

BELGIAN OFFSHORE WIND – UPCOMING TENDERING OF THE PRINCESS ELISABETH ZONE

The tender principles for the Princess Elisabeth Zone are gradually taking shape following a recent stakeholder dialogue. This briefing provides an overview of the key strategic takeaways for investors and project sponsors.

INTRODUCTION

Since 2020, a total capacity of 2261MW of offshore wind energy has been operational in the Belgian part of the North Sea. In 2021, the Belgian Federal Government decided to radically upscale offshore wind capacity by between 3.15GW and 3.5GW of new generation. This growth is to be realised within the Princess Elisabeth Zone, an area specifically designated in Belgium's Marine Spatial Plan for new offshore wind production capacity.

This briefing outlines the main features of the different lots within the Princess Elisabeth Zone, including the support mechanism and tender rules. Additionally, it highlights key upcoming steps and offers a glimpse into the outlook for the future.

MAIN FEATURES

The Princess Elisabeth Zone consists of three distinct lots: Noordhinder North (700MW), Noordhinder South and Fairybank (both between 1225MW and 1400MW). The Belgian Federal Government will oversee a competitive auction process to tender each of these three lots. To streamline the tender and further development process, the successful bidder for each lot will receive a complete set of regulatory approvals.

These approvals range from the necessary domain concession and other requisite permits (including a submarine cable licence and environmental permit) along with preliminary studies and survey results. Additionally, a grid connection will be established through an artificial energy island and subsea cable system, which will be constructed and operated by the transmission system operator (TSO) Elia. Furthermore, a subsidy contract will also be included in the package of approvals.

Some of the main features of the upcoming tendering of the Princess Elisabeth Zone already have a legal basis in the Electricity Law (such as the 40-years' maximum duration of the domain concessions). However, additional legislation is being developed by the Energy Minister and the Federal Public

Key issues

- The Princess Elisabeth zone will consist of three lots (one of 700MW and two of 1225-1400MW)
- Tender of lot 1 expected to be launched in 2024 and the wind turbines completed in 2028
- Lots 2 and 3 to follow in 2026-2028 and completed in 2030
- Two-sided CfD support mechanism with the strike price and business model innovation (through citizen participation) as the only tender award criteria
- Grid connection through the world's first energy island operated by the Belgian TSO Elia, including important interface with onshore grid reinforcement works

Service (FPS) Economy to provide further details and guidelines for implementing these features.

The FPS Economy held its most recent stakeholder conferences on 5 and 26 May 2023, to give an update on the current state of play of the implementing legislation and critical next steps. Closely in parallel, important changes have been introduced to the support regime for existing offshore wind farms with a global weighted average levelised cost of electricity (LCOE)-based support regime (Rentel, Norther, SeaMade and Northwester 2).

In response to the exceptional market circumstances experienced in 2022 (both in terms of volatile electricity prices and lower-than-anticipated wind production), the one-sided contract for difference (CfD) support mechanism for these four existing wind farms has been replaced by a two-sided system.

Under this two-sided system, revenues above a certain level (in essence the levelised cost of energy (LCOE) plus a EUR 20/MWh mark-up) will trigger a payment obligation for these wind farms. This two-sided system is similar to the one used, for example, for CfD support for low-carbon energy generation in the UK. By contrast, the payment streams under the previous Belgian one-sided CfD mechanism could only be reduced to zero when electricity prices exceeded the LCOE.

While alternatives (including zero-subsidy bids) have been contemplated in earlier stakeholder consultations, there is now a clear understanding that a similar two-sided CfD mechanism will underpin the three upcoming competitive auctions in the Princess Elisabeth Zone. The expected features of this two-sided CfD mechanism are discussed in the section below, and may be subject to further refinement during the final adoption of the implementing legislation.

SUPPORT MECHANISM

The Belgian Federal Government has now taken a clear stance in favour of a two-sided CfD as its chosen support model for the Princess Elisabeth Zone. The underlying policy objective is in essence to bolster bankability while at the same time preventing windfall profits in the event of surging electricity prices.

Under a two-sided CfD, project developers have the comfort that they will receive a guaranteed income equal to the CfD "strike price" for the power output generated by their wind farm project. In cases where the CfD "reference price" (which is determined based on the market price that the wind farm is expected to achieve for its generated output) is lower than the CfD strike price, the wind farm receives a top-up payment under the CfD. This top-up payment is equal to the difference between the strike price and the reference price. However, if the reference price exceeds the strike price, the wind farm is responsible for paying the difference under the CfD for each MWh sold during the relevant reference period when the reference price was lower than the strike price.

The strike price that bidders include in their bids in the competitive auctions for the Princess Elisabeth Zone will play a critical role, both as an award and admissibility factor. To control the budgetary implications for the Belgian State, the Belgian Federal Government will establish an absolute maximum strike price, beyond which bids would be excluded from the tender. This maximum strike price will be determined taking into account the results of an ongoing study commissioned from the consultancy firm 3E.

To address the possibility of negative electricity prices, a mechanism with a defined cap (for example, 72 hours) is also being considered. However, compatibility with the State Aid rules is still being assessed and will ultimately require clearance by the European Commission.

Another noteworthy feature of the two-sided CfD mechanism that has been proposed by the Belgian Federal Government is the potential indexing of approximately 30% of the strike price. This indexing would relate to the operation and maintenance (O&M) part of the wind farm's expenses and account for any future increases in these costs due to inflation.

Another key policy objective is the promotion of long-term power purchase agreements (PPAs) with industrial offtakers and renewable energy communities as a means to ensure that the benefits associated with large-scale offshore wind production are shared by a broad range of local stakeholders.

The proposed CfD mechanism includes a carve-out allowing up to 50% of the total electricity production to be contracted through long-term PPAs at a fixed price capped at the strike price plus EUR 3/MWh. A further carve-out of up to 25% of the total electricity production is also contemplated, but specifically to promote pay-as-produced PPAs with a fixed price capped at the same level. Unlike the first 50% carve-out, this second 25% carve-out is specifically designed to benefit members of renewable energy communities, encouraging local community engagement and citizen participation.

Although the maximum support duration stipulated in the Electricity Law currently stands at 15 years, the Belgian Federal Government is actively preparing an amendment to extend the support duration to 20 years. This proposed extension would provide further long-term price stability and align the support duration with the maximum duration of the underlying domain concessions (which were extended from 30 to 40 years through an amendment law in October 2022).

The section below describes the expected tender rules that will serve as the basis for awarding these domain concessions.

TENDER RULES

Admissibility criteria

Wind farm developers intending to participate in the competitive auctions for the domain concessions in the Princess Elisabeth Zone will need to meet certain criteria for their bids to be admissible.

These criteria range from technical expertise, financial robustness and stability to a minimum degree of citizen participation.

- *Technical:* realisation of offshore wind projects of at least 300MW.
- *Financial:*
 - Bid guarantee bond of EUR 70 million (lot 1) / EUR 140 million (lots 2 and 3).
 - Assets of EUR 75 million (lot 1) / EUR 150 million (lots 2 and 3).

- *Citizen participation*: at least 1% of the total investment costs via equity contributions or subordinated loan(s) to be met one year after the commissioning date (penalised with a non-release fine).

Other admissibility criteria relate to the technical grid connection requirements, the maximum strike price (see *Support Mechanism* section above), the minimum capacity to be installed per lot, compliance with cybersecurity rules and a number of exclusion grounds (for example, non-payment of tax or social security contributions).

Award criteria

Bids which comply with the abovementioned admissibility criteria will be evaluated on the basis of two main award criteria, being (i) the offered strike price, which will have a relative weight of 90% in the tender evaluation, and (ii) the business model innovation, to which the remaining 10% weight will be attributed.

"Business model innovation" for this purpose essentially refers to the realisation of an increase in citizen participation above the minimum of 1% of the project's CAPEX for admissibility (up to 4% of CAPEX). Verification of this additional commitment will occur three years after the project's effective takeover date to ensure its achievement. In the event that the committed percentage is not met, administrative fines may be imposed for the non-achieved part after an additional one-year grace period has elapsed.

NEXT STEPS AND FUTURE OUTLOOK

The Princess Elisabeth tenders will be conducted in two phases. The first phase will focus on the smallest lot of 700MW. According to the FPS Economy's indicative timetable, the initial call for competition is planned to take place in the fourth quarter of 2024. The aim is to commission the first new offshore installations in the Princess Elisabeth Zone by the fourth quarter of 2028.

The tender process for the first lot is expected to last approximately one year, with the announcement of the winning bidder scheduled for the fourth quarter of 2025.

As for the two larger lots, each ranging between 1225MW and 1400MW, the tender process is projected to take place between 2026 and 2028. The commissioning dates for these lots are currently anticipated to take place by 2030.

For both the lot 1 and lot 2 and 3 tenders, the timely completion of the grid connection (via the Princess Elisabeth Island) will be an important factor behind the time schedule. In addition, the parallel realisation of the related onshore grid reinforcement works (Ventilus for lot 1 and Boucle du Hainaut for lots 2 and 3) will also present an important interface for investors to monitor in the coming few years.

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