A UK offshore feed-in tariff would help settle investment nerves, Dong Energy boss Anders Eldrup tells Gail Rajgor

Dong Energy would welcome the introduction of a feed-in tariff for the UK offshore sector to address the company’s concerns over “long-term regulatory conditions”. 

Chief executive Anders Eldrup says he prefers the tariff support mechanism as applied in countries like Denmark and Germany. The ROC regime as currently implemented in the UK carries a question mark.

Two ROCs will be paid for every megawatt-hour of offshore wind until March 2014 “but we have no clear indication about what the rules will be after that date and that is absolutely necessary before we can take decisions on new investments”.

The same is true for all European countries, the Dane stresses. “For industry it is very important that we know the framework several years ahead in order to make investment decisions and therefore my wish would be that the various governments put in place a more long-term view.”

He adds: “One of the advantages of the feed-in tariff is that you know the price for power for quite a number of years in advance.

“If you take the Danish example, we have a fixed power price for the first 12 years of the life of a wind park, meaning that we have a very secure revenue stream. That takes away some of the risks that we as energy companies normally live with such as volatility in commodity prices.”

This longer-term pricing certainty is particularly attractive to external finance partners such as institutional investors, which are showing an increasing interest in the offshore sector, he says.

“It is an attraction of some importance because actually this means that to some extent you can compare the revenue from a wind turbine with a bond,” he explains.

“If we are going to progress the big numbers in the offshore industry we need investors with a lot of money, such as some of the institutions, to involve themselves.”

Eldrup also wants to see a price put on carbon, “preferably a very high price”. “It is of great importance to this industry if politicians in Europe and outside Europe could develop a system for how the carbon (market) should be in the future,” he says.

Dong is also following very closely issues involving the offshore transmission regime, particularly rules governing who builds and operates the lines. “We hope the outcome will be satisfactory,” he says, although he is reluctant to engage in any detailed discussion.

On the ground, or more accurately in the water, Dong Energy may not have completely forgiven the Crown Estate for passing it by on Round 3 but a healthy 1000MW of projects offered under last month’s Round 2.5 has certainly gone some way to easing the pain.

“We are very happy now,” says Eldrup. “We were given a go into the R2.5 extension round and that is really good news.”

The Irish Sea licences could see an additional 234MW at Dong’s existing 90MW Burbo project and a massive 750MW boost at the under-construction 367MW Walney I and II.

Getting zero megawatts out of the 32GW awarded in January under R3 was a bitter pill to swallow for the world’s leading offshore wind developer. The company had teamed up with Eon and Fred Olsen Renewables to bid for exclusive rights on a number of the nine zones up for grabs, hoping to bag a few thousand megawatts of capacity at least.

Media headlines in Denmark at the time cried foul, labelling it a major snub by the Crown Estate, but with typical Scandinavian pragmatism Eldrup comments: “We were disappointed but that’s just the way it is.”

Of course, Dong may yet find itself involved in R3 through investment alongside existing licence winners. “If opportunities arise to be part of some of the consortiums in R3 we will look at that with interest,” Eldrup says.

He insists the company is not actively pursuing those openings, although market sources suggest a number of offshore players are looking to court the Danes.

“We have a very strong work programme for the next seven to eight years so we are focusing on that. Until 2017/18 our books will be quite busy,” says Eldrup.

Preaching the joys of price certainty: Anders Eldrup

Photo: Dong Energy

10 interview

Looking over the horizon

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Packed in-tray for development giant

Dong built the world’s first offshore wind farm at Vindeby in Denmark in 1991 and over the past 19 years has tackled some of the largest developments. These include the 209MW Horns Rev 2 project in the Danish North Sea, completed last year.

The company now has thousands of megawatts of offshore projects operating, under construction and in the firm planning phase.

To ensure delivery to time, it has also secured a 500-turbine framework agreement with Siemens for 3.6MW hardware. It acquired offshore installation specialist A2Sea last year with its four dedicated vessels.

“We have secured our supply chain for when we need the turbines and we have a stronger confidence... due to the better situation we have on the vessel side,” Eldrup says.

In the UK, the company will officially inaugurate the 172MW Gunfleet Sands project off the Essex coastline this month while foundation work is well underway at Walney 1.

“For the London Array (with partners Eon and Masdar), we expect offshore construction to start in the second quarter of 2011. Everything is progressing according to plan there,” he adds.

While the framework deal with Siemens covers its existing UK projects, Eldrup says there is no guarantee the company will supply the turbines for the recently awarded Walney and Burbo Bank extensions.

“We have not decided on that. The installation phase will start up in 2014 so there is quite some time before we take the final decision. The agreement we have with Siemens is not an exclusive one. As buyers we want to keep our options open.”

Work on the 270MW Lincs offshore wind farm where Dong holds a 25% stake is also moving ahead. Centrica is the operator.

A planning application is now pending for Dong’s 240MW Westermost Rough project, Eldrup continues, while geotechnical surveys will start this summer at the 500MW West of Duddon Sands farm south-west of the Barrow-in-Furness coastline in partnership with ScottishPower.

Elsewhere, Dong was the only bidder to build the 400MW Anholt offshore wind farm in the Kattegat in Danish waters, although there is no certainty it will get the green light.

“We have not been given the licence to build it yet,” Eldrup says.

Dong is also active in the German offshore market, which includes full ownership of the Borkum Riffgrund 1 and 2 projects.

The first phase has permission for 77 turbines while a planning application is still pending for the second.

Onshore the company inaugurated two wind farms in Poland last month and is also busy in Norway, Sweden and France.

While markets outside Europe are now starting to open up, like offshore in China and the US, Dong is unlikely to take part in them for some time to come.

“There is so much to do within the European area that it is more than we can handle for the time being,” says Eldrup.

Chasing the low carbon holy grail

Wind accounts for 14% of the power generated by Dong Energy with coal fuelling the bulk of the rest. The company is upping its investment in wind and looking at other renewable technologies as it steers towards a target of producing 85% of its electricity from low carbon sources by 2040.

“In the long run we will have three main sources of producing energy,” says Eldrup. “One is wind, both onshore and offshore but mainly offshore. The second is biomass and the third is gas.”

Dong hopes to complete half of the conversion within the next 10 years. “We are front-loaded in our ambitions and I am quite confident we are very well on track to meet our 2020 goal.”

So it’s wise to choose an experienced contractor.

Offshore wind is an industry in its infancy, with the first offshore wind farms of significant size still less than 10 years old. Few foundation contractors can demonstrate a strong portfolio in this fledgling energy sector, but some can. MT Højgaard, for instance.

To date MT Højgaard has installed over 350 foundations for a total of 9 offshore wind farms, figures which no other EPCI contractor worldwide can match. And along with this total MT Højgaard has gained an unrivalled store of knowledge and problem-solving expertise in every phase of the process, from planning and design to fabrication, transport and installation in what is often a harsh and highly challenging environment.

When one considers that the foundations represent a significant part of the total investment in an offshore wind farm, it is not hard to see why customers set high value on experience. And why MT Højgaard continues to be the contractor of choice.

MT Højgaard is Denmark’s leading contractor with around 5,000 employees and an annual turnover of approx. EUR 1,500 million.

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