

September 5, 2023

[VIA EMAIL \(austin.dawson@mass.gov\)](mailto:austin.dawson@mass.gov)

RE: 83C Round 4 Indexation Adjustment Comments

Thank you for the opportunity to comment on the proposed indexation adjustment mechanism that will be implemented in the ongoing Massachusetts 83C Round 4 Offshore Wind Solicitation. [REDACTED]



We look forward to seeing the outcome of this RFI and to continuing our participation in the 83C Round 4 Solicitation process.

Best Regards,

Meadhbh Ni Chleirigh

Bid Development Director, Ørsted Americas

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

August 25, 2023

The Massachusetts Department of Energy Resources (DOER), the Massachusetts Electric Distribution Companies (EDCs), and the Massachusetts Attorney General's Office (AGO) in consultation with the Independent Evaluator, (collectively, the RFP Drafting Parties) welcome public comments on a pricing mechanism to be incorporated in the Request for Proposals (RFP) for the fourth-round solicitation for offshore wind energy projects under Section 83C (83C Round 4). On May 2, 2023, the draft RFP was submitted to the Massachusetts Department of Public Utilities (MA DPU) and may be found at macleanenergy.com/83c-iv/83c-iv-documents/. On August 23, 2023, MA DPU approved the timetable and method for solicitation found in the RFP, including the proposed Indexing Adjustment (as defined in the RFP). The RFP Drafting Parties expect to issue the RFP soon, which will be posted at the macleanenergy.com.

Section 2.2.1.5 of the RFP, as approved, states that Bidders may submit an alternative pricing option, an "Indexed Price Bid," which will be subject to Indexing Adjustment. The RFP, as approved, further states:

An Indexing Adjustment will be applied to increase or decrease the Indexed Price Bid price by up to 15% based on the change in a set of macroeconomic and/or commodity indices (the "Composite Set of Indices"), which will be determined by the RFP Drafting Parties (the Indexing Adjustment Mechanism). The change in price due to the Indexing Adjustment will be limited to 15%, that is, it will be neither increased nor decreased more than 15%, even if a larger adjustment is indicated by the Composite Set of Indices. The Indexing Adjustment will occur one year following an Order from the DPU approving the long-term contracts resulting from this solicitation.

The RFP Drafting Parties are issuing the questions below to solicit input from interested parties and stakeholders regarding the Indexing Adjustment Mechanism and the Composite Set of Indices. Interested parties and stakeholders are invited to provide comments in response to the questions below. Whenever possible, please provide explanations or justifications for any recommendations provided. Based on a careful consideration of the responses received, the RFP Drafting Parties will submit an Indexing Adjustment Mechanism as an informational filing to the MA DPU..

Submission Instructions: Please submit all comments to Austin Dawson (Rates and Supply Analyst at DOER) via email to austin.dawson@mass.gov as soon as possible, but no later than 5:00pm on September 5, 2023. Please include "83C Round 4 Indexation Adjustment Comments" and the name of the individual or organization submitting comments in the subject line.

Confidentiality: Please note that all comments received will be posted publicly on the MACleanEnergy.com webpage following the submission deadline; unless a party indicates its submission contains proprietary or commercially sensitive business information that should be treated as confidential energy information, to the extent permitted by law. Such submissions should be clearly marked "CONFIDENTIAL" and submitted along with a public version with any such confidential information redacted. Commenters are strongly encouraged to limit redactions to the extent possible. Pursuant to DOER's authority under Massachusetts General Law Chapter 25A, Section 7, and Section 83C

certain energy and other information collected by DOER can be maintained for the sole and confidential use of the Commonwealth, its agencies, and offices. DOER may also apply any applicable exemption under the Commonwealth's public records law. DOER shall also confidentially provide any and all confidential comments or responses to the Massachusetts Electric Distribution Companies, the Office of the Attorney General, the Independent Evaluator, DOER's consultants and possibly to the Massachusetts Department of Public Utilities (collectively, the "Massachusetts Parties") in a manner as determined by DOER, in its sole discretion. In the event confidential information is submitted to DOER and confidential treatment is not afforded for any reason, by a governmental agency or otherwise, or any confidential information is inadvertently made public, DOER and the Massachusetts Parties shall not be held responsible.

Questions for Public Comment:

For all questions, please explain the reason for each suggestion to the greatest extent possible.

1. Assume that the Indexation Adjustment Mechanism takes the following form:

$$PPA_{adj} = PPA_{base} \times \left[F_o + \sum \frac{Index_{M,i}}{Index_{I,i}} \times F_i \right]$$

Where:

PPA_{adj} is the adjusted PPA price

PPA_{base} is the as-bid PPA price

$Index_I$ is the initial value of the index at the time of bid

$Index_M$ is the value of the index one year after issuance of the DPU Order approving the contract

F_o is the fraction of the price that is fixed

F_i is the weighting factor for each component index, expressed as a unitless fraction or coefficient for each component index, i , such that

$$F_o + \sum F_i = 1$$

- a. Please provide any suggestions for the Composite Set of Indices represented by the Index terms in the above equation.

Ørsted recommends the use of the United States Consumer Price Index (CPI) as the index used for the indexation adjustment mechanism. There are 4 primary reasons that we believe CPI is the best index to use:

1. *It is a robust, well understood and well documented index – this will minimize the work associated with updating and administering the pricing adjustment to future offshore wind projects.*
2. *It is simple and easy for all industry, financial, regulatory, political, and public stakeholders to comprehend.*



- b. For each suggested Index, please provide a transparent, publicly available source for the Index. Please define the Index as specifically as possible. For example, if a U.S. Bureau of Labor Statistics index is suggested, provide the specific data set identifier. Provide a link to a website where the data are published, if applicable.

*The specific BLS statistic series ID for the proposed United States Consumer Price index is CUUR0000SA0. Link to this index: [Bureau of Labor Statistics Data \(bls.gov\)](#)
<https://data.bls.gov/timeseries/CUUR0000SA0>*

- c. For each suggested Index, please provide a value for F_i . Please also provide a suggested value for F_0 .

Suggested value for F_0 : 0

Suggested value for F_i : 1

It is Ørsted's recommendation that F_0 is set to be 0 and F_i equals 1, as our proposal is that the entirety of the PPA is included in the adjustment mechanism.

Including the entirety of the PPA in the adjustment is crucial to enable the reduction of the risk premium from the financing of the project, and hence reducing the PPA and lowering impact to ratepayers. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- 2. What is an appropriate way to set $Index_i$ and $Index_{iM}$, the values of the Indices at the time of bid and at the milestone date, respectively? For example, should the values be a single value

or calculated as an average over several months? Please explain the reason for your suggestion.

Values should be single values based on the published CPI on a given day, not averages. The first value should be the most recently published data prior to bid submission (likely December 2023). The final value should be at Final Investment Decision ("FID"), [REDACTED]

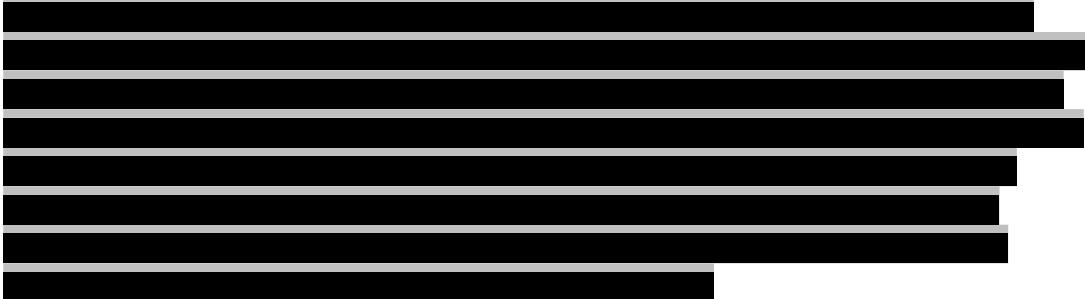
[REDACTED] and is similar to what other investors consider "Financial Close" Additional detail on the potential timing of adjustment, and impact to PPA price provided below.

While in the draft RFP and in the above index, Index_M is set at the value of the index one year after the issuance of the DPU order approving the PPA contract, it is crucial to understand that using this date will not enable the reduction of any risk premium from any project because it occurs too early in the development process. Therefore, unless the date of adjustment changes, this pricing adjustment mechanism will have zero impact on the PPA price that developers can offer and therefore have zero benefit to ratepayers.

An indexation adjustment mechanism functions by fixing the relationship between the price of a given project and a given index, increasing the price if the index increases and decreasing the price if the index goes down. The fixing of this relationship is what enables the reduction of the associated risk premium from the financing requirements of the project. However, this can only be achieved if the indexation adjustment covers the project for the period in which it is exposed to cost increases relating to the index.

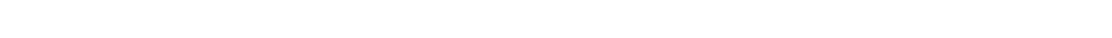
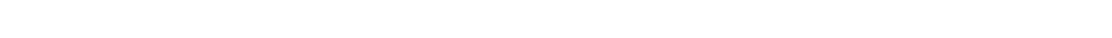
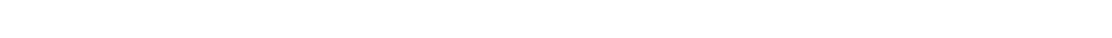
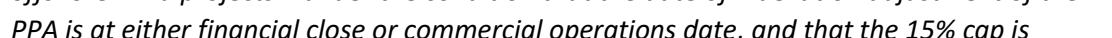
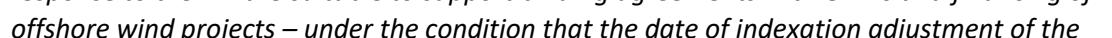
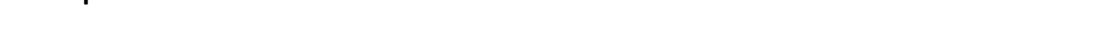
Offshore wind projects are very capital intensive and exposed to capital cost increases until they sign supply contracts for major components, which happens multiple years after the PPA is signed. Please refer to the table below for an indicative view of potential indexing dates, and relative impact on PPA price that can be offered.

Milestone date for indexation adjustment	Impact on PPA price
Commercial Operation Date, as defined in the PPA (COD)	[REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]
Financial Investment Decision (FID) typically occurs 3 years before COD – preferred date	[REDACTED] [REDACTED]
Approval of Construction and Operations Plan (COP Approval) – used for NYSERDA indexation mechanism	[REDACTED] [REDACTED] [REDACTED]
Anytime before COP Approval	Zero risk premium removed. No price reduction to PPA.



3. Are there any components of the project cost that can reasonably be hedged through instruments such as options or futures contracts and do not need to be included in an Indexing Adjustment?

Ørsted recommends that all project costs need to be included in the Indexing Adjustment.

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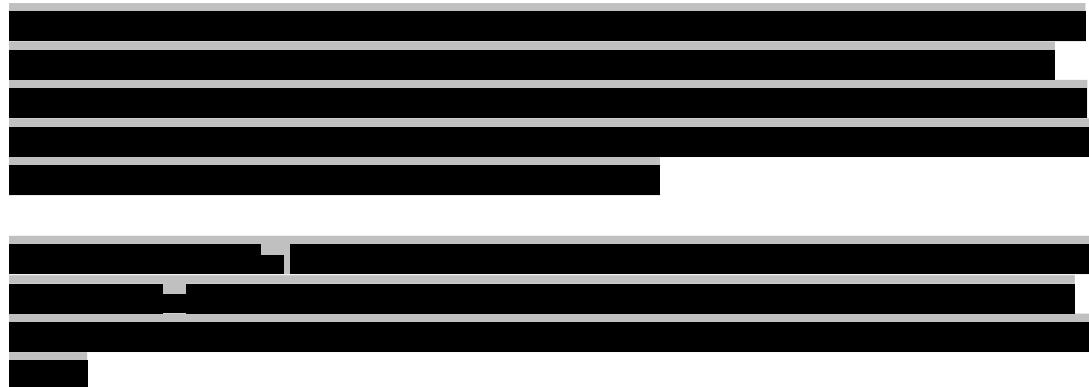
3. Please comment on your expectations for near-term and long-term costs for primary offshore wind components and supplies, for general inflation, and for interest rates. Describe the impact on your proposal pricing.

The ability to index the PPA at FID for inflation and interest rates provides significant protection for cost uncertainties over the project's long development and construction schedule, although does not protect the developers from supply chain bottlenecks, which is a risk that developers will maintain.

4. Please comment on whether the Indexing Adjustment should include interest rates or other indicators of changes in the cost of capital and if so, what are appropriate interest rate or cost of borrowing indices (e.g., Secured Overnight Financing Rate or 10 or 20-year Treasury Bills). For any potential interest index, please specify what are appropriate spreads to reflect financing costs for offshore wind projects. To the extent the Indexing Adjustment should include interest rates, please describe what type of mechanism (e.g. formula, adder, multiplier, etc.) you would recommend for incorporating a change in interest rates into the Indexing Adjustment. Please be as specific as possible.

Yes, Ørsted recommends implementing two separate adjustment mechanisms; one based on US CPI, as described in response to Questions 1 & 2, and a second adjustment mechanism to capture interest rate changes. It is essential to include both inflation and interest rate indexation for a wholistic reduction to project risk. Inflation indexation addresses CAPEX uncertainty and risk, while an interest rate index provides protection for financing risk. The

combination of the two adjustments enables developers to bid the lowest possible price, while also ensuring maximum project viability.



This PPA adjustment will be made independently and in addition to the inflation mechanism as described in response to Questions 1 & 2. We propose to use a separate mechanism, as we believe this provides a clearer distinction between the two formulas. Ørsted believes that it will be easier to evaluate separate formulas and ultimately implement them in the PPA. However, it is possible to combine the inflation indexing formula to also include interest rates if it is preferred to have a single formula for indexation.

5. **Please comment on any recommendations for additional features or alternatives to the Indexing Adjustment Mechanism. If you recommend a formula that is different from Question 1, please explain in detail the reason for a different formula.**

Ørsted recommends the inflation formula, as adjusted in response to Question 1 & 2, plus the interest rate indexation formula as specified in response to Question 6, as the preferred Indexing Adjustment Mechanism.

In addition to the mechanics of the indexing formulas as specified above, we further emphasize that the indexation should occur at FID, or as an alternative, at COD. We highlight the importance of amending the timing of indexation, given that as currently structured, the Alternative Index Pricing does not enable the reduction of any risk premium and therefore will not lower the PPA price for any of Ørsted's proposals. Given the request to adjust the indexation period, we would also seek to remove or reset the 15% cap on overall price adjustment. With the extended adjustment period, the existing cap does not provide enough buffer beyond normal inflation. Without this additional buffer, we do not expect significant reduction to the overall risk premium. Additionally, in benchmarking inflation to CPI, Ørsted would not expect dramatic price changes or spikes. CPI is a broad index that accounts for the current state of the economy as a whole. Any change in CPI is reflective of the current state of the economy, and should be fully accounted for in any change to PPA price.



