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Massachusetts 83C Round 4 Offshore Wind Solicitation: Request for Public Comment

Vestas applauds the Massachusetts Department of Energy Resources (DOER) and Governor Healey for Massachusetts' continued commitment to building its offshore wind industry. Further, Vestas congratulates the State of Massachusetts for codifying its procurement target for offshore wind at 5,600 MW, and urges Governor Healey to move forward with the discussed goal of doubling Massachusetts' offshore wind target to 11,200 MW.

The investments Massachusetts has made to date have helped establish the state as a leader on climate, environmental justice, and innovation while creating thousands of jobs in Massachusetts and the surrounding region. We commend the State's intent to create good jobs, promote energy independence, and decarbonize its energy sector.

With more than 40 years in the wind industry, Vestas has installed more than 157 GW of wind power and has more than 140 GW under service, including more than 8 GW offshore. As the largest global wind OEM, Vestas brings our proven global track record in offshore wind from manufacturing, engineering design, prototyping, testing and verification through to installation, commissioning and service. Massachusetts is home to our North American offshore wind office, and we look forward to the opportunity to do further business in the Commonwealth.

Vestas appreciates this opportunity to respond to the Massachusetts 83C Round 4 Offshore Wind Solicitation Request for Public Comment and looks forward to the continued support for offshore wind in Massachusetts.

1. Procurement Size: What should be the maximum procurement target, in megawatts (MW), for the 83C Round 4 solicitation?

Vestas Response: Vestas understands there to be at least 8,000 MW of offshore wind projects in development off the coast of Massachusetts that could participate in the MA 83C-IV solicitation. Further, the neighboring states surrounding Massachusetts have their own mandates for offshore wind buildout, which equal 20,000 MW across New York and New Jersey alone. Given Massachusetts's ambitions of procuring at least 5,600 MW of offshore wind as outlined in HB 5060, "*An Act Driving Climate Policy Forward*" as well as Governor Healey's statements calling to double the MA's wind power target from 5,600 MW to 11,200 MW, it is in the best interest of Massachusetts to procure large volumes of offshore wind through MA 83C-IV in order to position Massachusetts to be able to deliver to its ambitions. Vestas recommends that the DOER award at least 3,500 MW through MA 83C-IV thereby enabling Massachusetts to reach its procurement goals of 5,600 MW.

2. Procurement Schedule: The 83C Round 4 RFP must be issued within 24 months of the prior solicitation pursuant to Section 83C.

- a. What should the RFP drafting parties consider when designing the schedule for the 83C Round 4 solicitation, including deadlines for bid submission and selection of projects for negotiation?
- b. How could the 83C Round 4 schedule be designed to best align with other offshore wind procurements being conducted or planned in neighboring Northeastern states?

Vestas Response: Vestas recommends that the DOER select projects for negotiation via 83C Round 4 after projects have been awarded in New York and New Jersey via ORECRFP22-1 and New Jersey Round 3. New York ORECRFP22-1 is scheduled to award projects in Q2 2023, and New Jersey Round 3 is intending to award projects in October 2023. If the DOER follows a similar timeline to MA 83C-III, with the RFP issued in May 2023, bids due in September 2023, and selection of projects for negotiation in December 2023, that should permit developers to bid into MA with bids conditional upon the outcomes of ORECRFP22-1 and New Jersey Round 3, while allowing enough time for developers and Massachusetts to know the outcomes of NY and NJ solicitations prior to DOER's selection of projects for negotiation.

3. Commercial Operation Date: What should be the latest allowable commercial operation date for projects bidding into 83C Round 4, and why?

Vestas Response: Vestas has no comment on the latest allowable commercial operation date. However, the timeframe that projects reach commercial operation date should be evaluated, with sooner commercial operation dates considered favorably. Projects bidding into MA 83C Round 4 are in different stages of development and permitting, and those that are closer to commercial operation date should be prioritized to reflect both the reality that these projects are more viable and that the clean energy produced from these projects would come online sooner, an important consideration within the context of the climate crisis.

5. Inflation, Supply Chain, and Macroeconomic Factors:

- a. **How could 83C Round 4 be designed to best account for current and future rates of inflation and other supply chain and economic pressures on the offshore wind industry to both ensure project viability and protect Massachusetts ratepayers?**

Vestas Response: Vestas strongly recommends the DOER include an inflation adjustment mechanism for PPA pricing that is based on transparent, third-party indices to ensure that offshore wind projects remain viable. The lengthy timeline between when PPA agreements are reached and when projects are manufactured and constructed (often exceeding 5 years) introduces significant uncertainty and therefore risk which offshore wind developers bear: the longer developers are exposed to these fluctuations, the riskier their business case becomes. Flexibility in the PPA structure based on transparent, third-party indices helps ensure project viability and fair treatment for ratepayers. The inclusion of an inflation adjustment mechanism for PPA pricing also removes risk premiums that developers would otherwise include from the start in the PPA pricing that they bid.

- b. **Please comment on when costs for offshore wind project components and labor should be expected to stabilize, including any comments on how that expected timing would impact bid development for 83C Round 4.**

Vestas Response: Commodity costs, shipping rates, interest rates, wage growth, and inflation all contribute directly to the costs of tier one components such as the wind turbine. Vessel availability and rates, for instance, have become very volatile as supply chain issues have made it more lucrative for vessel owners to transport containers rather than WTG components. Other commodities, such as steel, bunker fuel, carbon, and resin have experienced staggering price increases over the last 3 years; domestic steel, for example has experienced an increase of 250% from March 2020 to January 2023, and forecasts show US steel plate prices stabilizing well above pre-pandemic levels. Vestas anticipates the freight market to remain elevated due to growing demand and low supply for large, capable break bulk vessels by the offshore and onshore wind industries worldwide, and for global steel prices to slowly reverse over the next 3 – 4 years, barring other macro events. Vestas anticipates that these costs will remain at heightened levels during the period when bids are developed for 83C Round 4, particularly as the number of US offshore wind projects in construction grows.

c. Please comment on the Inflation Adjustment provision of the 2022 NYSEDA offshore wind RFP (ORECRFP22-1) and what factors would need to be considered for such an approach to be applicable in a Section 83C solicitation.

Vestas Response: Vestas is supportive of the inflation adjustment mechanism within ORECRFP22-1, with some suggested modifications:

Timing: See response to question 5.d.

Indices Used in Inflation Adjustment:

- **CPI:** Vestas supports the inclusion of specific indices within NYSEDA’s inflation adjustment consisting of labor, fabrication and machinery materials, steel, bunker fuel, and copper. In addition, Consumer Price Index (CPI) should be included in the inflation adjustment to capture changes in overall inflation rates.
- **Commodities:** Vestas utilizes Platts indices across our global business for commodities; we recommend that MA 83C Round 4 also utilize Platts as we have found this to be the most accurate and reliable source across our global operations. Additionally, we use the bunker index which we recommend including to mitigate uncertainty in pricing associated with this commodity.
 - Fuel
Bunkerindex
Historical Monthly Averages: Marine Diesel Oil (MGO)
New York, NY, USA
https://www.bunkerindex.com/prices/port_ls05_x180mdo.php?port_id=467
- **Construction PLA Labor:** We recommend that construction trade union labor is also included as an index, and treated similarly to other commodities given that union labor rates for construction trades (iron-workers, electricians, etc.) are published every year and beyond the control of developers or OEMs. There is a high-level of uncertainty associated with PLA rates, especially in the current environment of extreme inflation and the number of years spanning when developers’ proposals will be due and when projects will be constructed.

- d. **Please comment on recommended timing applicable for an inflation adjustment price provision, if warranted, including any comments on the price adjustment timing in the 2022 NYSERDA RFP, which allows for an adjustment from bid submission to BOEM COP approval. Please also comment on how such a provision should be considered in the evaluation process when comparing fixed price bids to inflation-adjusted bids.**

Vestas Response: Vestas urges DOER to consider not only a one-time adjustment prior to project construction, but also an annual adjustment once the project is operational to account for inflation impacting OPEX expenditures such as labor and bunker fuel.

Prior to Project Construction: Vestas recommends that the first adjustment take place 18 months prior to start of ex-works with primary OEM suppliers. This is due to the timing of when primary OEM suppliers will procure necessary commodities to manufacture components for the project. Therefore, the change in commodity pricing, born by the OEM can be passed onto developers and then adjusted for through the PPA adjustment. During this adjustment, capex and opex cost bases should be updated per the indices.

Post Operations: Once the project is operational, Vestas recommends that DOER consider annual adjustment to the PPA escalation rate to account for ongoing fluctuations in inflation and bunker fuel prices which impact operating costs.

6. Federal Funding:

- a. **How could 83C Round 4 be designed to ensure Massachusetts ratepayers receive the maximum benefits of the new federal funding opportunities, tax credits, and/or other programs available to offshore wind developers under the Bipartisan Infrastructure Law (BIL) and Inflation Reduction Act (IRA)?**

Vestas Response: The Inflation Reduction Act introduces new incentives for offshore wind projects to follow certain labor and apprenticeship practices, utilize domestic sourcing for the project, and locate project construction & O&M infrastructure in energy communities.¹ As of March 1, 2023, the industry awaits further guidance from Treasury and/or the Internal Revenue Service (IRS) for implementation guidance on IRA's requirements. Thus, offshore wind developers cannot project with any certainty the level of ITC or PTC the project could expect to receive when bid development is underway for MA 83C-IV. The DOER should structure the PPA mechanism such that offshore wind developers are incentivized to meet the requirements to reach higher ITC or PTC values even after the PPA has been set. If all of the

¹ An energy community is defined as:

- a) A brownfield site (as defined in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980); or
- b) A metropolitan statistical area or a non-metropolitan statistical area which has (or, at any time during the period beginning after December 31, 2009, had) 0.17 percent or greater direct employment or 25 percent or greater local tax revenues related to the extraction, processing, transport, or storage of coal, oil, or natural gas (as determined by the Secretary), and has an unemployment rate at or above the national average unemployment rate for the previous year (as determined by the Secretary); or
- c) A census tract in which after December 31, 1999, a coal mine has closed, or after December 31, 2009, a coal-fired electric generating unit has been retired, or which is directly adjoining to such census tract.

additional value garnered from higher ITC or PTC values automatically flows back to ratepayers, then offshore wind projects will have no incentive to seek and qualify for higher levels of federal tax credits. This in turn would result in Massachusetts ratepayers bearing more of the costs of the offshore wind project than if the offshore wind project is incentivized to qualify for higher levels of the ITC or PTC, which are federal subsidies.

The DOER should require developers to bid into MA 83C Round 4 with proposed PPA pricing at a specified ITC qualification value. If developers end up qualifying for a higher ITC % than that specified in their 83C Round 4 bid, then developers should be required to share 50% of the additional value with the State of Massachusetts. Enabling the offshore wind developer to keep at least 50% of the additional value will incentivize developers to seek and qualify for higher ITC levels even after the initial PPA has been set.

b. Please comment on when the Internal Revenue Service should be expected to issue regulations related to relevant tax credits under the Inflation Reduction Act.

Vestas Response: Treasury has posted guidance to the Federal Register regarding Labor requirements, however at the time of submission of these public comments to DOER no other guidance has been issued regarding other topics such as Domestic Content and Energy Communities. The labor guidance issued defers all specific determinations and definitions to the Department of Labor, where guidance issuance is ongoing but still lacks details required for implementation. No timeframe is known for when Treasury, the Internal Revenue Service (IRS), or other government agencies will release guidance on IRA's requirements or whether any guidance issued will rely on any precedent that already exists for the renewable industry.

7. Economic Development, Workforce, and Diversity, Equity & Inclusion (DEI): How could 83C Round 4 be designed to best encourage investments and commitments that maximize economic benefits to the Commonwealth, support workforce harmony, and advance goals for DEI? Specifically, please refer to Section 2.3.2.i of the 83C Round 3 and to the relevant provisions in Section 61 of An Act Driving Clean Energy and Offshore Wind.

- a. Memorializing Commitments: In 83C Round 3, DOER executed Memoranda of Understanding (MOUs) with the selected projects to memorialize and track their commitments to economic development and DEI.² Please provide any comments on these prior MOUs or other mechanisms to memorialize and track these commitments with selected projects.

Vestas Response: Vestas is supportive of the provisions outlined in Section 2.3.2.i of the 83C Round 3 and has no further comments.

10. Please provide any additional comments regarding implementation of the new provisions in Section 61 of An Act Driving Clean Energy and Offshore Wind in 83C Round 4.

Vestas Response: Vestas applauds the state of Massachusetts for its continued leadership advancing offshore wind as exemplified by *"An Act Driving Clean Energy and Offshore Wind"*. As evidenced by the nation's first commercial-scale project, Vineyard Wind in Massachusetts, offshore wind creates a windfall of local economic benefits created from local marshalling and construction, long-term operations and maintenance, and procurement from local and diverse suppliers. Vestas is supportive of giving preference to proposals that demonstrate local economic benefits, however Vestas encourages

the DOER to weigh the total cost of offshore wind projects when evaluating local economic benefits. In past solicitations, Massachusetts has not required or given preference to local manufacturing of tier one components of offshore wind farms – Vestas recommends that the DOER retain this position for MA 83C Round 4 given that utilization of already existing global supply chains results in more cost effective offshore wind projects that minimize ratepayer impacts.

Thank you for your consideration and the opportunity to comment.

Respectfully,



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