Section 83CIV – Bidder Questions and Answer – November 9, 2023

Indexing Adjustment Mechanism

Question 8:

What is the origin of the indexation weightings in the indexation formula (as published in the September 29 informational filing), and will there be a bidders' workshop on these?

Response 8:

The Drafting Parties issued a Request for Information (RFI) on August 25, 2023, and received responses from seven parties by September 5, 2023. The Distribution Companies, the Independent Evaluator, and DOER collectively considered the information submitted in response to the RFI in developing the indexation weightings in the final mechanism. The Indexing Adjustment Mechanism was also informed by the National Renewable Energy Laboratory's (NREL) most recent analysis of the capital and operating cost components. (NREL, 2021 Cost of Wind Energy Review, December 2022, http://www.nrel.gov/docs/fy23osti/84774.pdf)

The Evaluation Team is not planning a Bidders' workshop.

Question 13:

Indexation Formula Equation – Commodities: *Will the Evaluation Team consider hosting a workshop with developers to achieve a revised Indexation Formula that more accurately reflects the commodities and inflationary indexation exposure of offshore wind projects? By working with developers to revise the Indexation Formula, DOER can better achieve its goal of reducing offshore wind PPA prices while minimizing risks.* The published Indexation Formula, while well-intentioned, does not appropriately reflect the pricing impacts of various commodities, labor, fabrication, inflation, or financing indices on offshore wind projects. Furthermore, it creates a substantial downside risk to developers that may threaten financeability should index values decrease, and an unjustifiable upside opportunity that would increase PPA pricing more than necessary should index values increase. To illustrate these concerning unintentional effects, consider the following 100% PPA example: if commodities decrease, causing a CapEx adjustment worth a 5% reduction in equivalent PPA, then the Indexation Formula risks overexposing commodities adjustments by reducing the PPA by 10%, resulting in a business case that may not be financially viable. Vice versa, if commodities increase worth a 5% increase needed in equivalent PPA, then it could result in the PPA increasing by 10%, more than is necessary to address these CapEx risks with that value passed to the developer rather than to ratepayers. Improperly aligning the Indexation Formula with DOER's intention to reduce CapEx risk results in two potential risks to DOER's goal of achieving the lowest possible pricing while minimizing execution risks. First, developers may assess the risks associated with the published Indexation Formula as too great and opt to only submit fixed-price proposals, and will need to address CapEx and financing indexation risks by pricing in the additional risk into the baseline fixed PPA price. Second, developers that do choose to submit a proposal using the published Indexation Formula may assess the downside risks of the formula as too great and thus still need to price in additional risk to provide a sufficient safety margin to ensure the project will be financeable should commodities decrease. [Prospective Bidder] recommends that the Evaluation Team consider revising the Indexation Formula accordingly and ensure there will be consistency with Rhode Island and Connecticut's indexation/alternative pricing options for the Multi-State Proposals.

Response 13:

The Evaluation Team recognizes that any Indexation Adjustment formula will not remove all risk for developers. Submitting an Indexed Price Bid is a Bidder's option. The Evaluation Team is not planning a Bidders' workshop.

Question 14:

Indexation Formula Equation – Financing: *Will the Evaluation Team consider changing the date that the indexation mechanism is applied from one year after contract execution to the project's Financial Close based on the near-unanimous feedback received by potential bidders, who fear the current schedule of application will render the indexation mechanism an unreliable mechanism, risking that developers do not take advantage of the mechanism in the manner originally intended by DOER?* This, combined with the formula exposure changes requested in Questions #[13] and #[14], can ensure that bidders can take advantage of the Indexation Formula to reduce exposure to commodities and financing risks and avoid pricing in those risks to the underlying PPA. Setting the adjustment date to Financial Close (as Rhode Island has done for its Inflation-Adjusted Pricing mechanism) would reduce the time gap between the adjustment date and the time at which those underlying costs lock at the project's notice-to-proceed for suppliers (shortly after Financial Close), while also enabling projects to execute hedges at Financial Close to cover that shorter gap. Without this modification of the adjustment date, DOER risks that the Indexation Formula does not adequately address projects' CapEx and financing indexation risks, requiring bidders to price in these risks into the PPA. [Prospective Bidder] recommends that the Evaluation Team revise the timing of the indexation adjustment accordingly and ensure there will be clear and consistent guidance on submitting indexed/alternative pricing options for Multi-State Proposals.

Response 14:

The date that the indexation mechanism is applied, one year after the DPU approval of the PPA, is specified in the RFP that was approved by the MA DPU, and cannot be changed.

Question 15:

Indexation Timing: *Will the Evaluation Team consider changing the date that the indexation mechanism is applied from one year after contract execution to the project's Financial Close based on the near-unanimous feedback received by potential bidders, who fear the current schedule of application will render the indexation mechanism an unreliable mechanism, risking that developers do not take advantage of the mechanism in the manner originally intended by DOER?* This, combined with the formula exposure changes requested in Questions #[13] and #[14], can ensure that bidders can take advantage of the Indexation Formula to reduce exposure to commodities and financing risks and avoid pricing in those risks to the underlying PPA. Setting the adjustment date to Financial Close (as Rhode Island has done for its Inflation-Adjusted Pricing mechanism) would reduce the time gap between the adjustment date and the time at which those underlying costs lock at the project's notice-to-proceed for suppliers (shortly after Financial Close), while also enabling projects to execute hedges at Financial Close to cover that shorter gap. Without this modification of the adjustment date, DOER risks that the

Indexation Formula does not adequately address projects' CapEx and financing indexation risks, requiring bidders to price in these risks into the PPA. [Prospective Bidder] recommends that the Evaluation Team revise the timing of the indexation adjustment accordingly and ensure there will be clear and consistent guidance on submitting indexed/alternative pricing options for Multi-State Proposals.

Response 15:

Please see response to Question 14.

Question 72:

Could you please provide an example calculation of the indexation formula using an illustrative PPA price of 100% which specifically isolates and shows the percentage change in PPA price resulting from a hypothetical 100 basis point change in the reference index? In our initial review of the formula, it appears that the interest rate component significantly understates the impact of borrowing costs on prices – up, or down – by more than an order of magnitude (i.e. a more than 10x mis-match between formula and actual). Would DOER consider seeking any feedback from developers about consensus on this topic to avoid the situation where fixed vs. indexed prices submitted by developers in the future are not materially different owing to the fact that the very powerful interest rate component is not well covered by the formula?

Response 72:

For illustration purposes only, assume that the indexation adjustable bid price submitted on the bid due date is \$100/MWh. Further assume that the commodity indices for CPI, steel, copper, fuel, labor, and fabrication on the adjustment date are identical to the base index values. Assume that the base value for the interest rate is 5.00%, and the value on the adjustment date is 6.00%, an increase of 100 basis points. The adjusted PPA price would then be calculated as follows:

$$PPA_{final} = PPA_{base} \times \left[0.25 + \left(0.30 \times \frac{CPI_m}{CPI_i}\right) + \left(0.12 \times \frac{Steel_m}{Steel_i}\right) + \left(0.06 \times \frac{Copper_m}{Copper_i}\right) + \left(0.07 \times \frac{Fuel_m}{Fuel_i}\right) + \left(0.11 \times \frac{Labor_m}{Labor_i}\right) + \left(0.09 \times \frac{Fab_m}{Fab_i}\right) + (0.67 \times (Interest_m - Interest_i))\right]$$

$$PPA_{final} = \$100 \times [0.25 + (0.30 \times 1) + (0.12 \times 1) + (0.06 \times 1) + (0.07 \times 1) + (0.11 \times 1) + (0.09 \times 1) + (0.67 \times (0.06 - 0.05))]$$

$$PPA_{final} = \$100 \times [1 + (0.67 \times (0.06 - 0.05))]$$

$$PPA_{final} = \$100 \times 1.0067$$

$$PPA_{final} = \$100.67$$

Note that interest rates should be expressed as a decimal in this equation (e.g., 5% is expressed as 0.05)

Question 91:

How will the bidding price be evaluated differently between one adjusted by the indexation formula and one that it is not?

Response 91:

The Evaluation Team will incorporate its own forecast of each of the index values in order to derive the indexation adjusted price.

Energy Storage

Question 32:

Section 2.2.1.3 states, "Proposals may pair Offshore Wind Energy Generation with Energy Storage Systems that increase the benefits of the offshore wind project. Pairing in the context of this RFP means the inclusion of costs associated with the Energy Storage System with the Offshore Wind Energy Generation, as described in Section 2.2.1.4, and providing an operational schedule for the proposed Energy Storage System according to the specifications described in Appendix A to this RFP. The operation of the Energy Storage System must be associated with the Offshore Wind Energy Generation and defined in the bidder's marked Form PPAs."

- Please explain what it means for a system to be associated with the offshore wind energy generation. For instance, is co-located storage required? Alternatively, if an energy storage facility is not co-located with the offshore wind resource, what demonstration is a bidder required to make in order to show that the facility is associated with the offshore wind generation?

Response 32:

The operation of a proposed Energy Storage System is considered associated with Offshore Wind Energy Generation if the charging and discharging of the Energy Storage System is influenced by the production of the Offshore Wind Energy Generation Facility and/or vice versa. Co-location is not required, but bidders must explain the value that any Energy Storage System provides to the Offshore Wind Energy Generation Facility specifically, regardless of proximity to the Generation Facility. See section 4.5 of Appendix A for more details.

Question 33: Section 4.2(e) of the Form PPA states, "[FOR ENERGY STORAGE PROPOSALS: The EDCs will draft into the PPA with the winning bidder(s) the terms of any energy storage proposal included in the winning bid(s). An energy storage proposal must be specific and must include at a minimum the following components: times or criteria for charging and discharging, metering requirements, criteria for commercial operation, plans for maintenance of the storage facility, plans to maximize the value for purposes of the Clean Peak Standard, and a calculation of liquidated damages that holds Buyer harmless for all losses and costs for Seller's failure to comply with those terms.]

- Does the RFP envision only an agreement between the storage resource and the EDC, or is a merchant energy storage resource also eligible for participation?

Response 33:

No, merchant energy storage is not eligible for participation.

Question 66:

Section 4.2 of the RFP states: “The energy production/delivery profile must provide the expected Offshore Wind Energy Generation to be delivered into the ISO-NE market settlement system by the Energy Storage System and permit the Evaluation Team to determine the reasonableness of your projections. Such information should be consistent with the energy resource plan provided above and also considering any and all constraints to physical delivery into ISO-NE.”

Please describe how the Proposer should answer this question if proposing a front-of-the-meter co-located storage asset. In the front-of-the-meter co-located configuration, the storage asset is facility-limited at the same POI as the OSW resource but uses a distinct meter and has a distinct resource ID to participate in ISO-NE wholesale markets. Reference: Appendix A: Section 4.2

Response 66:

The Evaluation Team must be able to model and analyze the hourly production of a proposed bid at the Delivery Point and the hourly charging and discharging of any proposed paired energy storage, regardless of storage location and metering configuration. All production, charging, and discharging profiles must be consistent with the operational constraints associated with the offshore wind generator and the paired storage. Part V of the CCPD form provides sections for the following profiles for proposals paired with storage:

- Expected Hourly Generation (section a-1)
- Hourly Storage Energy Flow (section a-2)
- Hourly Delivery (section b-1)

Bidders must determine how their proposed storage configuration will impact the hourly delivery at the Delivery Point.

In the example given, a front-of-the-meter co-located storage asset is limited as the same POI as the OSW resource but uses a distinct meter and has a distinct resource ID for ISONE market participation. In this case, the Hourly Delivery at the Delivery Point in the CCPD form tab V section b-1 should represent the total net injection at the POI.

Grid Innovation Program (GIP)

Question 35:

Section 2.2.4.5 outlines how the “Experience and Track Record of the Bidder” will be evaluated as part of the 15-point Bidder Experience and Project Viability element.

- Will the same criteria be used to score Grid Innovation Program (“GIP”) proposals as base proposals?
- How will reliance on GIP proposals affect a project’s viability given the early stage of these proposals and how will offsetting benefits be considered (e.g., benefits to ratepayers)?

Response 35:

Consistent with the Notice to Bidders issued on MACleanEnergy.com on November 3, 2023,[1] GIP Alternative Bids will no longer be considered in the 83CIV RFP.

Question 67:

Regarding the DOE Grid Innovation Program (GIP) Proposed Interconnections, will there be further commercial/bidding information to inform bid submittals beyond the technical items provided in the bidder's conference?

Response 67:

See response to Question 35.

Question 68:

Will further details be provided on how PPA prices will be adjusted as described in Section 2.2.1.9 of the RFP? Specifically, how the amount paid for any energy and/or RECs under the PPA will be reduced if the GIP upgrades are completed?

Response 68:

See response to Question 35.

Question 69:

Will the Evaluation Committee provide higher viability scoring or priority to proposals that utilize one of the proposed GIP POIs?

Response 69:

Consistent with the Notice to Bidders issued on MACleanEnergy.com on November 3, 2023,[2] GIP Alternative Bids will no longer be considered in the 83CIV RFP. No *priority* preference is given to any specific POIs; a project's plan for interconnection will be evaluated consistent with the RFP.

Question 87:

Are the requirements under 2.2.1.8 and 2.2.1.9 applicable to GIP Alternative Bid proposals? I.e., do bidders need to have filed an interconnection request at the GIP location?

Response 87:

See response to Question 35.

Question 88:

When will more information be provided from EDCs for assessing the GIP opportunity for inclusion into bidder's proposals?

Response 88:

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[1] https://macleanenergy.com/2023/11/03/section-83civ-rfp-update-on-gip-alternative-bids/
[2] https://macleanenergy.com/2023/11/03/section-83civ-rfp-update-on-gip-alternative-bids/

See response to Question 35.

Question 89:

We note that 60 days is not enough timeline for bidders to conduct necessary engineering and power system studies, estimate the cost of interconnection at designated locations and reconfigure projects to utilize such locations. Without the information, bidders will need to make broad assumptions resulting in increased risk and associated costs.

Response 89:

See response to Question 35.

Bid Fees

Question 49:

Can DOER clarify whether a proposal with a fixed annual escalation in pricing will require an additional bid fee of 25,000USD supplemental to the base non-escalated flat pricing? Reference: RFP: Section 1.10

Response 49:

Two proposals that are otherwise identical with the only difference being the offered price would be considered a base bid and an alternative price bid. Any alternative pricing would require an additional $25,000. All pricing must be fixed and not subject to adjustment, except as allowed by the alternative index pricing mechanism. Pricing that includes a pre-determined fixed annual escalation, either as a base bid or an alternative price bid, is considered fixed pricing.

Question 50:

Can DOER clarify whether an additional proposal that only differs based on level of economic development commitment also requires a supplemental bid fee of 25,000USD? Reference: RFP: Section 1.10

Response 50:

If there is any change in pricing associated with the change in economic development, it would be considered an alternative price bid and require $25,000.

Economic Development

Question 81:

In what way(s) will the Economic Development Sheet be used to inform the population of the Appendices in the Form MOU with DOER (Department of Energy Resources) and MassCEC?

Response 81:

The Form MOU with DOER and MassCEC will be used to memorialize the economic development financial commitments and partnerships outlined in the bid package. Direct commitments to job creation from project investments in the creation of new facilities and/or partnerships with third-party companies and organizations may be used as the basis for commitments to memorialize in the subsequent MOU with DOER and MassCEC, similar to the MOUs executed with selected projects in 83C Round 3.

Question 82:

"Direct and reasonably certain commitments made on or after July 1, 2022, to capital investments in the manufacture, fabrication, and assembly within the commonwealth of domestic supply chain components of the offshore wind industry. Bidders are further directed to describe, if applicable, how the proposed supply chain investments are complementary to any other supply chain investments made by the parent company to support other offshore wind projects in the region." How should local and regional expenditures made to date to develop the proposed project(s) be accounted for in the proposal, if at all? Will expenditures made to date to develop the proposed project(s) be considered in the Economic Development and Project Impact Criteria?

Response 82:

Consistent with Section 83C statute, DOER shall prefer proposals with benefits from "direct and reasonably certain commitments made on or after July 1, 2022, to capital investments in the manufacture, fabrication, and assembly within the commonwealth of domestic supply chain components of the offshore wind industry." Bidders are directed to differentiate in their bid materials between any commitments and expenditures made prior to July 1, 2022, and those made after that date so that the Evaluation Team may assess the incremental economic benefits of the project.

Question 83:

With respect to Appendix L Form Economic Development MOU with DOER and MassCEC, are bidders expected to populate Appendix A through D of the Form Economic Development MOU as part of their January 31, 2024 submission?

Response 83:

As outlined in RFP Section 2.5.2, any selected Bidder will be required to execute a MOU with DOER and MassCEC to memorialize the economic development commitments outlined in the bid package. Bidders may populate Appendices A through D of the Form MOU in order to list and categorize by type the economic development commitments from their bid package. Bidders should note, however, that the titles of Appendices A through D (e.g. "Wind Industry Development Initiatives") are provided as examples and can be modified to reflect the actual and specific commitments of a future selected bid package. DOER and MassCEC reserve the right to propose and negotiate additional provisions with any selected Bidder to the Form MOU based on the specifics of the commitments outlined in the bid package for a selected project.

Question 84:

Can you please provide a more detailed description of what types of initiatives and commitments should be considered "Wind Industry Development Initiatives"? Can you please provide a more detailed description of what types of initiatives and commitments should be considered "Direct Economic Investment Initiatives"? Can you please provide a more detailed description of what types of initiatives and commitments should be considered "Workforce & Supply Chain Initiatives"? Are these aforementioned initiative categories expected to have overlapping initiatives? Or should each initiative be placed in a single category?

Response 84:

The categories in the Form MOU including “Wind Industry Development Initiatives” and “Workforce & Supply Chain Initiatives” are illustrative of the categorizations that may be used to memorialize the economic development commitments from a bid package. However, the MOU with DOER and MassCEC will be edited to be specifically responsive to the commitments made by any selected bidder(s). Bidders are encouraged to propose any economic development commitments and investments that they find most responsive to the RFP criteria.

Question 85:

Language: “(a) For any additional commitments made by COMPANY in its Bid to invest in the creation of new facilities or infrastructure that will result in direct employment and economic development benefits for the Commonwealth, the COMPANY will be expected to make payments to MassCEC for each FTE shortfall below a certain threshold in meeting the employment commitments as outlined in the Bid and according to the schedule outlined in this Agreement.”

- How will the "certain threshold" for an FTE shortfall be determined? Are proposers expected to propose a threshold in the submission, or will that threshold be determined post-award during negotiations with DOER and MassCEC on Form MOU?
- Will all employment commitments included in the Economic Development Summary Sheet be considered in determining whether there is an FTE shortfall?
- Over what time period will FTE job commitments be counted towards the FTE shortfall assessment, and how will a shortfall determination be made?

Response 85:

The threshold for FTE shortfall and the time period for the commitments will be determined in negotiations between any selected bidder(s) and DOER and MassCEC. Only direct employment that will result from new investments made by the selected bidder in the creation of new facilities or infrastructure will be considered for the FTE shortfall.