Coordination of tenders for offshore wind in the North Seas

Introduction

In the past, the cooperation between Member States was generally limited when establishing schedules for offshore wind auction. Particularly in sectors with a small number of players in the supply chain this can, under certain circumstances, lead to suboptimal tender outcomes, including higher support levels for offshore developments. Such a situation can for instance arise when large capacities are tendered at the same time by two or more Member States or when the construction deadlines of several Member States coincide.

To avoid such problems, coordination between Member States should be improved as regards the following two elements:

- Scheduling of deadlines for bids
- Scheduling of deadlines for the construction of projects.

Coordinating the bidding deadlines can help enable a smooth project pipeline and gives bidders the opportunity to prepare their projects better. Ensuring a steady sequence of construction deadlines can facilitate a smoother running of the supply chain and avoid shortages in the supply of vessels and other specialised equipment.

The cost of non-coordination

The lack of coordination can lead to higher overall offshore wind development costs. In the worst case, it can drastically increase the costs for specific projects, as happened for the Danish Anholt wind park where a number of factors led to a doubling of the support costs in comparison the previous Danish tenders. In 2010, Denmark published a tender for a 400 MW offshore development in Anholt, located in the Kattegat between the islands of Djursland and Anholt. The Danish government only received one tender with requested support levels double that of previous rounds.

A study was commissioned to explain this outcome[1]. It concluded that several reasons led to limited interest from potential bidders, one of them related to the timing of the tender: Denmark published its call for tenders at a time when the offshore market was growing and when there was a scarcity of capital due to the financial crisis and the prices in the value chain were high due a lack of capacity in the supply chain. At the same time, offshore wind started to attract the attention of politicians and investors the United Kingdom and Germany and both countries offered more attractive support schemes than Denmark did at that time. Additionally, tender conditions did not provide sufficient flexibility and potential bidders viewed the Danish market as relatively difficult to enter, leading potential bidders not to participate in the tender.

[1] https://ens.dk/sites/ens.dk/files/Vindenergi/deloitte_havvind_-_hovedrapport.pdf

Coordination is a win-win for Member States and the offshore industry

In terms of support cost, the benefit of coordinating offshore tender and construction deadlines in the North Sea is clear: coordination can help bring down the overall costs which can be reflected in lower support levels. The offshore industry can also benefit from greater coordination. Spreading out the deadlines for receiving bids will allow project teams to work continuously on the preparation of projects, evening out peaks and slow periods, which would require the assignment of staff to other tasks. Scheduling sufficient time between the selection of the winner of one auction and the deadline for bids of the following auction, would allow project developers to decide whether to participate or not based on whether they were successful in the previous auction.

Coordinated construction deadlines provide for the resources in the supply chain to be used more efficiently. If peaks and slow periods are spread out evenly, stop-and-go investment cycles are avoided and workers, specialised equipment, such as vessels, and turbine factories, can work continuously and more efficiently. No additional investments in means of production are needed to respond to demand spikes. Furthermore, a steady and predictable tender pipeline ensures that there will be sufficient competition in the market which should be reflected in the bids received. This contributes to reducing the overall costs of offshore wind.

The way Member States set tendering and commissioning dates

Commissioning dates are generally included in the national tender specification or the national support regulation. These dates are often derived from the broader national energy strategies and policy papers. For instance, in Germany long-term commissioning dates are included in specific laws, while the Netherlands translates its strategy in to a specific law for every year. Based on the envisaged commissioning date, most Member States work backwards to determine the tender date which is usually set around five to seven years prior to commissioning. The exact date is often defined according to the domestic political context. Only Germany has already set the dates and the capacity to be tendered up to 2025 in its national law. The Netherlands has a firm political commitment which is translated every year into a specific law containing the dates (both for auctioning and for commissioning) as well as the tendered capacity. In France, a decree (Décret no 2016-1442 du 27 octobre 2016 relatif à la programmation pluriannuelle de l'énergie) sets out the objectives in the offshore wind area up to 2023.

Steps to be taken to improve coordination amongst SG3 countries

1. **(Informal) exchange of information amongst North Seas countries on national calls for tenders at an early planning stage, i.e. even when this information is only preliminary and no final decision has been taken in the respective Member States**

   Early exchange of information (also of preliminary information) on tender schedules and planned timelines in the North Seas countries can help identify possible overlaps at the regional level and help avoid an unsteady regional project pipeline. SG3 members would inform each other when national strategies or plans are published that include specific offshore wind objectives for the

upcoming period. SG3 acts as a platform for such coordination and regularly discusses the scheduling of tenders.

2. Considering the schedules of other North Seas countries when setting up national tender schedules

Information from other North Seas Member States on concrete developments should be taken into account at an early planning stage, i.e. before a final decision in is taken, in order to leave enough flexibility to adapt. This information can be obtained directly from the other SG3 representatives.

As regards commissioning dates, an additional challenge is that in some cases offshore wind farms were delayed by several years due to planning, weather, grid and other difficulties, which can affect the original schedule. This should be addressed in the regular exchange amongst SG3 members.

3. **Allowing for sufficient time in between tenders as well as between tender and commissioning dates**

Offshore developers have indicated that a period of two to three months between deadlines for bids would be ideal in the North Seas region. This gap would be enough for developers to finalise bids for all tenders.

Regarding commissioning, offshore developers have indicated that, depending on the regime in place (e.g. whether permits for the site have already been obtained), setting the dates around three to five years after the tender would be ideal to give enough planning flexibility to project developers. The further the commissioning deadline is in the future, the more difficult it is to predict the developments on which the offer is based, such as electricity prices, raw materials and technological developments, increasing the risk that auction prices are no longer representative by the time the project is built and that projects will finally not be built – due to unexpected market developments, e.g. regarding the electricity price or cost reductions for equipment.

Project developers have also indicated that a certain degree of flexibility in setting commissioning deadlines can help customise project development plans and optimise the use of supply chain resources, thus reducing overall cost. This could be done for instance by setting a certain time window for commissioning, instead of one fixed point in time, e.g. by allowing a project to deviate from the commissioning date by a maximum period of, for example, six months (earlier or later).

SG3 of the North Seas Energy Cooperation serves as a platform for the coordination of tender timing between the participating North Seas countries. The group will regularly discuss the scheduling of tenders and the last national auctioning plans.

SG3 countries agree to use the group as a platform to:

- share information on planned tenders as early as possible with other members of the group (this exchange will be strictly confidential)
- coordinate the tendering schedule with other Member States insofar as possible, when planning their own tenders, trying to schedule tenders to avoid overlapping tender and construction deadlines

Overview of currently planned tenders in SG3 States

Belgium

BE does not have a framework for investments in offshore wind. No tenders are currently planned.

Germany

DE has already established tendering deadlines and the deadline for commissioning law (Windenergie-auf-See-Gesetz, 2017). In 2018, DE will tender 1610 MW. The tender deadline is 1 April 2018, commissioning is between 2021-and 2025, depending on the date of commissioning of the grid connection. From 2021 onwards, DE will tender a capacity of 840 MW (on average, in a yearly range from 700-900 MW) on 1 September each year. The deadline for construction depends on the date of commissioning of the grid connection, usually expected five years after the tender date. DE is therefore inflexible with regard to the coordination of the deadlines for bigs.

Denmark

The future system is not yet clear and depends on the future Danish energy agreement. DK is therefore relatively flexible with regard to tender coordination.

France

Consultation on a new version of the multi-annual energy plan ("programmation pluriannuelle de l'énergie", PPE) has started in France. The new plan will cover the period up to 2028 and is due to be published at the end of 2018. It will include new offshore wind objectives (both floating and fixed). France is currently in the process of introducing new legislation designating the national TSO as responsible for offshore grid connections and is planning to introduce reforms of its permitting process designed to streamline and speed up procedures.

Following two initial tender rounds in 2011 and 2013, France allocated tenders for 6 offshore wind parks comprising 3,000MW. These parks are expected to be operational by 2023. A third auction for a park of up to 600MW is currently in progress, with the winner to be designated in mid-2018 and the park expected to be operational by 2025. A further auction for a new offshore wind park was publicly announced and is expected to be formally launched in 2018. The planned development of a number of floating offshore wind parks over the coming years has also been announced. With regard to the

coordination of the construction of offshore wind parks in the period up to 2025, France is therefore relatively inflexible with regard to the windfarms that have already been tendered. From 2018 onwards, it is intended to run one tender per year and commissioning dates have not been completely finalised to date, so some flexibility may exist.

Ireland

IE does not have a regime for offshore wind development at the moment. Future developments depend on the energy strategy that is expected for 2018. IE is therefore flexible with regard to tender coordination.

The Netherlands

For 2018 and 2019, the NL will tender 700 MW each year. The dates are not yet set and will be decided in the law that forms the legal basis for the tender. NL is relatively flexible with regard to tender coordination. The regime for the period after 2019 is not yet defined, but another 7 GW offshore capacity is planned.

United Kingdom

The United Kingdom plans the next Contracts for Difference (CfD) auction in 2019. The call for tender needs to be confirmed by the government. In 2018, no auction is planned.

Member State	Date tender	Deadline for construction	Capacity	Clear framework until
BE	Currently no new tenders planned			
DE	1 April in 2017 and 2018 1 September from 2021 onwards	5 years after tendering	1490 MW in 2017 1610 in 2018 Annually 840 MW (on average) from 2021 onwards	Tenders fixed in law for commissioning until 2030
DK	Not decided yet			Unclear until new energy agreement
FR	2011 and 2013 tenders 2017 tender Tender announced and expected to be formally launched in 2018	2023 2025 2023-2025	3000 MW 600MW 500MW	2023 2023 New multi-annual energy plan fixing objectives for fixed and floating offshore wind for the period up to 2028 due to be published in 2018.
IE	Currently no new tenders planned			
NL	One tender round annually until 2019, no date	5 years after tendering	700 MW annually	Clear until 2019, unclear thereafter
UK	August 2017	2021-2023	Total of £290m	The next CfD Tender is planned in 2019