

March 27, 2024

Secretary of the Board
44 South Clinton Avenue,
1st Floor Post Office Box 350
Trenton, NJ 08625-0350
Phone: 609-292-1599
Email: board.secretary@bpu.nj.gov

New Jersey Offshore Wind Fourth Solicitation for Offshore Wind Renewable Energy Certificates: Draft for Public Comment

Vestas applauds the New Jersey Board of Public Utilities (BPU) and Governor Phil Murphy for issuing the draft of New Jersey's Fourth Offshore Wind Solicitation (NJ4). Offshore wind is a critical resource for the state of New Jersey, providing reliability, economic benefits, and clean energy to power New Jersey citizens and businesses for years to come. We commend the BPU and the Governor for their commitment to advancing the offshore wind industry in New Jersey.

With more than 40 years in the wind industry, Vestas has installed more than 177 GW of wind power capacity, including more than 9.5 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.

We appreciate this opportunity to respond to the draft NJ4 solicitation.

1. Introduction and Overview of the OREC Program

Vestas encourages the BPU to award 4,000 MW or more: It is critical that New Jersey more than make up for shortfalls in offshore wind capacity previously contracted to stay on track towards its goal for offshore wind energy generation of 11,000 MW by 2040, as well as its goals of 50 percent renewable energy by 2030 and 100 percent clean energy by 2050.

1.2 Overview of the Solicitation

- a. Allow OREC Term Lengths up to 30-Years:** The BPU should allow Applicants to propose OREC Purchase Prices for different OREC term lengths, enabling flexibility of up to 30-year OREC terms. In doing so, the BPU will have greater choice when considering the long-term benefits of various proposals. Longer OREC terms can reduce financial risks to Projects, enabling better financing costs and terms and driving contingencies in the form of higher prices out of OREC purchase prices.

- 1.3 Pricing Structure:** Vestas applauds the BPU for its inclusion of an inflation adjustment to the submitted OREC pricing, as limited or no indexation adjustments within past PPA and OREC contracts have contributed to recent cancellations of offshore wind contracts in multiple states.

- a. Allow Applicants to bid OREC Purchase Prices with and without Inflation Adjustment:** The BPU should allow Applicants a choice with regards to submission of an OREC purchase price that is

subject to change based on the inflation adjustment mechanism proposed. Other states, including New York, Massachusetts, Connecticut, and Rhode Island have offered Applicants a choice regarding the decision to submit a purchase price that is or is not subject to change per inflation adjustment / indexation mechanisms. Vestas recommends the BPU adopt this flexibility in NJ4, so that Applicants can choose which OREC Purchase Price model is optimal for a proposed Project.

b. Timing of $Index_{M,i}$:

- Vestas applauds the BPU for improving the timing of $Index_{M,i}$ from that of New Jersey’s Third Offshore Wind Solicitation (NJ3), as it is important that the timing of $Index_{M,i}$ is aligned to a project’s execution schedule rather than its permitting schedule. (Perversely, linking indexation to permitting completion then commercially punishes projects that are more mature, which is the opposite of the policy goal New Jersey should pursue.)
- Due to their complexity and global nature, supply chain and sub-supply chain costs are generally still subject to uncertainty and adjustment until closer to manufacturing and project execution. Vestas therefore recommends that the timing of $Index_{M,i}$ in NJ4 be adjusted to the average index value for price component i over the three months prior and following the date that is **two years** prior to COD.
- If the strike price is adjusted before construction costs are fixed, both offshore wind Projects and New Jersey ratepayers are exposed to a scenario where input costs to the offshore wind project could still increase following the adjustment, causing the project to become nonviable. At the same time, input costs could fall, in which case New Jersey ratepayers would end up paying more than what is necessary via the OREC Purchase Price to make the project viable.

c. Components and Indices for Inflation Adjustment:

- The proposed indexation mechanism is a poor match for the portion of the project capital cost associated with turbine manufacturing and delivery. This is because a large majority of the turbine supply and sub supply chain remains outside the United States (even as certain activities begin to move to the US) and the proposed indexation mechanism largely tracks US cost inputs.
- New Jersey should update the components and indices for inflation adjustment to the Consumer Price Index (CPI) and Eurostat Harmonized Index of Consumer Prices (HICP). Applicants should propose the F Value of the indices based on the proposed sourcing of the Tier 1 components. Vestas recommends the following:

F Value	Index
Proposed by Applicant based on Tier 1 sourcing	CPI for All Urban Consumers (CPI-U) from U.S. BUREAU OF LABOR STATISTICS

Proposed by Applicant based on Tier 1 sourcing	Eurostat, Harmonized index of consumer prices, monthly data, PRC_HICP_MIDX, EU27
--	--

- Indexation based on measures of inflation such as CPI and HICP allows ratepayers to benefit from potential future cost reductions and remove risk contingencies in bid prices that add cost. Vestas encourages New Jersey to evaluate Rhode Island’s inflation adjustment mechanism as outlined within its October 2023 Offshore Wind solicitation.¹
- d. Tax Credits:** Vestas encourages the BPU to adopt a framework for the treatment of federal tax credits similar to that of Massachusetts 83C-IV offshore wind solicitation. Rather than requiring developers to propose an Offshore Wind Purchase Price that assumes a specific federal tax credit incentive (such as an assumption of a 30% Investment Tax Credit), allow applicants to propose multiple Offshore Wind Purchase Prices across a range of potential scenarios for future federal tax credits. For example, an Applicant could propose an OREC Purchase Price assuming a 30%, 40%, or 50% Investment Tax Credit. The reality is that bidders assuming eligibility in their NJ4 bids for the 10% Domestic Content Bonus are taking a significant gamble on a future and still highly uncertain state of the US supply chain, especially regarding turbine component manufacturing. With such a gamble comes the risk of an OREC award that later proves economically unviable, leading to additional delays in progress toward New Jersey’s offshore goals. This binary choice, enforced up front at bid submission, is ultimately worse for state ratepayers, which is why other states have adopted a different approach.

3.2 Project Descriptions

- a. Prioritize the award of offtake contracts to Applicants that have selected turbine technology that is mature, tested, and commercially available to ensure on-time project delivery and industry scalability, resulting in long-term jobs.**
- The bidding into state solicitations of “paper turbines” that are in very early stages of development continues to result in revenue contract awards that are at high risk of abandonment by awardees. The uncertainty associated with this situation has a chilling effect on the entire supply chain – even beyond the turbine supply and sub supply chain - because it introduces significant uncertainty over future volume and timing. Further, it engenders criticism that undermines the offshore wind objectives broadly shared by the industry, the states, and the federal government.
 - To ensure the state remains on track toward its offshore goals on the timetable expected, New Jersey must reward technology readiness. NJ4 should require bids based on existing turbines that have demonstrated sufficient product maturity. Sufficient product maturity should include current Type Certification according to the latest version of IECRE OD-501.
 - The bidding of larger, untested turbines results in paralysis of investment decisions across turbine supply and sub supply chains as well as the entire value chain such as vessels, cranes, and ports, as investors become uncertain whether to proceed with current

¹ <https://ricleanenergyrfp.com/2023-osw-rfp/>

investment plans. Further, this uncertainty increases ratepayer costs as states attempt to future proof infrastructure investments, resulting in added costs that are unsubstantiated given the immaturity of untested turbines.

- Requiring bids based on existing turbines that have demonstrated sufficient product maturity will result in greater cost predictability, shorter execution times, and industry scalability.
- b. Rigorously evaluate supply chain, infrastructure, and interconnection readiness in NJ4 and prioritize the award of offtake contracts for projects that demonstrate maturity.**
- Past state offshore wind RFPs had a limited focus on project executability.
 - NJ4 should have a critical focus on supply chain readiness and evaluate risks that could delay projects and/or increase costs.
 - Prioritize the award of offtake contracts that have credible project execution plans and demonstrate how projects will be built and maintained with existing or planned supply chain resources. Focus critically on whether bidders have secured access to necessary equipment and facilities.

3.3 Energy Production Estimate

- a. The BPU should require that section 3.3 is completed by Applicants using selected turbine technology that is mature, tested, and commercially viable. See response above to section 3.2.a for Vestas' recommendation on how the BPU can require Applicants to propose turbine technology that is mature.

3.4 Financial Analysis: Vestas recommends allowing OREC Term Lengths up to 30-Years. See Vestas' recommendation on this in further detail in Section 1.2.a of our comments above.

3.6 Documentation of Financial Incentives: Vestas recommends the BPU allow applicants to propose multiple Offshore Wind Purchase Prices across a range of potential scenarios for future federal tax credits. See Vestas' recommendation on this in further detail in Section 1.3.d of our comments above.

3.8 Economic Development Plan

- a. **Vestas strongly recommends the BPU avoid awarding or heavily incentivizing project Proposals with *new* Tier 1 Manufacturing Facilities located within the State of New Jersey, and instead focus on realizing the tower manufacturing facility already committed by prior awardees. This should be done to reduce risk in the offshore wind market and ensure long-term sustainability of manufacturing jobs.**
- The practice of seeking to force development of in-state "local content" turbine manufacturing as a condition of a revenue contract award has failed as a policy mechanism in the United States and should be abandoned. There are now examples in multiple states where this is true and will continue to be true. The reasons are myriad but chief among them is that "anchor orders" are simply insufficient volume to underwrite the massive capital investment necessary to support and sustain manufacturing. A factory dependent on the successful development and precise timing of a specific project or a small set of

projects is simply too exposed to events well beyond that factory's control. Further, an economically rational and competitive cost basis for manufacturing is a key element in an acceptable levelized cost of energy from offshore wind. Seeking to force in-state local content is at odds with this goal as well.

- The supply chain must be sustainable over the long run to deliver on the many promises offshore wind holds for economic development in local communities and local workforces, for ratepayers, and for the ambitious goals set forth by state and federal leadership.
 - The best way to support development of a regionalized, US-based supply chain is to create a steady, predictable pipeline of projects executing on a reliable timeline, year in and year out. With the right economic and market conditions in place, the supply chain can begin to follow.
 - For these reasons, New Jersey should focus instead on realizing the tower manufacturing facility already committed by the awardees of the prior round. The successful launch of that facility would be a significant success for the state and for the Wind Port. Seeking to add additional manufacturing, in addition to the recent tower facility award, will simply divert focus from the success of the existing plan for towers.
- b. **Marshalling & Manufacturing at the New Jersey Wind Port:** Given the BPU's focus on manufacturing at the NJWP, the New Jersey Economic Development Authority should consider lowering leasing costs of the port, as these high expenses are simply passed onto New Jersey ratepayers in the form of higher OREC Purchase Prices. The BPU should also allow lease expenses for marshalling and manufacturing to be included in the economic benefits assessed for proposed Projects.

3.13 Interconnection Plan

- a. **Retain flexibility to propose alternate POIs, HVDC or HVAC:** Vestas encourages the BPU to retain the Draft as is as it relates to requiring Proposers to submit one Project that utilizes the LCS and the SAA as well as one Project that does not use the LCS and the SAA and instead utilizes an alternate POI. Further, it is positive that Applicants can propose alternate POIs with either HVDC or HVAC. Retaining flexibility is important to enable Applicants to pursue POIs which may qualify as Energy Communities, thus reducing the OREC Purchase Price, and enables Applicants to select either HVDC or HVAC based on what is optimal for their Projects. Further, Vestas encourages the BPU to retain the language as drafted which exempts re-bid projects from having to submit a Project proposal that utilizes the LCS and SAA capability. For the same reasons as listed above, it is positive that the BPU is encouraging use of original or alternate POIs with HVDC or HVAC for re-bid projects.
- b. **Interconnection Status:** Applicants with Projects that are further along in the interconnection queue should be considered favorably in Proposal evaluation, as these projects have less risk of future delays pertaining to interconnection.

3.14 Permitting Plan

- a. **Projects that are more advanced in permitting should be considered favorably,** as local, state, and federal permitting processes are critical to project timelines. Projects that are further along

in pursuit of key permits, such as the Construction and Operations Plan approval, should be considered favorable as this significantly reduces risk of project delays.

4. Evaluation of Non-Price Considerations

a. The BPU should increase the weight of Likelihood of Successful Commercial Operation within the evaluation criteria.

- Many offshore wind projects have faced delays and challenged project economics, with some having to walk away from previously signed contracts. It is critical that the BPU focus on the factors that increase the likelihood of successful commercial operation when selecting awardees of NJ4.
- Vestas encourages the BPU to increase the weight of this evaluation criteria to 25%, in line with other US states that have also done so in recent offshore wind solicitations.
- Rigorously evaluate supply chain, infrastructure, interconnection, and permitting readiness in NJ4 and prioritize the award of offtake contracts for projects that demonstrate maturity.