

Offshore wind: an update on the first tender round

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I. First auction closed on 3 April 2017

The new Offshore Wind Act (Windenergie-auf-See-Gesetz) entered into force on 1 January 2017 and introduced tender procedures for tariffs for offshore wind farms. Under the new regime, developers of offshore wind farms which will be commissioned after 2020 will no longer receive statutory tariffs for electricity produced by their wind farms. Instead, developers now have to bid for tariffs in competitive tenders run by the Federal Network Agency (Bundesnetzagentur) (for more detail, please see our previous client briefing – ["Winds of opportunity: Investment opportunities in German offshore wind projects"](#), published in EnergySource, March 2017).

The Federal Network Agency published an invitation for the first offshore wind tender round under the new regime on 30 January 2017. In this first tender round, projects with a capacity of approximately 6,000-7,000 MW were eligible as "existing projects" to submit bids by 3 April 2017. While a regulatory price ceiling of 12 Euro cents/kWh applied to these bids, it was expected that the competitive process would result in prices significantly below 10 Euro cents/kWh, in light of the results of recent auctions for offshore wind farms run in the Netherlands and in Denmark, where tariffs as low as 5.45 Euro cents/kWh (Borssele 3/4) and of 4.99 Euro cents/kWh (Kriegers Flak) were awarded.

II. The results

The Federal Network Agency evaluated all bids which were successfully submitted and published the results on its homepage already on 13 April 2017. The outcome of the first German tender round is **ground breaking**: the two successful bidders, EnBW and DONG, received awards for three projects on the basis of a price of **0 Euro cents/kWh**, i.e. these projects are relying entirely on the market power price with no subsidy. One smaller project was awarded a tariff of 6 Euro cents/kWh, resulting in an average tariff for all awarded projects of only 0.44 Euro cents/kWh. This result may well mark the end of offshore wind subsidies for future projects.

All four of these projects are located in the North Sea. None of the Baltic Sea projects were successful. The total awarded capacity is 1,490 MW, falling short of the regulatory maximum capacity of 1,550 MW for the first tender round by just 60 MW.

The following table summarises the main results of the first offshore wind auction:

BIDDER	LOCATION	EXPECTED COMPLETION YEAR FOR GRID CONNECTIONS	AWARDED CAPACITY	AWARDED PRICE
DONG Energy Borkum Riffgrund West II GmbH	North Sea (cluster 1)	2024	240 MW	0 Euro cents/kWh
Northern Energy OWP West GmbH (DONG)	North Sea (cluster 1)	2024	240 MW	0 Euro cents/kWh
Gode Wind 03 GmbH (DONG)	North Sea (cluster 3)	2023	110 MW	6 Euro cents/kWh
EnBW He Dreiht GmbH	North Sea (cluster 7)	2025	900 MW	0 Euro cents/kWh

III. "After the match is before the match" – the next auction in 2018

Unsuccessful bidders (including e.g. RWE Innogy, E.ON and Vattenfall) can now participate in one further tender round on 1 April 2018. This tender round will again be open to "existing projects" only, in the so-called transitional phase (commissioning years 2021-2025). Subsequent tenders will then be run under the later "central model" from 2021 onwards.

The total capacity available for award in the second tender round will be **1,610 MW** (1,550 MW plus the remaining 60 MW from the first tender). In order to ensure that a minimum capacity of 500 MW will be allocated to offshore wind farm projects in the Baltic Sea, the Federal Network Agency will give preference to bids for projects located in the **Baltic Sea** over lower priced bids for projects located in the North Sea, up to a capacity of at least 500 MW, with a maximum capacity of 750 MW for the Baltic Sea. The remaining capacity will again be allocated to North Sea projects, and DONG has already announced that it aims to win further awards in cluster 1 in the next tender round.

To provide an **overview of the competitive situation** in the second tender round, in the following tables we have listed those projects which are eligible to participate in the tender as "existing projects", where projects marked in green are the successful projects from the first tender round. Regardless of other considerations and the total available capacity in the second tender round, bids can again only be successful up to the maximum available grid connection capacity in the respective offshore wind cluster. In other words, in clusters where there is a scarcity of grid connection capacities, projects can only be awarded tariffs up to the maximum available grid connection capacity left after the first tender round. Projects which are located in clusters for which there are no remaining grid connection capacities left after the first tender round will not be successful in the second tender round. This is the case for projects located in clusters 6 and 7 in the North Sea.

NORTH SEA					
Cluster	Grid connection system	Expected year of completion	Remaining grid connection capacity after first tender round	Offshore windfarm projects	Remaining windfarm capacity in cluster (estimated)
1	NOR-1-1 (900 MW)	2024	420 MW	<ul style="list-style-type: none"> Borkum Riffgrund West II (DONG Energy, 240 MW) DONG OWP West (DONG Energy, 240 MW) Borkum Riffgrund West (DONG Energy, 360 MW) 	360 MW
2	NOR-2-2 (800 MW) NOR-2-3 (900 MW)	completed completed	88 MW 50 MW		0
3	NOR-3-3 (900 MW)	2023	790 MW	<ul style="list-style-type: none"> Gode Wind 03 (DONG Energy, 110 MW) Gode Wind 04 (DONG Energy, 336 MW) Innogy Nordsee 2 (RWE Innogy, Northland Power Inc., 384 MW) Innogy Nordsee 3 (RWE Innogy, Northland Power Inc., 400 MW) OWP Delta Nordsee 1 (E.ON, 240 MW) OWP Delta Nordsee 2 (E.ON, 160 MW) 	1520 MW
4	NOR-4-2 (690 MW)	completed	387 MW	<ul style="list-style-type: none"> KASKASI II (RWE Innogy, 272 MW) 	272 MW
5	NOR-5-2 (900 MW)	2025	900 MW	<ul style="list-style-type: none"> Nördlicher Grund – Teil Sandbank (Vattenfall, Stadtwerke München, 96 MW) Nördlicher Grund (Blackstone, 384 MW) 	480 MW
6	NOR-6-2 (800 MW)	completed	14,4 MW	<ul style="list-style-type: none"> Atlantis 1 (Vattenfall, 613 MW) 	[613 MW]*
7	NOR-7-1 (900 MW)	2025	0 MW	<ul style="list-style-type: none"> EnBW He Dreiht (EnBW, 900 MW) EnBW He Dreiht 2 (EnBW, 138 MW) Global Tech II (Vattenfall, 486 MW) 	[624 MW]*
Total:			2,649.4 MW		2,632 MW

BALTIC SEA					
Cluster	Grid connection system	Expected year of completion	Remaining grid connection capacity after first tender round	Offshore windfarm projects	Remaining windfarm capacity (estimated)
1/2/4	OST-1-3 (250 MW) OST-2-1 (250 MW) OST-2-2 (250 MW) OST-2-3 (250 MW)	completed 2021 2021 2022	15 MW 250 MW 250 MW	<ul style="list-style-type: none"> Adlergrund 500 (BEC Energie Consult, 72 MW) Adlergrund GAP (BEC Energie Consult, 155 MW) Windanker (Iberdrola, 252 MW) Wikinger Nord (Iberdrola, 40 MW) Wikinger Süd (Iberdrola, 90 MW) Baltic Eagle (Iberdrola, 500 MW) Ostseeschatz (Financial Insurance, 225 MW) ARCADIS Ost 1 (WV Energie AG, Innsbrucker Kommunalbetriebe, KNK Ocean Breeze GmbH, Stadtwerke Bad Vilbel, 348 MW) 	
Total:			765 MW		1,682 MW

green offshore wind projects = successful bid in first round of tender in 2017

black offshore wind projects = projects eligible to participate in the second tender round on 1 April 2018

* = No further grid connection capacities available

The tables show that projects with a **total estimated capacity of approximately 4,314 MW** will compete for the maximum capacity of 1,610 MW in the second tender round. For a bid to be successful, the bid must win on the basis of price. If several zero bids are submitted, the smaller projects will be selected first. In the unlikely event that several projects of the same capacity bid at the same price, the successful project or projects will be selected through a "lucky draw" process.

IV. Outlook

Based on the figures discussed above, it seems clear that there will again be sufficient competition in the second tender round. The results of the second tender round are even more difficult to predict in light of the surprising results of the first round of tender. There are nevertheless a few points to note.



REASONS FOR LOW BID PRICES

Both DONG and EnBW have commented on the first tender round. While it remains unclear on what assumptions and calculations the two companies have based their zero bids, both companies have pointed out some factors which have positively influenced their bid prices. These were economies of scale and synergies with other projects. Probably even more importantly, the companies also pointed to the expected technological developments in the coming years: as three of the awarded projects (except for the smallest project, Gode Wind 3) will only be completed in 2024 and 2025 respectively, DONG and EnBW emphasized that they particularly benefitted from these late completion dates and the resulting longer period of potential technological developments. In this context, DONG explained that it assumes that turbines with a size of **13-15 MW** will be on the market by 2024, compared to 6-7 MW turbines currently being installed in offshore wind farms. Yet one further aspect might be that both DONG and EnBW may have been in a position to finance their projects on their own balance sheets, without project finance. Placing zero bids and taking the full market price risk might be more difficult for projects which need project finance.



LOWER BID PRICES FOR LATER PROJECTS

Against this background, projects with later completion dates may be able to bid for lower prices in the next tender round as well. This would mainly be projects located in clusters 1, 4 and 5 in the North Sea. In contrast, the grid connection system for cluster 3 in the North Sea will already be completed in 2023, making it more difficult for these projects to bid for low prices based on technological developments to the same extent as the later projects.



"BALTIC SEA AUCTION"

Due to the minimum capacity of 500 MW to be awarded to Baltic Sea projects first, there will be a "Baltic Sea auction" amongst the Baltic Sea projects within the second tender round. This auction will be subject to distinct characteristics. In fact, this will be the only auction among roughly equal competitors, as all projects in the Baltic Sea must be completed by 2021/2022, so that the advantages drawn by North Sea projects due to later completion dates cannot be utilized here.



PRICE CEILING FOR AUCTIONS UNDER THE CENTRAL MODEL

The total capacity of projects to be selected under the later central model (completion of projects between 2026-2030) totals 4,200 MW, with 840 MW per year on average. There will be a price ceiling for these tenders determined on the basis of the lowest successful bid in the second tender round in 2018. In other words, if the price for the lowest successful bid in the second tender round in 2018 will again be zero, the price ceiling for the later auctions in the central model will also be zero, unless the Federal Network Agency or the legislator decide in the future to introduce a higher ceiling. As a result, the 2018 tender round may well mark the end of subsidies for electricity produced by offshore wind farms in Germany.



LIFTING THE CAP?

The zero bids of course also lead to further questions, including questions relating to the general design of the tender procedures under the Offshore Wind Act and whether subsidies remain necessary at all. One key question for the further development of offshore wind farms in Germany will be whether the currently applicable regulatory expansion cap (the so-called "*Deckel*") for offshore wind of 15 GW by 2030 will be lifted after the next federal election in September of this year. The reason for the cap was mainly to reduce the cost of offshore wind subsidies to final consumers. This reason is no longer valid, if subsidies for new projects are minimal, as in the first tender round. In fact, the Federal Ministry for Transport and Digital Infrastructure, as well as Lower Saxony's Minister for Economic Affairs and several industry associations have already indicated that they are in favour of lifting the cap. One possibility of implementing a higher cap by way of an amendment of the current legislation might then be to run a further tender round in late 2018 or early 2019 for existing projects which were unsuccessful in the first and second tender rounds.

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