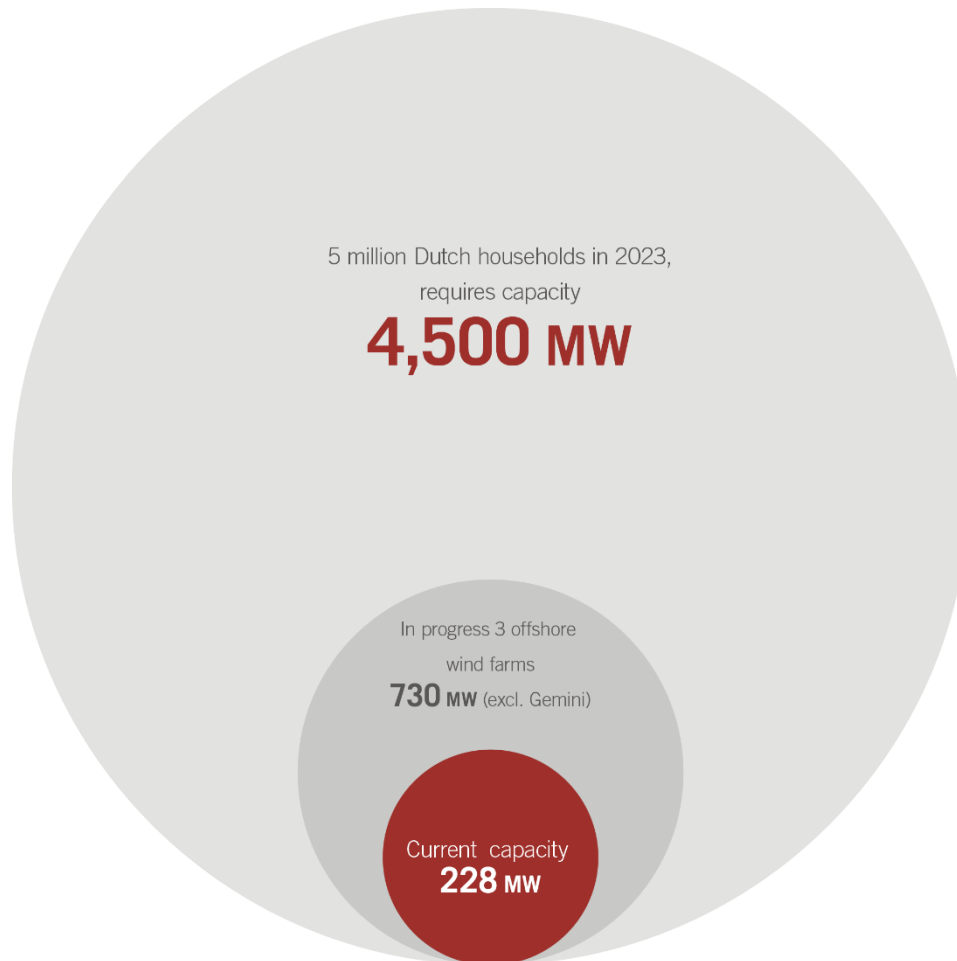


Subsidies Dutch offshore wind parks How low can you go?

Energy Law Group | 22 September 2017, Warsaw



Developments in offshore wind energy



The Netherlands are lagging behind in terms of renewable target

Target 2020: 14 percent, currently we are closer to 6 percent...

May 2017: Grand opening Gemini wind farm

Largest Dutch offshore wind farm (600 MW) and largest project finance (2.8 billion euro)

3 offshore wind farms already were in operation

- Wind farm Egmond aan Zee, 6 NM from Egmond aan Zee, 108 MW
- Wind farm Prinses Amalia, 12 NM from IJmuiden, 120 MW
- Wind farm Luchterduinen, 12 NM from Noordwijk, 129 MW

More to come in offshore wind

- Target: 3,450 MW newly installed capacity in 2023
- Max. 18 billion euro available in subsidies minus grid connection costs TenneT (approx. 4 billion euro)
- Two tender rounds (700 MW each) have been finalized, three to go
 - won by DONG and Shell/Eneco/Van Oord/Mitsubishi-DGE
 - next tender: December 2017
- TenneT to arrange connection to the grid
- Feasibility studies pending near shore projects

Total increase to total of on- and offshore wind energy to 10,000 MW in 2023

- 11 locations identified for onshore increase to 6,000 MW in 2020
- Political debate: do we need it?

Dutch offshore wind tenders



The wind farm should be commissioned within 5 years after the subsidy is granted or 5 years after the Wind Farm Site Decision is irrevocable

Next tender: Hollandse kust Zuid – December 2017 (700MW)

Year	Power	Wind Farm Zone
2015	700 MW	Borssele Wind Farm Zone, Wind Farm Site I and II (won by DONG)
2016	700 MW	Borssele Wind Farm Zone, Wind Farm Site III and IV (won by Shell/Eneco/Van Oord/Mitsubishi-DGE)
2017	700 MW	Hollandse Kust ZH Wind Farm Zone
2018	700 MW	Hollandse Kust ZH Wind Farm Zone
2019	700 MW	Hollandse Kust NH Wind Farm Zone

The subsidy scheme: the original plan....

Tender for subsidies

- Price only: lowest requested (max.) subsidy amount per kWh wins
- No room for including other elements (e.g. price adjustments) in bid
- No feed-in tariff, nor Contract for Difference. Government pays subsidy depending on general market price

Subsidy

- Subsidy period: 15 years from start of operational phase
- Basis subsidy: amount per kWh determined as (a) the requested subsidy amount minus (b) market electricity price, with cap and floor
- Subsidy amount per kWh is reset annually, depending on (i) market electricity price and (ii) value of certificates of origin
- Maximum number of kWh for which subsidy may be obtained applies: depends on capacity wind farm and projected full load hours (wind projections based on amount of wind likely to occur >50% of the time)
 - production not achieved but eligible for a subsidy, may be included in future years (*banking*)
- In addition, maximum amount for overall subsidy is 2.5 billion euro per wind farm site

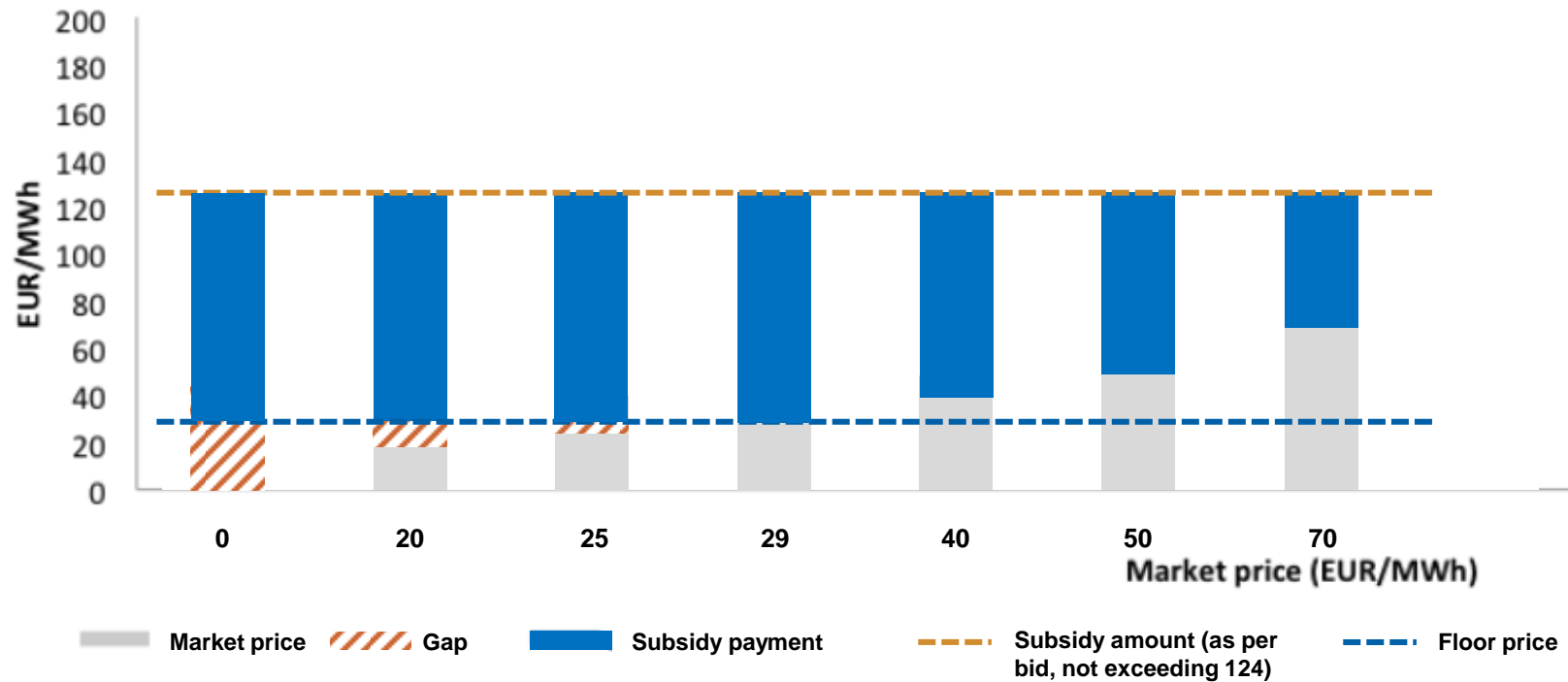
Link between permit and subsidy

- permit would be only be granted to party who wins the tender for the subsidy

Eligibility requirements

- Applicants will have to prove:
 - financial feasibility
 - technical feasibility
 - economic feasibility
 - ability to start with the construction of the wind farm within 4 years
- How detailed should the application be?
- How strong should the commitments of providers of finance be at tender stage?
- Companies can submit a single application covering both sites and one separate application for each individual site (three in total)

How did the original plan for the subsidy scheme work? (example first tender)



The results....

Year	Power	Wind Farm Zone	Price cap (eurocent/kWh)	Winning bid (eurocent/kWh)
2015	700 MW	<i>Borssele Wind Farm Zone, Wind Farm Site I and II (won by DONG)</i>	12.400	7.270
2016	700 MW	<i>Borssele Wind Farm Zone, Wind Farm Site III and IV (won by Shell/Eneco/Van Oord/Mitsubishi-DGE)</i>	11.975	5.449
2017	700 MW	Hollandse Kust ZH Wind Farm Zone	10.750	---
2018	700 MW	Hollandse Kust ZH Wind Farm Zone	10.320	---
2019	700 MW	Hollandse Kust NH Wind Farm Zone	10.000	---

The consequence: no subsidy intended for new tenders!

Tender for third round Hollandse Kust (Zuid) Wind Farm Zone (December 2017)

- Market parties may submit a bid for the realisation of the wind farm without subsidies
- In the event this tender procedure fails to yield an acceptable bid, a tender procedure including subsidies will be initiated
- Responses to the proposed ranking criteria to be submitted by noon today!

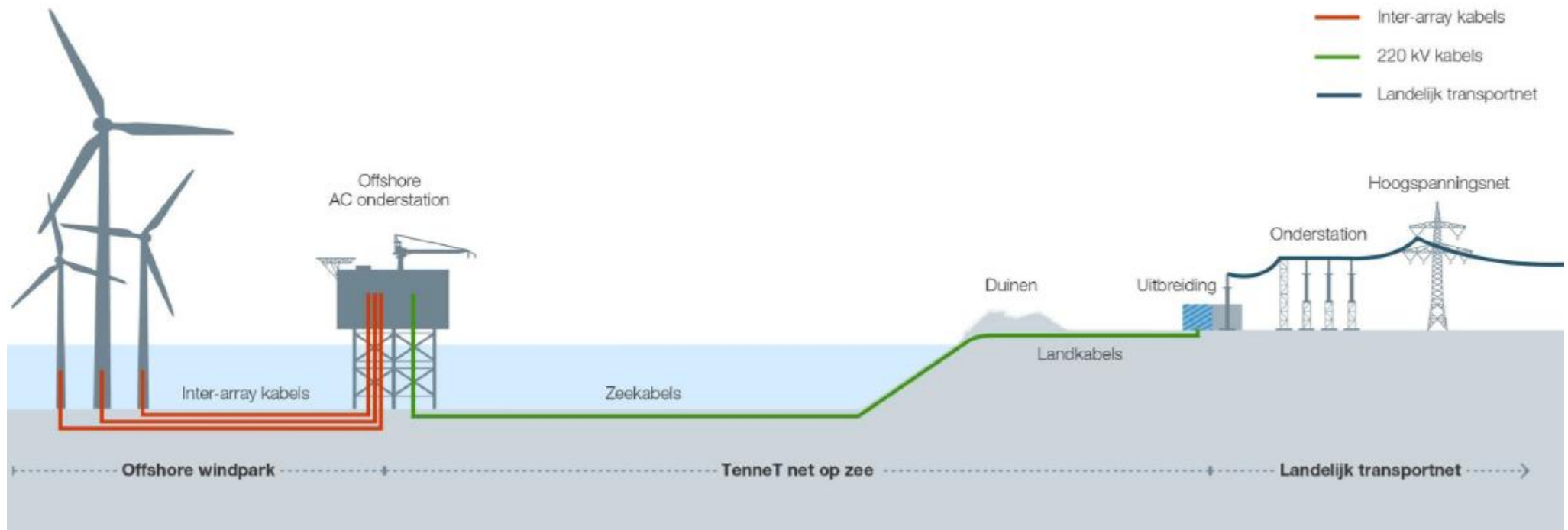
Draft ranking criteria

- The knowledge and experience of the parties involved (maximum: 10 points)
- The quality of the design for the wind farm (10)
- The capacity of the wind farm (10)
- The social costs (i.e. efficiency, 10)
- The quality of identification and analysis of the risks (20)
- The quality of the measures to safeguard cost-effectiveness (40)

Questions?

- Will market parties be interested in a wind park without subsidy?
- Will the new – more subjective – ranking criteria lead to legal debate?

Grid connection by TenneT (TSO)



Grid connection by TenneT

Offshore transmission system

- Dutch TSO - TenneT to arrange connection to the grid (appointed as offshore transmission system operator)
- Agreements to be concluded between TenneT and operator, based on templated:
 - realisation agreement
 - connection and transmission agreement

Compensation for grid failures or delayed grid connection

- Compensation to be paid by Dutch TSO (TenneT) and recovered through tariffs (with a EUR 10m deductible in case of wilful misconduct or gross negligence by TenneT)
- Wind farm operator has a duty to minimize damages if possible and is only entitled to compensation for delayed connection if foundations have been constructed and it can prove wind farm was ready for use
- Compensation for consequential damages and loss /delay in income:
 - Consequential damages are based on actual (proven) damages, but do not include financing costs
 - Compensation for delayed connection: deferred income from electricity sales and deferred subsidy income (not: missed sale of electricity as such)
 - Unavailability grid: missed sale of electricity and damages from deferred subsidy income; five days in a year for grid maintenance do not count for compensation

Financing of grid connections

- TenneT's costs are recovered through subsidy (same source as subsidies to wind farms, if any...)
- To the extent not covered through subsidy: included in onshore transmission tariffs
- Costs are subject to ACM (Dutch regulator) review
- No connection fee or transmission tariffs for feeding in are envisaged to apply; however: tariffs/fees for offtake may apply

Arjan Kleinhout



Contact

T +31 20 577 1348

M +31 6 5185 6188