



INTOG LEASING

DELIVERED BY CROWN ESTATE SCOTLAND

Response document

JUNE 2022

CONTENTS

1. Introduction.....	3
2. Purpose	4
3. Key Feedback Themes.....	5
4. Next Steps.....	13
Annex 1	14
Annex 2	15

1. INTRODUCTION

Crown Estate Scotland (CES) published the Innovation and Targeted Oil and Gas (INTOG) Leasing Information Document on 22nd February 2022.

The Leasing Information Document posed three (3) questions to potential applicants and stakeholders, inviting feedback on:

- **Question 1** – The proposed Agreement Terms (IN, TOG and common terms)
- **Question 2** – Application window timescales
- **Question 3** – Any additional comments and indication of interest to apply.

CES received thirty-six (36) responses from a range of stakeholders and potential applicants (“respondents”).

It’s worth noting, that while INTOG has been welcomed as an initiative to accelerate the decarbonisation process, there is broad recognition that there are several challenges that will need to be resolved collectively by industry and government bodies working together.

The INTOG leasing round, due to be launched summer 2022, is a ‘first of its kind’ and there is no direct precedent to consider when finalising the design and requirements. In addition, the objectives for INTOG (stimulating innovation and decarbonising oil & gas) are different from those of other offshore leasing rounds and as a result some key features of the INTOG design and requirements, including pricing, are also different.

2. PURPOSE

The purpose of this document is to provide the key themes raised by respondents and from continued market engagement, together with our response and intended action

Respondents suggested that some aspects of the proposed process could be amended. Some respondents highlighted challenges that relate to the roles and remits of other bodies.

We have carefully considered all the feedback received and this document shows how this feedback has contributed to the ongoing design of the leasing process

The final leasing documentation will incorporate any changes to the process and will be released at the launch of the INTOG leasing round.

3. KEY FEEDBACK THEMES

3.1 Application Window Timescales

Respondents' Feedback

The proposed application window timeline of two (2) months works well for Innovation (IN) projects given that some of these projects are aimed at developing innovations to inform and support ScotWind projects.

For Targeted Oil & Gas projects (TOG) most respondents stated the application window seemed optimistic and challenging. Project partner alignment, internal approvals, quality of submissions, and resource requirements were cited as common responses. Several respondents highlighted that the application window for ScotWind Leasing was much longer. On the other hand, it was also acknowledged by several respondents that a sense of urgency is required to meet our decarbonisation targets and that the timeline for INTOG was achievable.

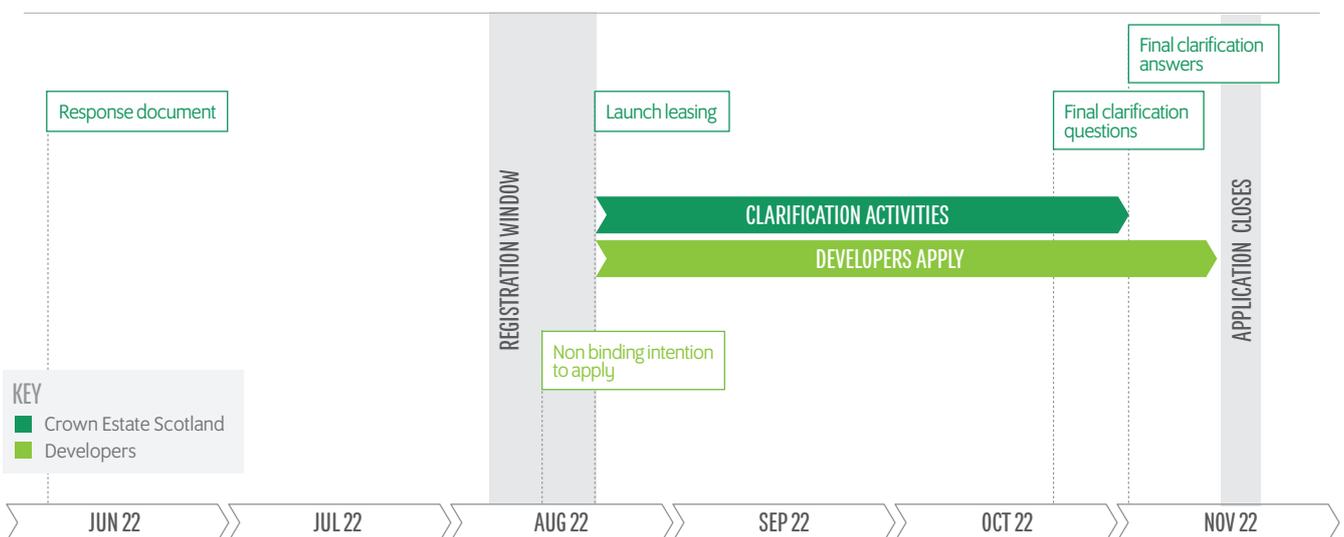
CES Response

The application window timeframe was considered achievable and commensurate with the application process. However, considering all the feedback received and balancing the requests not to delay with the requests for more time, an extension to the Application Window, previously 2 months, of a further one (1) month will be included. The Application Window will therefore close three (3) months after the Leasing documents are launched. In addition, further reflecting the feedback and need for project development and discussion with oil & gas operators to be adequately progressed prior to submission, the target date for launch is also moved from "June 2022" to "August 2022".

The Leasing Information Document (February 2022), Table 4: Overview of Application Timelines will be revised as follows:

Table 4: Overview of Application Timescales

Activity	Estimated Date or Duration
Leasing documents launched and Application Window opens	August 2022
Registration Window opens	August 2022
Registration Window closes	Two weeks from Registration Window opening
Non-binding Intention to Apply	One week from Registration Window closing
Final Clarification questions	Three weeks before the Application Window closes
Final Clarification Answers	Two weeks before the Application Window closes
Application Window closes	Three months after the Registration Window Closes



Timeframes are approximate

Exclusivity Agreement Awards are expected to be awarded in Q1 2023. Further information on timelines will be provided in the final leasing documentation.

We will provide final clarification answers a week earlier than initially proposed meaning applicants will receive them two weeks rather than one week before the application window closes. This allows applicants more time to incorporate any changes to the application as a result of any clarification answers.

In response to accelerating the Innovation leasing process ahead of TOG applications, the Innovation and Targeted Oil & Gas elements are distinct applications, and we will launch the leasing for both applications in parallel. This is principally due to interfaces between IN and TOG projects during the marine planning processes and to help ensure an efficient process for applicants.

3.2 General Timelines

Respondents' Feedback

The majority of respondents commented on timelines associated with the consenting process and connections to grid and the challenges this presents with meeting decarbonisation targets. Several respondents requested a 'holistic timeframe' of INTOG leasing to project delivery to include Marine Scotland, OFGEM and National Grid Electricity System Operator (ESO) activities.

CES Response

Whilst these activities are not within Crown Estate Scotland's control, there is regular dialogue with colleagues at Marine Scotland, National Grid ESO, and other regulators. Our engagement with all parties is targeted at helping enable the shared objectives of INTOG leasing to be achieved. We facilitate and enable discussions between key stakeholders with our focus and responsibility on the leasing process and resulting agreements. We expect a key focus of stakeholder engagement from successful applicants to be around timelines and associated activities for achieving successful delivery of their projects.

Marine Scotland's Initial Plan Framework¹ outlines the broad steps for INTOG planning and leasing (**Annex 1** for reference) and the Plan Development Process² (**Annex 2** for reference).

We sit on the Government and Regulators Electrification Group (GREG) which was established as part of the North Sea Transition Deal (NSTD)³ and works with industry to explore how barriers to electrification can be addressed.

3.3 Option Period

Respondents' Feedback

Around a third of respondents commented on the challenges to meet the five (5) year Option Period timeframe (as opposed to ten (10) years in ScotWind). It was acknowledged that the projects need to be developed at speed, however the current planning processes and a range of other related activities needed during the development phase require to be factored in. Another challenge raised by respondents was to secure grid connection(s) within the timeframe.

CES Response

We acknowledge and recognise the challenges and uncertainties that exist around the critical path activities such as consenting and grid connections. Taking into account the feedback received, we will extend the Option Period from five (5) years by two (2) years resulting in a seven (7) year Option Period in which a lease can be requested from the date of the Option Agreement being signed.

Extending the Option Period any further could distract from the targets set out in the North Sea Transition Deal (NSTD) in respect to decarbonisation and investment to net-zero between government and the offshore oil and gas industry. This leasing process is designed to support delivery on these commitments. We will work with project developers to support successful outcomes alongside encouraging all developers to take all reasonable steps to progress the project and serve a valid Option Notice satisfying the requirements stated in the Option Agreement within the seven (7) years.

¹ Initial Plan Framework Sectoral Marine Plan for Offshore Wind for Innovation and Targeted Oil and Gas Decarbonisation (INTOG) February 2022 at section 5.8, Figure 9 INTOG planning and leasing timeline.

² Initial Plan Framework, Section 2 Plan Development Process, Figure 1 Sectoral Marine Planning process diagram

³ North Sea Transition Deal (publishing.service.gov.uk)

3.4 Lease Period

Respondents Feedback

Most respondents commented that the twenty-five (25) year Lease Period is too short given the wind farm design and operational life, the economic viability of the projects, and the two to three (2-3) years construction timeframe. Feedback made it clear that without a Lease Period significantly longer than 25 years, establishing the business case certainty required for offshore wind projects would be considerably challenging. The requests for extension varied to aligning with ScotWind at sixty (60) years or at least to extend to thirty (30) or forty (40) years to assist with the business case for the project.

CES Response

The reasoning for the twenty-five (25) year Lease Period was in relation to the remaining oil & gas installation life and the specific objective of the TOG element of the leasing process to decarbonise the oil & gas sector.

However, after careful consideration and acknowledging that a shorter project life has an impact on the business case for these complex projects, we will extend the Lease Period to fifty (50) years for TOG projects, with a rent review and break notice at or around 25 years. It should be emphasised that this change does not directly impact the required lifespan of the oil and gas installation, but it is recognised that this will improve the case for offshore wind projects supporting decarbonisation to proceed.

3.5 Letter of Intent

Respondents' Feedback

Some respondents raised questions about the Letter of Intent (LOI) required for TOG projects at the application stage, given the lack of certainty and tight application timeframe. Respondents requested more clarity on the level of commitment and nature of the LOIs.

CES Response

The Letter of Intent (LOI) is a necessary part of the submission process for several reasons, primarily demonstration of demand capacity for the offshore installation (s) and presence of a credible potential customer. LOIs are non-binding and non-exclusive but provide evidence of engagement and intentions to progress in a meaningful way. An LOI can be provided by any platform operator to more than one wind farm project. We consider multiple LOIs could be necessary to ensure optionality and competition to be maintained until final electrification project decisions are made.

The minimum content we expect to see in the LOI is as below, noting that final details will be confirmed in the leasing documentation:

1. Confirmation that the oil and gas operator is considering external power supply solutions from offshore wind farms to use electricity (partially or fully) to decarbonise its offshore operations.
2. Total electricity demand for its offshore operation (total power demand in Megawatts).
3. The wind power sought for decarbonisation from the specific INTOG application (total power demand in Megawatts).
4. The intent by the oil and gas operator to utilise a specified level of power supplied by the applicant for more than five (5) years from wind farm first operation.

The North Sea Transition Authority (NSTA, previously known as the Oil and Gas Authority) are the regulator for the oil, gas and carbon storage industries including regulating emissions reduction and energy integration for net zero. The NSTA will monitor and evaluate how electricity from the wind farms is used by platforms and the subsequent decarbonisation. CES will request the NSTA's view on whether it considers that the information contained in the LOI is consistent with the information provided to it by installation operators.

We understand that power demand from typical platforms does not vary significantly during operations but it is likely that offtake requirements from the wind farm will also need to meet the oil and gas installation demand during peak periods.

Confirmation of average installation power demand over the year, and the nameplate capacity of the power supply (e.g. gas generator) which will subsequently be offline as a result of the offshore wind farm will be the type of evidence which will be reviewed by the NSTA.

The level of commitment required will increase with project certainty to demonstrate the firm nature of scale and demand at Option Agreement stage with a binding Offtake Agreement required to serve an Option Notice to step into lease.

The level of commitment required at Application and Agreement stage is detailed below:

- **Application Stage:** Letter of Intent (non-binding)
- **Exclusivity Period:** Heads of Terms for proposed offtake arrangement as a requirement for entering the Option Agreement (non-binding)
- **Option Notice** (served within the Option Period to step into Lease): Offtake Agreement (binding)

3.6 Supply Chain Development Statements (SCDS)

Respondents' Feedback

Respondents highlighted that the level of detail required for SCDS would be difficult to provide at the application stage and this is likely to result in highly speculative submissions.

CES Response

It is beneficial for the offshore wind sector for projects to be developed in a way that supports the longer-term sustainability of offshore wind development. The SCDS will help support a fair and smooth transition by furthering the development of supply chain for offshore wind.

SCDS requirements are designed and intended to allow projects to demonstrate the level and the location of supply chain expenditure anticipated for their proposed project. The information which is disclosed and updated via the SCDS arrangements is intended to play a part in investment in, and development of, the supply chain for INTOG projects.

To optimise supply chain engagement and to streamline the submission process, the point of submission of the Initial SCDS Commitments will be included as a schedule in the Option Agreements when the project definition has progressed further, as opposed to the application stage.

3.7 Evaluation Criteria

Respondents' Feedback

Several respondents raised observations regarding the scoring criteria and current weighting towards the price element of TOG at seventy per cent (70%) and IN at thirty per cent (30%) with the Option Fee uncapped. A number of stakeholders stated this approach might stifle innovation, especially for IN projects which cannot benefit from the economies of scale. A suggestion was made to add more emphasis on deliverability and project readiness/technical maturity.

A number of respondents also raised that the NSTD decarbonisation targets and emission abatements should be included as part of the evaluation of applications.

CES Response

The application process provides Applicants an opportunity to select their preferred seabed area and state the Option Fee amount that they are prepared

to pay, beyond the minimum level set (£50k/km² for TOG and £5k/km² for IN). Applicants will bid at a level appropriate for their proposed project, reflecting the specific level of risk and uncertainty. We recognise that the economics for electrification projects remain challenging and uncertain. The INTOG leasing process is designed to enable successful delivery in line with the stated objectives⁴:

For TOG

- To maximise the role of offshore wind to reduce emissions from oil and gas production.
- To achieve target installed capacity in a way that delivers best value for Scotland, creating supply chain opportunity in alignment with Just Transition principles.

For IN

- To enable projects which support cost reduction in support of commercial deployment of offshore wind; including alternative outputs such as hydrogen, and
- To further develop Scotland as a destination for innovation and technical development which will lead to risk reductions and supply chain opportunity.

We maintain the view that the balance between the price and deliverability criteria for TOG projects and price, innovation, and deliverability for IN projects is appropriate.

For clarity on the price element for TOG projects, the Option Fee equates to the area of seabed covered in the Option Agreement (km²) and the level bid by the Applicant (£/km²) so is directly linked to the scale of the decarbonisation potential.

Independent market analysis on various approaches and modelling to pricing was undertaken and explored. Open market pricing allowing the market to price projects, with a minimum price set by CES, was considered the optimal approach for this leasing round.

INTOG is the first leasing round of its kind and as a result there are considerable uncertainties for projects and route to market. Given this context and lack of direct precedent, CES considered it appropriate to give the opportunity for the market to set the appropriate price, subject to the reserve price, given that this is a new and untested landscape.

CES has set a minimum price level (or reserve price) to ensure that acceptable value is achieved in IN and TOG

⁴ INTOG Leasing Information Document, Section 2 Objectives of INTOG Leasing, February 2022

applications. The reserve price for IN was set at a rate commensurate to agreements, and extensions, to Test & Demonstration (T&D) projects previously awarded, many of which are now operational.

In relation to evaluation of decarbonisation targets, incorporating decarbonisation as an explicit criterion on the scoring matrix was carefully considered. The number of variables and uncertainties associated with this aspect of TOG including complexity around implementation and regulatory overlap has led us to conclude that this approach is not viable. However, all TOG applications must demonstrate a demand for the electricity from oil and gas installations for at least five (5) years. An upper limit has been set on wind farm capacity of five (5) times that demand to ensure proportionality in scale to the installation demand while maximising opportunity for successful wind farm projects and associated decarbonisation impact.

The five (5) year period was recommended by market analysis given the rapid pace of Brownfield closures through the 2030s. Analysis suggests that this level should help ensure that projects will genuinely contribute to platform electrification (and hence decarbonisation), rather than being conventional wind projects seeking TOG status to obtain a lease.

INTOG makes seabed available for offshore wind projects capable of supporting electrification, therefore the decarbonisation of offshore oil and gas installations. We play a critical role as seabed manager in the development of offshore wind, primarily by supporting development of the offshore wind sector and awarding and managing leases.

There is no basis for an agreement between oil and gas operators and CES. CES will offer agreements and leases to wind farms operators. How the wind farm output is used by platforms and the subsequent decarbonisation is monitored and evaluated by the NSTA (or other regulators). We don't intend to overlap or add additional requirements to established processes.

3.8 NSTD Decarbonisation Objective

Respondents' Feedback

A general comment was made on electrification being only one route to meet the net zero targets in Scotland and that more flexibility on decarbonisation as the goal should be open as an opportunity in this leasing round.

CES Response

As outlined in the CES Corporate Plan we take a plan-led approach. We design and align our leasing in accordance with the parameters set out in Marine Scotland's Initial Plan Framework (IPF) which states the core objective of the IPF and associated criteria as follows;

3.5 Targeted Oil and Gas Decarbonisation Projects

“Delivery of sustainable offshore wind projects providing power directly, through electrification, to oil and gas assets is the core objective of this planning process.....provided they meet the following criteria:

- *Projects should be located within the areas identified for Targeted Oil and Gas Decarbonisation projects (see Section 4);*
- *The project should deliver electricity to oil and gas assets. Projects may pursue alternative uses for excess generated energy, such as hydrogen conversion or supply to the grid, but these must be additional to the primary purpose above; and*
- *Any project proceeding to the final Plan must have successfully progressed through CES lease application process and been awarded exclusivity.”*

The INTOG process can result in the wind farm outputs to be used by offshore platforms directly as electricity or- after arriving at the platform- could be converted to alternative sources (such as hydrogen) and then utilised on the installation. Furthermore, we don't prescribe how the wind farm output not utilised by the oil and gas installation (the 'excess') can be used.

The process is designed to best enable offshore wind development which is capable of decarbonising offshore oil and gas installations. For electricity which has not been used by the offshore oil and gas installation, rent payable to CES will be levied at two percent (2%) of gross revenue as opposed to one per cent (1%) for electricity supplied to offshore oil and gas installations.

3.9 Additional Comments

A range of additional comments and questions were received from respondents with CES responses documented below with the aim to best represent the general feedback received.

Representative respondent comment/question	CES response
When will the Guidance Notes be issued?	Guidance Notes will be issued with the final leasing documentation at leasing launch.
Will there be a Clearing round for INTOG?	Due to the novel approach for EAs to interface with Spatial Marine Planning, Clearing is not intended to be a feature of INTOG.
Can Innovation projects also be a TOG project?	<p>INTOG Leasing will make seabed available in a manner consistent with Marine Scotland’s Initial Planning Framework which provides clear explanations for IN and TOG projects, with corresponding spatial definitions.</p> <p>As per section 3.8 of this document, if a project is providing power directly, through electrification to oil and gas assets then this project is classed as a TOG project. We expect that TOG projects will have an element of ‘innovation’ and shall proceed on the basis of the process outlined in the leasing documentation.</p>
Will an applicant be allowed to bid for both Innovation and TOG projects?	Yes, applicants can bid separately for IN and / or TOG projects. The number of applications within IN and TOG submitted will be limited with further details being provided in the final leasing documents.
Please provide clarity as to how CES will share data that could be considered commercially sensitive.	<p>If we consider that it would be beneficial to the development of the offshore wind energy industry in Scotland then we may request data related to the development site or surrounding areas. If requesting any such data, we will provide reasons as to why it is required.</p> <p>We will have due regard to any representations made by you, we will consult with you, and take into account your reasonable requests, in relation to the disclosure of such data to any third parties and in particular we will take into account the potentially sensitive or confidential nature of the data.</p> <p>You will appreciate that any commitments we give here are always subject to any obligations of disclosure we may have under any relevant legislation and where Crown Estate Scotland is obliged by law to disclose any such information. Where possible we shall, before making any such disclosure, advise you of that intention.</p>
Please clarify what “the capacity indicated in the Option Agreement” refers to? Is this the offshore wind farm capacity or the oil and gas installation capacity?	Everything contained in the Option Agreement is in relation to the generating asset, the wind farm (including the capacity). Please note that the wind farm capacity cannot exceed five (5) times the annual oil and gas installation power requirement.

<p>Will there be any set of guidelines about the wind farm installation around the Oil & Gas platform such as distance, transmission, and others?</p>	<p>The INTOG Leasing documents will provide all information necessary for applicants to prepare and submit high quality applications. Broad spatial limitations for the location of projects are provided by Marine Scotland in the Initial Planning Framework document, published in February 2022. The planning and individual project consenting process will determine further requirements not set out in the leasing agreements.</p>
<p>Where there is a consortium bid, a consortium assumes a specific legal form, what types of legal form would be permitted?</p>	<p>The company which is awarded seabed rights would typically be a special purpose vehicle (SPV) which must (at the time of agreement signature) be lawfully established, registered in the UK, and capable of entering into legal agreements.</p> <p>More information will be provided on the applicant/ project partners in the leasing documents.</p>
<p>Could CES please clarify whether developers will have to designate a Lead Applicant, as in ScotWind?</p>	<p>Yes, this will be incorporated into the leasing documentation.</p>
<p>Are there any penalties / costs that the developer will incur if they make a successful application but subsequently elect not to develop the project (1) prior to executing the option agreement? (2) prior to serving option notice?</p>	<p>1) The Exclusivity Agreement will give successful Applicants sole offshore wind development rights over the site whilst planning processes are completed. If the project is in the final INTOG Sectoral Marine Plan (SMP) an Option Agreement will be triggered. The Option Fee is a one-off non-refundable sum payable when entering the Exclusivity Agreement due to the basis of the award and commitment to the project necessary to sign the EA.</p> <p>2) In the event a developer decides not to execute an Option Agreement, their Option Fee (payable at entry to Exclusivity Agreement) will not be returned. Should a project not be included in the Adopted Sectoral Marine Plan, the associated Option Fee will be refunded.</p> <p>There is no penalty for not serving an Option Notice. Once the Option Period expires, the Option Agreement will automatically terminate.</p>
<p>Does the INTOG process cover the cable installed between the wind turbine and the off-taking platform? Is it acceptable if (part of) the cable and/or the off-taking platform are out with the boundary defined in Marine Scotland's Initial Plan Framework document. i.e. is it just a requirement for the turbines to be in the boundary?</p>	<p>INTOG and resulting agreements relate specifically to the wind farm. The cables don't have to be within the boundary, however agreements for cables will be provided subsequently and separately.</p>
<p>Is there a target in terms of commissioning date for the proposed projects? Will a shorter time to commissioning be valued in the assessment?</p>	<p>Successful projects must request a lease (which will give rights to construct and operate the wind farm) within the Option Period via an Option Notice, satisfying a number of conditions. No credit will be given for shorter scheduling in the assessment of applications.</p>

<p>Could CES confirm that there is close liaison with Marine Scotland for this leasing round, such that an accelerated timeline for the consenting process can be achieved, recognising that the Option Period is limited to 5 years?</p>	<p>CES is engaged with a range of regulators and government departments including Marine Scotland to ensure that those responsible for the design and implementation of other processes (including consenting) are aware of the project characteristics. Our engagement is targeted at helping achieve the shared objectives of INTOG leasing.</p>
<p>The document states the projects must be aligned with the Initial Plan framework. What does “aligned” mean in this context? Can this be interpreted that there is some flex?</p>	<p>CES have designed the leasing process on the basis of the Initial Plan Framework (IPF). Where the IPF is not prescriptive in relation to the implementation of leasing, our process elaborates on those specific leasing requirements. We will not change the leasing process once initiated. Option Agreements must be in accordance with the final adopted INTOG plan.</p>
<p>What will be the requirement in terms of environmental impact assessment? Is there a need to provide a preliminary assessment of the proposed site? How will projects be compared in that regard?</p>	<p>Projects cannot be granted a lease until all key consents (provided by the appropriate regulators) have been secured. Project level EIA is matter for the relevant regulator. Key parameters of the proposed project for which Exclusivity is sought, such as the project capacity and the site boundary would feed into Marine Scotland’s Sectoral Marine planning process, which would inform the Sustainability Appraisal.</p>
<p>Can CES clarify what limitations an Applicant would have to modify the project concept following the conclusion of the planning process? Should an Applicant be successful in obtaining an Option Agreement, consent would likely be sought over a design envelope rather than the specific concept included in the INTOG bid.</p> <p>There is a need for on-site data gathering and assessment to determine fully the most optimal infrastructure for the site. Is there an option for the Applicant to change/alter/widen the project concept post-award?</p>	<p>Key parameters of the proposed project for which Exclusivity is sought, such as the project capacity and the site boundary would feed into Marine Scotland’s Sectoral Marine planning process, the Sustainability Appraisal and required consultations on the associated draft plan. Following adoption of the plan CES will offer Option Agreements for the footprint/areas of seabed, which may reduce through project optimisation at the time of transfer to Lease but not grow in seabed area.</p>

4. NEXT STEPS

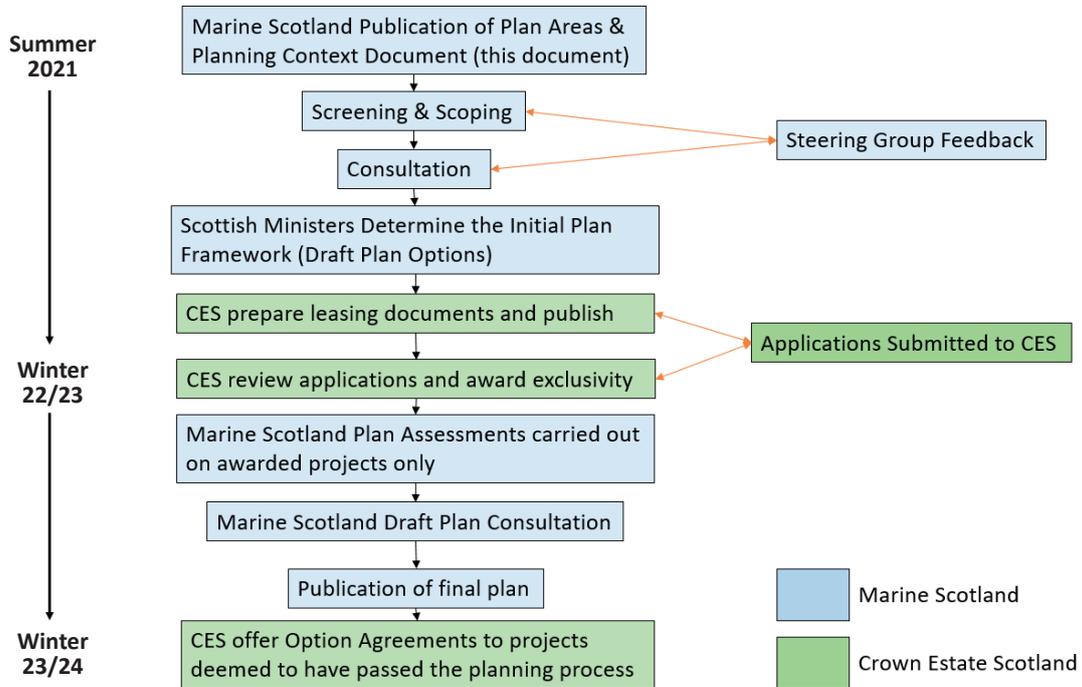
CES is incorporating the feedback into the leasing documentation and will finalise the process for launch in the summer.

The Leasing documentation that we intend to include in the leasing launch includes but is not limited to:

- Offer Document
 - Application Form (online portal)
 - Guidance Notes, to include:
 - Statement of Commitments
- Model Agreements
 - Exclusivity Agreement
 - Option Agreement
 - Lease Agreement

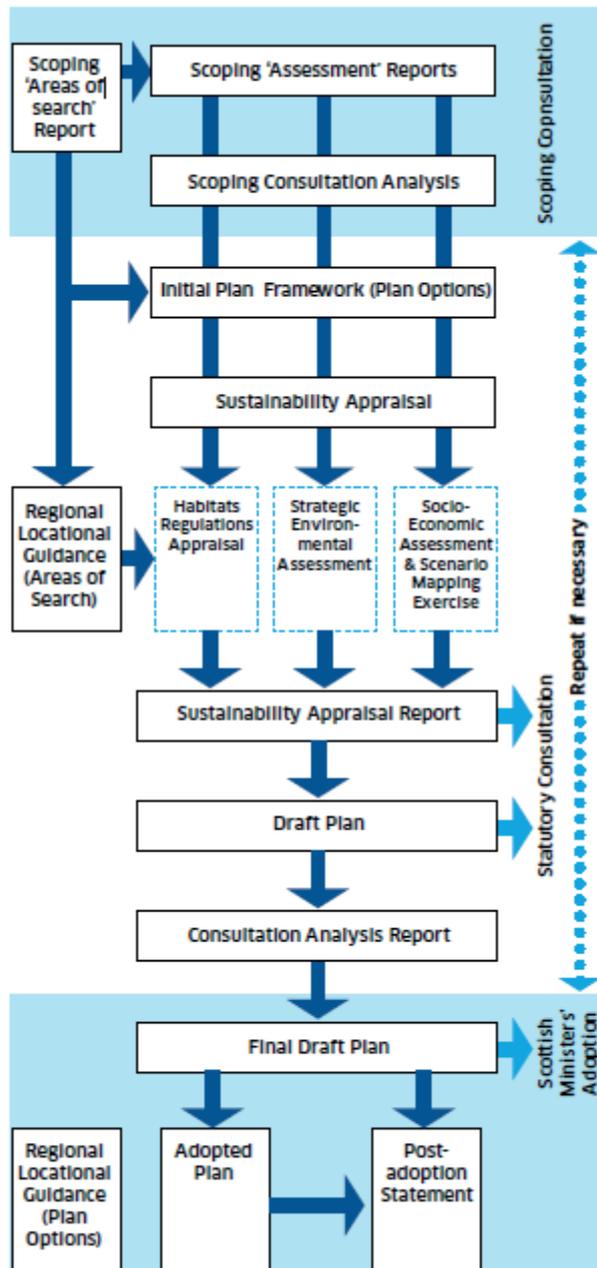
ANNEX 1

Initial Plan Framework INTOG Planning and Leasing Timeline (as amended to reflect current status)



ANNEX 2

Initial Plan Framework Plan Development Process





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