

## Feedback in response to the public consultation on the design note: “Connection with flexible access: evolution of the framework at federal level”

In this reaction, Belgian Offshore Platform responds to the public consultation of the design note “Connection with flexible access: evolution of the framework at federal level” (version 31 May 2024) as launched by Elia on the 31<sup>st</sup> of May 2024.

A connection with flexible access is a no-go for offshore developments, a firm connection is a crucial requirement for bankability reasons and the only viable solution

Since years, BOP demands a guaranteed firm access to the Belgian grid and fixed connection capacities to be able to fully use the valuable wind assets in the PEZ and to produce renewable offshore wind power at the lowest cost for society.

Moreover, a flexible access is understood not to be applicable for the offshore connected windfarms through the PE Island, as the projects have no option to coordinate location, delivery time and installed power which is a pre-requisite for the concept of a flexible connection as defined in the appropriate legislation.

Any proposal for a connection with flexible access is NOT acceptable (even if it is temporary in nature, if it comes with certain guarantees on volume and/or it is partly “backed” by a 2s-CfD) as it jeopardizes the bankability of the projects and as such also a timely realization of the new offshore wind developments for Belgium.

Elia, as party which can manage the risk associated with the build-out of the grid, has to provide a connection with a firm access from the start of the offshore projects in the PEZ and within the current planning. Any curtailments resulting from grid-related constraints are to be fully remunerated in accordance with the EU Electricity Market Regulation and the BRP perimeter is to be corrected.

### Congestion issue for the first offshore concession of the PEZ

Elia proposes a connection with flexible access for the first new concession of 700MW for offshore wind developments in the Princess Elisabeth zone, while waiting for the completion of the Boucle du Hainaut onshore grid reinforcement project. BOP has so far not received a clear justification of the need for flexible connection (cf. in this regard the recent CREG opinion (CREG(Z)2779)).

We also would like to point out that Elia communicated its intention to provide a connection with flexible access for this first offshore wind farm in PEZ to the market only very late. The integration of 3.5GW of new offshore wind on the Belgian grid has been discussed in public Elia working groups since 2020 (and the connection for a first plot of 700MW has been under consideration since 2017), but the connection with flexible access has only been on the table since late 2023. Given the large financial implications, this has caused great concern within the industry and would definitely undermine the objectives of the upcoming offshore tender.

## The framework of connections with flexible access is not intended for the offshore developments

Offering a connection with flexible access primarily acts as an incentive for grid users to optimize

- (i) the location of their installation
- (ii) the timing of their connection
- (iii) their overall connection capacity of the project

as function of the grid hosting capacity (to be) made available by the TSO.

All three elements are not a choice for the offshore developers, as the location, timing as well as connection capacity are predetermined in the offshore tender requirements. As a consequence the project developer does not have the option to postpone the developments until realisation of the grid reinforcements, if the project risks are considered to be too high or unmanageable with a flexible access.

According to the EU legislation, the TSO should provide the possibility for a connection with flexible access in order to facilitate a faster rollout of renewable energy projects that might otherwise be not realised or delayed due to unavailability of grid hosting capacity. In the specific case of the PEZ, the connection contract will be part of the tender documents (which are to be published in October 2024). The connection is not requested by the offshore developer but by the Belgian government. Again, the project developer has no other choice but accepting the published connection contract and consequently the underlying nature (flexible or firm) of the connection. This undermines the voluntary aspect of the connection with flexible access.

**The framework of connections with flexible access is therefore not intended for the offshore developments, and only used by Elia to solve its issues and consequently delays in the required onshore grid reinforcement projects, namely the Boucle-du-Hainaut project.**

## Impacts of a connection with flexible access on the offshore wind park

- (i) A flexible access makes offshore developments not bankable

Foremost, a connection with flexible access, hindering the injection of the offshore wind production due to grid constraints is not bankable and thus not acceptable at all.

This view is shared with the four major Belgian banks active in financing offshore wind parks. We would like to refer to their reaction to this public consultation of the Elia TF PEZ (January 2024) and highlight the following conclusions:

- *“The introduction of non-manageable risks such as the flexible connection contract is likely to be a major blocking point for bankability. We expect this impacts bankability but also to the feasibility of the proposed carve outs with corporate ppa’s and cooperative ppa’s.”;*
- *“As the curtailment risk cannot be controlled by the project company, the project would clearly not be bankable”*

The tender framework does not provide sufficient guarantees to mitigate the realisation risk: under the carve out, which can be up to 75% of the volume (50% corporate PPA, 25% cooperative PPA) there is no mitigation whatsoever, but even under the base regime of a 2-sided CfD, there is only a limited mitigation as the regime only covers a delta (between market revenues and strike price) but the market revenues themselves are not guaranteed. In order to correctly compensate the offshore wind parks, also for the volume under the CfD contract, it is expected from the offtaker to cover for the missed market revenues during grid-related curtailments. On top, there is a further impact on the

revenues from a loss of Guarantees of Origin and implications on the imbalance costs. As a result, there is still unacceptable exposure resulting from the flexible access.

Also, the flexible access is supposed to end upon realization of Boucle du Hainaut, but no guarantees on a realisation date can be provided before closure of the tender phase 1, because the permit procedure for Boucle du Hainaut will not be concluded. This uncertainty in time further increases the cost of the risk.

The proposal of a connection with flexible access (even with a volume guarantee under the new regulatory framework for which the first design note is now under consultation) introduces unmanageable risks in highly capital-intensive offshore projects. After all, in case of activation, there is no compensation provided for the missed production, and, on top of that, the perimeter of the BRP is not corrected; thus creating an imbalance position with a large financial impact. This thus amounts to a double penalty - there is no revenue against the adjusted volumes, and the cost of the imbalance created by the adjustment must also be borne by the BRP (grid user) - but, above all, creates an unquantifiable and thus unmanageable uncertainty in the bidders' business plan.

Placing such revenue risks on the offshore farms is cost-prohibitive; also undermines the marketability of the PPAs (both under the 2-sided CfD and under the carve-out) which is precisely the basis for concluding a project financing and, moreover, has no impact, technically speaking, in the case of the offshore wind farms, on the prevention of grid congestion.

#### (ii) Undermines the marketability of PPAs

Based on the above, it is abundantly clear that a flexible connection completely compromises the conclusion of PPAs as in the case of unreimbursed flexible activations, the entire risk must be borne by the developer or is placed with the end user, thus compromising the marketability of the PPA, which is strictly necessary for project financing.

#### (iii) Hinders participation to FRR

As the flexible access would be signalled to the producers in real-time (after closing of all the auctions, including the reserve auctions, as well as after the redispatch timeframe), offshore wind farms would not be able to participate in any of the ancillary services (such as the FRR markets, but also Voltage control), as they would face unavailability and undelivery penalties when being curtailed in real-time. Elia has -so far- always strongly encouraged renewable energy assets to participate in these flexibility markets, as it opens up these ancillary services to new players, deepens the liquidity in these markets, breaks a former technological hegemony, all while creating downward pressure on prices. Several offshore developers have, in the past few years, invested significantly in being able to offer these services at competitive prices. All these efforts would be lost, and PEZ assets (assuming they could even be built on a flexible access contract) would not participate to any ancillary services.

### A flexible access disturbs the level-playing field of the offshore tender

The federal government, through a 2-sided CfD mechanism, has chosen to limit *market risk* faced by offshore wind developers, thereby creating a level-playing field for the offshore wind projects in the PEZ so that the various competing developers can offer competitive strike prices that purely reflect the developers' ability to develop, build, and operate an offshore wind farm at the lowest possible cost with limited risk premia. However, even with a 100% 2-sided CfD, not all risks of a connection with flexible access are covered, as the missed Guarantees of Origin and additional imbalance costs also have to be taken into account and market revenues are far from guaranteed.

Elia's proposals, which - even if the volume of flexibility would be capped - introduce unpredictable and uncontrollable (market revenue) risks in the business plan of the wind farms, is diametrically

opposed to the objectives of the 2sided CfD mechanism as it re-introduces unquantifiable market risks, and thus puts bankability at risk. If the projects even get realised, it will lead to a higher strike price and thus higher costs to the federal government, socialising these costs.

On top of that, it distorts the level -playing field in the context of the award of the PEZ. **Given the expected price competitiveness of the tender, bringing in this uncontrollable risk and incorporating it into their business case by the various bidders could make all the difference, on a basis that is very far from the objective: producing offshore wind energy at the lowest cost.** Note also that if Belgium chooses to place these risks (and thus costs) on the wind farms, this artificially increases the strike price and thus makes a comparison between the price of offshore wind with our neighbouring countries impossible.

**Introducing new elements that will significantly impact the strike price, also require an update of the price cap study, as the 95 EUR/MWh might prove to be unachievable, if the projects could be realised at all.**

#### [Grid related risks are to be allocated with the TSO who can manage these risks](#)

Imposing the risks resulting from flexible connection implicitly on the BRP (grid user), rather than on the grid operator, is justifiable from a risk allocation perspective only if the BRP (grid user) actually has the resources to prevent and/or mitigate these risks. This is clearly not the case.

As a principle, uncertainties and risk introduced by Elia as a result of the grid and market topology should not be transferred to the offshore wind producers, as it increases the risk profile of the projects which increases the offshore wind production costs and could jeopardize the realization of the projects. The grid operator is the only and best party to cover these risks, with lowest societal cost.

#### [Transferring the risk to the offshore wind park does not avoid socializing of cost](#)

Elia argues that the curtailments should not be reimbursed, so as not to "socialize" the costs. However, not including such costs in Elia's tariff structure does not make them -and their "socialization"- disappear. On the contrary, if the projects get realised despite the hinder on bankability, the total cost will eventually be passed on through an increase in the strike price, and thus end up in the hands of the citizens, i.e. socialised.

The solution to keep these costs as low as possible is the further timely expansion of the onshore grid, and this is where the TSO, together with the permitting authorities, have the most important tools to realize this as quickly as possible and thus keep these costs down most efficiently. Laying the appropriate incentives/penalties on the TSO should ensure that the solution is provided by the party who can actually mitigate it without jeopardizing the much needed investments in the further growth of the offshore sector. The overall cost (to society) will be higher if the risks are placed on a party that cannot mitigate them.

Clarity on the connection contract is to be provided at publication of the offshore tender at the end of October 2024

The offshore tender documents for the first concession in the PEZ are to be published at the end of October 2024. The offshore developers then have 9 months to prepare and submit their offers. In order to properly prepare their bids to obtain the lowest achievable strike price (and so maximise their chances of winning the concession), absolute clarity on the connection modalities is required.

As it is certain today that the new regulatory framework (for which the design note is now under consultation) will not be in place nor guaranteed via retro-active measures, at the time of publication of the offshore tender (end of October 2024), only existing connection agreements can be applied.

The current “Gflex product” is absolutely not suitable for the offshore developments, as it introduces unquantifiable and unmanageable risks into the project, which makes financing of the project impossible.

A connection with firm access as only solution

**Consequently a connection with firm access is the only viable solution for timely development of the first offshore wind concession in the PEZ.**

Firm access (as a well known and proven concept for offshore wind) is to be provided for the offshore wind developments in the PEZ. Reference is also made to the other EU countries with major offshore wind developments (f.i. Ireland, the Netherlands and Germany), which are facing similar grid constraints and permitting issues like Belgium, but where a firm access is still provided to the offshore wind parks. A firm access contracted does not preclude flexibility to be activated in case of an actual grid congestion issue, as a last resort measure, within existing contractual framework by making concessionaires whole for any related loss of revenues and impact on the lifetime of the assets.