



Leuven, July 10th 2014

Dear Mr. Rasmus Helveg Petersen,

The background for this approach should be seen in the light of the recent political debate regarding the financing of the Growth Agreement. During this debate it has been proposed to implement savings on the planned investments in wind power for the period up until 2020 in order to finance the Growth Agreement.

More concrete it has been proposed to impose a cap on the feed in tariff of 70 øre/kWh for the Danish nearshore wind farms.

Parkwind, which is a Belgian renewable energy developer with a long offshore wind farm track record is currently partnering up with Danish partners for the Danish nearshore project. The intension is to own, develop, build and operate these projects.

We now make approach to the minister and the committee with the hope that our below considerations will be accommodated in the upcoming tender procedure with a feed in tariff capped by the Danish authorities.

We indeed opine that the capped feed in tariff will reduce the competition, which we thought and trusted was the desire of the Danish authorities. We believe that this approach has introduced a genuine risk of poorer quality or loss of interest in the projects by serious parties.

Why the nearshore projects is a good idea

For many reasons the tendering of the nearshore projects is beneficial seen in the perspective conventional offshore wind projects like for example Horns Rev and Anholt, hereunder in particular:

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a. Lower life cycle cost (CAPEX and OPEX)

Obviously the CAPEX and OPEX cost of nearshore projects is considerably cheaper than the conventional offshore wind projects. This is primarily because of the projects are directly grid connected without a costly offshore transformer platform. Furthermore, the OPEX are lower as the projects are easier accessible and lesser weather restricted because of the nearshore location

b. Increased local interest in the projects and potentials for local economic growth

The procedure for the tendering of the nearshore projects comprises a first refusal entitlement on local residents and residents affected by the project to purchase 20% or more of shares in the projects. This will result in considerable revenues in terms of local dividends during the life cycle of the projects.

c. Increased competition within Danish offshore wind

The tendering of the nearshore projects is attracting more contenders compared with the conventional Danish offshore wind projects, for example foreign wind farm developers and operators like Parkwind.

Why the capped feed in tariff is an issue

With the implementation of a capped feed in tariff, the risk of failure of the tendering of the Danish nearshore is assessed to be significant unless such a scheme is:

- a. Supporting the Danish intension to generate competition in order to achieve lower prices
- b. Attempting to secure feasible and viable projects with sufficient reliability and availability
- c. Accommodating a reasonable return rate on the invested capital, considering the risk exposure

Considering the current and predicted revenues within Danish offshore wind it is deemed that a capped feed in tariff of 70 øre/kWh certainly will result in a return rate on the invested capital which is unacceptably below the normal minimum industry requirement (7-8%), namely 5-6%, based on a 50.000 full load hours subsidy scheme.



The most significant reasons why the proposed capped feed in tariff is unable to maintain a reasonable viability on the projects are:

a. High capital expenditures (CAPEX)

Implementation of offshore wind projects is a highly costly investment. The industry has already made considerable efforts and contributions to reduce the CAPEX and will continue doing this. However, it should be clearly noted that the industry has not achieved the reductions predicted by Deloitte in the report "Analysis concerning strengthening of the completion for implementation of offshore wind projects" (Klima og Energiministeriet 2011). The expected CAPEX for 2015 projects will consequently be higher than anticipated in the Deloitte report. A much more realistic 2015 CAPEX is likely to be in the magnitude of DKK 20-21 million (2010 index), contrary to the DKK 16,5 million predicted by Deloitte in 2011.

b. Low grey energy prices

The grey energy prices have been very low for a long period of time and predictions made by the leading market analysts do not the next many years indicate the increasing price level used as basis for Energistyrelsens calculations, which again formed the basis for the Deloitte report. Events have made the latter report flawed and it should be disregarded.

An unrealistically low cap on the feed in tariff will inevitably result in most of the serious contenders withdrawing from tendering for the projects. The remaining contenders have no other options but to compromise the wind farm designs, in order to achieve the necessary return rates, based on 70 øre/kWh in 50.000 full load hours.

Furthermore there is a risk that the remaining contenders will tender on the same area and only with "discount" projects. A discount project is characterized by overestimated viability, lifetime and wind yield and/or underestimated CAPEX and OPEX.

An unrealistically low cap on the feed in tariff will result in the Government losing the possibility to achieve the desired real competition on the projects, i.e. the long term social impact taken into account by the Government may be lost. In addition to this it may be completely impossible to sell shares to the local stakeholders.



Options to make the capped feed in tariff successful

That the Government takes a position regarding the upper limit of the feed in tariff makes to some extent sense. However, it is indeed important that this position is based on assumptions mirroring actual market conditions. Prior to proposing a tender procedure inclusive of a capped feed in tariff it is strongly recommended that the Government goes into a dialog with the market about the following topics:

- a. Assessment and reconsiderations of cost and benefits in connection with implementation of the nearshore projects with the aim of an appropriate levelling of the cap on the feed in tariff which accommodates the contenders' reasonable request for a reasonable return rate.
- b. A tender procedure ensuring:
 - (i) That not all offers are made for the same area with the same feed in tariff preventing the desired competition amongst the contenders
 - (ii) That an incentive is established both to minimize the cost as well as to maximize the social benefit flowing from the nearshore projects
- c. Clarify the opportunities for optimization of the projects, hereunder for example concessions in terms of the 200MW capacity restriction on the respective locations, in order to exceed this maximum capacity
- d. Clarify whether or not a prolongation of the subsidy period to exceed the normal 50.000 full load hours to for example 75.000 hours could be beneficial. With reference to Energistyrelsens own predictions of increasing energy prices, one could argue some benefits in a longer subsidy period at a lower feed in tariff.
- e. Clarify the opportunities for various form of reasonable indexation of the feed in tariff, hereunder for example indexation of the OPEX cost, which indeed will be subject of indexation from the suppliers' side, due to the inflation.

Our financial modelling demonstrates that a guaranteed feed in tariff in the range between 75-85 øre/kWh for 50.000 full load hours most probably will accommodate the return rates of serious players, designing for high quality wind farms in return of the PSO funds used on this.



Thus, an adapted tender procedure could this way contribute to the implementation of a socially beneficial scheme of 350MW of nearshore wind farms at a guaranteed feed in tariff significantly below the level known from the Anholt project.

It should be noted that Parkwind's Danish collaborators in broad terms share the views of Parkwind and vice versa and we are all jointly or severally available for further discussions of the above.

Yours sincerely

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CEO Parkwind NV