

# The tender principles for the development of the Belgian offshore Princess Elisabeth Zone

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## The Belgian subsidy regime in support of offshore wind developments is undergoing some important changes.

Very recently, through Royal Decrees of 23 May and 26 May 2023 and an amendment of the Electricity Act soon to be expected, the mechanism defining the support for the offshore wind farms with an LCOE based support regime (Rentel, Norther, SeaMade and Northwester 2), is changed. Their support regime, often referred to as a 1-sided CfD, is based on the Levelized Cost of Electricity (LCOE) and functions as a one-way street: in short, if the market price is below the LCOE, the offshore wind farm receives additional support; if the market price is above the LCOE, there is no obligation to make a reverse payment. Driven by the exceptional circumstances of 2022 (low wind production and high prices), the rules for calculating the level of support are now changed and a 2-sided CfD system is installed to replace the existing 1-sided CfD system. Under that new system, revenues above a certain level (in essence, LCOE + 20 EUR/MWh) will be subject to a payment obligation on the part of the offshore wind farm.

An entirely new set of rules, also based on a 2-sided CfD system, will apply to the future developments in the “Princess Elisabeth Zone”. On 5 May 2023, the Belgian federal government, together with the Federal Public Services for Economy, presented the principles for the tender criteria for the three offshore wind farms in this (yet to be developed) zone. These offshore wind farms will complement the nine existing wind farms in the Belgian North Sea.

We summarise the key points of this long-awaited policy announcement and provide further guidance on the timing of relevant milestones.

## The tender admissibility and award criteria

The Princess Elisabeth Zone (PEZ) will be split into three lots, i.e. one lot for the development of a 700 MW offshore wind farm and two lots for the development of a 1,225 to 1,400 MW offshore wind farm each. The tender for the allocation of the lots will be organised in two phases (both based on the tender principles as further detailed below): (i) a first tender for the first lot of 700 MW (which will be connected onshore to Ventiluz), and (ii) a second tender for the second and third lots of 1,225 to 1,400 MW (which will be connected onshore to Boucle du Hainaut). The lots will be connected offshore through an offshore energy island that will be developed by the system operator, Elia.

In determining the tender criteria for the wind farms to be developed in the PEZ, the Belgian federal government has been guided by five core concerns, namely (i) ensuring the highest possible injection of renewable energy into the Belgian grid, (ii) limiting the risks for investors so that energy can be produced at the lowest possible cost, (iii) having the lowest possible energy price for all Belgian consumers with the possibility of fixed-price Power Purchase Agreements (PPAs), (iv) enabling citizen participation through renewable energy communities (RECs), and (v) avoiding windfall profits.



## Admissibility criteria

For a bid to be admissible to the tender, it must meet the following admissibility criteria.

First, the bidders must have realised already 300 MW of offshore wind power and be active in the project management thereof (mere financial participation is insufficient). This technical capability is required in order to limit the risk of project delays or non-execution.

Second, the bidders must demonstrate financial strength and stability. More precisely, they must own at least EUR 75 million and EUR 150 million in assets by the end of the year preceding the bid year for the 700 MW lot and the 1,275-1,400 lots respectively. In addition, the bidders are requested to provide a guarantee of EUR 70 million or EUR 140 million (again depending on the lot type).

Third, a minimum of 1% of the CAPEX of the entire project (i.e. per lot) should be opened to citizen participation. The threshold will be verified one year after the final installation date and is subject to a non-release fine. The bid must include a detailed plan on how this participation will be achieved and implemented, including the planned communication towards citizens on risks and possibilities and on the legal framework.

Other admissibility criteria are compliance with technical requirements for the grid connection, a maximum strike price and the minimum capacity to be installed per lot, all of which will be further detailed in the tender or other legal documentation, as well as compliance with cybersecurity rules under the upcoming NIS2 directive, which will be assessed based on compliance with certain specific standards.

Finally, certain events or circumstances such as being a firm in difficulty, being subject to an outstanding recovery order under state aid or failure to comply with obligations regarding the payment of tax debts and social security contributions, lead to the exclusion of the bidder/bid from the tender.



## Award criteria

Admissible bids will be evaluated based on two main award criteria, namely (i) strike price (rated at 90 points), and (ii) innovation in business model (rated at 10 points).

### **Strike price under the CfD and carve-out option**

The bidder must set a **strike price** that it wishes to be applied in a two-sided contract for difference (**CfD**) mechanism that will apply for a period of 20 years, meaning that bids will be subject to a variable price premium/refund obligation. The variable price premium will consist of the strike price minus the reference price, the latter being determined as the average electricity spot price (which can be positive or negative). A portion of 30% of the strike price, corresponding to the operation and maintenance of the wind farm, will be indexed annually. The amount of support that the government can pay each year will be capped and the number of full-load hours to which the CfD applies might be capped too (the precise cap(s) is/are still to be determined through a study that is being launched).

In a period of three years after the final installation of the wind farm, subject to a number of conditions, a carve-out can be applied. Operators / bidders will be allowed to carve-out up to 50% of the total electricity production from the CfD mechanism, provided this portion of the electricity production is contracted through a PPA with a fixed price that does not exceed the strike price increased with 3 EUR/MWh (subject to the same partial indexation as under the CfD regime and excluding fees for other services offered, like balancing services). An additional 25% of the electricity produced can be carved out for PPAs with members of a renewable energy community (REC).

A one-time fall-back option is foreseen, allowing operators/ bidders to bring the volume that was carved out and covered by a PPA back under the CfD regime, and thus, the offered strike price (“ingediende strike price / prix d’exercice soumis dans l’offre”). This is possible if a customer defaults, a PPA expires or is terminated or the provider can no longer place the volumes on the market (under a replacing PPA). In such case, operators will have a limited time-frame to conclude a new PPA, and the volume that corresponds with the expired/ terminated PPA may be brought under the CfD regime. This fall-back option is PPA-specific (and thus not necessarily relates to the total volume covered by the carve-out).

### **Innovation in business model**

The award criterion of innovation in business model refers to (the increase of) citizen participation up to 4% of the project’s CAPEX, i.e. financial participation amounting to 3% of the project’s CAPEX (in addition to the minimum 1% for admissibility), which may include access for RECs amounting to 2% of the project’s CAPEX. The distribution of points for the aforementioned elements is being further examined and will be determined in the Royal Decree Tender (the government has indicated, however, that citizen participation beyond the admissibility threshold would be scored proportionally). The percentage committed to by the bidder will be verified three years after the effective installation date, subject to administrative fines for the volume not achieved.



## Next steps and timing

As indicated above, the tenders for the development of a total capacity of 3.15 to 3.5 GW will be organised in two phases. The currently estimated timing as set out below is based on the current state of affairs and might have to be adjusted.

In general, the first steps in the tender process will be the (non-binding) call for interest and the publication of the legal framework (including Ministerial Decrees on Lots and Grid Design, Royal Decrees on Tender, Modular Offshore Grid (MOG) II and Liabilities, and state aid verification) and the tender documents (including a standard domain concession document, a standard connection contract and standard offshore construction, environmental and cable permits, that will be transferred to the winning bidder). Bidders will have nine months to prepare and one additional month to submit their bids. The government reserves a period of three months (which can be extended with three months) to evaluate the bids. The wind farms are expected to be operational 42 months (and in any event not later than 48 months) after the announcement of the winning bids.

The first tender is currently scheduled to be launched in Q4 2024, with submission of bids in Q3 2025 and announcement of the winner in Q4 2025 - Q1 2026. The commissioning of the first new offshore installations is then scheduled for Q4 2028 (but depending crucially on Ventilus). The second tender and third tender are both currently scheduled to be launched in 2026, with commissioning of the first wind turbines planned in 2030 (depending on Boucle du Hainaut, and finalisation of MOG II, both currently scheduled for 2029).

For any questions on the above, please contact our specialists.

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