Offshore Wind New Leasing: Market Engagement Event

26th November 2018

Tender Process Design
Welcome

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For the avoidance of doubt, please note that The Crown Estate's management duties in Scotland have been transferred to Scottish Government. The information contained within this presentation therefore relates to the potential leasing of new offshore wind projects in England, Wales and Northern Ireland only.
Tender process design: Strategic approach
Jonny Boston
Principles and priorities

Fair & transparent process

Balance our role with that of the market

Responsible leasing

Tender process priorities

Objective and streamlined criteria

Enable new entrants to participate

Credible and capable bidders

Statutory obligations
Strategic approach

Pre-qualification driven by financial strength and technical competence of bidders

Main tender assessment of project (ITT) submissions driven by:

1. Compliance with key tests:
   a. Tender parameters
   b. Financial & technical assessment
   c. Capacity limits (geographical and bidder)

2. Option fee proposed by bidder

Plan-level HRA will need to be undertaken prior to entering into agreements for lease
Leasing Design – Key Stages

This shows the various stages of the tender process

**PQQ**  
Pre-qualification process

**ITT**  
Invitation to Tender

**Plan level HRA**  
Plan level Habitats Regulations Assessment

**AfL**  
Agreement for Lease

**Bidding entities identified**
Assessment of previous:
1. Financial performance
2. Technical experience

**Bids submitted for projects**
Forwards looking:
1. Project definition and location
2. Threshold Financial and Technical competence
3. Commercial assessment

**Responsibility of The Crown Estate**
Bidders provide project design information to inform assessment

**Bilateral commitment**
Provision of seabed rights
Indicative tender process timeline

**Q2 2019**
- **Launch**
- **Pre-Qualification**
  - Bidder details needed
- **Invitation to Tender**
  - Project details needed

**Q3 2019**
- **Formal launch notice**
- **PQQ opens**

**Q4 2019**
- **Bidders Info Day**
- **ITT opens**

**Q1 2020**
- **ITT deadline**
- **Projects announced**

**Q2 2020**
- **Plan-level HRA concluded**
- **AfL awarded**

**Q3 2020**
- **Plan-level HRA**
  - Screening reports
  - Report to Inform Appropriate Assessment (RIAA)
  - Site summary reports

**Q4 2020**
- **Contracts finalised**

Supporting HRA projects

All timings are subject to change and will be confirmed in due course.
Tender process design: Applicant & PQQ criteria

Ben Barton
Helen Elphick
Leasing Design – Key Stages: PQQ

This section describes requirements for bidding entities that want to participate in the leasing process, in terms of corporate structures and PQQ requirements.

- **PQQ**
  Pre-qualification process

- **ITT**
  Invitation to Tender

- **Plan-level HRA**
  Plan-level Habitats Regulations Assessment

- **AfL**
  Agreement for Lease

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**Bilateral commitment**

Provision of seabed rights
Bidding Entities and Consortia

- Bidders may bid as a single legal entity or in a consortium of legal entities.
- The Crown Estate will ultimately enter into an Agreement for Lease with a single legal entity of which any consortium members are expected to be the shareholders.
- A legal entity or legal entities belonging to the same company group may join different consortia in different bidding areas but may not participate in more than one bidding entity in the same bidding area.
- Bidders may nominate a third party expert to help them satisfy certain technical criteria. They would not need to be a shareholder but would need to be retained during the consenting period.
The PQQ financial criteria are designed to ensure that a bidder is financially credible and capable.

We are not proposing a blanket requirement for specified credit ratings.

Instead, we propose to assess three simple metrics which tell us about a bidder’s financial ability to deliver a project to consent.

The proposed metrics at PQQ stage are sized for the delivery of a minimum project size 300MW.

Further tests will be applied at ITT, appropriate to the size of project(s) being bid for.
Pre-qualification criteria – Financial: Proposed metrics

**Net Assets**
- Difference between total assets and total liabilities
- £70 million minimum
- From most recent audited accounts

**Turnover**
- From large infrastructure projects, measured over 3 years
- £600 million average per annum

**Cash**
- £45 million minimum cash, cash equivalents or committed undrawn credit facilities from qualifying banks
- From most recent audited accounts
• Consortium members must in aggregate meet the financial criteria on a weighted average basis, proportionate to their proposed share of the project they are bidding for

• Individual consortium members will **not** be required to meet pro-rata threshold amounts, as set out below

### Pre-qualification criteria – Financial: Consortia

<table>
<thead>
<tr>
<th>Metric</th>
<th>Actual data per audited accounts</th>
<th>Pro-rata values</th>
<th>Total</th>
<th>Total required</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets</td>
<td>£500m</td>
<td>£250m</td>
<td>£340m</td>
<td>£70m</td>
<td>Pass</td>
</tr>
<tr>
<td>Turnover</td>
<td>£1,000m</td>
<td>£500m</td>
<td>£660m</td>
<td>£600m</td>
<td>Pass</td>
</tr>
<tr>
<td>Cash</td>
<td>£70m</td>
<td>£35m</td>
<td>£46m</td>
<td>£45m</td>
<td>Pass</td>
</tr>
</tbody>
</table>
Pre-qualification criteria – Technical: Headlines

The proposed PQQ technical criteria are designed to ensure that the bidder has the technical capability and experience to develop offshore wind projects:

- The criteria look at the bidder’s track record of key development-phase components
- They could be satisfied through equivalent transferable experience from other relevant sectors or by direct past experience of offshore wind development
- Evidence of past experience can be provided by different members of a consortium as we recognise different members may have different strengths and play different roles
### Pre-qualification criteria – Technical: Management experience

<table>
<thead>
<tr>
<th>Project Management</th>
<th>HSE Management</th>
<th>HSE Regulatory Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can be satisfied by any Principal Shareholder</td>
<td>Can be satisfied by any Principal Shareholder</td>
<td>Applies to all consortium members</td>
</tr>
<tr>
<td>• Direct experience of project managing expenditure ≥ £25m for a commercial project in any sector</td>
<td>• Signed and up-to-date Health and Safety and Environmental (or integrated HSE) policy</td>
<td>• Details of any regulatory action taken in past three years (including improvement notices, prohibition notices or prosecutions)</td>
</tr>
<tr>
<td>• Can be a development or construction phase budget but not research &amp; development</td>
<td>• Details of existing or planned Management System(s) (certified under OHSAS 18001 and ISO 14001/EMAS, or equivalent standards) that can be applied to the project</td>
<td>• If action has been taken, mitigations must be in place to prevent recurrence</td>
</tr>
</tbody>
</table>

* Several of the technical PQQ criteria can be passed by any bidder group member who is proposed to be a ‘Principal Shareholder’ (i.e. an entity that owns 10% or more of a company’s voting shares.).*
### Pre-qualification criteria – Technical: Project development experience

<table>
<thead>
<tr>
<th>Grid Connection</th>
<th>Consent</th>
<th>Environmental</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can be satisfied by any Principal Shareholder</td>
<td>Can be satisfied by any Principal Shareholder</td>
<td>Can be satisfied by any Principal Shareholder and/or a Development Services Provider</td>
</tr>
<tr>
<td>• Signed grid connection construction agreement for a grid connected power project ≥ 50 MW</td>
<td>• Owner / Largest Shareholder of a Major Infrastructure Project at the point of consent submission and award</td>
<td>Managed a full EIA process* and submitted an Environmental Statement (ES) in last 10 years for:</td>
</tr>
<tr>
<td></td>
<td>• Consent awarded in last 10 years</td>
<td></td>
</tr>
</tbody>
</table>
  a) Wind energy project ≥ 50 MW; and |
  b) Offshore Infrastructure or Extraction project |

* If EIA covers only one project type, the applicant must have discharged EIA conditions and managed post-consent monitoring for the other for at least 2 years within the last 6 years.
Tender process design: ITT & Tender parameters

Helen Elphick
Leasing Design – Key Stages: ITT & Plan-Level HRA

This section describes how the ITT stage would work – including the financial and technical competence assessment, commercial assessment, potential tender parameters and plan-level HRA

- **PQQ**
  - Pre-qualification process

- **ITT**
  - Invitation to Tender

- **Plan level HRA**
  - Plan level Habitats Regulations Assessment

- **AfL**
  - Agreement for Lease

**Bidding entities identified**

Assessment of previous:
1. Financial performance
2. Technical experience

**Bids submitted for projects**

Forwards looking:
1. Project definition and location
2. Threshold Financial and Technical competence
3. Commercial assessment

**Responsibility of The Crown Estate**

Bidders provide project design information to inform assessment

**Bilateral commitment**

Provision of seabed rights
Invitation to Tender: Outline approach
We are developing ITT criteria within the context of the following proposed assessment framework

**Project Definition & Location**
- Capacity
- Coordinates
- Density
- Compliance with locational rules
- Project type (stand-alone / hybrid, OFTO / Generator Build)

**Financial & Technical Competence**
- Financial metrics will test the bidder’s ability to deliver project
- Technical competence assessed against threshold criteria

**Commercial Assessment**
- Bids ranked from highest to lowest in order of option fee value, measured in £/MW
- Total option fee, followed by option fee per km\(^2\) used to differentiate between equal, compliant bids
- Enough projects identified in line with geographic and bidder capacity limits to reach 7GW

Project must comply with tender parameters
Reviewed against threshold criteria – pass / fail evaluation
Successful bids are taken forward into plan-level HRA
Plan-level Habitats Regulations Assessment (Plan-level HRA)

• Bidders will be asked to provide information about their proposed projects to inform the assessment (e.g. turbine sizes, offshore platforms, offshore cable corridor, landfall location, installation methodologies).

• We acknowledge that at this stage in project planning much of this information may be unknown or provisional.

• If the plan as a whole has an Adverse Effect on Integrity of European Sites we may have to propose mitigation measures regarding the scale, characteristics and location of projects, or groups of projects, within the plan to avoid significant effect.

• By taking HRA considerations into account and providing as much information as possible when proposing project location(s) bidders can help to achieve a successful outcome.
Tender Parameters: Bidding areas & capacity

Bidding Areas:
Neighbouring open regions would be grouped to form a bidding area
The example shows which regions might be grouped into bidding areas if all nine regions were open

Proposed capacity limits:
We are seeking to identify sufficient projects to reach 7GW in total
No more than 50% of the total capacity would be awarded in any bidding area
A corporate group may not be awarded an interest (of any kind or size) in project(s) totalling more than 3GW

Number of bids:
We are considering allowing each bidder to submit up to 20 unique bids in each bidding area

Bidding areas and capacity limits would be confirmed in due course
Minimum Density: 3MW/km² at Agreement for lease
Minimum density will be required to increase at lease entry according to project capacity
We are proposing a graduated scale of minimum densities that ranges from 5MW/km² for projects of 1.5GW, up to 8MW/km² for projects under 500MW

Capacity: Must be an integer in the range 300 – 1500 MW

Phasing: Must be a single-phase consent submission
At lease entry the project can be phased into individual leases to reflect the construction programme

Project Boundaries: Only the Agreement for Lease boundary is required as part of the bid
The project must be a single, coherent shape that makes efficient use of seabed.

Specific guidance on project boundaries and minimum densities would be provided at the start of the leasing round
Tender Parameters – Location: Regions and Characterisation Areas

Proposed rule 1: Projects can straddle regions that are within the same bidding area

Proposed rule 2: At least 75% of the project must be within the outer boundary of the open regions, and all boundaries must be within The Crown Estate’s jurisdiction

Key
- Project: The outer boundary of a project (defined on the next slide)
- Region: A numbered Region including the Characterisation Area that sits within it

Important Disclaimer: The images and diagrams within this section of the presentation are not to scale and are intended to illustrate the tender concepts only.
Tender Parameters – Location: Hard Constraints

**Proposed rule 3:** Projects must avoid ‘hard constraints’ and will need to agree appropriate separation distances through the consenting process.

**Proposed rule 4:** Projects must be at least 5km from other windfarms unless the bidder has the current owner’s written agreement.

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**Key**

- **Existing infrastructure (e.g. aggregate licences, oil and gas platforms, marked navigational routes, MOD firing ranges, etc)**
- **Project:** The outer boundary of a project
- **Other windfarm agreements for lease or leases**
Tender Parameters – Location: Overlapping bids

As bidders can identify their own sites within bidding area, we anticipate that some bids would overlap. We are considering the following approach to overlapping bids and further guidance would be provided at the start of the leasing round.

**Proposed rule 5**: Bids from the same bidding entity may overlap with one another but if they do, they would need to be differentiated by their commercial values.

Where projects from different bidders directly overlap, the project with the highest option fee value would be awarded.

**Directly overlapping:**

Where any part of the project boundary overlaps with the project boundary of another bid.

**Proximate projects:**

The default minimum separation distance between projects at Lease is 5km. If any part of the project boundary is less than 5km from another bid a mechanism will be applied to preserve the 5km separation unless both parties agree otherwise.
Agreements for Lease and Related Documents
Key terms
Ben Barton
Leasing Design – Key Stages: Agreement for lease

This section describes the key legal agreements which would be entered into at the end of the process.

**Bidding entities identified**
- Assessment of previous:
  1. Financial performance
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**Bids submitted for projects**
- Forwards looking:
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**Responsibility of The Crown Estate**
- Bidders provide project design information to inform assessment

**Bilateral commitment**
- Provision of seabed rights
Overview of property documentation

The tender process would culminate in the following documents:

- Agreement for lease (wind farm)
- Form of lease (wind farm)
- Form of agreement for lease (transmission)
- Form of lease (transmission)
- Security documents where required

- At this stage we are focusing on AfL and lease for the wind farm

- Key terms in relation to other documents would be provided at PQQ, & full documents to pre-qualified bidders
Agreement for lease (AfL)

Principal agreement under which seabed rights are awarded following the tender process

Key features

• Provides the option to take a seabed lease, or leases, once consent has been obtained

• **Overall 10 year option** period from the start of the AfL to expiry – by which point any lease(s) would need to be entered into

• Provides rights to carry out surveys and install instruments

• Contains an obligation to apply for consent by a milestone date and may also contain other milestones prior to this – milestones and associated deadlines would be determined by The Crown Estate and set out prior to ITT

• The consortium may incorporate a new project company or form an unincorporated joint venture to sign the AfL, subject to provision of financial security

• Ownership of the counterparty to the AfL needs to reflect that of the bidding entity defined at ITT
## Agreement for lease – key terms

<table>
<thead>
<tr>
<th>Parameter</th>
<th>The Crown Estate Position (What)</th>
<th>Reasoning (Why)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option Period</td>
<td>10 years</td>
<td>To allow sufficient time for consenting and CfD auctions</td>
</tr>
<tr>
<td>Milestones</td>
<td>Up to 5 pre-consent milestones including consent application</td>
<td>To maintain delivery of the project to an agreed timeline</td>
</tr>
<tr>
<td>Power density at lease</td>
<td>Minimum power densities will scale with project size</td>
<td>To optimise use of the seabed</td>
</tr>
<tr>
<td>Buffer zone</td>
<td>5km around AfL boundary, unless the counterparty agrees otherwise</td>
<td>To provide certainty around the closest proximity of future projects</td>
</tr>
<tr>
<td>Flexibility on capacity</td>
<td>Reduction of up to 25% by lease</td>
<td>To allow for flexibility resulting from the CfD process</td>
</tr>
</tbody>
</table>
## Agreement for lease – key terms

<table>
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<tr>
<th>Parameter</th>
<th>The Crown Estate Position (What)</th>
<th>Reasoning (Why)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Phasing</strong></td>
<td>Multiple leases can be granted from a single AfL (each phase subject to minimum density requirement)</td>
<td>To allow flexibility around project construction and CFDs</td>
</tr>
<tr>
<td><strong>OFTO cable routeing</strong></td>
<td>Counterparty required to apply for a transmission AfL by a deadline, subject to TCE approval of the cable route</td>
<td>To ensure approval of the cable route in a timely manner and to optimise use of the seabed</td>
</tr>
</tbody>
</table>
| **Change of ownership / control** | During the period prior to consent, this would only be possible at The Crown Estate discretion. Ongoing compliance with PQQ & ITT criteria would be required | To preserve the counterparty's obligation to obtain consent.  
Any agreement of changes preserves the technical and financial requirements of the PQQ and ITT |
| **Security**                  | Security provider to comply with ITT financial criteria where a counterparty has insufficient covenant strength | To ensure the obligations of the AfL can be met as per the ITT financial criteria                                                          |
Form of lease

Principal agreement providing seabed rights for construction and operation of the project

Key features:

• Lease term proposed to be **60 years** to enable two project lifecycles if required

• Contains a requirement to build the project against set milestones

• The Crown Estate charges rental at 2% of project revenue, subject to a minimum rent

• The AfL counterparty would be expected to sign the lease, subject to provision of financial security
## Lease – key terms

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<th>The Crown Estate Position (What)</th>
<th>Reasoning (Why)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lease term</strong></td>
<td>Proposed to be 60 years</td>
<td>To allow for two project life cycles and decommissioning</td>
</tr>
<tr>
<td><strong>Rent</strong></td>
<td>Pre-generation rent set at 1/10th of option fee, per annum</td>
<td>Rental consideration for use of the seabed, based on all revenue streams for the project</td>
</tr>
<tr>
<td></td>
<td>Generation rent 2% of gross project turnover</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Minimum rental level to be confirmed</td>
<td></td>
</tr>
<tr>
<td><strong>Break rights</strong></td>
<td>Restriction on counterparty break for 25 years post-works completion, 3 year rolling break permitted thereafter</td>
<td>To require commitment from the counterparty for a full life-cycle operation, with flexibility thereafter</td>
</tr>
<tr>
<td><strong>Buffer zone</strong></td>
<td>5km around lease boundary, unless the tenant agrees otherwise</td>
<td>To provide certainty around the closest proximity of future projects</td>
</tr>
</tbody>
</table>
# Lease – key terms

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<thead>
<tr>
<th>Parameter</th>
<th>The Crown Estate Position (What)</th>
<th>Reasoning (Why)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Milestones</strong></td>
<td>Milestones for project construction and generation start</td>
<td>To maintain delivery of the project to an agreed timeline</td>
</tr>
<tr>
<td><strong>Change of control &amp; ownership</strong></td>
<td>Change of control permitted up to certain thresholds without The Crown Estate consent</td>
<td>To allow project divestment during the term of the lease</td>
</tr>
<tr>
<td><strong>Security</strong></td>
<td>Security to be provided where the counterparty has limited covenant strength</td>
<td>To ensure the obligations of the lease can be met</td>
</tr>
<tr>
<td><strong>Decommissioning</strong></td>
<td>Decommissioning to be agreed with BEIS under the Energy Act 2004 where applicable</td>
<td>To ensure effective project decommissioning in compliance with legislation</td>
</tr>
</tbody>
</table>
Property documents timeline

- **Enter wind farm AfL**
  - Wind farm agreement for lease is signed at the end of the Round 4 leasing process

- **Surveys and consenting**
  - Transmission agreement for lease is signed following application and approval of the cable corridor by The Crown Estate

- **Enter transmission AfL**

- **Enter wind farm lease**
  - Option is exercised and the wind farm lease is entered following the award of consent

- **Construction**
  - Option is exercised and the transmission lease is entered following the award of consent (expected to be at the same time as the wind farm lease)

- **Operation**
  - Assuming generator build, the transmission lease is assigned to the appointed OFTO once construction is complete

- **Assign transmission lease to OFTO**

**Agreement for lease – 10 years maximum**  **Lease – 60 years**
Thank you