



November 2018

ScotWind leasing - new offshore wind leasing for Scotland

Summary of Discussion Document responses and update on leasing design

In May 2018 we published a [Discussion Document](#) setting out our current thinking on new offshore wind leasing in Scottish waters, inviting comment from stakeholders.

In addition, we held a number of meetings across Scotland and in London to talk through the draft proposals in the Discussion Document and answer some questions on our initial ideas for how new offshore wind leasing in Scotland could work. A summary of the various topics discussed at these sessions was published in July and can be found [here](#).

The aim of this was to get as much feedback as possible on our initial leasing ideas. We wanted everyone interested to be able to review our proposals and provide comments to us so that we can improve and make the final design work for a wide range of stakeholders, while unlocking wider benefit for Scotland from new offshore wind development.

A diverse mix of stakeholders provided us with useful comments and ideas on how we might make new offshore wind leasing in Scotland work in the best way possible. This document provides a summary of this feedback and outlines our further thoughts on some aspects of the leasing design. Topics covered include:

- [Timing](#)
- [Site selection](#)
- [Limiting/Target setting](#)
- [Option Agreement fees](#)
- [Milestones](#)
- [Application evaluation](#)
- [Clearing and refinement](#)
- [Rent](#)
- [Multi-phase Option Agreements](#)
- [Clustering and separation](#)

We will continue working with the Discussion Document responses in shaping the final leasing design. If you have any comments or queries on this summary, please email hannah.hendron@crownestatescotland.com or call 0131 260 6071 to speak to Hannah Hendron, Policy & Planning Manager.



Topic	Summary of responses to Discussion Document	Update on the leasing design
Timing	<p>Respondents welcomed our intention to invite applications for new offshore wind projects within the strategic locations identified through Marine Scotland’s Sectoral Marine Planning (SMP) process and commented that timings for the leasing round would then be largely driven by the progress of the SMP toward finalisation and adoption.</p> <p>Most of the feedback received supported the leasing process launch aligning with the release of the Marine Scotland draft Sectoral Marine Plan (the Plan). Many stakeholders preferred this as it allows for earlier engagement in project development activities (for example, consenting related surveys and early stakeholder engagement). Responses also highlighted wider benefits of launching on the draft Plan, these being in relation to reaching Scottish renewable energy targets, providing a sustainable pipeline for the Scottish offshore wind supply chain and the opportunity for timely participation in the UK-wide offshore wind subsidy regime.</p> <p>Some respondents highlighted the uncertainty associated with launching leasing on the draft Plan, given the ongoing work to the draft Plan areas and the potential for these areas to differ from the final adopted Plan.</p>	<p>We intend to invite applications for Option Agreements based on the areas identified by Marine Scotland in the draft planning stage of the SMP process.</p> <p>We intend to allow between four and six months from publication of our full leasing pack until the closing date for applications, to allow sufficient time for well-developed applications to be prepared.</p> <p>We anticipate that our evaluation and scoring of applications, to determine those which are successful, will take around three months. The first Option Agreements will be offered to successful applicants after point R1 shown in Figure 1. These agreements will include conditionality which reflect the fact that the Option Agreement is offered in advance of adoption of the Plan.</p> <p>Clearing will take place after the SMP has been adopted. Clearing is not offered before the Adopted SMP because we recognise the quantity of work which will be required to develop a Clearing request, and we do not wish to invite that work in advance of the adopted SMP being available. Clearing will be offered to any applicants awarded Option Agreements at point R1 but whose sites then fall outside the final adopted SMP. Clearing will also be offered to any applicants which reached the required standard but were not successful in competition with other applicants in the Evaluation stage leading up to point R1 shown in Figure 1.</p> <p>Clearing will entail applicants preparing Clearing requests and time for our evaluation of those requests. We think that less time may be required to prepare a Clearing request than an initial application, although we would still wish to allow sufficient time for well-</p>



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		<p>developed requests. Similarly, we anticipate requiring less time to evaluate a Clearing request than an initial application. We therefore anticipate Clearing allowing 3 to 4 months to prepare a request and 2 to 3 months to evaluate it.</p> <p>We intend that the next cycle of leasing will be between 24 and 36 months from the close of this initial leasing cycle. We will include a clear statement of our intentions about the next cycle of leasing when the first cycle is launched in 2019. This will be caveated since circumstances might arise which make an adjustment to our intended timing a sensible thing to do.</p>

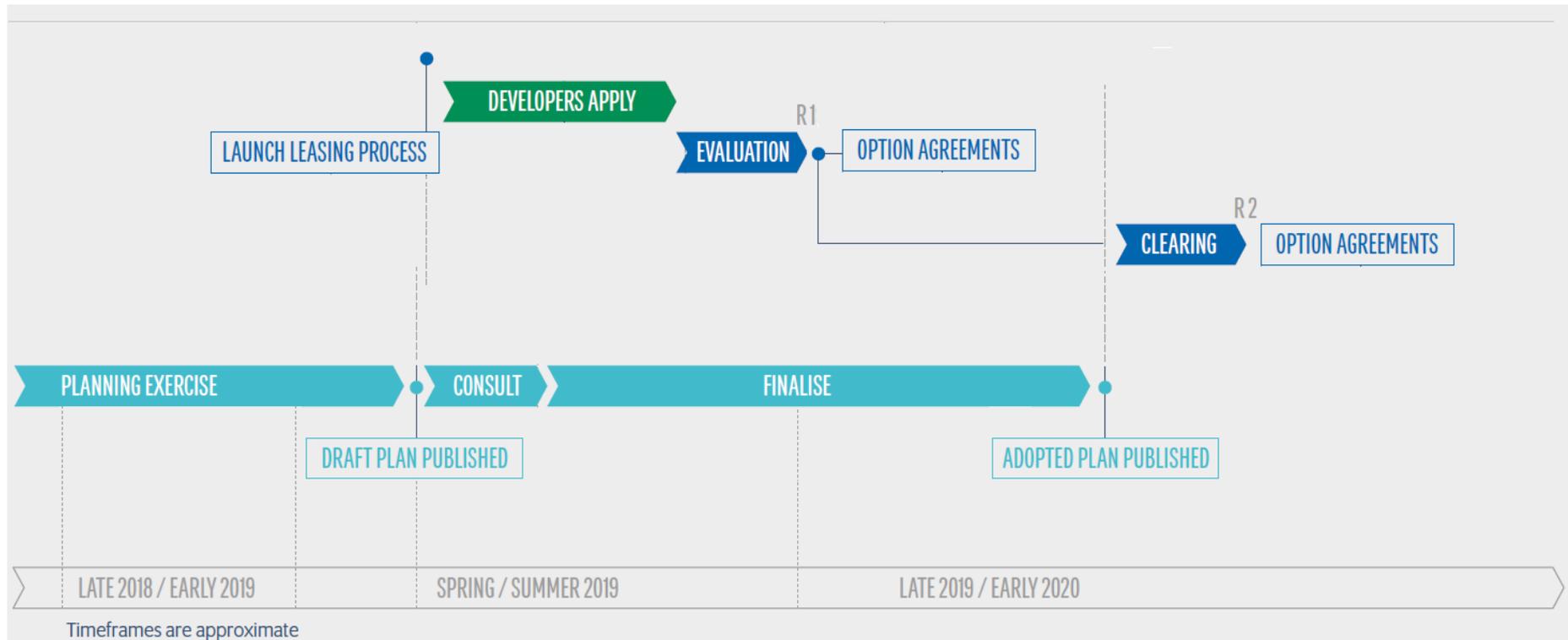


Figure 1 – outline of timescales



Further comment on timescales

Final timings for our leasing will be linked to the Marine Scotland SMP process. To begin to provide certainty to potential applicants, we have decided that we will not launch our leasing prior to April 2019, even if information on the draft Plan has been published.

On the assumptions that our leasing is launched in April 2019, we allow six months for preparation of applications, and that the adopted Plan is available around nine months after that, the dates for the various steps would be as follows:

	<i>Earliest timeline</i>
Crown Estate Scotland Leasing Launched	April 2019
Deadline for applications to Crown Estate Scotland	October 2019
Offer of option agreements to successful applicants (R1 on Figure 1)	January 2020
Commencement of Clearing	January 2020
Offer of option agreements through Clearing (R2 on Figure 1)	June 2020
Commencement of second cycle of leasing	April 2021

On these assumption, this is the earliest timeline for our leasing, with the actual timeline possibly being later. We will give a further update on our intended timings before the end of January 2019, and as appropriate thereafter.



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Site selection	<p>Almost all the responses showed support for applicants selecting site boundary and size, so long as site selection aligns with the SMP. Support for this approach centred on the flexibility it provides and the fact the developers are in the best position to select sites.</p> <p>Although there was support for flexibility, feedback did highlight the need for Crown Estate Scotland to prevent inefficient use of the seabed. Respondents suggested there should be mechanisms to prevent developers securing leases for areas with no immediate prospect of development.</p>	<p>To maintain the flexibility that was well received in the responses, we will enable applicants to select site boundary and size. We intend that each individual application should fall within an individual SMP draft plan area.</p> <p>We intend to have a cap on the maximum area of an individual application, most likely in thousands of km² rather than hundreds of km². We do not intend to permit one application to encompass seabed located in more than one draft plan area in the Plan – therefore the maximum area of an application could be set by the size of the option area in the SMP rather than the cap which we will specify.</p> <p>We do not intend to limit the number of applications that each applicant may make. We will estimate the number of applications we expect to receive and will set an application fee to cover the cost of preparing and implementing the leasing round. We anticipate the application fee will be of the order of £15k to £30k per application.</p>
Limiting/Target setting	<p>The responses to our Discussion Document were evenly balanced as to whether or not we should cap overall award of seabed in a cycle of leasing. Those responses in favour of capping identified a number of benefits in having a smooth development pipeline including: reducing cumulative impacts, avoiding overload of stakeholders and infrastructure, and aligning new development pipeline with the feasible route to market.</p> <p>Some stakeholders fed back that an uncapped leasing round could lead to more capacity than expected being delivered which could cause major difficulties in the</p>	<p>We do not intend to impose a cap on the total amount of seabed awarded in a cycle of leasing. If the Plan identifies a limit on how much of a plan area should be developed, or what proportion of it should be developed, or the timing of any development, then we will apply our scoring to ensure that only applications up to the level allowed for in the Plan are taken forward.</p> <p>Uncertainty in the correct level of new development pipeline in Scotland for up to a decade in the future, and the uncertainty in the relationship between seabed area awarded and resulting capacity lead us to the decision that Crown Estate Scotland will not apply a hard limit to the area of seabed awarded in a given cycle of leasing.</p>



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	<p>consenting process due to cumulative impacts, reduce the overall accessibility of grid connections and mean that projects that are less mature and less likely to be delivered blocking the development and delivery of better projects.</p> <p>It was highlighted that there is a limit to the total amount of offshore wind farm development that can be efficiently developed, secure CfDs and be constructed simultaneously due to limits on the consenting process, capacity award in a CfD round, access to specialist skills and supply chain capacity.</p>	<p>We will however indicate the broad level of new capacity that, on current information, we would see as being a sensible outcome of each cycle of leasing that we undertake. For the first cycle of leasing, we can see potential appetite for multiple GW of new offshore wind capacity in Scotland over the period which will be covered by Marine Scotland's forthcoming SMP. We intend to design the leasing process to accommodate applicant interest at that scale.</p>
<p>Option Agreement Fees</p>	<p>The majority of respondents broadly agreed with the proposed approach to Option Agreement fees.</p> <p>Regarding the concept of Applicant Valuation, there was some concern that it could result in unreasonably high and speculative valuations as opposed to increasing the likelihood of project delivery. It was flagged that Crown Estate Scotland must control the Applicant Valuation process somewhat, in order to prevent these speculative valuations pushing up overall costs of development and risking project viability.</p> <p>However, the majority of responses welcomed the approach. Some feedback indicated that having fees flex to reflect the characteristics of certain areas would be an effective way to manage the diverse range of seabed which could be leased.</p>	<p>We have decided to include a simplified Applicant Valuation in the final leasing design, as the means of setting the Option Agreement fee. Rather than invite bids on an open-ended basis, we will pre-define levels of fee in £ per km² of area applied for, and invite applicants to select the Applicant Valuation they wish to assign to their application. This will enable a limited degree of price-discovery of the value to the market of a seabed option and may provide a coarse indication of the relative cost-competitiveness of alternative intended projects at a given location.</p> <p>We had considered incentivising progress by structuring some of the Option Agreement fee in instalments over the agreement term, but we now intend to follow a simplified approach so the payment will be due upon Option Agreement award.</p>



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	<p>Some feedback did indicate that a standard fee and charging method would provide a more straightforward route to application and give more certainty to the process.</p> <p>A clearer description of how Applicant Valuation will be used in the evaluation process was requested. Feedback indicated the need for more detail on how Applicant Valuation will be used to determine competing interests, if it will be reflected in the lease payments and how the base level will be set.</p>	
Milestones	<p>Feedback indicated that milestones requiring a percentage commitment of development budget could result in inappropriate spend and discourage cost-effective development activities. Responses suggested that budget related milestones do not account for variances in project timelines or encourage innovation.</p> <p>Milestones linked to activities that demonstrate project progress were preferred by respondents. Many stakeholders provided feedback that developers should be encouraged to demonstrate their ability and commitment to initiating a timely programme of work, as opposed to committing arbitrary budget to avoid Option termination. It was suggested in the feedback that activity-based milestones would promote this responsible site development in a more effective way than budgetary commitments would.</p>	<p>A simplified milestone structure will be brought forward in the leasing design. Given the feedback received, it is now our view that two activity-based milestones set at timely intervals throughout the 10-year option period will encourage responsible development of the site.</p> <p>Milestone 1 will be linked to the Scoping phase of pre-consent application work. To achieve this milestone, the Option Agreement holder must request a scoping opinion from the Scottish Ministers.</p> <p>Milestone 2 will be linked to the submission of the consent application. To achieve this milestone, the Option Agreement holder must have submitted their final application for consent to Scottish Ministers.</p> <p>Further information on what is required from applicants at the scoping phase and consent application stage, can be found in the Marine Scotland Offshore wind, wave and tidal energy applications: consenting and licensing manual.</p>



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	<p>The need for flexibility in whatever the final milestone structure is selected was highlighted. Feedback suggested that the possibility of unforeseen delays in the consenting process and the need for milestones to work across technology types (i.e. fixed and floating foundations) result in the need for Crown Estate Scotland to adopt a flexible approach to milestones.</p>	
<p>Application evaluation</p>	<p>The majority of feedback considered the areas identified for evaluation to be reasonable.</p> <p>Application questions and Crown Estate Scotland’s expectations must reflect the early stage of development the prospective project will be in. In saying this, respondents highlighted the need for applications to be appropriately pitched for the pre-lease stage, where applicants can only commit so much resource to developing an application given the associated risk.</p> <p>We received feedback that it would be useful to see the level of detail that would be expected under the evaluation headings along with a clearer explanation on how these criteria will be scored.</p>	<p>The evaluation of applications will cover the headings suggested in the Discussion Document, although we may broaden the requirement for commitment to the project to also encompass an appropriate commitment to realising wider benefits from developments.</p> <p>The leasing pack, including application form and guidelines, will be published before the application window opens. The leasing pack will explain the evaluation criteria and scoring at an appropriate level of detail.</p>
<p>Clearing and refinement</p>	<p>Responses showed support for the inclusion of some form of Clearing and Refinement in this cycle of leasing.</p> <p>Feedback indicated that Clearing should promote efficient use of the seabed. The majority of stakeholders indicated that there should be a clearing process to optimise the Plan areas available for development by helping those</p>	<p>Clearing will be included in the final leasing design. Clearing will only take place once the SMP has been adopted (see Topic ‘Timing’ for more detail).</p> <p>The Discussion Document feedback indicated caution about Refinement and did not include specific suggestions for what might be included in its scope. This leads us to the conclusion that we will offer a Refinement</p>



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	<p>applicants who were out-scored by competing applications or fall outside the final adopted SMP find alternative development projects.</p> <p>Although there was support for keeping the process of Clearing in the leasing design, there was feedback that a clearer idea on the timing of Clearing and how this will interact with the SMP process needed to be communicated.</p> <p>The majority of responses supported including Refinement in the leasing design. Feedback did however indicate that the exact scope of Refinement would need to be carefully considered to ensure it is a valuable process as opposed to a step that may not add value and would eat into project development programmes. A risk that was fed back by many stakeholders was the commercial sensitivities of project information and how this may affect the level of Refinement, as described in the Discussion Document, that an applicant can commit to.</p>	<p>opportunity (at R1 on Figure 1) for those successful applicants initially offered Option Agreements and a separate Refinement opportunity (at R2 on Figure 1) for those applicants offered Option Agreements as a result of Clearing. The scope of the Refinement which occurs prior to finalisation of Option Agreements will be relatively limited.</p>
Rent	<p>Profiled rent as a means of incentivising commencement of operations under the Lease was regarded as unnecessary given other stronger drivers which will also exist.</p> <p>We received lots of valuable feedback in terms of how wider benefits from the development of offshore wind might be realised. Responses highlighted the need for a clear pipeline of projects to unlock economic benefit</p>	<p>We have decided not to include profiled rent to incentivise commencement of operations under the Lease.</p> <p>Crown Estate Scotland is committed to realising the wider benefits of offshore wind in Scotland and ensuring Option Agreement holders share this same commitment.</p> <p>We are currently considering measures to support and incentivise the realisation of wider benefits from offshore wind in leasing design.</p>



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	<p>around Scotland through increased local employment and wider supply chain effects.</p> <p>Engagement was flagged by many respondents as a key way to ensure wider benefit is realised. This engagement should be early and involve all potential stakeholders, from supply chain representative bodies and training and skills providers to local authorities and local communities.</p>	
Multi-phase Option Agreements	<p>There was general support for the possibility of both single and multi-phase Option Agreements. We received a number of comments about the boundaries between the two.</p>	<p>We intend to offer single-project Option Agreements which can be requested for applications of any area.</p> <p>We intend to offer multi-project Option Agreements for applications of areas 150 km² and above.</p> <p>This means that projects of any size may be tackled in a single phase, and applicants have the option of requesting multi-phase development for applications of more than 150 km² but multi-phase option agreements would not be offered for the smallest projects.</p>
Clustering and separation	<p>Feedback was largely of the view that the leasing process was not the right place to seek to influence clustering because it was too blunt an instrument which could not reflect specifics of particular situations.</p> <p>There was broad support for a minimum separation between Option Agreements. Suggestions for the separation distance ranged from less than 5 km to more than 10 km, with comments that separation the required distances may be specific to particular situations.</p>	<p>We do not intend to attempt to limit clustering of applications either by express means or by including a large minimum separation between applications. We will rely on the SMP work to guide applicants towards appropriate applications.</p> <p>We intend to have a minimum separation between each application and any other application, and between each application and any existing site, which would apply unless there was mutual agreement to vary it.</p>



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		<p>We intend to allow an applicant to have less than that default level of minimum separation if the two relevant parties agree that they are content to have less separation between sites. That would result in two applicants to the leasing process having the option of agreeing to proceed with two sites in closer proximity than the default minimum separation if both parties agreed. It would also result in existing sites (not participating in the new leasing) having the option to agree with any new applicant which approaches them that the new application may come closer than the default minimum separation, but also the ability to withhold agreement and in that case have confidence that no new application would be nearer than the default minimum separation.</p> <p>We intend to set the default minimum separation to 5km. It may be that applicants prefer a larger separation: since we allow flexibility in choice of application boundary, a greater buffer can be achieved indirectly by selecting an application boundary which allows for an additional area within which turbines are not intended to be placed.</p>