

New economic model for offshore wind being tested in Denmark

The work on the tendering process for the Thor offshore wind farm is proceeding. Today, 15 November 2019, the Danish Energy Agency published a discussion paper for the "market dialogue" to be held on 25 November 2019 in Copenhagen.

According to the paper, the call for tender for Thor takes a point of departure in the latest Danish offshore wind farm tenders, except for on three important points;

1. A new design for the subsidy scheme
2. Inclusion of the offshore substation and the grid connection from the offshore substation to the point of connection at the nearshore substation
3. An adjusted approach to environmental assessments.

This briefing notes gives a quick overview of the first element, the subsidy scheme.

The concession owner of Thor offshore wind farm can receive aid in the form of a price premium from the Danish State for a 20-year period commencing at the time of grid connection, meaning the time at which the wind farm supplies the first kWh to the collective grid.

The subsidy will be granted in accordance with the Contract-for-Difference principle. In the CfD for Thor, the size of the premium will be calculated as the difference between the bid price and a reference price. The reference price is calendar-fixed annually settled, meaning that it is calculated as the simple average of the electricity spot prices in the previous calendar year running from 1 January to 31 December.

The difference between the price offered and the reference price will be granted as a fixed price premium which is a fixed amount for one whole calendar year, but may vary in size year by year, depending on the electricity prices in the previous year.

Following the State aid regulations, premium will be discontinued in hours with non-positive prices on the spot market. The CfD model has been designed with symmetric payment.

This means that the concession owner receives premium in years in which the bid price is higher than the reference price, but correspondingly pays the State in years in which the reference price is higher than the bid price.

For example, this will happen if the bid price is DKK 0.30 per kWh, while the reference price for a given year is DKK 0.40 per kWh. In this event, the concession owner will be liable to pay the State DKK 0.10 per kWh production delivered throughout the year. There is no opt-out option.

The Danish Energy Agency has stated that this economic model is only applicable for the Thor offshore wind farm, hence changes for the second and third Danish offshore wind farm to be established before 2030, can be anticipated.

WSCO law firm is participating in the market dialogue organised by the Danish Energy Agency.

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For questions or comments to this newsletter or energy and offshore in general, please contact Bo Sandroos on +45 4088 5422 or bos@wsco.dk.

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