

**New Offshore Wind Leasing
Market Information Event
Q&A Summary**

Meeting	New Offshore Wind Leasing - Market Information Event: Q&A Summary
Date	Thursday 18 July 2019
Venue	1 Wimpole Street, Westminster, W1G 0AE

Chair	Clare Collard , Head of Public Affairs and Community, The Crown Estate
Presenters	Will Apps , Head of Energy Development, The Crown Estate Jonny Boston , Business Development Manager and Programme Manager for New Leasing, The Crown Estate Helen Elphick , Senior Development Manager, The Crown Estate Ben Barton , Senior Commercial Manager, The Crown Estate Greg Tomlinson , Senior Marine Planning & Consents Manager, The Crown Estate

In November 2017 The Crown Estate announced that we will be working with the offshore wind sector and stakeholders to consider making new seabed rights available to offshore wind developers.

On 18 July 2019 we held an information event for UK and international market representatives and advisers. The event provided attendees with the opportunity to find out more about the outcome of our work to refine the final tender design for Offshore Wind Leasing Round 4, including the introduction of a new multi-cycle bidding process, an adjustment to our option fee approach, and rental discounts to help incentivise innovation.

The slides and audio recordings of the presentations are available on our [website](#) together with this document, which provides a summary of the questions received during the event and our corresponding answers.

The presentation and this Q&A summary reflect The Crown Estate’s thinking at that moment in time (18 July 2019). All information provided is therefore subject to change.

Session One: Summary of Q&A session following presentations on the Overview of Process to date, Leasing Process Design, and ITT Stage 2 with Will Apps, Jonny Boston, and Ben Barton

Q1. Can you clarify if a developer may bid as an individual company and as part of a consortium?

Answer from The Crown Estate: A company can bid either on its own or in a single consortium. It cannot bid as both. *Post meeting note: since the event on 18 July, we have also been asked whether a company can pre-qualify within more than one bidding entity. We wanted to take this opportunity to clarify that this will not be possible - a company can either pre-qualify on its own, or in a single consortium.*

Q2. If the option fee is being paid per year, is this to consent, or to when you exercise the option? What is the risk share for consenting risk?

Answer from The Crown Estate: The risk sharing we are referring to here is in comparison to developers having to pay the full 10-year Option Fee upfront. We have had to strike a balance as we want to avoid the possibility of speculative bidding. We have therefore given a lot of thought to determining the minimum initial 3-year commitment, however the principal point to remember is that this is in comparison to paying that option fee on day one for the full 10-years. Regarding the period during which this fee is payable, option fees are payable until you exercise the option. There are no further option fee payments due once you exercise the option and go into lease.

Q3. Can a project which is unsuccessful in one cycle be resubmitted for a second cycle? Can it skip a cycle or is this bid immediately disqualified?

Answer from The Crown Estate: All of those projects that pass through ITT Stage One are eligible projects that can be bid in ITT Stage Two. Therefore, if a project does not succeed in one bidding cycle, for example because it is out bid – it can certainly be included later. Bidders and projects can also skip a cycle and then enter again in later cycles. The caveat to this is that a project which was unsuccessful because it overlapped with a winning bid cannot be re-submitted.

Q4. When designing the tender process, what were the examples that you looked at to inspire you?

Answer from The Crown Estate: We have been refining the design of our tender process for a number of months in light of the feedback we received from the November engagement exercise. Aided by KPMG we have looked at other procurement processes around the world; while this work identified that some processes offer price flexibility while others offer location flexibility, we didn't find procurement processes elsewhere that offer both price and location flexibility. This is therefore new territory and so a new approach was required.

In terms of inspiration, there is therefore no direct comparator. There are obviously other tendering processes out there and some of the work on this goes back to the fundamental question about whether The Crown Estate draws the site boundaries or whether this responsibility lies with the market. The

decision to allow developers to draw their own site boundaries was taken some time ago and validated through engagement last summer. Given it will be the developer taking a project through planning and it is the developer who has expertise in delivering projects, giving a developer the ability to take ownership of and determine the site boundaries for a project was generally well received.

When we looked at options for price transparency, there is a spectrum ranging from our original proposal of a single round of sealed bids, through best and final offer type options, through to rising clock auctions. Each of these processes has its advantages and disadvantages. However, we concluded that we wanted to design something that sat in the middle of that spectrum and could provide transparency of the two variables of price and location. As this is a new process, we have spent quite a lot of time on it, testing it and looking at the possible unintended consequences of this process. We believe we have found a good balance.

Q5. Can you clarify what will happen to the option fee if it is paid and then the site is knocked out due to HRA concerns?

Answer from The Crown Estate: The payment of deposit is made prior to the plan-level Habitats Regulations Assessment (HRA), and there is an element of risk here because if the project is removed at HRA stage, the deposit will not be returned. Beyond this stage, the Option Fee is paid annually. This means that once the initial three years' worth of payments have been made (including the deposit which counts as the first year's payment), the developer can walk away with no further payments if the project fails for some reason.

Fundamental to this process is the freedom we are giving developers to identify and propose their sites, so we expect to have competent bidders who are confident in their selection. We would therefore emphasise the importance of careful site selection through the process.

Q6. Have you considered having reserve bidders to cover the scenario where the HRA does knock somebody out so that the HRA could also take those reserve sites into account?

Answer from The Crown Estate: We have looked at the question of reserve bidders in respect of plan level HRA. We are also benefitting from lessons learned as we go through this with the 2017 Extensions HRA process.

The position on reserve bidders is that they essentially become part of the plan you are assessing, so the whole plan is bigger at that point. By having reserve bidders, the risk therefore increases for the overall process. We looked at the possibility of amending the plan and repeating the process with reserve bidders, but this becomes an extensive exercise.

The simple answer is that we have looked at this carefully and we do not believe this is possible. We acknowledge that this process has the potential to lead to attrition of bidders, and this will inform the decision making for what might come next after Round 4.

Q7. You provided an hourly schedule about how the Stage Two ITT process works. Assuming one project is awarded in Cycle A, it may then be necessary in Cycle B to adjust the site

boundaries of a project, so it does not overlap a project previously awarded. Does this mean that at this stage we will have the opportunity to adjust the site boundaries? Would ITT Stage One assessment need to be repeated? How can this be done in the short time available?

Answer from The Crown Estate: Again, this is something we have thought long and hard about. You are correct in asserting that the daily bidding cycles do not allow time for adjustments to be made to site boundaries or checking GIS, for example. However, we are therefore enabling bidders to propose a series of variant boundaries for the same project; if one of those project variant boundaries is impacted by something that has already been bid, there is the opportunity to select a different variant of that project which avoids overlap.

Q8. If I understand correctly, the bidding process will be completely secret, and we will not see any prices for example. Can you confirm that it is only the final awarded project that will be displayed?

Answer from The Crown Estate: That's correct, we will only be confirming the price of the successful bid to the bidding community (those who passed through ITT Stage One), along with the project's location and capacity. We will not be sharing the price of the unsuccessful bids we receive, at any stage.

Q9. Will you require any securities to be placed to make sure that cash flow is available for either initial or subsequent Option Fee payments? Are you going to have any other kind of performance for bid bonds that would be entered at the moment of Options or before?

Answer from The Crown Estate: In summary, on award of a preferred bidder letter we will be asking for the initial payment (the deposit) to be made, this will then become the first payment of Option Fee when the agreement for lease (AfL) is entered. On entry to the AfL we will initially ask for two years of security for further Option Fee payments, via a letter of credit. This means that we require an initial three-year payment as a minimum commitment; annual option fee payments will be required thereafter along with security at any point in time for 1 further year's payment.

Q10. When you refer to 'development costs over a three-year period', at which stage will this be calculated? Is it the overall cost of the project, or is it calculated during the consenting process?

Answer from The Crown Estate: We will be using development costs over the first three years of development, based on the development cost submitted by the bidder (subject to a minimum level which we would calculate using a formula).

Q11. What happens at the end of the three-year commitment, if you are not in a position to exercise your Option and sign the Lease? What are your options?

Answer from The Crown Estate: Subject to the outcome of the HRA, we and you (as the preferred bidder) would then enter an AfL that would give a seabed option for up to ten years. You would be committed to payments for the first three years; with the first year being paid through the deposit, and plus a further two years of Option Fee payments secured through the AfL security. Typically, a project

would not be at consent by this point, so after three years you would be able to decide whether to continue, in which case Option Fee would then be paid annually, or whether you wanted to terminate. Option fees need to be paid every year until you are ready to exercise the option and enter the Lease, or until the agreement is terminated.

Q12. If you are at the top of the [price] list and then you are unsuccessful, do you find that out during the process or is it only if you are the successful one at that stage?

Answer from The Crown Estate: Essentially, the notification of a successful bidder will be made by midday so all bidders will know the outcome of the cycle by that point. The question of whether and when we let unsuccessful bidders know why they have been unsuccessful is a point of detail in the tender design which we have not yet concluded – we will confirm this in due course.

Q13. One of the locational tests was about a five-kilometer buffer. From the previous webinar, we moved from a 7.5-kilometre buffer. Why is there a difference between the sort of separation from an incumbent project and the separation from the new project?

Answer from The Crown Estate: We have sought to strike a balance between the needs of individual projects, and efficient use of seabed over the long term. At the end of the leasing process, the Round 4 projects are clearly at an early stage, having just secured their option agreement (AfL). This means they would have space to adjust boundaries later to allow for a suitable buffer, as necessary. Existing projects in the portfolio would be less able to adjust their boundaries to accommodate new projects, hence the larger buffer distance for them in the Round 4 process.

Q14. What happens if the successful bidder is unable to make that commitment of payment on that day?

Answer from The Crown Estate: A bid will be voided if a successful bidder fails to sign the Preferred Bidder Letter or pay the deposit within the defined timescales. We will not take the next highest price bid from the cycle in question. Instead we will move onto the next cycle, and the bidding entity with the voided bid will be precluded from participating in that and any further bidding cycles.

For example, following an award in Cycle A, those bidding into the next cycle (Cycle B) will be taking decisions based on the outcome of Cycle A. Further to the Cycle A project then failing, Cycle B bidders would need additional time to consider this change in outcome. Cycle B won't be cancelled, but we will give a further 24 hours before it closes, to allow bidders time to update their bids knowing that the voided project is no longer in place.

Q14a. What would happen to the original bid that was voided from Cycle A?

Answer from The Crown Estate: That bid would be declared null and void and the bidder wouldn't be allowed back into any further bidding cycles. The reasoning for this is that the process requires time and effort for all parties and we need to do all we can to ensure that everyone is entering in good faith.

Q14b. Would the bidding entity not be allowed back in any of the cycles, or would it just be for that particular site?

Answer from The Crown Estate: The bidding entity would not be allowed to participate in any further cycles. Another bidder could bid for that site, if it was in their pool of pre-qualified sites from ITT Stage One.

Q15. If a project is voided, why don't you take the next winning bid for that cycle?

Answer from The Crown Estate: The principle throughout the process is that the highest priced bid will win each cycle. Due to the dynamics of the different bidding areas, capacity caps and other rules, the integrity of the process is better-maintained by moving to a fresh bidding cycle rather than taking the second-highest priced bid.

Session Two: Summary of Q&A session further to presentations providing an overview of ITT Stage One, technical and commercial design changes, and a summary of the Round 4 timeline and next steps with Will Apps, Jonny Boston, Helen Elphick, Ben Barton, and Greg Tomlinson

Q16. Can you explain why the process has to happen so quickly?

Answer from The Crown Estate: When we took the decision to allow the market the freedom to identify and propose sites, we acknowledged that it would bring an additional layer of complexity to the process. We did look at running cycles every other day to allow for these decisions and identified advantages and disadvantages with this.

Running bidding cycles every other day would extend the minimum period for the overall process to at least two weeks; effectively doubling the amount of time it would take. Due to the number of people involved, including senior level decision makers, we concluded it was better to minimise the length of the overall process. This is why we've planned the process so that much of the work can be done upfront at ITT Stage One. We concluded that running the cycles on a daily basis would provide adequate time for bidding entities to make decisions, whilst reducing the length of the overall process.

Q17. There is not much time allowed for developers to make informed decisions if sites overlap. How would that work?

Answer from The Crown Estate: Sites awarded from the Round 4 process will not be able to overlap.

However they will be able to be awarded with a shared boundary, and in this case, the project that has been awarded second can only get its lease within the 5km buffer zone of the first project if it can demonstrate that it has the consent of the first project.

This all happens much later in the lifecycle of the projects, not within ITT Stage Two. The two AfLs can be awarded in ITT Stage Two because they will not overlap, and the buffer zone issue will be dealt with on step through to lease. In practice, it will be a relatively small area of the project at risk, and so it may be that the second bidder still wants that project because there is sufficient viable seabed elsewhere within the project boundary and they are essentially willing to risk not getting consent from the other party to use the area within the buffer zone.

Q18. At the moment the Extensions HRA is perceived as being completed behind closed doors. The implication of what you have said today is that your policy when approving or conducting the appropriate assessment for plan-level HRA is to discard however many projects it takes to avoid an adverse impact on HRA integrity.

This raises the question of whether a project can ever get through on Article 6(4) at a project level. I think this part of the process is currently being underplayed. There is a lack of information about how you are doing this, and what the implications could be for everybody involved.

Answer from The Crown Estate: It is fair to acknowledge we are talking about this part of the process (HRA) more than we have done before, and we appreciate your feedback. We certainly recognise that this is a really important area and we need to look at it closely.

In terms of the 2017 Extensions plan-level HRA, this is a live ongoing process, so it is not appropriate to comment on the merits of that in this forum. Developers involved in that process have been engaged and involved in the process at certain points, for example where outcomes may impact their projects.

Looking ahead, we do need to work together as a wider industry to address wider HRA challenges. You mentioned Article 6(4), and we need to understand Article 6(4) in relation to offshore wind in the UK as this route is not something that has yet been followed for offshore wind. We do not want to downplay this issue; and indeed have intentionally raised HRA today.

We see the recent projects going through the examination phase and the issues particularly around ornithology, and cumulative impacts, as well as recent European Court judgements and we understand this is a challenging area and we absolutely understand your concerns.

We cannot pre-judge whether or not we may need to consider using Article 6(4) for the Round 4 plan-level HRA. We have spent a lot of time working on seabed characterisation and region refinement to try to identify the most favourable areas for development as part of Round 4.

We have also looked at what we can do upfront to pre-load some of the HRA process for Round 4 by applying learning from the 2017 Extensions work. We will be providing information on our approach to HRA and what it could mean for projects in the Round 4 Information Memorandum (IM). By this point we also anticipate benefiting from lessons learned through the 2017 Extensions conclusions.

We have talked today about what would happen in circumstances where a project couldn't proceed because of the HRA. To clarify, this is not because we are saying that removal of projects is our policy; rather, it is because we want to clearly indicate to developers that there are a number of possible outcomes from the plan-level HRA process, from the imposition of mitigation measures through to a

position where a project may need to be excluded from the plan based on impacts on a protected habitat which cannot be avoided, even with mitigation measures. We may also consider making use of the derogations process under Article 6(4), depending on where we land.

Under the Sector Deal we have committed to a major programme of strategic enabling actions. We know there is a significant level of constraint in certain areas and we believe it is important to start looking at how we can tackle that at a strategic level now to enable the successful long-term deployment of offshore wind. We are currently doing some grounding work and looking at potential workstreams in HRA. We anticipate providing more information on this work as it progresses. In the meantime, we welcome everyone's contribution and participation in that exercise because this is an issue we need to tackle on a number of fronts.

Q19. As the existing developers have received feedback on the current HRA process, could you clarify that those developers who are not looking at extensions will have enough time to cogitate on the information that has been provided to those that have extensions? Can you confirm that when you come to the conclusions of the HRA that all the background documentation and correspondence that is relevant to the selection of sites will be shared with everyone in good time?

Answer from The Crown Estate: This 2017 Extensions HRA is an ongoing process which will conclude this summer. We see value in applying lessons from that process into the design of Round 4. We will publish relevant documents from the 2017 Extensions HRA to the Marine Data Exchange.

Q20. The deposit puts developers in a difficult position as they will potentially have to pay a significant amount to win the auction, only to sit in the background waiting for HRA - which is something they would not be able to control or input into as they would with a project level HRA. It may be worth rethinking the deposit as it is a difficult area, especially with The Crown Estate's decision as competent authority.

Answer from The Crown Estate: We have considered this and, while there is undoubtedly risk and uncertainty at play here, the other point is developer responsibility. In selecting a site, the developer is taking responsibility. There is an important point about information flow, but with the benefit of selecting a site comes a responsibility of choosing one which makes sense.

While some aspects of the seabed are challenging there are those that present less of a challenge in this regard. It is therefore incumbent to do all that is possible to find good sites.

Where there is a developer who might not be as incentivised to select a good project, that starts to draw down this process and put others at risk; that is not a good outcome either, so we return to the idea of balance. We need to make sure we are doing all we can to incentivise the right behaviour through the process of site selection which is the developer's responsibility. We acknowledge that there is risk and uncertainty and that you are not in control of the whole process, however, importantly, you are in control of where you chose to put your site.

Q21. Can you please clarify the payment at risk from the HRA outcome, and whether you must pay yearly for ten years or if you can enter the agreement before the end of the ten-year period?

Answer from The Crown Estate: The deposit payment is paid on signing the Preferred Bidder Letter. This is the only payment that would be at risk from the HRA, or if the project doesn't go ahead and the AfL is not signed for any reason.

The HRA takes place while the Preferred Bidder Letter is in place and then any subsequent payments will only be made if and when the AfL is signed. If you are successful in your initial bid, you make the payment of one year of option fee as a deposit. No other payment or security is needed until the AfL is entered which would be some time later depending on how long the HRA takes.

On day one of the AfL, assuming the AfL is signed, the deposit would effectively be the first payment. This is the point at which we ask for security for years two and three, giving three-year commitment. The commitment of three-year's worth of payments is from signing the AfL, and then thereafter if you are able to enter the lease prior to year ten, effectively you would pay fewer Option Fee payments.

Please note, the HRA will take place before the AfL is signed. We will not sign the AfL until the HRA is completed, and we anticipate this will take broadly nine to twelve months. However, if it takes longer, the AfL will then be signed later.

Q22. If awarded the AfL will the successful bidder be required to make payment that afternoon, or put a guarantee in place that day?

Answer from The Crown Estate: The successful bidder will make the deposit payment, no other security is needed until the agreement for lease is entered which could be some time later depending on how long the HRA takes.

Q23. If we take one of those development areas and imagine there are three projects, and we run the HRA process and there is risk of adverse effect on integrity identified, what is the decision-making process for what happens next? Will a project have to drop out, and if so, which one and on what basis? Or do multiple projects drop out? Or do all three projects get cut a little?

Answer from The Crown Estate: Through the HRA process we will be looking at whether we can employ mitigation measures through the plan-level HRA if they are required, that would need to be secured through AfL that could avoid that scenario.

It will depend on the specifics of the assessment and the specific sites, receptors and impact pathways but the fundamental point is that we must assess the impacts of the plan in line with the Habitats Regulations.

Q24. Can you confirm the timelines of the HRA in relation to the milestones? What if a developer wants to start doing those pieces of work prior to AfL, at their own risk?

Answer from The Crown Estate: The 18-months for the first milestone only starts when you have signed the AfL and you will have had the benefit of the HRA period to think about the site. If developers want to start survey works earlier than that, they can apply for seabed survey licenses which would allow for this kind of work. The reason we haven't started the milestone timeline from an earlier date is

because there is some risk until the AfL is entered, and we wouldn't want to require people to start any earlier, as this would be at the bidder's own risk. However they would be able to start work earlier if they wished.