

**Supplemental Comments of PSEG/ Ørsted (Coastal Wind Link)  
Regarding PJM SAA Analysis and Request for Bidder Interviews  
Docket No. QO20100630**

On August 1<sup>st</sup>, PSEG and Ørsted (collectively referred to here as “Coastal Wind Link”) submitted comments to both PJM and the New Jersey Board of Public Utilities (“BPU”) regarding PJM’s TEAC analysis of the Coastal Wind Link proposals. As explained by Coastal Wind Link, this analysis undervalues bidder experience, fails to differentiate between degrees of permitting risk across the proposals, lacks an “apples-to-apples” cost comparison and fundamentally misunderstands Coastal Wind Link’s proposals, including its cost containment mechanism. On August 11<sup>th</sup>, PJM released a “Stakeholder Feedback FAQ” document that contains the same analytical flaws.

We continue to have significant concerns with the PJM analysis. With so much at stake for New Jersey’s clean energy goals, a more thorough and well-informed examination is needed. The current analysis misunderstands or undervalues the Coastal Wind Link proposals in the following important ways:

1. **The project’s cost cap is incorrectly labeled as “soft” and its schedule guarantee is not considered** – PJM’s characterization of Coastal Wind Link’s cost cap as a “soft” cap<sup>1</sup> is simply wrong; in fact, Coastal Wind Link’s proposal is a realistic hard cap with limited exclusions that protect ratepayers by, for example, sharing cost savings with customers when foreign exchange rates change (as they have recently). PJM also minimizes the significance of Coastal Wind Link’s in-service date guarantee<sup>2</sup> even though it provides meaningful benefits to customers and the offshore wind generation projects it is designed to serve.
  
2. **Coastal Wind Link’s superior experience is significantly discounted** - PJM’s analysis does not consider bidder experience and track record. Given that the SAA award will be a landmark project that unlocks New Jersey’s clean energy leadership, experience is absolutely critical and Coastal Wind Link stands head and shoulders above its competitors in this area.
  
3. **Coastal Wind Link’s unique project design has not been fully studied** - Coastal Wind Link is the best project to realize the State’s vision and goals; yet, PJM has not disclosed any meaningful analysis that evaluates the benefits of this design - which

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<sup>1</sup> PJM Stakeholder Feedback FAQ (“FAQ document”), at 5.

<sup>2</sup> In its FAQ document, PJM states in this regard that its financial consultant modeled schedule guarantees in its analysis and that they “made a negligible impact on the relative performance of the projects ....” *Id.* at 5.

include the economic, reliability, and resiliency benefits that will be achieved using the project's unique, fully-operational and always-connected meshed-grid approach.

4. **The site control that Coastal Wind Link possesses is undervalued** - PJM's constructability analysis does not adequately account for the extent to which each bidder possesses site control to efficiently carry out the project. Coastal Wind Link has secured all necessary real estate for its onshore converter stations and virtually all required real estate for its landfall locations, which will in turn make project cost and schedule commitments significantly more realistic.

**Due to these impactful analytical flaws, the BPU should not remove bidder interviews from its SAA process and should conduct them as soon as possible.**

It is evident from the documentation Coastal Wind Link has submitted to the BPU during this proceeding that (i) PSEG and Ørsted are the best team to develop offshore wind transmission to meet the state's needs and (ii) Coastal Wind Link is the best project when evaluated from a technical, constructability, value and schedule perspective. Coastal Wind Link offers New Jersey:

- Far more experience, both offshore and onshore, than any other bidder;
- Track records of delivering superior reliability performance and successful transmission project execution;
- A unique grid design that will provide New Jersey with the greatest value and maximum resiliency;
- A hard cost cap, with exclusions only for Force Majeure-type events and changes in inflation, taxes and foreign exchange rates – the latter of which have moved in the direction of actually reducing the cost of the proposals since bid submission;
- A schedule guarantee; and
- Site control of critical properties for landfall locations and converter stations.

No other bid contains all - or even a majority - of these attributes.

The State of New Jersey has ambitious and important clean energy goals. We advocate for fair, robust and transparent analysis of the SAA bids. In September 2021, the BPU established rules for this proceeding and bidder interviews were to be a part of that process.<sup>3</sup> However, in May 2022, BPU staff indicated that "at this time" it would not be conducting interviews.<sup>4</sup> As explained in detail below, Coastal Wind Link has significant concerns about PJM's bidder analysis and believes a robust interview process will resolve those issues. As such, Coastal Wind Link requests that the BPU and its consultants conduct bidder interviews as soon as possible to obtain a complete understanding of each

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<sup>3</sup> 2021 State Agreement Approach Process Guidance Document (September 24, 2021).

<sup>4</sup> Memo from BPU Board Staff Re: Updates on the State Agreement Approach Evaluation, BPU Docket No.: QO20100630 (May 10, 2022) ("While Staff initially contemplated the possibility of interviews with the project sponsors, at this time, Staff and its consultant have determined that no interviews will be requested.").

proposal and ensure that the interests of New Jersey customers are protected before an award decision is made.

**I. PJM’s financial analysis mischaracterizes Coastal Wind Link’s cost cap as a “soft” cap, fails to consider the meaningful benefits of the project’s guaranteed in-service date and does not properly evaluate Coastal Wind Link’s total project costs.**

- a. PJM’s characterization of Coastal Wind Link’s cost cap as a “soft” cap is wrong; in fact, Coastal Wind Link’s proposal is a hard cap which has limited, reasonable and realistic exclusions to protect ratepayers.

PJM incorrectly refers to PSEG/Ørsted’s cost caps as “soft” and as “much less effective in limiting cost overrun risks.”<sup>5</sup> Coastal Wind Link’s proposal included a detailed description of the terms and conditions of its cost cap and made it abundantly clear that this was a hard cap. Coastal Wind Link agreed that it will not seek recovery through its Annual Transmission Revenue Requirement of any Construction Costs in excess of an amount equal to the lesser of (i) the Construction Cost Cap Amount or (ii) the aggregate amount of actual Construction Costs associated with the Project. Despite the clear terms of Coastal Wind Link’s cost cap, PJM’s analysis erroneously depicted large swings in project cost for changes in variables that Coastal Wind Link has in fact capped and would have zero customer impact.

Significantly, not only is Coastal Wind Link’s cost cap a hard cap but it is a realistic one based on Coastal Wind Link’s significant, real-world experience, which is far superior to any other bidder. Unlike most of the other bidders, PSEG and Ørsted have executed onshore and offshore projects in New Jersey. This experience has informed the development of Coastal Wind Link’s cost cap and minimizes the potential for surprises regarding the costs customers will actually pay for the project.

Coastal Wind Link’s cost cap exclusions that are defined as “Uncontrollable Costs” in its proposals are limited to the following well-defined and discrete categories that are truly outside of Coastal Wind Link’s reasonable control - and therefore should not be a risk a developer should bear for a project of this cost and scope. Coastal Wind Link defined these risks to include the following:

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<sup>5</sup> FAQ document, at 4.

All of the above-listed exclusions from the cost cap are commercially reasonable and are well-understood. These exclusions are intended to address circumstances that are truly beyond Coastal Wind Link's control and should not fall within the financial risk absorbed by a developer on a unique project of this scale and price. In fact, the BPU should worry if bidders do **not** include these types of provisions since any reasonable developer should be concerned about these risks and may not be able to absorb the financial impacts of such risks, thus putting the project in jeopardy.

The other limited categories of cost cap exclusions tie to changes in inflation, foreign taxes and foreign exchange rates. They are described below:

- **Adjustment for project inflation** linked to the Handy Whitman Index.  
This exclusion is consistent with many other proposals, and protects a project that will be built over the next decade from unforeseeable changes in inflation. Use of the Handy Whitman index is an industry standard and the index values are transparent.
- **Adjustment for foreign taxes / duties.**  
Certain equipment for this project will be procured overseas. This exclusion simply acknowledges that reality in the current challenging supply chain environment. Coastal Wind Link is committed to documenting any adjustments and working with the BPU directly and transparently so that any resulting cost impacts are known in advance. Coastal Wind Link has included estimated sales tax and duties in its pricing and all assumptions are clearly stated in the cost cap.<sup>6</sup> If Coastal Wind Link pays less tax than what is included in the cost cap, the savings will be passed on to customers.
- **Adjustments - both positive and negative - for changes in foreign exchange rates.**  
This adjustment again reflects the reality that a portion of the project spend will be international. Although the foreign exchange rate floats, market changes since bid submission have shown that costs have decreased significantly.

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<sup>6</sup> See Appendix W, Schedule B of Coastal Wind Link proposals for sales tax and duties assumptions.

<sup>7</sup> Calculations are based on future exchange rate curves from July 29, 2022.

Therefore, PJM is incorrect when it states in its recent FAQ document that: “PSEG-Ørsted also indicated a significant portion of its projects will be purchased in foreign currency. Given the current high inflation rate environment, high exposure to foreign exchange risks, and a later-than-July award date, it is believed that PSEG-Ørsted’s various exceptions to the cost cap may result in considerable increase to its project cost cap and ultimately, revenue requirement.” This is simply inaccurate. As shown, the actual foreign exchange rate has strengthened the dollar and, as a result, Coastal Wind Link’s project costs are substantially lower than at the time of the proposal submission. Unique to this project, if the exchange rates go down – as they have recently - at the time of procurement an adjustment will be made to the cost cap value, firmly locking in those savings on behalf of the customer. No other proposal appears to move its cap down in this fashion.

As a general matter, as explained in Coastal Wind Link’s August 1<sup>st</sup> comments, it is impossible for Coastal Wind Link to have a true picture of how its cost containment compares to other bidders since, with one exception, all of the other bidders redacted their cost containment information in contravention of PJM’s Manual requirements.<sup>8</sup> While we await PJM’s public release of its financial analysis report, Coastal Wind Link is currently operating at an information deficit. What is clear, however, is that Coastal Wind Link’s cost containment provisions are commercially reasonable, transparent and realistic, and have firm mechanisms to share savings with customers. The BPU should carefully and thoughtfully evaluate the various bidder cost containment provisions and mechanisms to be sure they are in fact reasonable, transparent and realistic.

b. Coastal Wind Link’s schedule guarantee brings meaningful benefits to customers.

In its FAQ document, PJM indicates that “[s]chedule guarantees were reviewed by PJM’s financial consultant for projects that incorporated them, and their modeling indicated that the schedule guarantees made a negligible impact on the relative performance of the projects, and as a result are not highlighted in the financial analysis.”<sup>9</sup> Yet, based on PSEG and Ørsted’s extensive project execution experience, schedule delays often mean increased costs. And here, schedule delays for offshore wind transmission will also have significant implications for offshore wind generation. PJM is

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<sup>8</sup> PJM Manual 14F, Section 6.2, clearly states that cost containment information “should not be redacted.”

<sup>9</sup> FAQ document, at 5.

analyzing schedule impacts through its transmission lens only but New Jersey needs to consider this issue through the broader lens of potential impact on offshore wind generation projects that it will award in the future. Coastal Wind Link stands by its commitment to a guaranteed in-service date

Coastal Wind Link does not know if other bidders have offered schedule guarantees or what they may entail. However, Coastal Wind Link firmly believes that our schedule guarantee is second to none as it is firm and financially impactful if we fail to deliver.

- c. Coastal Wind Link stands by its total project costs as both realistic and intended to avoid surprises for customers.

PJM “recognizes” in its FAQ document that its financial analysis does not reflect an “apples-to-apples” cost comparison of the various bids.<sup>10</sup> The failure to conduct such a comparison unfortunately obscures the actual cost value of the Coastal Wind Link proposal. Specifically, Coastal Wind Link anticipates little need for future scope changes, which in turn will hold down costs. The fixed nature of the Coastal Wind Link offshore platforms limits the need for scope changes, since their location is not a function of the offshore wind generation awards. In addition, Coastal Wind Link’s proposed offshore substations have been vetted through extensive engineering and design and are designed to accommodate today’s technologies as well as those yet to come (*i.e.*, they are “future proofed”), which also limits the potential need for future scope changes and allows the BPU to commit to a fully meshed-ready and long-term cost-effective solution with no additional project modifications required.

Coastal Wind Link’s bids represent all expected costs the transmission project will need to incur,

Coastal Wind Link’s approach to the design of its project helps ensure New Jersey will realize the largest possible quantity of clean offshore MWs, while at the same time reducing risks for offshore generators thereby resulting in lower OREC prices in future solicitations.

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<sup>10</sup> FAQ document, at 4.

In addition, while not considered by PJM or its consultant, the Coastal Wind Link proposal both minimizes the potential for scope creep and will provide customer benefits if cost savings can be realized. Cost savings are strongly incented through a sharing mechanism that provides Coastal Wind Link the opportunity to earn a slightly greater return for the savings achieved, while ensuring customers realize the majority of those savings.

In sum, Coastal Wind Link finds that PJM has misunderstood and undervalued the cost-effective nature of the Coastal Wind Link proposal. Coastal Wind Link has a hard cost cap with limited and realistic exclusions, has a firm schedule guarantee and has a realistic and reasonable total project cost reflective of its future-proofed design, its project execution experience and its cost sharing mechanism.

## **II. PJM’s analysis continues to undervalue bidder experience and prior track record.**

PJM’s analysis does not account for unique bidder experience and consequently significantly undervalues Coastal Wind Link’s proposal and skews the analysis. In this regard, PJM asserts that its “assessments are conservative in nature” and “are based on the routing/siting of the project and potential issues that the entities may encounter in constructing the project.”<sup>11</sup> Yet, PJM has not conducted an in-depth analysis of these issues. In fact, PJM characterizes its constructability risk assessment as “qualitative information on potential risks for NJ BPU to take into consideration in its independent evaluation.”<sup>12</sup> Although PJM claims that “an entity’s experience and their mitigation plans...are important factors in the NJBPU’s evaluation and decision process,” PJM has seemingly attached little or no weight to actual experience. This approach will ultimately hurt customers as experience building projects in New Jersey directly impacts project design, performance and cost for customers.

The permitting process for a transmission project of this magnitude is extensive and will require close coordination and collaboration between relevant state and federal agencies and other stakeholders to ensure the projects can be delivered on time. Coastal Wind Link is the only bidder that has successfully navigated an offshore permitting process, with Ørsted completing the necessary permitting process for South Fork in New York. Ocean Wind 1 has also received its Draft Environmental Impact Statement from BOEM and is close to completing its federal review process. Only one other bidder in this solicitation has even initiated one of these federal processes. And PSEG’s onshore transmission permitting and construction experience in New Jersey far exceeds that of any other bidder, most of whom have not constructed a single circuit mile of transmission in the state.

Coastal Wind Link’s experience also yields superior access to the supply chain, which PJM has also omitted from its analysis.

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<sup>11</sup> *Id.*

<sup>12</sup> *Id.* at 3.

Coastal Wind Link benefits from the relationships established by Ørsted as the world's largest developer of offshore systems and its resulting supply chain access network. Through the project portfolios of both Ørsted and PSEG, we are actively engaged with all suppliers needed for the Coastal Wind Link, which includes having in place Master Services Agreements with most major local vendors that will be providing materials and labor for the project.

**III. Coastal Wind Link is the best project to meet New Jersey's goals due to its unique meshed grid design; yet, this unique design and its resulting benefits have not been studied by PJM.**

Although PJM acknowledges "Option 3" proposals can provide additional resilience benefits, PJM has not released a meaningful "Option 3" analysis, thereby penalizing the only SAA project – Coastal Wind Link - with a fully operational and future-proofed AC meshed grid design that will enable the State to reliably and resiliently meet its ambitious offshore wind goals. Coastal Wind Link's project design is anchored in a meshed grid concept to support the addition of future offshore wind generation while concurrently maintaining the highest standard of reliability and availability. This design is far superior to relying solely on radial lines or interlinks that are only operated in emergency situations. The Coastal Wind Link project will always be operating to move offshore wind generation to New Jersey customers. Other specific benefits of the meshed grid include the following:

- Avoiding hourly curtailment during peak wind conditions, thereby ensuring that the most clean MWhs are delivered to the PJM system;
- Allowing for congestion control between the Points of Interconnection, thereby further reducing costs to New Jersey customers;
- Ensuring power is rerouted immediately without needing time to reconfigure the transmission system to utilize the interlink systems without interruption; and
- Maintaining generation supply during routine HVDC maintenance or onshore substation outages.
- Being easily expandable to incorporate additional New Jersey offshore wind generation solicitations and future regional or interregional interconnections.

New Jersey is striving to be a leader in offshore wind development, and this solicitation is paving the way for the rest of the country. To be at the forefront of offshore wind transmission development, the state must be open to innovative solutions. New York has already demonstrated this commitment and has required that bidders in its recent offshore wind solicitation support a meshed-ready design. Specifically, the New York State Research and Development Authority ("NYSERDA") conducted a meshed grid study, which identified approximately \$60 million in annual savings for New York ratepayers and found savings that were attributable to reduced curtailment and



congestion benefits associated with multiple POIs<sup>13</sup>. New Jersey should expect similar benefits, and can realize the benefits through this SAA process by moving forward with Coastal Wind Link's AC meshed grid design. This can also provide the state with cost-effective optionality in the future should it decide to expand the system regionally – linking with the NY meshed grid, for example, and more broadly sharing benefits across the two states. As the state that is positioning itself to be a national leader in this space, it is important that New Jersey fully consider the benefits of the meshed grid design that Coastal Wind Link will provide.

**IV. PJM's constructability analysis does not appropriately value site control, which should be a significant differentiator between bidders given that site control brings route certainty and therefore cost certainty.**

PJM has not ascribed any meaningful weight to Coastal Wind Link's extensive site control for proposed landfalls and interconnection points.

While site control is a key factor that deserves fulsome treatment in the selection process, it does not appear that PJM performed an in-depth analysis of the issue. The ability to obtain site control and to secure permitting plays a substantial role in any bidder's ability to satisfy its commitments to the State by driving successful project completion. As such, Coastal Wind Link's site control along key legs of its proposed solutions should be a marked differentiator.

## **Conclusion and Request for Bidder Interviews**

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<sup>13</sup> A NYSEDA study identified \$55-\$60 million in annual savings associated with a meshed grid solution. See "The Benefits and Cost of Preserving the Option to Create a Meshed Offshore Grid for New York," prepared for NYSEDA. Europe has also recognized the benefits of an offshore meshed grid. European Commission – "Environmental Baseline Study for the Development of Renewable Energy Sources, Energy Storages and a Meshed Electricity Grid in the Irish and North Seas," June 2017.

PJM's analysis – as set forth in its July TEAC presentation and then reconfirmed in its August FAQ document - fails to consider critical factors in the SAA evaluation process, including bidder experience and site control (or lack thereof), which in turn paints an inaccurate picture of the relative strengths and weaknesses of the various bids. PJM's financial analysis either mischaracterizes or undervalues significant aspects of Coastal Wind Link's proposal, including its cost containment mechanism and in-service date guarantee. A thorough review of all proposals - and consideration of these critical factors - clearly demonstrates that: **(i) PSEG and Ørsted are the best team to develop offshore wind transmission to meet New Jersey's needs and (ii) Coastal Wind Link has the superior project when evaluated from a technical, constructability, value and schedule perspective.**

This solicitation is an important milestone for the State of New Jersey that needs to be thoroughly and carefully vetted and analyzed. In light of Coastal Wind Link's continued serious concerns regarding the current analysis, which have not been addressed by PJM's recent FAQ document, Coastal Wind Link requests that the BPU and its consultant conduct interviews of all bidders as soon as possible to obtain a complete understanding of each proposal and ensure that the interests of New Jersey customers are protected.