

Q&A report concerning Prior Information Notice for Thor Offshore Wind Farm, June 2020

Office/department
Centre for renewables

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Introduction

This Q&A report provides answers to questions raised concerning the Prior Information Notice (PIN) published by the Danish Energy Agency on 31 March 2020. As is the case for the PIN, any answers provided in this report are *non-binding*. It will be the tender material and the Contract Notice to be published in Q3 2020, which will provide the *binding conditions* for the tendering of Thor Offshore Wind Farm. The PIN is available at the Thor website (<https://ens.dk/en/our-responsibilities/wind-power/ongoing-offshore-wind-tenders/thor-offshore-wind-farm/tender>) and online at TED ([file:///C:/Users/b012006/Downloads/2020-OJS064-152011-en%20\(14\).pdf](file:///C:/Users/b012006/Downloads/2020-OJS064-152011-en%20(14).pdf)).

Questions and answers

Q1:

Minimum requirement on technical and professional ability

To prove the technical and professional ability, it is requested at least one reference of 150 MW offshore capacity completed within the last five years. How is the capacity of projects in consortium considered? For example, if the prospective applicant owns the 20% of a consortium with 500 MW of offshore installed capacity, for pre-qualification purposes, is it considered as 500 MW or 100 MW?

A1:

It is not enough to own a wind farm, the reference must refer to having built the wind farm: c.f. p. 4 in "Expected tender procedure and conditions for participation": *project development, procurement AND management of construction (constructor) of largescale offshore wind farms with the capacity of 150 MW or more, completed within the last five years. The reference must concern a project where the instalment of the turbines has been completed and the last turbine has delivered the first kWh to the grid.* Should the applicant be part of a consortium of several companies, then it should be clear that the applicant has participated as *constructor*, as stated above. In case the company has participated as constructor, all 500 MW in the example would count as a reference even though several

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companies has played the role of being constructor, as long as this can be documented.

Q2:

Contract for difference tenure

The concession owner will receive subsidies in the form of a CfD from the Danish State for a 20-year period with caps on both sides. This scheme gives the owner certainty for the investment in the long run. If the tenor of the CfD was longer (e.g. 25 years), the concession owners could make more competitive bids due to the reduction of market price risk. Is the DEA considering the extension of the CfD tenure?

A2:

No. As stated on p. 2 in the document "Subsidy scheme and other financial issues for Thor OWF" published together with the PIN, "The EU state aid regulations stipulate that no subsidies are to be granted beyond the period of depreciation of the expenses for building the offshore wind farm. As a rule of thumb, the DEA has previously used 20 years as this milestone and this is incorporated in all recent national legislation on subsidies for renewables. This will also be applied in the Thor tender.

Q3:

Contract for difference – reference price with monthly profile vs baseload

It is acknowledged that the calendar-fixed annual average as reference price gives the concession owner an incentive to maximize the market value of the delivered electricity and ensures greater predictability of the annual Danish state budget spending. This objective could be also pursued using mixed approaches, such as using an average price weighted by the standard wind offshore monthly generation. Could the DEA consider alternative methodologies to reduce the cannibalization risk of the concession owner? Bid prices would be more competitive due to the risk reduction and the predictability of the Danish state budget would not be penalized since previous year's prices would still be used.

A3:

No amendments to the subsidy scheme are being considered.

Q4:

Changes in CfD scheme in negotiation process

Will changes in the CfD scheme (tenure, settlement, etc.) be allowed as a result of the negotiation process? Are issues like tenure or settlement considered essential elements as per A8.5/A8.17 of February 2020 Q&A?

A4:



It will be stated in the tender material to be published in Q3 2020, which themes can be negotiated and which cannot. The subsidy scheme will not be part of the negotiation themes.

Q5:

Publication of values for the calculation of subsidy cost

When will the parameter values used for the calculation of the total subsidy cost of a bid be published? As part of the tender materials in August 2020 or after the prequalification?

A5:

It is the ambition that the parameters used for the calculation of the total subsidy costs of a bid will be published as part of the tender material in Q3 2020.

Q6:

Start of subsidy period

Please confirm understanding that the trigger would be the time in which the last turbine delivers the first kWh, meaning therefore no CfD would be paid for the generation before that time.

A6:

We refer to p. 2 in the document "Subsidy scheme and other financial issues for Thor OWF": The subsidies will be granted for a 20-year period. This period will commence from the time of the last turbine delivering the first kWh and no later than 31 Dec 2027, but with the possibility that the subsidy period can begin sooner if the concession winner should wish so.

Q7:

Example of subsidy payments for 2018 or 2019 to confirm the source and calculation of the reference price

We acknowledge the reference prices and the subsequent subsidy payments would be officially published by DEA, is it right? In order to confirm understanding of the "previous annual average of the DK1 spot price" could you provide example of calculation for 2018 or 2019?

A7:

Yes, the DEA will include an example in the tender material to be published in Q3 2020.

Q8:

Costs to be included in the bid price

Clarification, when you are referring in the document "Subsidy scheme and other financial issues for Thor OWF" to additional costs to be included in the bid price (page 10/10), you are doing so for the prospective bidders to take into account in their economic models or because you are planning to ask bidders for the submission of its economic model / based assumptions?



A8:

The intention is solely to inform the bidders of costs they will have to pay, which are not directly related to the bidders own construction costs concerning the wind farm. Bidders will not have to submit their economic model / based assumptions etc.

Q9:

Pre-notification procedure with DG Competition

Has DEA started the (pre)notification procedure with DG Competition?

A9:

Pre-notification of state aid for Thor is in process and relevant material is expected to be sent to the EU Commission in Q2 2020.

Q10:

Deadline for preliminary bids

According to the tender procedure the deadline for the preliminary bids is 4Q20, whilst in the prior information notice and in previous material, this deadline is set to be 1Q 2021. We would appreciate if you could clarify.

A10:

This is a mistake in the document on the tender procedure. The correct expected deadline for preliminary bids will be in Q1 2021. The timetable will be clarified in the tender conditions to be published in Q3 2020, but later changes will still be possible.

Q11:

Bilateral negotiations

After the preliminary bids, DEA will conduct bilateral negotiations with all the tenderers individually. Will there then be individual differences to the tender material to reflect these negotiations meaning that each tenderer will receive individual material to base final bid on?

A11:

No, the purpose of the negotiations and the preliminary bid process is to improve the tender material in order to lower the final bid price. At all times, there will only be one set of tender material, and bidders will compete on a level playing field on the exact same, transparent terms. More information on the process of negotiations will be provided in the tender conditions to be published Q3 2020, so it will be clear for all parties what is involved in the process.

Q12:

References and pre-qualification

With regard to the technical pre-qualification criteria's, there are some ambiguity related to which projects can be included as reference e.g. that reference must concern a project where the instalment of the turbines has been completed and the last turbine has delivered the first kWh to the grid. In the selection criteria there is an evaluation of "the stage on projects in references that are not completed (the



closer to completion the better)". We would appreciate if you could clarify if projects in development phase can be used as reference. Also, could projects completed prior to 5 years before the expiry of the deadline for application for prequalification be considered as a valid reference as they will demonstrate technical and professional capabilities.

A12:

As stated on p. 4 in "Expected tender procedure and conditions for participation, to be prequalified the applicant must have "At least one reference within project development, procurement AND management of construction (constructor) of largescale offshore wind farms with the capacity of 150 MW or more, completed within the last five years". Apart from this, references concerning projects which are still in the construction phase can be included in the list of 5 references. Those 4 other references will only be relevant in the situation, where there are more than 10 applicants for prequalification who fulfill the minimum criteria, and the DEA has to shortlist the best 10 applicants.

As set out on p.3 in the document on expected tender procedure and conditions, the list of 5 references can only include comparable works, that the candidate has carried out in the latest 5 years before the expiry of the deadline for prequalification.

The final details on the prequalification and selection criteria, amongst other concerning how projects that are still under construction are to be handled, are still to be settled, and will be clarified in the tender material to be published in Q3 2020.

Q13:

Costs of near-shore substation

With reference to the cost elements to be included in the bid price related to the near-shore substation and the costs of the site investigations, please indicate when these costs will become payable.

A13:

This will be specified in tender material to be published in Q3 2020.

Q14:

Environmental risks to the project

Further to the risk connected to final EIA approval process for the specific project. What is DEA's obligations to the developer? Or in other words; what is the likelihood of not succeeding in getting the final EIA approved if selected technology and layout etc. are in line with the basis for the additional surveys performed by Energinet?

A14:

The DEA and Energinet is undertaking the Strategic Environmental Assessment of the plan for the project, and in addition to this, the DEA and Energinet performs a number of comprehensive additional environmental surveys, which will ensure that as many as possible of the potential environmental impacts will be identified before the concession winner will have to conduct the EIA process for the concrete project. Furthermore, the SEA will be able to make recommendations for the EIA



process on assessment and mitigation of any adverse impacts. This is all in line with the new environmental procedure decided for Thor Offshore Wind Farm described in more detailed in a guideline published 20 September 2019, c.f. the Thor website (https://ens.dk/sites/ens.dk/files/Vindenergi/uk_guidelines_for_completing_environmental_assessment_thor_10sept2019.pdf). The new procedure has been developed in order to ensure a legally appropriate process, the minimizing of risks for developers, hereunder procedural risks related to appeals. A key feature of the process is also an inclusive consultation process with local citizens addressing a growing need for a transparent and open consultation process regarding offshore wind farms in Denmark. In the end, however, it is the responsibility of the concession winner to develop a concrete project that does not cause unacceptable environmental impacts. The DEA expect to have a close dialogue with the concession winner during the scoping phase of the EIA process, where the DEA will determine the scope and level of detail of the information to be submitted in the EIA report.

Q15:

Public hearing on SEA

DEA has earlier informed that it is considering carrying out a public hearing of the SEA. Is this still the case, and if so, could you please give us some information on the current status?

A15:

This public hearing has begun on 24 April 2020 and runs for 5 weeks as announced in this news message, which was published at the Thor-website on the same day:

“The DEA and the EPA launches a 5-week hearing concerning the Strategic Environmental Assessment (SEA) of the plan for Thor Offshore Wind Farm as well as the Environmental Impact Assessment (EIA) of the land-based part of the project, which is to be built by Energinet, the Danish TSO. The public hearing, which is an early public consultation in the scoping phase, runs from 24th April to 12 noon 29th May 2020. As part of the hearing, approximately 5,600 local landowners and relevant organizations have received a letter concerning the hearing. All relevant hearing material, information on how to submit inputs to the hearing, etc. is available. Find the material (in Danish). The Environmental Impact Assessment (EIA) of the offshore-based part of the project will take place in the period 2022-24, when the winner of the tender for establishing Thor Offshore Wind Farm has been appointed. The DEA is the responsible authority for the SEA of the plan for Thor Offshore Wind Farm while the EPA is the responsible authority for the EIA of the land-based project.”

Q16:

Time table and licence for preliminary studies

In the timeline (on the Thor website), there is a milestone Q1 2022 possible granting of license for preliminary studies. In the prior information notice, section vi, it is stated that «The tender material will besides tender conditions and pre-



qualification material enclose draft concession, draft licenses for preliminary investigations....". Are these references to the same licenses and could you please elaborate on which activities will be covered by the different licenses?

A16:

The mentioned licenses referred to in the question are the same. The process and timing concerning all licences as well model licences will be provided in the tender material to be published in Q3 2020.

Q17:

Number of days for pre-qualification

After how many days from the publication of the contract notice (planned for Aug 10, 2020) does the pre-qual close?

A17:

As requested by the market players in the November 2019 market dialogue on Thor, the amount of time needed for prequalification should be minimum 60 calendar days. The DEA is aiming for providing these 60 days for pre-qualification.

Q18:

Minimum requirements on financial and economic capacity

- Will the criteria for financial capability be relevant at all stages of wind farm project lifetime, i.e. will they change after award, end of construction or in the operational phase?
- What happens in the event of a temporary drop below the financial ratios?
- Over what time period will the ratios be measured/assessed and with what frequency?

A18:

The tender material to be published in Q3 2020 will enclose information on financial requirements, i.a. in the model licences.

Q19:

Guarantee for the penalty for defective performance

As currently worded (ref. page 18 of invitation to dialogue document from 2020), the DEA requires a guarantee from a recognized financial institution, insurance company or similar. This incurs extra cost for a due diligence and the guarantee as such ahead of the auction, and is likely unnecessary for players that meet the financial and technical requirements. Furthermore, on page 20 of the Q&A document from Feb 2020, it is stated that the DEA hasn't decided yet whether a PCG alone can be sufficient. Given the rather high financial and technical conditions for pre-qualifications, we believe that the extent to which the counterparty risk decreases through a financial institution issuing a guarantee is limited. The DEA should consider to allow for flexibility between using only PCGs as sufficient guarantee or a guarantee issued by a financial institution. Furthermore, it is preferable that developers have flexibility between first issuing a PCG, and at a later stage in a potential partnering process, change this to a guarantee (or guarantees) issued by a financial institution. This will increase the available options for partnering, and lead to enhanced competition in the tender.



A19:

This is noted. The issue of guarantees will be clarified in the tender material to be published in Q3 2020.

Q20:

Rules for changing consortium partners

On page 23 in the Q&A document from Feb 2020 (Q5.7), it is stated that change in consortium structure requires prior written consent from the DEA. The rules and limitations for partnering should be as clearly defined as possible in the tender material published in Q3 2020. It is preferable that the DEA clarifies that the technical and financial criteria, as well as those relating to the public procurement rules, will be the only factors towards which the DEA assesses a future partner. This will provide clarity on partnering options ahead of bidding.

A20:

This is noted. The issue of changing consortium partners will be clarified in the tender material to be published in Q3 2020.

Q21:

Military radar

The PIN states that “The concession owner will be obliged to pay for ... any necessary mitigations actions in relation to Danish radar installations.”

It is urgently recommended that the amount that has to be paid for such mitigations is defined clearly capped with a maximum amount latest in the final tendering conditions. If not, then each bidder will develop his own view on what the amount might be with a high risk that assumptions are wrong. A clearly defined financial cap will create a level playing field for all bidders and thus create transparency and better comparability.

A21:

This is noted.

Q22:

EIA process and project alternatives

Different alternatives can be included in the EIA and the DEA can conduct a public hearing with draft permits for all accepted alternatives. After public hearing the DEA can only issue a final EIA permit for one of the accepted alternatives, even though potentially more than 1 alternative is accepted. Assuming that out of the proposed alternatives that went into public hearing more than 1 are accepted how is the process for final selection.

- Does the concessionaire have the liberty to choose freely between the accepted projects before DEA grants the final EIA permit?
- If this is not the case, what are the criteria for the DEA's final choice?

A22:

If the EIA-report includes several alternatives (must be a reasonable number), e.g. different options for layout and turbine height, it will have to be stated clearly by the



concession winner in the EIA-report, if one alternative is preferred, or if the concession winner would like for the DEA to assess all alternatives for a possible permit. In case of the latter, the DEA will make it clear in the public hearing on the EIA-report and draft permit, which conditions in the final permit will apply for the different alternatives. In case more than one alternative shows acceptable environmental impacts, and the DEA and other relevant authorities can accept more than one alternative, the concession winner will have the liberty to choose, which alternative is to be realized. After the public hearing on the EIA-report and the approval of the EIA-report by the DEA, the DEA will set a time limit for when the concession winner must have made the choice between the alternatives and applied for a construction permit for that alternative.

Q23:

Turbine and wind farm capacity

DEA is very often (and in crucial elements of the so far published Thor documents) referring to the name plate capacity of the WTG. How is this defined? We want to stress that in our opinion the concession owner should only be held accountable for complying with the capacity of the point of connection onshore and that the wind farm is EIA compliant. The capacity of the individual turbine should not be relevant.

A23:

This is noted and will be clarified in the tender material to be published in Q3 2020.

Q24:

Change process for the “total MW-capacity of park”

What is the change process for the “Total MW-capacity of park” which is used to calculate the “budget evaluation threshold”. It has to be possible for the concession winner after award to change the turbine capacity used in the bid/budget evaluation threshold. The turbines that are actually installed in 2027 might well be completely different.

A24:

This will be clarified in the tender material to be published in Q3 2020.

Q25:

Subsidy scheme and negative prices

The documentation acknowledges the expectation of higher bid prices due to some shorter term risks carried by developers. However, the lack of protection against negative prices, i.e. no six hour rule, is a risk that increases over the long term and a specific area of the subsidy design that will impact the cost effectiveness of carbon savings. Is it possible to reconsider the impact of this specific element of the design or this information to now been considered final?

A25:

No amendments to the subsidy scheme are being considered.