Response to dialogue

The Danish Energy Agency’s response to the market dialogue on the Kriegers Flak tender
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Introduction

As part of compliance with the Danish Energy Agreement from 2012, before 1 January 2022 the large scale offshore wind farm Kriegers Flak of 600 MW is to be erected in the Baltic Sea.

While the tender for Horns Rev 3 has proceeded as prescribed in the Energy Agreement, there have been changes to the Kriegers Flak project following the first and successful market dialogue in 2013.

As a result of a new political agreement on Kriegers Flak, the deadline for the commissioning of the farm was extended with two years from 2020 to 2022. Furthermore, due to a new grid connection design, the date of the guaranteed grid connection was moved with half a year to the end of 2018.

Considering the magnitude of the changes the Danish Energy Agency (DEA) decided to renew the call for a technical dialogue concerning Kriegers Flak. The aim still is to make the tendering procedure and tender conditions as attractive and flexible as possible.

The dialogue is now closed

The DEA is happy to conclude that the market’s interest in the Kriegers Flak tender continues to be significant. The DEA has received many written contributions as well as held many bilateral meetings with potential bidders providing the DEA with valuable insights. The DEA wishes to thank all contributors for participating and sharing information.

In the following the DEA is providing its own response to the dialogue in accordance with the list of questions raised in the dialogue paper from December 18, 2014. The response provides the DEA with the opportunity to explain the reasons behind the choices made in relation to the contract notice for Kriegers Flak now published.
DEA will prequalify a maximum of ten tenderers. Tenderers will have to meet requirements for financial and economic capacity as well as technical competences in order to be prequalified. The tenderers who are prequalified will be entitled to submit tenders and will be able to receive all relevant licences and permissions, as well as an authorisation to produce electricity according to section 10 of the Electricity Supply Act.

**Minimum requirements for financial and economic capacity**

DEA is applying the similar financial and economic minimum requirements as used previously in the contract notice for Horns Rev 3. The DEA considers these requirements to be sufficient to ensure that only strong candidates participate in the tender.

The requirements for financial and economic capacity include the following elements:

- An annual overall turnover of DKK15 billion calculated as an average of the last 3 financial years. A pension fund must calculate the turnover as the sum of gross premiums and turnover from investment activities.

- An equity ratio of 20 percent OR a long term rating of minimum BBB- (Standard & Poors and Fitch) or Baa 3 (Moody) or an equivalent rating from another reputable international rating agency. For Financial institutions separate capital requirements will apply that reflect the regulatory solvency requirement laid down by the national financial supervisory authority.

**Joint and several liability**

The tender conditions for Horns Rev 3 set out rules that determine that in several situations the rule of joint and several liability apply. This includes the situation where the applicant is a consortium and the situation where the applicant is supported by another undertaking, including a parent company.

As part of the dialogue the DEA wished to test the effect of these rules on the ability to form consortia. During the dialogue the DEA found that the most important problem may in fact be a lack of information about the actual scope of the rules.

In the tender process the DEA will therefore clarify in detail the implications of the requirement for joint and several liability. The DEA believes that this clarification may reduce the potential adverse effect the clause may have on the willingness to share risks in the form of a consortia, or attract necessary economic support by parent companies during per-qualification and tendering.
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Requirements for technical capacity

In order for DEA to be able to judge whether a company or a consortium has adequate technical competences, DEA requires that certain minimum requirements for technical capacity are met.

DEA is applying the same kind of minimum requirements as used in the contract notice for the Horns Rev 3 tender with some important amendments:

In order to simplify the tender DEA has chosen not to require any O&M experience as part of the pre-qualification. The tendering should focus only on the experience which is relevant for the tender, namely competences related to project development and construction.

DEA has chosen to require successful experience in project development and construction for a project of minimum 150 MW. For Horns Rev the project size was 100 MW. The necessary technical competences should reflect the fact that Kriegers Flak (600 MW) is a relatively bigger project than Horns Rev 3 (400 MW).
Following the tender for Horns Rev 3 the DEA has been considering options which could make it more attractive for long term investors to participate directly in the tender procedure. This could for instance include the option of receiving a lower subsidy for a longer period, as well as the possibility of having the subsidy indexed.

The dialogue showed an initial interest from some potential bidders in having more options with regard to the length of the subsidy period. The DEA has therefore decided to investigate in more detail the costs and benefits of eventually introducing more options with regard to the length of the subsidy period.

The DEA on the other hand does not recommend an indexation of the subsidy. Indexation would of course lower the immediate bidding price, but the subsidy costs would also increase over time. In the end the outcome may be the same. The main argument for not covering this type of financial risk, however, is that the government is in no better position to forecast inflation than the market. The DEA therefore believes that there is no benefit in having the state taking more risk in the form of indexation.
The DEA acknowledges that time is an essential factor and that the bidding process must allow sufficient time for the bidder to prepare and process the bidding proposal, including time to tender for central components.

Compared with the timetable published on the webpage pre-dialogue the DEA is changing the deadline for final and binding tenders from 15 September 2016 to 8 November 2016. At the same time the DEA is prepared to announce that final tender conditions will be released no later than medio June 2016. As a consequence of these adaptations bidders will now have app. 5 months to finalize the best and final bid following the release of the final tender conditions after negotiations.

All the material from the preliminary surveys offshore, including geological, geophysical, and EIA-related studies, has already been made available on the offshore web page of DEA as well as of Energinet.dk. Certified MetOcean studies are also freely available on the web page. DEA believes this to be of great advantage to tenderers as the level of site-specific information is very high on an unprecedented early stage of the tender procedure.

Please note that the preliminary bid is not binding and is not used by the DEA to select bidders. It is important, though, that the bidder is in a situation where he can – with some uncertainty – estimate the price implications of different proposals for amendments in the tender conditions.

**Timetable for tendering procedure**

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**Timetable**

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<th>2016</th>
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<tr>
<td>April 2015</td>
<td>Contract notice</td>
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<td>Nov - Dec 2015</td>
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<td>1 Oct 2015</td>
<td>Deadline for prequalification</td>
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<td>Early Oct 2015</td>
<td>Preliminary tender specifications</td>
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<td>5 Apr 2016</td>
<td>Deadline for preliminary tenders</td>
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<td>Mid June 2016</td>
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<td>8 Nov 2016</td>
<td>Deadline for binding tenders</td>
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<tr>
<td>From end of 2018</td>
<td>Guaranteed connection to grid</td>
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<td>End of 2021</td>
<td>Full operation of offshore farm</td>
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Concession for Kriegers Flak – single or multi-concession?

DEA has been considering the option of dividing Kriegers Flak into two concessions of 200 MW (the western part of the area) and 400 MW (the eastern part of the area), respectively. This possible division follows the current delimitation of the area naturally into two sub-areas each with its own substation.

DEA is recommending the tendering of a single concession of 600 MW. The DEA acknowledges that this choice may reduce the flexibility of the tender and therefore potentially also somewhat reduce the level of competition. However, the DEA believes that the scale effects of a 600 MW farm are so important that they will outweigh the benefits from a potentially increased level of competition. In addition, the level of anticipated competition is deemed to be high already. Further, two concessions would entail new project risks reflecting the complexity of two concessionaires building simultaneously at Kriegers Flak. This could in itself balance out any benefits from more competition. In addition DEA believes that the ongoing Danish near shore tender presents the opportunity to bid for smaller farms in Denmark.
DEA announced on March 13, 2015 the decision that the grid voltage for Kriegers Flak will be at the level of 33 kV. The dialogue confirmed that it would be risky to go for a 66 kV solution at a time where this technology is not sufficiently rolled out into the market.

During the dialogue the DEA received other ideas for reducing the risks and costs of the tender. These include among others:

No km² or layout restrictions inside the gross pre-investigation area.

The flexibility to place more than 200 MW in the western area and connecting the surplus to the substation in the eastern area.

Compensation and/or an extension of deadlines if the pre-investigations by the concessionaire reveal significant deviations from the initial survey results by Energinet.dk.

The DEA will analyse these ideas as part of the work on the preliminary tender conditions to be published in early October, 2015.

Furthermore, the DEA is also in the process of debriefing the participants of the tender for Horns Rev 3 with the aim of receiving information that might improve the tender process and tender conditions for Kriegers Flak.
New Offshore Wind Tenders in Denmark

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Other relevant publications include "New Offshore Wind Tenders in Denmark".

Go to www.ens.dk/offshorewind in order to read more about the tenders and to subscribe to the newsletter.