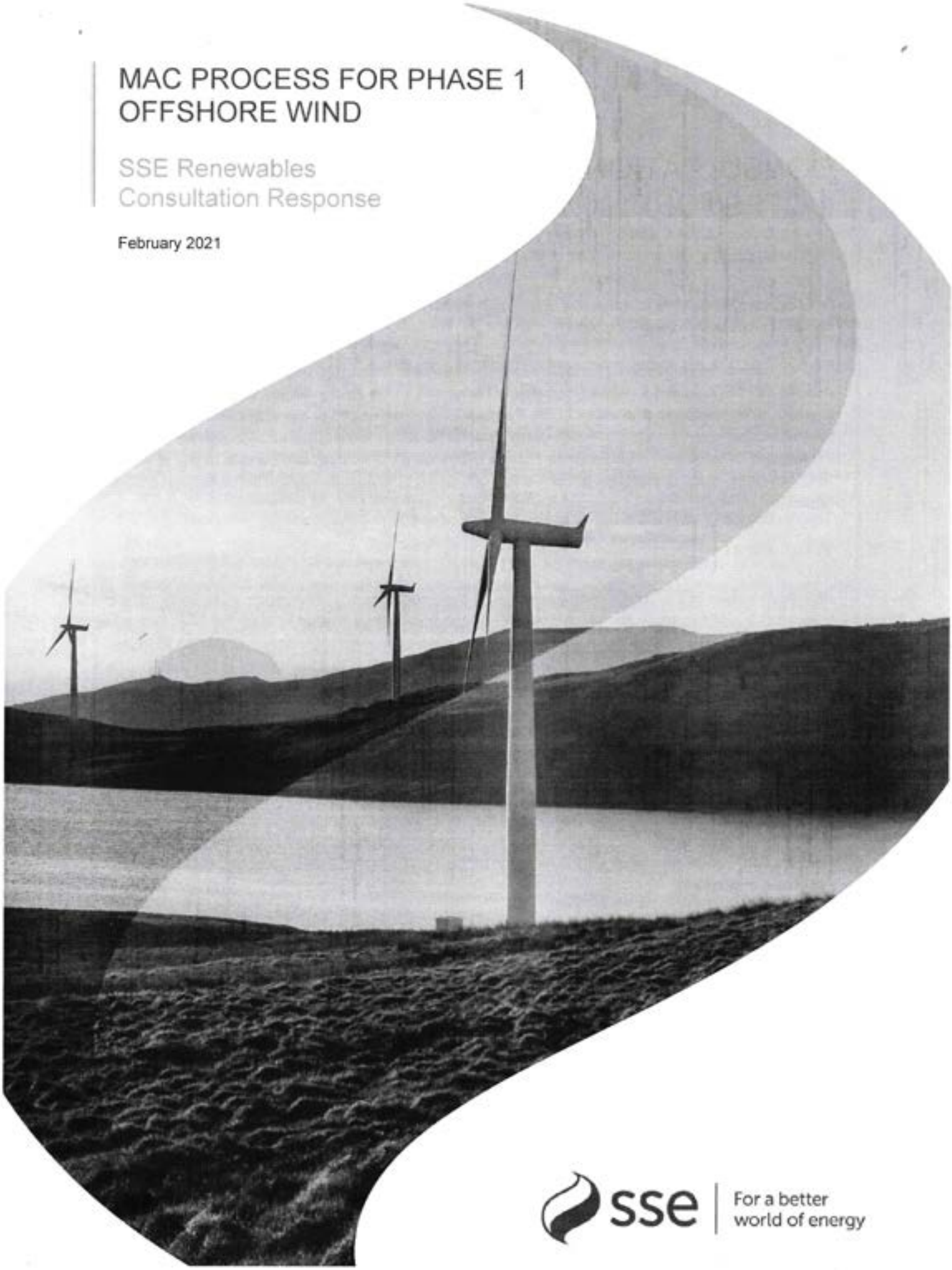
MAC PROCESS FOR PHASE 1 OFFSHORE WIND

SSE Renewables Consultation Response

February 2021



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CONSULTATION ON MAC PROCESS FOR PHASE 1 OFFSHORE WIND

Introduction

SSE Renewables wishes to make this submission for consideration as part of the DECC consultation on the MAC process for Phase 1 projects.

This submission is being made in response to the Offshore Renewable Energy Maritime Area Consent Assessment for Relevant Projects Consultation Document and is strictly without prejudice to any rights, interests, entitlements or otherwise of Sure Partners Limited (SPL) and/or any applications made by SPL pursuant to the foreshore lease between the Minister for Housing Planning and Local Government (formerly the Minister for Marine and Natural Resources) and SPL dated 11 January 2002 and/or to any other rights SPL may have in equity or at law and/or without admission in relation to any factual or legal issue in that regard.

Who we are

SSE Renewables is the largest renewable energy developer, operator and owner in Ireland's all-island Integrated Single Electricity Market. Since entering the Irish energy market in 2008 the SSE Group has invested significantly to grow our business here, with a total economic contribution of €3.8bn to Ireland's economy over the past five years. We have awarded over €9 million to communities in the past 10 years as part of our community benefit programme.

SSE Renewables is building more offshore wind energy than any other company in the world right now. We are currently constructing the world's largest offshore wind energy project, the 3.6 GW Dogger Bank Wind Farm in the North Sea, which is a joint venture with Equinor and Eni, as well as Scotland's largest and the world's deepest fixed bottom offshore site, the 1.1 GW Seagreen Offshore Wind Farm in the Firth of Forth, a joint venture with TotalEnergies. In the recent Scotwind process SSE Renewables we were awarded the rights, along with partners Marubeni Corporation (Marubeni) and Copenhagen Infrastructure Partners (CIP), to develop what will become one of the world's largest floating offshore wind farms off the east coast of Scotland.

Through our construction pipeline we're leading the delivery of £9bn in new offshore wind farms in UK waters. Between them these projects will support and create more than 3,500 supply chain and operations jobs in the UK.

We plan to bring our world-leading excellence in offshore wind energy to Irish waters with plans to deliver 2 GW of offshore wind energy in the Irish Sea and Celtic Sea by 2030, including the Arklow Bank Wind Park off the coast of Co. Wicklow. We are also actively developing Braymore Point off the coast of Louth and Celtic Sea array off the coast of Waterford.

These exciting plans across the UK, Ireland and internationally will propel SSE Renewables further into a new era of growth so we power the way to net zero.

Executive Summary

SSE Renewables welcomes the consultation on the MAC process for Phase 1 projects. Given the imminent opening of the MAC application window, it is vitally important that the process is set up such that the risk of failure by the limited number of parties is minimised, whilst also ensuring the process is robust and legitimate, setting out a solid framework which can be rolled on to Phase 2.

SSE Renewables views the majority of what DECC has set out in its consultation as reasonable, notwithstanding a number of exceptions, some of which are significant. We also have concern that there are some inconsistencies within the document which must be rectified before the MAC process begins proper.

Our priority concern is with respect to the **duration of the MAC** proposed, that being 30 years. As we outline in our response, this duration is excessively short and is not in keeping with modern turbine lifespans, which could be up to 35 years and potentially beyond. A duration which provides projects with the opportunity to repower will also take some pressure off the ORESS contract and remuneration via the PSO. As such, we suggest a period of 80 years, with rationale provided in the body of our response.

With regard to the **technical** and **financial criteria**, we believe these are by and large reasonable (bar a number exceptions noted within our response). It is important that companies can demonstrate the requisite technical experience and competence, and show robust financial capability, both of which are absolutely vital in the delivering of offshore wind. Where companies are unable to meet these requirements, they should look to work with partners. This model has been used in Scotwind where the majority of seabed was awarded to applications containing multiple companies.

Notwithstanding our general support for the financial and technical capability assessments, we do have some significant concerns. We anticipate the requirements for **guarantee of funds** are to cover the cost of a MAC (i.e. the appropriate levies), rather than the full cost of the offshore wind project (given that both an ORESS contract and planning permission will subsequently required for this). A guarantee to cover the cost of the project in full would be in the € billions, a requirement which even for SSE with our experience in multiple jurisdictions would be a first. It is also unclear at what point this guarantee would be required, with SSE suggesting it should be submitted on provision of MAC (i.e. September). There are a number of other concerns with respect to the financial requirements that SSE has outlined below.

Whilst we support in principal the notion that projects should choose **coordinates** within their original foreshore lease or lease application, we have significant concerns about the equitability of this process given the presence of a project in Phase 1 with neither a lease or lease application. Unless this issue is remedied, we see the risk that this project will be given significant competitive advantage, an outcome which could undermine the delivery of Phase 1.

Whilst we welcome the work DECC has done to date it is vital that industry sees the final requirements a **month before the MAC window opens**. It is to Ireland's benefit that most, if not all, companies looking to develop in Phase 1 include large companies with robust governance processes which must be adhered to. These processes need some foresight of the requirements to ensure that applicants can submit completed applications, reducing the need for any follow-up from DECC or, at worst, decreasing the risk of failure.

SSE Renewables would be glad to discuss any of our recommendations with DECC – please do not hesitate to get in touch.

Key recommendations

SSE Renewables has the following key recommendations in relation to the topics raised in this consultation (in order they are addressed in this response):

- Projects which do not hold a foreshore lease/foreshore lease application should be limited to a size appropriate to the energy density of all other Phase 1 projects (**or** projects holding a foreshore lease/having made a foreshore lease application should be allowed to resize their seabed areas).
- A project's export cable route should not be included within the area for which levies are imposed.
- Assignment of a MAC intra-group where there is no change in Supporting Entity should not be deemed a "material change".
- MAC Applicants should be required to have a minimum of 24 months corporate experience in each of the development, construction and operation phases.
- Experience should be at a higher capacity than 100 MW given the scale of Phase 1 projects, with a value of 400 MW more appropriate.
- We support the proposed requirement for 10 years' experience of the Irish planning system and of renewable development.
- We recommend that MAC Applicants are required to demonstrate that several (but not all) senior members of their project team have a minimum of 5 years' experience each in the delivery of offshore wind and that cumulatively, senior members of the project team can demonstrate a minimum of 20 years' experience.
- We recommend the removal of detailed questions on funding arrangements but support the overarching questions on "Type of funding arrangement" and "Details of the proposed funding arrangement" and a question on expected sources of project funding e.g. % debt and x% equity.
- A new entity gaining a controlling stake should not have to undergo a financial assessment if it has an "investment grade" credit rating.
- The value any required Guarantee covers should be the costs of having a MAC (i.e. the appropriate levies) rather than full construction cost.
- An entity which meets the financial requirements (whether this be €100m market cap or greater, or an "investment grade" credit rating) should be exempt from the requirement to provide a Guarantee or provide a legal opinion (where it is a non-Ireland incorporate).
- In general, we support the financial criteria outlined though believe these could be improved in a small number of areas.
    - We recommend inclusion of a requirement that applicants demonstrate previous experience in the raising of money for offshore wind projects.
    - We suggest a small reduction of the required gearing ratio to 85%.
    - We recommend the requirement for assets/liabilities ratio is lowered to 0.6 or higher.
- We recommend increasing the turnover requirement to a higher figure more equivalent to the £600m used in England and Wales.
- We recommend one cash metric, namely "cash resources of €50m".
- Only supporting entities with direct links to the Relevant Person should be considered with respect to fulfilment of financial viability assessment.

- The MAC application must allow for evolution of corporate structures from the point of application through to project delivery, to avoid need for unwarranted re-engagement or reapplication
- We support the propose levies.
- We believe the levies provide significant revenues and therefore no application fee should be applied.
- We recommend the application window is extended to 3 months with final details on the MAC process published at minimum 1 month before the application window opens.
  We recommend a MAC duration of 80 years to ensure repowering of projects is possible.

Consultation Questions

1. *To what extent do you consider that the Guidance sets out a technical capability assessment process that is effective, efficient, and transparent? Are there any specific aspects of the Guidance that you consider require further clarification?*

Geographic Coordinates and Site Selection

Section 3.1.2 of the consultation document states that "*all Relevant Projects must be within the coordinates of the original foreshore lease application*".

We agree with the principle of using co-ordinates of "original foreshore lease applications" to identify the site of the Relevant Project. It is, however, essential that this principle is applied equally to all projects in a fair and transparent manner.

As far as we are aware, North Irish Sea Array (NISA) did not submit a foreshore *lease* application. Instead the site that NISA appear to have identified (by way of a recent foreshore *licence* application) is approximately 227km², **almost 4 times larger than the next nearest Phase 1 site**. This larger area allows turbines to be spread over a larger space, extracting more energy with less wake losses, providing them with an extremely low energy density. Put simply, this puts the NISA project at a very significant competitive advantage over and above all other sites.

Site	ID	Area (km2)	Anticipated MEC	Energy Density (MW / km2)
Oriel	1	28	370-400	14
Dublin Array 1	2	28	600-900	10-15
Dublin Array 2	3	31		
Codling 1	4	59	900-1500	7-12
Codling 2	5	67		
Sceirde	6	30	350-450	11-15
NISA	7	227	500	2
Arklow	N/A	65	520-800	8-12

As such, we have significant concerns as to whether the current situation with respect to NISA's selection of seabed is equitable.

Around 2019, GU_403440 secured a grid offer on the basis of a 2022/23 T-4 Capacity Auction which contained a commitment to reach financial close in Oct 2020 and substantial completion in Sept 2022. It has been demonstrated that these dates were not and cannot be achieved, especially so for a project which

had / has neither planning nor a foreshore lease. SSE raised this issue at the time with both EirGrid and CRU[1] and were assured that connection timelines and conditions committed to in the T-4 auction would be reflected in any grid contracts issued[2].

SSE followed up with CRU and EirGrid again in June 2021[3], noting that it seemed apparent that GU_403440 (at that point confirmed as North Irish Sea Array) could never have delivered on the commitments made as part of the 2022/23 T-4 Capacity Auction, and requested clarification as to the implications of the recent capacity termination notice on the project's eligibility to be processed to receive a connection offer. SSE have not, to date, received a response.

It is unfortunate that we have seen no measures to address these concerns, particularly so given the challenges which the Irish electricity system currently faces with respect to lack of capacity. Indeed, the CRU noted in their publication on Security of Electricity Supply[4] issued in September of 2021 that capacity being procured via the capacity mechanism and subsequently failing to deliver has created a very significant security of supply issue for Ireland that will take years to resolve. It is hard to understand how a project participating in a capacity mechanism for a delivery year which it has not achieved could now be awarded seabed four times the size of its nearest competitor, with no size constraint applied in line with other Phase 1 projects.

Should a site such as the NISA site, for which there is no foreshore lease or foreshore lease application, be permitted to self-select an arbitrary and unlimited area which is not the subject of an original foreshore lease / foreshore lease application and which gives them a significant competitive advantage, then all other sites should be allowed to revise their site boundaries accordingly. If other sites are not allowed to revise their site boundaries accordingly, then the NISA site should be sized appropriately for the output of the windfarm, in line with all other projects. Specifically, the NISA site should be limited to the median energy density of all other sites, namely 13MW/km^2, and to an overall site area of 38km^2 (based on 500MW).

Unless this issue is resolved in a fair, efficient and transparent manner, the underlying equitable nature of methodology for allocation of seabed to Phase 1 projects and the "fairness" of the ORESS1 auction may be open to challenge.

We would also note that Section 3.1.2 of the consultation document requires a statement that the *coordinates of the MAC application are within the coordinates of the original Foreshore Lease application* and provides an opportunity for MAC applicants to provided *any explanation for differences*. As per our recommendation above, SSE Renewables do not see the need to provide applicants an opportunity to explain any differences from their Foreshore Lease / original Foreshore Lease application, unless it is as part of ensuring a level playing field amongst all Phase 1 projects.

Finally, Section 3.1.2 of the consultation document requires that the *proposed co-ordinates of the transmission cable route, including any alternative* is provided as part of the MAC application. SSE Renewables agree that this data is provided, however, in calculating the site area for the purpose of

[1] Letter of April 2019 from [redacted] in CRU, included in Appendix
[2] Letter of May 2019 from [redacted] o SSE, included in Appendix
[3] Letter of June 2021 from [redacted] n CRU, included in Appendix
[4] CRU Information Paper Security of Electricity Supply https://www.cru.ie/wp-content/uploads/2021/09/CRU21115-Security-of-Electricity-Supply-%E2%80%93-Programme-of-Actions.pdf

imposing a levy, the export cable route, from the point where it leaves the site to the point where it reaches the landing point should not be included.

SSE Renewables Recommendation: So as to ensure a level playing field in both the allocation of MACs and any subsequent ORESS auction, **either** projects which do not hold a foreshore lease / foreshore lease application should be limited to a size appropriate to the energy density of all other Phase 1 projects **or** projects holding a foreshore lease / having made a foreshore lease application should be allowed to resize their seabed areas.

SSE Renewables Recommendation: The export cable route should not be included within the area for which a levy is imposed.

Reassessment of a MAC application (Section 2.5.3)
We note that the consultation document suggests that "assignment of a MAC" (point (c)) constitutes a material change (Section 2.5.3). Furthermore, Section 2.6 of Annex 2 notes the requirement for a financial viability assessment post assignment of interest and references a "*significant change in control*". On this issue, in the interests of minimising the administrative burden on Government and MAC holders, and avoiding creating further avenues for potential legal challenge, we would note that an assignment of a MAC intra-group, in a scenario where there is no change in the Supporting Entity, should not in SSE Renewables' view fall within the definition of a "material change" under the MAP Act 2021.

SSE Renewables Recommendation: To ease the administrative burden on Govt and MAC holders, and to avoid creating further avenues for potential judicial review, assignment of a MAC intra-group where there is no change in Supporting Entity should not be deemed a "material change".

2. *Do you consider the technical criteria to be appropriate? What alternative criteria, if any, would you suggest?*

SSE Renewables generally **supports** the technical criteria outlined in DECC's consultation, though believe a limited number of changes are warranted. It is important that the requirements put in place are reasonable but robust, such that corporate entities must demonstrate their ability to deliver an offshore wind farm and ensure that those being awarded a MAC have a credible chance of delivery. Where companies are unable to meet these technical requirements, they should look to work with partners. This model has been used in Scotwind where the majority of seabed was awarded to applications containing multiple companies.

Corporate Experience (Section 3.1.3)
Section 3.1.3 of the document requires that MAC Applicants can demonstrate a minimum of 12 months corporate experience at the development, construction and operation stages of an offshore windfarm equal to or greater than 100MW.

Ireland is an emerging market for offshore wind, and as such, must ensure that the initial phase of projects are successful, thereby instilling confidence in the global supply chain and investment community for subsequent phases. Essential to this success is ensuring that MAC Applicants (including Supporting Entities) bring the necessary experience of development, construction and operation of large-scale offshore infrastructure. On that basis, we would query whether a level of 100 MW is sufficient, given the smallest

Phase 1 project has an expected MEC of 400 MW. DECC should consider whether a higher figure than 100 MW should be used, such as **equal to or greater than 400MW**.

Large scale offshore wind projects take a minimum of 10 years to deliver, and from a Corporate perspective, 12 months will not demonstrate that MAC Applicants have the necessary length or breath of experience across the development, construction or operation phases. On that basis, we would recommend that at least **24 months corporate experience** is required in each of the development, construction and operation phases of an offshore wind project.

The development phase of an offshore windfarm does not end when planning is granted. The period between (in the case of ORESS) when planning is granted and financial close takes place will remain a complex and important period in the development lifecycle. We therefore believe that Development should be deemed to end (Annex 1 Section 4.1(a)) at the point where financial close/FID is achieved on a windfarm.

The construction phase of an offshore windfarm does not end when the windfarm is first energised. Again, significant works are completed in the time between when the windfarm is energised and the windfarm reaches "commercial operation". We would also note that "commercial operation" is proposed under the ORESS T&Cs to be the moment at which an offshore wind farm is considered to be delivered. Therefore we believe that construction should be deemed to end (Annex 1 Section 4.1(b)) at the point where commercial operation is achieved on a windfarm.

SSE Renewables Recommendation: So as to bring to bear the necessary experience required in an emerging market and increase the likelihood of successful delivery of the initial projects, we recommend that MAC Applicants are required to have a **minimum of 24 months corporate experience** in each of the development, construction and operation phases. DECC should consider a **higher requirement than 100 MW** given the scale of Phase 1 projects, all of which are anticipated to have MECs above 400 MW. A value of 400 MW may, therefore, be more appropriate.

SSE Renewables Recommendation: So as to ensure that the appropriate skills and experience are accounted for in this exercise, we recommend that Development should be deemed to end (Section 4.1(a)) when a project reaches Financial Close / FID, and Construction should be deemed to end (Section 4.1(b)) when a project reaches Commercial Operation.

Commitment to the Project (Section 3.1.3)

With respect to the requirements for senior team members, we welcome the change made between the DECC workshop in late 2021 and the consultation, which now provides for more flexibility in defining senior team members (recognising not all project teams will be set up the same) and allows projects to demonstrate their ability to meet these requirements on aggregate, rather than all requirements for all team members.

Notwithstanding this improvement, there is some confusion as to how aggregation of experience is permitted. Can years of experience be added together to meet the requirements, or does at least one team member need to meet each metric? Our comments below are based on the latter interpretation (with the former unlikely to prove problematic).

We believe that the requirements that senior members of the delivery team can demonstrate at least 10 years of renewable energy development experience and at least 10 years' experience of the Irish Planning System are appropriate and unlikely to be problematic for credible developers. Both of these conditions will ensure that the necessary experience is brought to bear in delivering these initial projects.

We do, however, believe that minor changes are required to ensure developers can maximise senior roles and expertise from within Ireland. Specifically, we have concerns with the requirement that senior members of the delivery team demonstrate at least 10 years of offshore wind development experience. Even as one of the largest developers of Offshore Wind in the world, SSE have a limited number of individuals with 10 years' experience in delivering offshore wind and in addition, most of these individuals are not based in Ireland. Therefore, a requirement for at least 10 year experience in offshore wind development will likely result in at least some of the members of the Irish team and those who have spent their careers in Ireland being precluded from taking senior roles within the project delivery team.

We acknowledge that a requirement of this nature is appropriate, but would suggest this should be that MAC Applicants should be required to demonstrate that several (but not all) senior members of the project team have at least 5 years of offshore wind development experience, and that cumulatively, the senior members of the project team (for example Project Director, Project Manager, Consent Package Manager, Marine Package Manager, Turbine Package Manager) can demonstrate a minimum of 20 years' experience. This would allow those with significant experience, including people who may have even delivered offshore wind farms (but who's experience in doing this may sit between 5-10 years) to contribute to the overall assessment.

SSE Renewables Recommendation: So as to ensure a balance between ensuring the necessary development experience and allowing employment of Irish individuals on Irish projects, we recommend that MAC Applicants are required to demonstrate that several (but not all) senior members of their project team have a minimum of 5 years experience each and that cumulatively, senior members of the project team (for example Project Director, Project Manager, Development Package Manager, Marine Package Manager, Turbine Package Manager) can demonstrate a minimum of 20 years' experience.

SSE Renewables support the requirement for several senior members of the team to have at least 10 years' experience in renewable energy development and for several senior members of the team to have at least 10 years' experience in the Irish planning system.

3. *Do you consider the templates (Appendix A to F) sufficiently clear to understand the specific information being requested in each case?*

SSE Renewables believe the templates presented are reasonable. However, we would suggest that there is some flexibility with respect to the presentation of the information, so as to allow developers present material already developed.

4. *To what extent do you consider that the Guidance (Annex 2) sets out a financial viability assessment process that is effective, efficient, and transparent? Are there any specific aspects of the Guidance that you consider requires further clarification?*

Annex 2 Appendix F requires specific details of "committed" funding of the project. At this early stage, projects will not be able to provide detail on source of funding given that the market is at least one year away from securing an ORESS contract and approx. two years away from securing planning consent, and likely a year beyond achievement of consent to reaching financial close. At this stage, therefore, we would suggest this level of detail is excessive. It is important to note that facility details such as the level of working capital facility etc. will, at this stage, be undetermined.

We do, however, understand the interest in ensuring applicants have considered where they will receive funding from. As an alternative, therefore, SSE Renewables suggests that this should require expected sources of project funding e.g. approximately x% debt and x% equity, as well as the general questions on proposed "Type of funding arrangement" and "Details of the proposed funding arrangement".

SSE Renewables Recommendation: We would suggest the removal of detail questions on funding arrangements given projects are likely 3-4 years minimum away from construction and will likely be unable to provide any detail on various areas. Instead, we support the overarching questions on "Type of funding arrangement" and "Details of the proposed funding arrangement" and a question on expected sources of project funding e.g. % debt and x% equity.

5. *Do you consider that the Guidance (on Relevant Person Assessment) is sufficiently clear to understand which parties within a consortium need to submit documentation for assessment?*

We note that Annex 2, Paragraph 2.6 "Change of Control" suggests a new entity gaining a controlling stake would not have to undergo a financial assessment if it is listed and has a market cap greater than €100m, however there is no requirement as to where the listing is. SSE Renewables would suggest that a more appropriate test would be to require that an entity is listed and has an "investment grade" credit rating, as mentioned in Paragraph 2.5, given it addresses more directly the issue of financial robustness.

SSE Renewables Recommendation: A new entity gaining a controlling stake should not have to undergo a financial assessment if it has an "investment grade" credit rating.

6. *Are there any specific aspects of the pro-forma Supporting Entity Guarantee that would prevent you from undertaking your ORE Project(s)? To what extent do you consider the Relevant Authority should be able to recover costs under the guarantee?*

SSE Renewables have significant concerns that the amount which needs to be Guaranteed by a supporting entity is not clear. Paragraph 3.3 states "*Where the Relevant Person proposes to rely on a Supporting Entity, confirmation is required stating that the Supporting Entity will guarantee the obligations of the Relevant Person to complete the proposed ORE Project(s) if the Relevant Person is unable to meet its Financial Commitments.*" One reading of this could be that the parent company has to guarantee the full construction cost of the project (running into billions of Euro).

This would not be in keeping with other lease application processes e.g. Scotwind and would be highly unusual. This requirement could preclude a number of experienced and credible developers from applying.

Noting that a MAC itself does not provide a recipient with either the ability or obligation to build a project (without an ORESS contract or planning permission), SSE Renewables' working assumption is that the amount required to be guaranteed would be the annual cost of the MAC contract i.e. the associated levies. From discussions with other Phase 1 developers we understand this the interpretation industry is taking at large. This still would require a guarantee of € millions but would represent a more appropriate level of guarantee.

We would, however, query whether such a guarantee was is needed in all circumstances. Paragraph 2.6 in Annex 2 "Change of Control", states that a new entity gaining a controlling stake would not have to undergo a financial assessment if it is a listed company and has a market cap greater than €100m, though as per our response to Q5 we believe this should instead be if the entity has an "investment grade" credit rating. We can, therefore, see no reason as to why, if the applicant meets these criteria, there is need for the applicant to undergo a financial assessment or provide a guarantee.

Clarification as to when the PCG needs to be put in place and when it terminates is also required. Please note that applicants will typically be required to complete internal corporate governance on their MAC applications and in particular the requirement for PCGs, and these processes typically takes a number of weeks to complete and cannot be commenced until the final requirements are clear. We would, therefore, suggest that where a Guarantee is necessary, it should be required on issuance of a MAC i.e. in September, rather than during the application windows, which is likely to come at very short notice.

Para 3.3 also states "Where the Supporting Entity is a non-Ireland incorporated entity, a legal opinion should be submitted with the guarantee where required." We would suggest that a legal opinion should not be required for entities that are listed and meet minimum "investment grade" criteria.

SSE Renewables Recommendation: SSE Renewables understands that should a Guarantee be required, the amount it must cover reflects the **costs of having a MAC (i.e. the appropriate levies)** rather than full construction cost. We would have significant concerns should the latter interpretation be correct, with a PCG for € billions representing a highly unusual and non-trivial requirement.

We recommend that in line with the requirements outlined in Annex 2, Para 2.6, an entity which meets the financial requirements (whether this be €100m market cap or greater, or an "investment grade" credit rating as per SSE's suggestion) should be **exempt from the requirement to provide a guarantee**.

Similarly, where a company meets the requirements above and is a non-Ireland incorporate entity we would suggest that **no legal opinion is necessary**, a requirement which will add unnecessary administrative burden for almost all applicants and for those processing applications.

7. *Do you consider the criteria to be appropriate? What alternative criteria, if any, would you suggest?*

and

8. *Are there any quantitative metrics within the criteria that you consider should change? For example, the current and gearing ratios have been deliberately set at levels that would identify companies at significant risk of financial distress. Should these metrics be more stringent?*

In general we believe the financial criteria are **mostly appropriate**, though we would suggest alterations in a limited number of areas and believe there are opportunities to make them more robust and provide assurances which DECC appear to be seeking.

For example, elsewhere in the consultation DECC have sought information on how the projects will be financed, which SSE Renewables have advised is likely to be excessive at the point in time of MAC application. One criteria which could be used instead to ensure MAC applicants are those which have previously raised finance for offshore wind is to include that requirement i.e. "**Evidence of previous experience in raising money for offshore wind projects**". This requirement was a pass/fail criteria in the recent Scotwind process and will be critical to the successful delivery of Phase 1 of Ireland's offshore wind ambitions, particularly given the added complexity resulting in projects competing for route to market ahead of requiring planning permission.

SSE Renewables believe the gearing ratio might be unnecessarily high at 90%. Whilst we are aware that DECC do not wish to unnecessarily exclude applicants, we would suggest a small **reduction to 85%** could perhaps be more appropriate.

With respect to the requirement for a ratio (assets/liabilities) of 0.65 or greater, we would note that SSE's ratio has in at least one recent year been close to this number. We are cognisant that it is not the intention of these requirements to preclude companies with significant financial resource such as SSE and others from the process. To ensure no unintended issues, we would recommend **lowering the current ratio requirement to 0.6 or above**.

SSE Renewables Recommendation: In general, we support the financial criteria outlined though believe these could be improved in a small number of areas.

- We recommend inclusion of a requirement that applicants demonstrate previous experience in the raising of money for offshore wind projects.
- We suggest a small reduction of the required gearing ratio to 85%.
- We recommend the requirement for assets/liabilities ratio is lowered to 0.6 or higher.

9. *The net assets and cash criteria assess the financial capacity of Relevant Persons to deliver ORE Projects at scale. To what extent do you consider these metrics will limit market competition, including from new entrants?*

SSE Renewables would have significant reservations as to whether the Net Assets and the Turnover ratio of €50m is sufficiently high. These are multi-billion Euro projects and increasing these ratios will better demonstrate the capability of the Relevant Person/Supporting Entity to build these projects.

For example, in the England & Wales Round 4 process this requirement was set at £600m. We believe a figure closer to this than the €50m figure would be significantly more appropriate for the MAC process.

We would also recommend one Cash metric, namely the "**Cash Resources of €50m**" which should be sufficient to demonstrate ability to cover costs of devex. For comparison, Round 4 in England & Wales required £45m. We have significant concerns that the criteria "a cash cover ratio of greater than 1.0x (i.e. cash resources greater than the next 3 years' commitments on Irish ORE projects)" is too open to interpretation regarding timing of next 3 years' spend and some projects could be further ahead on spend than others. Projects which are further advanced could therefore be required to demonstrate higher cash cover, something which appears unequitable and would advantage less well developed projects. Also, cash commitments will continue to change in the medium term as these projects are still a number of years away from FID.

SSE Renewables Recommendation: We recommend increasing the turnover requirement to a higher figure, noting a requirement of £600m used in England and Wales which we see as more appropriate. We recommend one cash metric, namely "cash resources of €50m".

10. *Do you consider that the outcome of the financial viability assessment is adequately clear?*

SSE Renewables is broadly satisfied with the financial viability assessment process and outcome of the same.

11. *Do you consider that the Relevant Authority has too much / too little flexibility to ensure that Relevant Persons with the financial capability to deliver ORE Projects pass the financial viability assessment?*

SSE Renewables would question the rationale of allowing Supporting Entities with no direct links to the Relevant Person to fulfil the financial assessment criteria. It is unclear how an entity with an indirect link would give any assurance to the financial competence and, as such, deliverability of offshore wind projects.

SSE Renewables Recommendation: We recommend that only supporting entities with direct links to the Relevant Person and considered with respect to fulfilment of financial viability assessment.

12. Do you consider that the financing arrangements listed in the Guidance are appropriate? Should any other financing arrangements be identified in the Guidance?

and

13. Do you consider that the other financing arrangements provide adequate flexibility for companies to demonstrate their ability to demonstrate their financial viability in the future? For example, financial close for ORE Projects may occur several years after the grant of any MAC. To what extent is the timing of the financial viability assessment problematic?

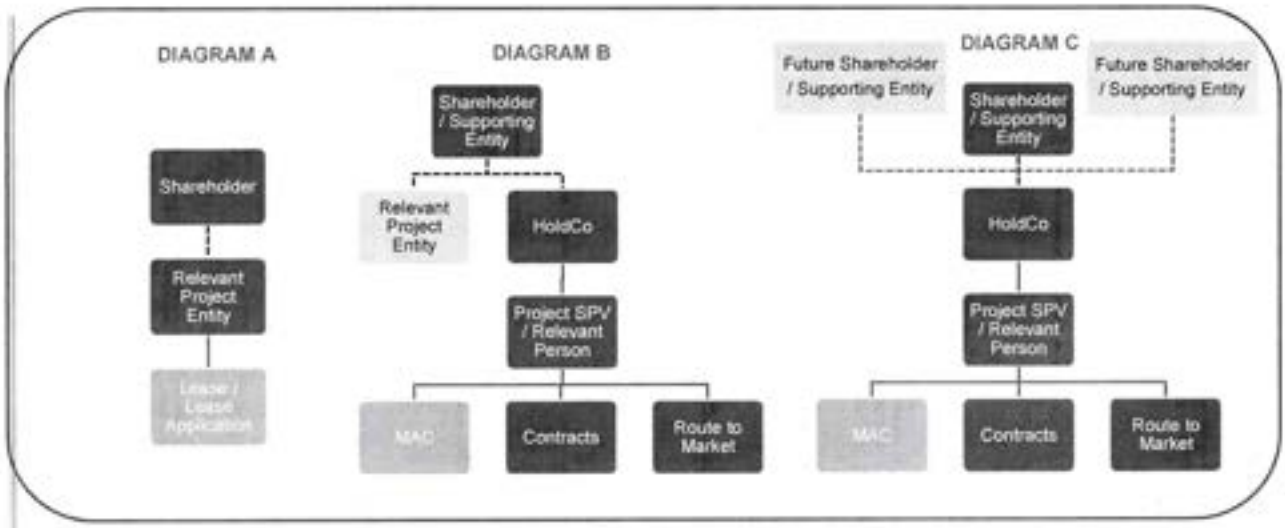
Corporate Structuring so as to facilitate Project Finance

Given the multi-billion euro investments required of large scale offshore wind projects, it is almost certain that all projects will be financed on a non-recourse project finance basis with a club of banks providing finance. It is important that the corporate structure of a large scale offshore wind project facilitates finance arrangements, and this typically requires a "HoldCo" which sits in a corporate structure directly above a "Project SPV", with the Project SPV holding the MAC / Lease, Construction & Operation Contracts, Route to market, etc (typical arrangement depicted in Diagram B below). Also, given the scale of finance required, risk profile, etc, it is likely that additional shareholders will be added to the project as it nears Financial Close (typical arrangement depicted in Diagram C below).

To the extent that a developer has not yet implemented the necessary arrangements to facilitate project finance (see a typical pre-finance arrangement depicted in Diagram A below), now is the optimum time to address this, rather than having multiple MAC holders re-engaging with DECC / MARA at a later date seeking changes to MACs so as to enable Financial Close, and introducing another avenue for a potential legal challenge.

So as to ensure that project corporate structures are set up for efficient project financing, it is important that the proposed MAC application process:

- Permits a "Project SPV" who is not the "Relevant Project Entity" to apply for a MAC, on the basis that both the Project SPV and the Relevant Project Entity are wholly owned by the same "Supporting Entity" (as per Diagram B below)
- Permits a HoldCo to be introduced in the corporate structure of the "Supporting Entity" (as per Diagram C below).



SSE Renewables Recommendation: It is vital that the MAC application process allows for evolution of corporate structures from the point of MAC application through to project delivery, to avoid need for unwarranted re-engagement or reapplication which will heighten the risk of unforeseen challenges.

14. Are there any other public interest considerations which the Department should consider at MAC application stage?

SSE Renewables Recommendation: SSE Renewables support the public interest considerations as proposed in the consultation.

15. The Department invites feedback on the below proposed levy model for Relevant Projects:

- *a. Operational Levy: 2% Gross Revenue/annum*
- *b. Development Levy: €20,000/km2/annum*

SSE Renewables supports the proposed Operational Levy of 2% Gross Revenue/Annum. This mechanism for applying operational levies to an offshore wind farm aligns with international practice, including in the UK. This link to Gross Revenue allows the State to receive more money in strong wind years whilst mitigating the risk of low wind years to the developer – and as such removing an additional risk which would put upward pressure on bid prices and cost to the consumer.

With respect to the Development Levy, we support the proposed mechanism i.e. per km²/annum and the level proposed of €20,000/km²/annum.

Key to developing a successful offshore industry in Ireland will be investment in the required state and semi-state apparatus. As such it is important that the levies charged should be applied back into the industry to fund additional resources for DECC, DHPLG, An Bord Pleanala, NPWS, etc. so as ensure a well-resourced and efficient route for progression of projects.

We would only support the indexation of the Development Levy and the Operational Levy line with HICP, on the basis that this indexation is carried through the ORESS contracts in full with indexation of strike price in line with HICP to provide consistency. If indexation is not applied to the ORESS strike price then it should not apply to the levies, to ensure consistency.

Finally, in calculating the site area for the purpose of imposing a levy, the area required for the export cable route, from the point where it leaves the site to the point where it reaches the landing point should not be included.

SSE Recommendation: SSE Renewables supports the propose levies. The approach to indexation must be consistent across the levies and ORESS strike price, with SSE Renewables supporting full indexation of both in line with HICP. Finally, the export cable route should not be included in the site area for the purpose of calculating the Development Levy.

16. Which of the two options is the most appropriate for the Relevant Projects? Are there any other application fee models which would be more appropriate?

SSE believe that the significant levies which are proposed will be more than sufficient to cover any workload involved in processing applications. Assuming the site areas outlined in the response to Question 1 above and a Development Levy of €20,000/km²/annum, this represents an annual income stream of over €9million. These figures are considerable payments and should be more than sufficient to cover any additional workload required of the relevant Govt departments.

Key to developing a successful offshore industry is investment in the required state and semi-state apparatus - the above revenue stream should be applied back into the industry to fund additional resources for DECC, DHPLG, An Bord Pleanala, NPWS, etc so as ensure a well resourced and efficient route for progression of projects.

SSE Renewables Recommendation: We support DECC's proposed levy of €20,000/km²/annum and believe that this value should be sufficient to cover the application fee.

17. Is two months a reasonable duration for the MAC application window? If not, how long should the Department keep the MAC submission window open for? Responses should be informed by the readiness of applicants to submit all information required at MAC application stage, as outlined in this consultation.

Whilst two months is a reasonable time for the application window to be open, we would suggest to DECC that a longer window could be useful for all parties. SSE Renewables has been successful in the RESS1 process and is currently participating in RESS2. Despite these onshore projects being of a much smaller scale than the projects which will be submitted into ORESS1, our experience suggests there is a significant likelihood of unforeseen challenges in completing applicant paperwork for a brand-new process.

We would also note the key factor in reducing the risk of unforeseen issues is having visibility of the MAC application requirements at a minimum of one month in advance. Applicants will be required to complete internal corporate governance on their MAC applications, particularly given the potential requirement for PCGs, and these processes typically takes a number of weeks to complete and cannot be commenced until the final requirements are clear.

Finally, In addition, the details contained in the final requirements may trigger further or unexpected work for each applicant, which they should have a chance to do before the window for applications opens. Outlining the requirements as the window opens will increase the risk that a project is unsuccessful in submitting its application on time.

SSE Renewables Recommendation: We recommend the application window is extended to 3 months with final details on the MAC process published at minimum 1 month before the application window opens.

18. Based on international practice, a period of thirty years is often cited as a common duration for maritime area consent (or equivalent authorisation). Is thirty years an appropriate duration for a MAC? Responses should have regard to:

- ***Time required to apply for other consents***
- ***Time required to complete site investigatory works***
- ***Procurement***
- ***Supply chain considerations***
- ***Construction time***
- ***Reenergisation***
- ***Decommissioning***

SSE would consider 30 years an extremely short duration for a MAC which will limit the lifespan on Phase 1 projects, let alone preclude any opportunity for repowering.

From offer of MAC to the Commencement date is likely to be a minimum of 5 years (notwithstanding risk of JR etc.). This would leave a remaining period of approximately 23 years or less, assuming approximately a two years decommissioning period.

This may have in the past been almost equivalent to the expected duration of an offshore wind farm. That is, however, no longer the case. We would cite the World Bank's report on Key Factors for Successful Development of Offshore Wind in Emerging Markets which highlighted the significant importance attached to certainty of tenure, and the need for Lease periods "*to reflect project development and operation timescales*".

The report notes that in existing markets "*leases are being issued to cover >50 years (up to 80 years), which can enable project life extension or repowering, allowing developers to plan beyond the current typical 25-year operating life of offshore wind turbines.*"

With respect to the typical 25-year operating lifetime, we would suggest that technology developments mean that this estimate is likely to already be low, with 35 years now possible. This is reflected in the World Bank report which notes "*offshore wind project operating lives are now anticipated to be between 25 and 35 years*"

It is notable that in the UK the process has recently increased to provide seabed for a period of 60 years to take into account increase lifespans and the potential for repowering (or re-energisation as it is referred to in DECC's consultation). The opportunity to repower will, in decades to come, be key to ensuring progress made in decarbonising the sector is not lost and that the consumer will benefit from projects which make use of existing infrastructure. Given the advancements in technology, with potential lifespans of 35 years, we would suggest **80 years** would be needed to truly give projects an opportunity to repower and utilise fully the development both now and in the future. This 80 years includes provision for two full lifespans (35 years each), a period for consenting and construction (both at the beginning and for the repowered project) and decommissioning.

A period of 30 years, in comparison, could see projects having the decommission whilst equipment still potentially has a decade or more left in which it could continue to operate, something which would be hugely counter-productive to Ireland's decarbonisation aims and will push up costs significantly. 30 years is so short, indeed, that the period in which there is additional opportunity for projects to generate revenues post-ORESS contract will be less than a decade, meaning the vast majority of costs will need to be picked up by the PSO during the ORESS contract periods, putting significant upwards pressure on ORESS prices in Ireland and likely widening the disparity in cost between offshore wind in Ireland and neighbouring jurisdictions. To fully transition our energy system and economy to net zero we need renewables to be cost effective. A 30-year MAC duration would not be conducive to this aim.

SSE Renewables Recommendation: We recommend a MAC duration of 80 years to ensure repowering of projects is possible.