

## Supply Chain Development Statement - Summary

### What is SCDS?

As part of ScotWind Leasing, Crown Estate Scotland requires projects to be developed in a way that supports the sustainability of offshore wind development in Scotland.

The Supply Chain Development Statement (SCDS) will provide a structure for project specific supply chain information to be communicated with government and industry, through the initial stages of project development to deployment and into operations.

SCDS is designed to support a sustainable offshore wind sector in Scotland as a driving force for delivery of net zero requirements and a just transition.

The SCDS requires applicants to produce information about supply chain expenditure expected from their projects.

This information will take two forms:

**Expenditure figures:** Applicants will provide expenditure Commitments broken down by project phase and location. Achievement of these Commitments will be judged by Crown Estate Scotland towards the end of the Development stage of the project.

**The below table illustrates the four stages and geographical regions that will be considered, but it is to be used purely for illustrative purposes:**

Stage	£ Million			
	Scotland	RUK	EU	Elsewhere
Development				
Manufacturing and Fabrication				
Installation				
Operations				

Applicants will also provide a separate table setting out their **Ambition figures**, broken down in the same categories as the Commitments, but representing the location and scale of project expenditure if assumptions made by the applicant are able to be met. The Ambition levels which the applicant regards as being achievable are likely to be greater than the Commitment levels which the applicant is able to be held to under its agreement with Crown Estate Scotland.

The expenditure figures will be accompanied by clear explanations of both the Commitments and the Ambitions. These explanations will be provided to Crown Estate Scotland in two ways:

- a detailed, commercially confidential, and technical update will be provided in an SCDS Narrative paper, and
- a more descriptive public facing document (known as the SCDS Outlook) which will be publicly available.

The initial SCDS Outlook will be published by Crown Estate Scotland once the Option Agreement for that specific project has been signed. The SCDS Outlook will also be updated periodically throughout the option period and, in order to provide visibility to all parties, Crown Estate Scotland will also publish information after each update, so that all stakeholders can successfully collaborate to ensure the right investment is prioritised.

The SCDS is designed to contribute to wider efforts in enabling and directing the right focus and investments in the supply chain to best match individual project requirements and requirements that emerge across multiple ScotWind projects.

Activities and outputs associated with ScotWind Leasing, and in particular the SCDS, are complementary to a number of other initiatives which are also focussed on maximising the opportunity from offshore wind across the UK, such as the CfD Supply Chain Plan, the Offshore Wind Sector Deal and Scottish Offshore Wind Energy Council.

Project applicants will produce a Contracted Position Statement (CPS) at the end of the Development stage of the project which will set out the actual expenditure incurred and the future expenditure which is covered by finalised and well advanced contracts. The CPS will be assessed by Crown Estate Scotland against the SCDS (including any updates made to it since it was first provided) to gauge the extent to which applicants have delivered the Commitments they set out in their SCDS. This is expected around the time that major construction contracts are signed, and just before a seabed Lease is requested. Without this CPS, applicants will not be granted the lease they require to build their project. If the SCDS Commitments have not been achieved then the applicant faces contractual remedies. The presence of remedies means the SCDS Commitments can be regarded with a degree of confidence by stakeholders.

### **Contractual remedies linked to SCDS**

Applicants to ScotWind Leasing make Commitments about the expenditure that will arise from their project at each stage of that project. Contractual remedies in the Crown Estate Scotland option agreement provide an incentive to applicants to achieve the Commitments they have made.

The Commitments and the contracted position are compared separately for each of the four stages of the project, differentiated by the four different geographic areas, meaning there will be 16 separate tests of achievement undertaken in total.

The contractual remedy which is applied is determined by the lowest level of achievement of any of the 16 categories. For example, if the contracted position expenditure meets or exceeds the Commitment in all except one project stage and geographic area, the contractual remedies will still be applied according to the achievement in the one stage and area where the commitment was not met or exceeded, regardless of which geographic area and project stage it is for which the Commitment was not achieved.

The contractual remedies vary depending on how far short of the Commitment the contracted position is, as shown below:

<b>Percentage of Commitment expenditure that is demonstrated by contracted position when lease is requested</b>	<b>Contractual remedy</b>
100% or more	No remedy
90% or above and less than 100%	Payment by applicant of £50k
50% or above and less than 90%	Payment by applicant of £100k
25% or above and less than 50%	Payment by applicant of £250k
Less than 25%	Lease may not be requested

The thresholds (for example the 25% figure) is a requirement that the applicant must achieve for SCDS expenditure in each of the 16 project stages and geographic areas. The figure does not relate to the proportion of the total project expenditure that arises in any given geographic area.

### **How will SCDS information be used?**

The selection of successful applications to ScotWind Leasing is not influenced by the level of commitment or ambition provided in the initial SCDS, and the SCDS does not have specific minimum requirements for expenditure levels or location. The SCDS will provide visibility of a project's expected expenditure (Commitment, and Ambition) in each geographical region during each phase of each project.

The SCDS Outlook will give public visibility of overall supply chain commitments. An applicant may also wish to release detailed information additional to this via which projects can potentially spotlight opportunities, thus helping to make specific project requirements better understood and potentially unlocking more ambition and/or investment.

Over time, the changes to the SCDS expenditure figures, and reasons for those changes will give a useful picture to allow interested parties to understand the drivers behind the supply chain expenditure that emerges.

### **How should SCDS info be interpreted?**

It will be for applicants to make decisions on the levels of commitments they make and the ambition they set out. What they regard as being feasible and possible may change as a

project progresses, which is why they have the ability to make changes and updates. Importantly, these changes and updates will be subject to acceptance by Crown Estate Scotland (otherwise the previous SCDS continues to apply).

It is important to recognise that the SCDS Commitments are unlikely to provide a complete representation of all project expenditure, because they are made early in the project development process. Also, the final expenditure in some categories may remain uncertain until after the CPS needs to be prepared and are therefore unlikely to be covered by Commitments made in the SCDS.

One of the primary factors which drives industry investments and enabling activities is the expected number of projects and the time-horizon over which developments will occur. Decisions to enter or expand presence in the offshore wind supply chain depend on there being confidence that there will be a good pipeline of projects. ScotWind Leasing is designed to identify projects with the highest likelihood of being successfully built and operated. The SCDS is set to provide further 'colour' to how visibility of this forward pipeline of projects can influence and deliver through successive projects in the 2020s and 2030s.

### **What happens next?**

Once projects are awarded Option Agreements from ScotWind Leasing they will commence activities to develop the project to a point where investors can provide backing for construction and operations. There are a range of approaches an applicant can adopt in order to reach this end goal, but whatever the route selected, success will only be achieved through a robust and capable supply chain – projects rely upon the skills, innovation, and capacity of suppliers to ensure safety, cost, and programme requirements are achieved.

At a project level, ScotWind Leasing requires activities to be undertaken in accordance with the applicant obligations connected to procurement and supplier engagement in support of SCDS delivery. In addition, Crown Estate Scotland will undertake a programme of activity in conjunction with Tenant Organisations and other interested parties including Government with a view to utilising the SCDS arrangements to support the development of the supply chain.