

Guarantee of Origin plays significant role in 700-MW subsidy-free offshore wind project

Vattenfall, a Swedish utility and a founding member of RECS International, has won the right to build a 700-MW subsidy-free wind farm in the Dutch sector of the North Sea. The ability to provide a subsidy-free project on this scale is partly due to increasingly beneficial economics for renewables, but it is also a response to increased consumer demand for renewable electricity. This demand is expressed in increased use of the Guarantee of Origin (GO), the mechanism that is used to track electricity consumption on the grid. To mark the occasion of this successful tender, RECS International interviewed Esther Veldkamp of Vattenfall to learn more about the winning bid and the role of consumer choice in their decision to build the wind farm.

QUESTION 1

Winning the tender without a subsidy is a big deal. What factors influenced the decision to bid for this tender?

Vattenfall has the ambition to become fossil-free within a generation. We have high renewable targets and have recently reduced our profit targets so that we can invest in more renewable projects. We believe that the offshore windfarm 'Hollandse Kust Zuid 1/2' has a uniquely strong business case. The site offers optimal conditions and fits well within our current North Sea portfolio. Given these conditions, we are confident about building this wind farm and operating it for decades to come.

Our decision to bid was based, among other things, on continuous cost-reduction along our entire value chain and the ability of our company to manage all risks. We have a strong track record in developing and operating offshore wind farms. In addition, we have a long history of trading and dealing with market-exposed assets, while maintaining a large consumer portfolio. Alongside these factors, we see an increased willingness of consumers to purchase energy from renewable sources.

The decision to submit a bid in a non-subsidized tender was project-based and specifically related to Hollandse Kust Zuid 1/2. However, the current level of demand is no guarantee for future projects. Such decisions are always dependent on cost/revenue analyses and the risk profiles specific to each project.

QUESTION 2

Did the Guarantee of Origin market play a role here and does it show the value of consumer choice?

The market for renewables in the Netherlands, especially for wind, is indeed strong. Consumer demand for wind energy (both on the retail side and among the corporates) was certainly a factor in the tender.

QUESTION 3

Do you think this represents a new phase in the discussion about consumer-led market leadership?

Consumers' strong demand for wind energy in the Netherlands, combined with other factors such as the decreasing cost of renewable energy, the fundamentals of the electricity market and site-related aspects (wind, water,

soil, distance, grid and site assessments), allows us to build a large wind farm offshore, without any subsidy, for the first time ever.

Dutch consumers, corporates and governments can be proud of how their demand for wind energy adds value to the business case for such a project. Due to its size, we expect the power generated at Hollandse Kust Zuid 1/2, to serve consumers beyond the Netherlands as well.

QUESTION 4

How does the European level and, in particular, the current negotiations on the revision of the EU Renewable Energy Directive, come into play?

The Guarantee of Origin market has finally become mature and it enables multinational companies to purchase renewable energy directly from a specific installation, via so called corporate power purchase agreements. One such example is Vattenfall's major wind power supply deal with Microsoft. The Guarantee of Origin is an essential tool for renewable energy producers and retailers. It allows them to present the green characteristics of their renewable energy production and to offer green products. It also gives renewable energy producers a market-based income that – unlike subsidies – reflects actual demand for green energy by final consumers. We see the current negotiations on the revision of the EU Renewable Energy Directive as a major opportunity for EU officials and Member States to strengthen the GO system.

QUESTION 5

How do you see market for renewables moving in the future and what role do you think consumers will play?

The developments we see in the Netherlands show that consumers are keen to play a role in determining the future direction of the electricity market, although we still need the conventional assets that currently play a role in the security of energy supply. The future energy system will consist of both central and decentralized energy production and, in this system, consumers will play an active role. At Vattenfall we embrace the role that consumer choice and demand play in our investment decisions.



Esther Veldkamp
Senior Originator



"This is another example of how consumer-driven demand is accelerating the transition to a renewable economy. With the value of wind GOs from the Netherlands estimated at greater than €7 per MWh (by RECS members), GO's are increasing the economic viability of subsidy-free renewable electricity projects at a range of scales – as well as providing a robust tracking system for RE purchases."

Sam Kimmins
Head of Corporate Campaign, RE100



"RECS International is proud that a founding member of our organization has successfully won such a prestigious tender. This is one of a growing flood of examples that show the importance of liberalized electricity markets that support consumer demand. Policy-makers must recognize that the current discussions around the renewables directive will have a huge potential impact on the future of these projects. As we all increasingly focus on consumers, we will see cost-efficient renewable projects like this flourish across Europe."

Jared Braslawsky
Secretary General, RECS International

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