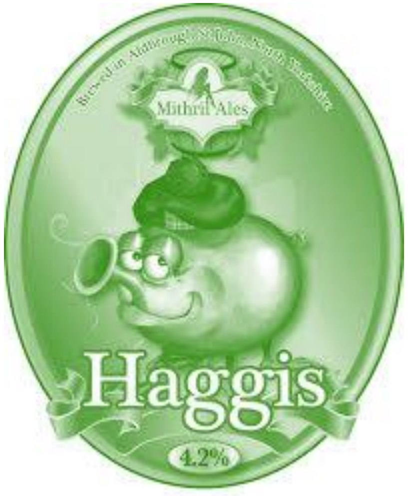
Which way to push or pull?

Competition
+ innovation
+ skills
= lower cost of energy

UK content = logistical benefits – procurement bias
= higher cost of energy?

Taste success – with British cuisine

- Competition, innovation and skills – with a local flavour
- For developers:
  - Have you created more competition by promoting opportunities and lowering barriers to UK suppliers?
  - Have your suppliers tested their components in the UK or engaged in UK R&D programmes?
  - Have you committed to develop skills in the UK?
- For suppliers:
  - Have you done the same for your supply chain?
- What is the impact of these activities on your project – and the wide industry?
- Can you prove it? (the evidence)



What does this mean in practice?

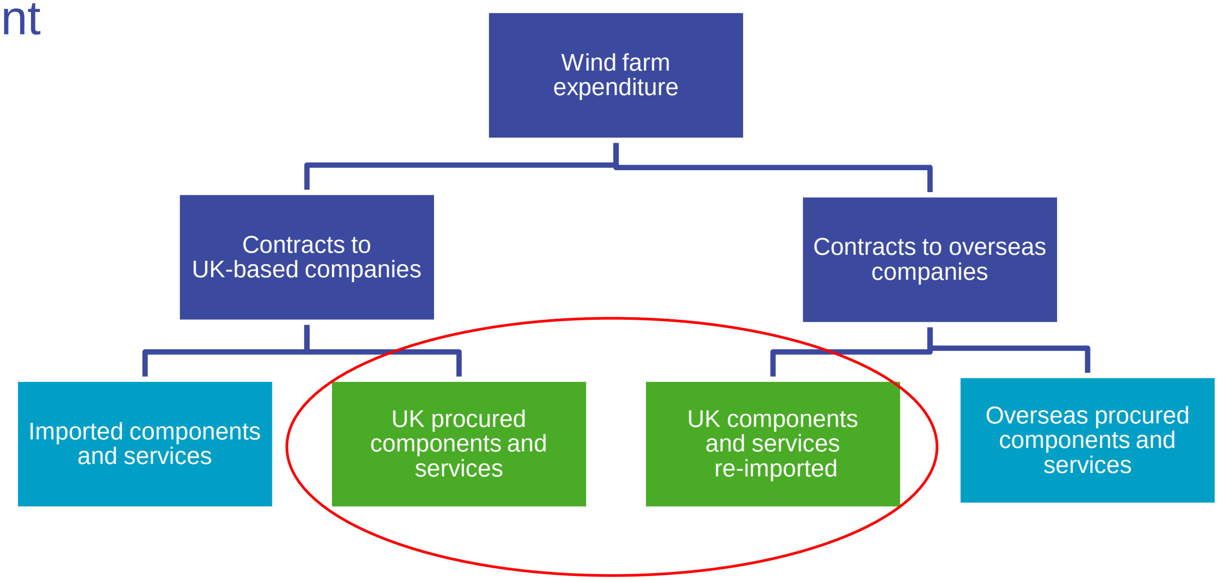
- **Competition**
  - Have your contracting strategies limited the number of UK suppliers – if so have you mitigated this?
  - Have you engaged with them and have you got the evidence?
  - Have you held (or plan to hold) meet the buyer events and have you got the evidence?
  - Does your website provide information that can help new UK suppliers?
  - How you engaged with UK programmes, eg GROW and Scottish Enterprise?
  - Can you quantify the impact in terms of UK content and jobs?
- **Innovation**
  - The UK has put a lot of resource into public programmes? What is your involvement with the Carbon Trust, the Energy Technologies Institute, the Technology Strategy Board and the ORE Catapult/Narec?
- **Skills**
  - How are you involved in the Renewables Training Network and skills development programmes?

Be prepared

- Developers have got the message, but the response of the supply chain is mixed.
- For suppliers, if you wait until your customer asks for this information, you are probably too late to do a good job
- Suppliers need to not only show how you are meeting DECC's criteria but also explain how you are getting your suppliers to do the same
- Suppliers need to have done the sums to prove they've thought about UK content and how it could be increased

What do we mean by UK content?

- UK content needs to be a measure of how far UK companies are successful in capturing business from a wind farm
- It needs to capture where the money went down the supply chain, including investment in capital assets and overheads
- Help is at hand, with the imminent introduction of a methodology to measure UK content



What’s possible for UK content?

- 100% local content not possible (not even in France)

- Important to take a lifetime perspective

- For many projects, OPEX is 40% or more of lifetime expenditure

- BVGA has looked at 80% of UK projects so far

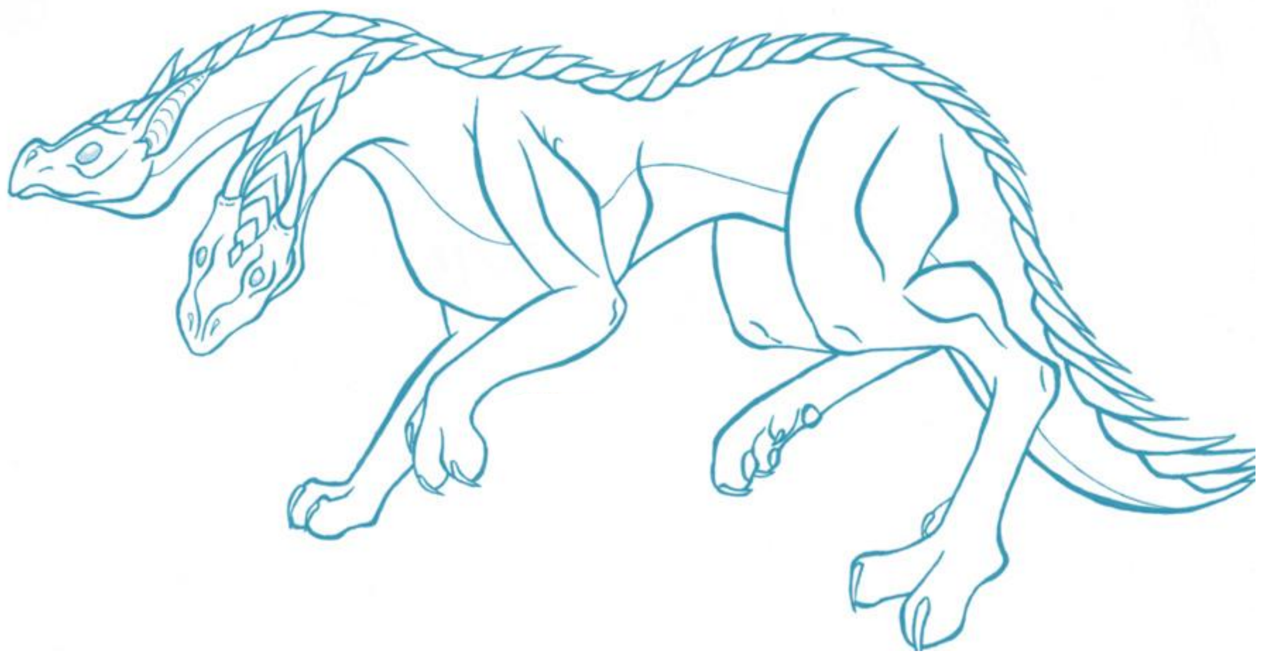
- Aggregated UK content in CAPEX is c.20%
- Aggregated UK content in OPEX is c.80%
- Aggregated UK content in lifetime expenditure is c.45%

- The big opportunity lies in increasing UK content in CAPEX

Conclusion

- Cost reduction is not necessarily inconsistent with increased UK content if the supply chain takes advantage of logistical benefits of local supply and is pragmatic about how far it goes to secure UK supply

- The supply chain needs to get ready to show it is working towards DECC's aim to increase the economic benefit of UK offshore wind



BVGassociates

Thank you

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