



House of Commons  
Welsh Affairs Committee

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**Renewable energy in  
Wales: Government  
response to the  
Committee's Second  
Report**

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**Second Special Report of Session  
2021–22**

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## Welsh Affairs Committee

The Welsh Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Office of the Secretary of State for Wales (including relations with the Senedd Cymru—Welsh Parliament).

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### Committee staff

The current staff of the Committee are Rosie Akeroyd (Committee Specialist), Miranda Good (Assistant Clerk), Dr Adam Evans (Clerk), Louise Glen (Committee Operations Manager), Chloe Jago (Media Officer), Xameerah Malik (Senior Committee Specialist), Lucy Morgan (Committee Specialist), Chloe Smith (Committee Specialist), Kelly Tunnicliffe (Committee Operations Officer).

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# Second Special Report

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The Welsh Affairs Committee published its Second Report of Session 2021–22, [Renewable energy in Wales](#) (HC 439) on 29 July 2021. The Government's response was received on 27 September 2021 and is appended to this report.

## Appendix 1: Letter from the Minister of State for Energy, Clean Growth and Climate Change, and the Parliamentary Under-Secretary of State for Wales, 27 September 2021

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We are writing to respond to your Committee's report into Renewable Energy in Wales, published on 29 July 2021.

Thank you for conducting the enquiry and for the opportunity to respond to the report. The Government remains firmly committed to the renewables industry across the UK, including in Wales, ensuring everyone can benefit from the significant increase in renewable energy that our decarbonisation targets require.

The report notes that there are 58,000 people employed in the energy and environment sectors in Wales, generating over £4.8 billion in revenue. This demonstrates the great success of the renewables sector to date. We are committed to building further on this success, bringing more jobs and more investment to the UK and benefitting local communities. As set out in the recent Energy White Paper and the Prime Minister's Ten Point Plan for a Green Industrial Revolution, the Government is aiming to produce 40GW of offshore wind by 2030, including 1GW of floating wind. Given the rich wind resources around the Celtic Sea, Wales will be uniquely placed to capitalise on this.

We welcome continued working with the Welsh Government to further progress the renewables industry in Wales and tackle challenges or barriers Wales may face in contributing to the UK's decarbonisation journey. The Government response to the report is set out in the attached annex, which both of our departments have worked closely together to produce.

**The Rt Hon Greg Hands MP**

**David T C Davies MP**

## Appendix 2: Government Response

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Committee recommendation: **The Crown Estate should continue to work proactively with developers to ensure that adequate seabed leasing rounds be offered on a regular basis in the future. There should be alignment between timeframes of The Crown Estate for its leasing rounds and the timeframes which underpin developers' investment decisions.**

Response: The management of the seabed off the coastlines of England, Northern Ireland and Wales, including leasing, is the responsibility of The Crown Estate (TCE), which is independent of the UK Government. Created by an Act of Parliament, it is a statutory corporation that operates on a commercial basis.

TCE has played an important role to date in expanding offshore renewable energy capacity in Welsh waters. It manages the seabed and is responsible for balancing a range of maritime and stakeholder interests when exercising its duties.

Following engagement with the market, TCE has confirmed its intention to hold a new leasing round for floating offshore wind in the Celtic Sea, focusing on projects of around 300 megawatts in scale. This will be an important step towards commercialisation of this technology and will put Wales at the forefront of the next wind energy revolution. TCE also recently announced that three 100MW floating wind test & demonstration projects (two of which are in Welsh waters) have passed through the initial application criteria demonstrating technical competence, delivery capability and technological innovation. These projects will now progress to a plan level Habitats Regulations Assessment.

Committee recommendation: **The UK and Welsh governments should explore mechanisms for more effectively distributing wealth generation from renewable energy projects to communities in Wales.**

Response: The UK government remains firmly committed to the renewables industry across the UK, including in Wales, and the associated benefits this brings to local communities. Future Contracts for Difference auctions will provide further opportunities for developers of renewable electricity projects in Wales to secure contracts and expand the amount of capacity supported by the scheme in Wales. Increasing the amount of renewable projects will bring further jobs and investment into Wales, support levelling up and reinvigorate industrial heartlands.

For example, the UK Government is working to realise one gigawatt of floating offshore wind generation capacity. This technology has strong deployment potential in Welsh waters, particularly in the Celtic Sea off the coast of South West Wales and England where wind speeds are high and deep seas are accessible from major strategic ports. We are already seeing developers looking to Wales as a preferred location.

The UK Government and its partners are also taking a range of other actions:

- Floating offshore wind developers will be able to bid into the next Contracts for Difference auction later this year, which includes a ringfenced budget of £24 million for floating offshore wind projects for the first time.<sup>1</sup>

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1 <https://www.gov.uk/government/news/biggest-ever-renewable-energy-support-scheme-backed-by-additional-265-million>

- The UK Government's Net Zero Innovation Portfolio will invest in ground-breaking and innovative floating offshore wind technologies.
- The Crown Estate has confirmed its intention to hold a formal leasing round for floating offshore wind projects in the Celtic Sea, focusing on projects of up to circa 300 megawatts in scale. This is more than ten times the UK's current floating wind capacity and will put Wales at the forefront of the next wind energy revolution.
- Backed by £2.45 million UK Government funding, as part of the £90 million announced to support innovative Welsh net zero projects,<sup>2</sup> the Pembroke Dock Marine project will provide test sites and engineering expertise to boost floating offshore wind.

Wales is also well-placed for other marine energy generation, provided it can offer clear value for money—for instance, in North Wales the tidal current is among the strongest in Europe.

**Committee recommendation: The UK Government must address the funding gap for emerging marine technologies or risk negatively impacting their development. UK Treasury ministers, with Welsh Government ministers, should meet with representatives from the marine energy sector to investigate the feasibility of introducing Innovation Power Purchase Agreements.**

Response: The UK Government recently ran a Call for Evidence inviting views on what scope there is for marine technologies across the UK. In addition, local authorities in Wales and elsewhere had the opportunity to apply to the UK Community Renewal Fund for funding for, among other things, feasibility studies for net zero projects such as coastal energy initiatives.

Tidal range could have a role in the long-term decarbonisation of the UK, but it will need to demonstrate how it can compete with other forms of renewable generation.

The draft auction parameters for the fourth Contracts for Difference allocation round, including the administrative strike prices for wave and tidal stream were published on 13 September. Wave and tidal technologies are eligible to compete in Pot 2, which is for less-established technologies and for which a £55 million budget was announced.

Government officials continue to engage with tidal stream developers to understand their cost-reduction trajectories, where those savings are likely to be found and, importantly in light of declining costs for other renewables, whether there may also be a rationale for funding arrangements outside of the Contracts for Difference scheme.

**Committee recommendation: The UK Government should explore re-introducing generation tariffs to the Smart Export Guarantee in order to adequately support small-scale renewable energy generation. The UK Government should examine bringing back a fixed tariff to incentivise further small-scale energy generation.**

Response: The Smart Export Guarantee (SEG) gives small scale low-carbon electricity generators the right to be paid for the renewable electricity they export to the grid. It

<sup>2</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/990120/UK\\_Government\\_s\\_Plan\\_for\\_Wales\\_May\\_2021\\_\\_ENGLISH\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/990120/UK_Government_s_Plan_for_Wales_May_2021__ENGLISH_.pdf)

reflects our continued commitment to ensuring that low-carbon electricity—whether at the household level or the national level—is central to the transition to the smart and flexible energy systems of the future.

SEG is a market-driven mechanism designed to pave the way to projects being deployed without subsidies. This reflects falling costs, with residential solar panels now over 50% cheaper than in 2011. We believe that the market should determine prices and the SEG has been successful in bringing forward a range of competitive offerings to the market. Renewable generators now have several tariffs to choose from, in some cases even higher than the Feed-in-Tariff export tariff.

Ofgem will prepare an annual report on the provisions made by suppliers for smaller scale exporters. The Government will review this to monitor whether the market is delivering an effective and competitive range of options.

**Committee recommendation: The UK Government needs to work with business stakeholders and the Welsh Government to develop a comprehensive strategy for upskilling the current workforce, leveraging new opportunities and tackling the barriers, including grid constraints, that currently threaten to undermine the potential gains from the shift to a net-zero economy. The UK Government should convene, prior to COP26, a high-level panel of stakeholders to begin work on a reskilling strategy.**

**Response:** The UK government set out in the Ten Point Plan for a green industrial revolution, the importance of supporting levelling up and revitalising our industrial heartlands—and supporting up to 250,000 jobs across the UK by 2030—as we transition to net zero.

While some areas are devolved, many of the initiatives and much of the funding announced within the Ten Point Plan will apply in Wales. For example, we will invest up to £1 billion to support the establishment of Carbon Capture, Usage and Storage (CCUS) in at least four industrial clusters, creating ‘SuperPlaces’ in areas such as central and north-eastern Scotland, south Wales, the Humber, Teesside and Merseyside.

We are also investing in the UK’s most important asset—our workforce—to ensure that people have the right skills to deliver the low-carbon transition and thrive in the high-value jobs this will create. Last year we launched the Green Jobs Taskforce, which included representatives from business, trade unions and skills providers. The group was asked to look at the following challenges and advise government, industry and the skills sector on how to realise the UK’s ambitions for green jobs:

- the skills needed to drive a green recovery from the Covid-19 pandemic;
- the skills needed to reach net zero greenhouse gas emissions by 2050;
- how the UK can ensure green jobs are good jobs, and open to all; and
- how workers in high carbon-sectors can be supported to transition to the new green economy.

The Taskforce engaged with a wide range of industry stakeholders, and officials from the secretariat met with Welsh Government Officials. The Taskforce published its independent

recommendations in July. These recommendations will be considered by Government as part of the development of our Net Zero Strategy, to be launched ahead of COP26, as the first step in responding to the Taskforce's report.

The Green Jobs Taskforce looked at green skills needs from a UK-wide perspective. However, the majority of the Taskforce's recommendations on skills and training largely apply to England only, as this is a devolved area of policy. However, the Welsh Government may find their insights useful when considering how best to meet the challenge of delivering a skilled workforce for net zero. UK Government will look to work closely with all the Devolved Administrations as it continues to develop its approach to green jobs and ensuring we have a skilled workforce to deliver net zero.

**Committee recommendation: A Wales specific Ten Point Plan should be developed that provides a detailed route-map and aspirations, including in terms of job numbers. Parliamentary time should be set aside for this Wales specific plan to be debated by MPs, and be published by the end of the year.**

Response: Wales is well-placed to play a central role in the UK's green industrial revolution and the global effort to reach net zero by 2050. The UK Government has committed £90 million to innovative Welsh net zero projects, including:

- £36 million for the Active Building Centre project to transform the way the UK designs, constructs and operates buildings.
- £15.9 million for electric heavy vehicles to be made in Cwmbran.
- £7.9 million for district heating in Bridgend and Cardiff.
- £1.4 million for hydrogen transport technology.
- £1 million to kickstart the clean industry transition along the Milford Haven Waterway
- £2.45 million for the Pembroke Dock Marine project.

Decarbonisation fund – Wales has the opportunity to benefit from the active £289 million Industrial Energy Transformation Fund, the announced £250 million Clean Steel Fund, the £240 million Net Zero Hydrogen Fund and the £1 billion Carbon Capture and Storage Infrastructure Fund.

South Wales Industrial Cluster – The UK Government and industry have committed to invest over £40 million, £21.5 million and £18.75 million respectively, to support the cluster of industries in South Wales to transition to net zero. As part of the Industrial Decarbonisation Challenge, this includes £38 million to enable South Wales to undertake detailed engineering studies into hydrogen and carbon capture, utilisation and storage (CCUS) infrastructure and a further £2.25 million to enable South Wales to develop a tailor-made, industry-led strategic decarbonisation plan.

Holyhead Hydrogen Hub – The Holyhead Hydrogen Hub proposes a hydrogen pilot production plant to supply hydrogen fuel to the heavy goods and maritime vehicle markets on Ynys Môn. The proposal looks to take advantage of the region's favourable natural

resource endowments and its position as a cross-border, multi-modal transport corridor. The UK Government has made available £4.8 million, subject to business case and other approvals, to support the development of the Holyhead Hydrogen Hub.

Fusion – In December 2020, the UK Atomic Energy Authority (UKAEA) launched the nomination process to find a site for “STEP”, a prototype fusion power plant to be built in the UK by 2040 and backed by £222 million UK Government investment so far. Fusion technology is a long-standing global research endeavour which the UK is looking to maintain an advantage in.

Alongside sites from elsewhere in the UK, Welsh sites have applied to host the prototype fusion power plant. Following a UKAEA-led assessment of all sites, the successful site will be chosen by the Secretary of State for Business, Energy and Industrial Strategy in late 2022. The UK Government is considering policy related to wave and tidal stream energy in light of the information received from the recent Call for Evidence.

Small modular reactors (SMRs) – SMRs are small scale, modular-built nuclear power plants. The UK SMR consortium, led by Rolls Royce, believes that a domestic SMR programme has the potential to support up to 40,000 jobs should it reach its peak, predominantly across North Wales and North West England.

As part of the Prime Minister's Ten Point Plan published in November 2020, the UK Government is committing up to £215 million to progress SMR technology subject to approvals. In May, the UK Government published new guidance for advanced nuclear technologies—both small and advanced modular reactors—to enter the Generic Design Assessment (GDA) process. This unlocks a key step on the path to the deployment of these new nuclear technologies in the UK.

An assessment of potential locations for SMR deployment will take place in due course. The UK Government anticipates SMRs could be deliverable in the UK in the 2030s, and welcomes the work being undertaken by Cwnmi Eginio to consider potential locations for SMR deployment.

**Committee recommendation: The UK Government should maintain a close working relationship with the Welsh Government, particularly in regard to major challenges such as grid capacity and port infrastructure. Where renewable energy projects in Wales are under consideration, Welsh Government ministers should be invited to participate in the Ministerial Delivery Group.**

Response: We recognise the important role for the Devolved Administrations in contributing to the expansion of renewable power in the UK. My officials will continue to work closely with officials in the Devolved Administration and those in the Wales Office to ensure Welsh interests are reflected in the work of the Ministerial Delivery Group.

At a ministerial level, we intend to work closely with the Welsh Government and the other Devolved Administrations through existing fora such as the Net Zero Inter-Ministerial Group.

**Committee recommendation: Further to the UK Government's recent collaboration with the EU on a potential North Sea grid, the UK Government should consider further export from the Celtic Sea to the continent and the creation of a Celtic Sea Economic Zone.**

Response: In last year's Energy White Paper, the UK government included an ambition to realise at least 18 gigawatts of electricity interconnection by 2030. The UK is supportive of electricity interconnection as a core part of our energy strategy due to its benefits in helping to provide an electricity supply that contributes towards our Net Zero decarbonisation goal in a low cost and secure way. We currently have 6 gigawatts in operation, with 1 gigawatt connecting to the island of Ireland, and another 500 megawatts in development.

The Offshore Transmission Network Review is considering how to deliver the transmission connections for the generation needed to meet our considerable offshore wind ambitions (40 gigawatts by 2030) in the most appropriate way. This includes as a key workstream how to facilitate Multi-Purpose Interconnectors, which combine interconnection and direct connections to offshore wind farms.

The EU-UK Trade and Cooperation Agreement provides for cooperation between the UK and EU on the development of renewable energy resources in the North Seas, building on the North Seas Energy Cooperation (NSEC). The UK was an active member of NSEC before the UK left the EU and we hope to resume cooperation with NSEC partners soon. The UK has the largest potential offshore wind capacity in the world, with key developments off the west coast, and we are confident that this regional cooperation initiative can make a huge contribution to decarbonising, diversifying and increasing the security of the European energy system whilst accelerating the transformation of European industries, including our own.

The UK firmly believes that regional cooperation and greater integration of energy systems are key to achieving these objectives and would be very interested to hear more about opportunities in the Celtic Sea.

**Committee recommendation: To mitigate the risk of grid constraints hindering renewable energy development and generation, the UK Government must work in collaboration with Ofgem to plan anticipatory investment in Wales, so that the significant uplift in renewables generation which is likely to occur is not handicapped by our currently severe grid constraints.**

Response: Regulation of the transmission and distribution network is a matter for Ofgem as the independent regulator. Government is working with Ofgem to help ensure that network companies play a full role in meeting our net zero objectives and supports Ofgem's work to enable a regulatory environment where network companies can invest ahead of need, where the need is sufficiently certain to justify this.

The new RIIO-T2 transmission price control will provide £30 billion worth of investment across Great Britain with the potential for a further £10 billion through uncertainty mechanisms over the next five years. Within the existing electricity distribution price control framework, £1.3 billion has been earmarked for expenditure by Western Power Distribution on networks in South and Mid Wales from 2015 to 2023. £765 million has been spent from 2015 to 2020, while targets on network resilience and reliability have been met.

Over the same period, Scottish Power was granted a £2 billion allowance to cover the North Wales and Merseyside distribution network area. £1.4 billion has been spent so far up to 2020. This investment will allow Distribution Network Operators (DNOs) to ready their networks for the changes necessary to accommodate new renewable generation, as well as new low-carbon technologies such as electric vehicle charging and heat pumps.

DNOs like Western Power Distribution and Scottish Power are currently preparing business plans for approval by Ofgem to cover the investments needed in their areas over the next price control period 2023–28. Ofgem is taking active measures in this next period to encourage the investment that will be required to support net zero. This includes providing clearer guidance on when and how companies should undertake anticipatory investment where there is significant uncertainty, and through the introduction of new mechanisms to ensure the price control can adapt to changing requirements.

The Offshore Transmission Network Review (OTNR) seeks to ensure that future connections for offshore wind are delivered in the most appropriate way through increasing coordination and finding the appropriate balance between environment, social and economic costs.

To support the delivery of the 2030 target and net zero by 2050 the review is developing a new plan-led approach that seeks to bring together onshore and offshore network planning in a more holistic way and facilitate more anticipatory investment in the required grid infrastructure.

OTNR has brought together all the key stakeholders involved in the timing, siting, design and delivery of offshore wind, to consider all aspects of the existing regime and how it influences the design and delivery of transmission infrastructure. This includes the Devolved Administration of Wales.

Committee recommendation:

- 1. The UK Government should make clear the likelihood of further funding of ports infrastructure in Wales to support offshore wind. Further port investment should be encouraged for Welsh ports, particularly the Celtic Sea ports, in any future funding Contracts for Difference rounds.**
- 2. The UK and Welsh governments, as well as port operators, and energy companies with developments in Wales, should learn the lessons from the North East of England, where a clear strategy, focus, and public and private sector investment have led to the Port of Blyth becoming a hub for renewable energy development and jobs.**

Response: We fully recognise the potential economic opportunities presented by the growth in offshore wind (including floating wind) needed to secure our Sixth Carbon Budget and net zero targets. Ensuring that the UK can maximise the supply chain and jobs benefits of this technology, alongside its decarbonisation potential, is a priority for the Government.

The Government's investment in port infrastructure has been hugely successful to date, securing jobs and leveraging private investment to enable manufacturers to build the next generation of offshore wind projects. These investments will strengthen our green

economic recovery from COVID-19, helping to build back better by prioritising jobs and skills. Hundreds of people in the local areas can now look forward to new opportunities and new skills in this new and growing industry.

Given the rich wind resource in the Celtic Sea, in particular for floating offshore wind, Wales will be uniquely placed to capitalise on this, and we welcome the opportunity to work more closely with the Welsh government, the industry and other stakeholders to realise this.

**Committee recommendation: We urge the UK and Welsh governments to reach agreement, as soon as possible, on the funding arrangements for a freeport in Wales. If these discussions can be unblocked, the bidding process for a Welsh Freeport should place a heavy emphasis on renewable and net-zero considerations.**

Response: Freeports will be national hubs for international trade, innovation and commerce, regenerating communities across the UK by attracting new businesses, spreading jobs, investment and opportunity to towns and cities across the UK. They will bring together ports, local authorities, businesses and other key local stakeholders to achieve a common goal of shared prosperity and opportunity for their region. We want to ensure that the whole of the UK can benefit. We remain committed to establishing a Freeport in Wales as soon as possible.