Conclusions drawn from the mini market dialogue about Energy Island Bornholm

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Background

The Danish Energy Agency (DEA) held a mini market dialogue about Energy Island Bornholm in March 2022. The dialogue was held with six market actors, and consisted of nine question, which were to be answered in written form, and the purpose was to get the market actor's view on how certain criteria and adjustments of the timetable would affect the procurement of the offshore wind farm by Energy Island Bornholm.

This memo will account for the received answers, and conclusion drawn by the DEA.

Answers and conclusions

This is an overview of the questions, which were asked, and the conclusions drawn by the DEA upon the answers received.

Question 1: The tentative tender process provides about 80 calendar days for prequalification, 60 calendar days for preliminary bids, and 50 calendar days for final bids. Are these timeslots sufficient?

Ad. 1: There is some dissent among the market actors, although only one market actor directly says, that there isn't enough time in the proposed timeframe for the tender process. Some market actors mentioned the Thor OWF tender as a good example, and in general there is a wish for having more time for the final bid, instead of the preliminary bids.

Question 2: Duration from concession agreement to fully realized windfarm is expected to be 6 years. What are your considerations regarding this timeframe? Would the optimal timeframe depend on the total capacity of the windfarm?

Ad. 2: The market actors all agree, that 6 years is a sufficient timeframe.

Question 3: In previous Danish offshore wind tenders, at least 2 years has been allowed from the point of connection (POC) is ready to the deadline for fully operational wind farm. As indicated in process schedule 2 in section 3, which

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options can be implemented to shorten this window (without shortening the window from concession agreement to fully realized windfarm)? Would a window for grid connection of e.g. 1 year be sufficient? Why/why not? For the various possibilities, please outline risk, cost, and quality implications

Ad. 3: A grid connection window of 1 year[1] is seen as not sufficient for a project of this magnitude. The market actors assess that a grid connection window of 1 year would be sufficient for installment of 1 GW, but not sufficient for bigger projects. Furthermore, the market actors mentions that the shortened grid connection window would increase the risk substantially for the concession winner, and the possibility for compensation is mentioned as well.

Question 4: As indicated in process schedule 3 in section 3, how do you perceive an overlap of the test phase for the connectors connecting Bornholm to Zealand and Germany with the connection window for wind turbines? Please describe the impact on risk, cost, time and quality.

Ad. 4: The market actors see the overlap as an increase of risk in the project, which can be mitigated with allowing a possibility for compensation.

Question 5: At Bornholm, it could be possible to provide service power (for commissioning and operation of wind turbines without production) from the existing grid on Bornholm before the interconnectors to Zealand and Germany are ready. How big commercial impact would access to service power have on your business case? When would access to service power be relevant? In what ways can you imagine such service power to be provided?

Ad. 5: There is some dissent among the market actors. One market actor thinks, that service power is not needed at all, while another sees it only as a backup-option. The remaining market actors have a positive view on access to service power, but have some concerns about whether the grid on Bornholm has enough capacity for it.

Question 6: How would overlap or shortening of window for grid connection, as mentioned above, affect the attractiveness of the tender? (See process schedule 4 in section 3)

Ad. 6: The proposed action would make the tender less attractive, as it would lead to a bigger risk for the concession winner.

Question 7: Would it be attractive for the tenderer to engage in overplanting? Why and to which extent.

[1] Despite the timeframe of 1 year was only given as an example of a shortened grid conncetion window, the market actors have only answered about this particular timeframe.

Ad. 7: There is consensus among the market actors, that overplanting would make the procurement more attractive, and most of the market actors mentions the possibility for PtX-production in connection with overplanting.

Question 8: Would it be preferable to put the concession areas Bornholm 1 and Bornholm 2 for tender in two separate tenders or one combined? Please qualify your answer. See section 5 for a map.

Ad. 8: There is dissent among the market actor about whether there should be one or two procurements.

Question 9: According to the Danish VAT law, the territorial scope of the VAT is limited to the territorial waters. The reserved area for both Bornholm 1 and 2 is divided between the Danish territorial waters and the Danish exclusive economic zone. Because of current applicable Danish VAT law, a part of the offshore wind farm in Bornholm 1 and 2 will be subject to VAT, while another part of the same offshore wind farm will not be subject to VAT.

The Danish Energy Agency is currently in dialogue with the Danish Tax authorities regarding VAT legislation. However, we kindly request input as to which challenges such a division represents for an offshore wind farm in regards of VAT.

Ad. 9: A number of market actors points out, that two separate VAT-regimes would be inconvenient. The answers are not seen as an indication of a necessity of a general VAT-exemption of the offshore wind farm at Energy Island Bornholm, but that one single VAT-regime is wanted, so the concession winner will not need to spend time on assess and register which transactions are belonging to which VAT-regime.

Follow-up on the question regarding the shortened grid connection window
Since the market actors in general viewed the shortened grid connection window as a rather big obstacle, the DEA decided to ask the market actors to a further dialogue about the topic, as the shortened grid connection window is a crucial criterion, if Energy Island Bornholm shall be completed in 2030. The meetings were held virtually.

There was not a total consensus among the market actors, but the general conclusion was, that if the plan is followed accordingly, and foundations and such like are build beforehand, 2-3 GW can be erected during two summer seasons. For instance if the grid connection window last from April 2029 until the end of 2030. The reasons for this possibility is among other things new technology, and that the wind turbines available in 2030 will have more power, than the ones available now.

Something that could make a case against a shortened grid connection window, is, that there is a lot of wind farm, which are planned to be established up to 2030. Therefore it can be expected, that the market prizes at that time will be relatively high due to the big demand.

Therefore, better possibilities for compensation should be considered with a shortened grid connection window, as this increases the economic risk for the concession winner.