



Austin Dawson
Rates and Supply Analyst
Department of Energy Resources
Via email austin.dawson@mass.gov

RE: 83C Round 4 Indexation Adjustment Comments

September 5, 2023

Dear Mr. Dawson,

Vineyard Offshore LLC (“Vineyard Offshore”) is pleased to submit the following comments in response to the Massachusetts Department of Energy Resources (“DOER”) request for public comment on the Massachusetts 83C Round Four Offshore Wind Solicitation issued August 25th, 2023 (“RFP”).

Respectfully,

Christian R. Scorzoni

Head of External Affairs
Vineyard Offshore
200 Clarendon Street, 18th Floor
Boston, MA 02116
Email: cscorzoni@vineyardoffshore.com
Mobile: 617-650-2213

Summary

Vineyard Offshore is proudly headquartered in Massachusetts, with offices in Boston and New Bedford. Our company was founded by the same team behind Vineyard Wind, the nation's first commercial scale offshore wind project, which is currently in the construction phase and is on track to achieve commercial operation in 2024. Beyond Vineyard Wind, Vineyard Offshore has the largest portfolio of uncontracted seabed lease areas in the United States and is leading the development of more than six gigawatts of cost-effective clean energy on both the East and West coast. This includes Lease Area OCS-A 522 (known as Vineyard Northeast), Lease Area OCS-A 0544 (known as Vineyard Mid-Atlantic), as well as California Lease Area OCS-P 0562.

As evidenced by recent contract terminations, the impact of inflation and cost increases over the past three years is significant across all industries. Offshore wind infrastructure projects, which require significant capital investment and long lead times to secure necessary supply and construction contracts, are particularly impacted. Recent comments and a related report filed by New York State Energy Research Development Authority (“NYSERDA”) (*DPS 15-E-0302*) provide helpful background on cost and inflation impacts on the renewables industry. For this reason, Vineyard Offshore supports the inclusion of inflation adjustments in the DOER fourth round solicitation for offshore wind projects and resulting contracts.

In its determination of the indexing adjustment mechanism, DOER should recognize that a *perfect hedge* is not possible: some supply costs are not linked to indices and supply/demand dynamics can impact costs significantly without being able to link those costs to a specific index. Further, every developer has different exposure given diversity in suppliers and project configurations. Therefore, in consideration of these factors, Vineyard Offshore recommends using a mechanism primarily linked to the Consumer Price Index (“CPI”) as operating expenses, labor, and fabrication costs follow a similar trajectory to CPI. Some adjustment should also be tied to the primary CAPEX-driving commodities of steel, copper, and fuel to adjust PPA price for normal fluctuations in global markets, however, it is expected that any purely commodity-based formula would not protect against large fluctuations like those seen in recent years. Vineyard Offshore believes this type of indexing adjustment mechanism would be consistent with the spirit of Massachusetts’ *An Act Driving Clean Energy and Offshore Wind* (Chapter 179 p of the Acts of 2022, passed July 23, 2022).

Timing

Vineyard Offshore reiterates that the current time of adjustment is connected to DPU approval, which is arbitrary relative to project milestones and may lead to PPA adjustments which do not align with costs to the project. That is, timing of the indexing adjustment does not provide a hedge aligned with expected dates on which project costs would be fixed. A longer delay between DPU approval and adjustment date (i.e., 18 months) would better align with anticipated Financial Close (FC) and Notice to Proceed (NTP) for projects bid into Massachusetts’ 83C Round Four Offshore Wind Solicitation.

15% Cap

Projects are exposed to risks that may result in higher than 15% cost increases. The cap poses a risk to the financial feasibility of projects bid in the 83C Round Four Offshore Wind Solicitation, as has been seen with other offshore wind projects awarded in past solicitations globally. To protect against this

possibility if costs increase beyond 15%, the approved inflation adjustment mechanism should still be applied. Furthermore, Vineyard Offshore recommends no downward adjustment. As any indexation formula will not allow for a perfect hedge, a downward adjustment that does not reflect variation in project costs will result in a detrimental result to the project.

Vineyard Offshore responds to specific questions raised in the Request for Public Comment below.

1. Indexation Adjustment Mechanism

Vineyard Offshore proposes an indexing adjustment mechanism that is primarily weighted to CPI and, additionally, ties PPA price to the three major commodities to which offshore wind projects are exposed: Steel, Copper, and Fuel. CPI is best placed to adjust PPA prices for labor, operational, and fabrication costs.

$$PPAadj = PPAbid \times \left[0.85 \times \left(0.20 \frac{SteelI}{SteelM} + 0.20 \frac{copperI}{copperM} + 0.12 \frac{fuelI}{fuelM} + 0.48 \frac{CPII}{CPIM} \right) + 0.15 \frac{CPII}{CPIM} \right]$$

Where the indices above are:

- Steel (Unitless index, monthly):
 - U.S. BLS PPI, Data Series PCU3311033110
 - Iron and steel mills and ferroalloy manufacturing, not seasonally adjusted
 - <https://beta.bls.gov/dataViewer/view/timeseries/PCU3311033110>
- Copper (Cents per lb., daily):
 - COMEX, spot price
 - <https://comexlive.org/copper/>
- Fuel (\$/gal, daily)
 - New York Harbor Ultra-Low Sulfur No. 2 Diesel Spot Price
 - U.S. Energy Information Administration, Petroleum & Other Liquids Data
 - https://www.eia.gov/dnav/pet/PET_PRI_SPT_S1_D.htm
- CPI
 - [Latest Numbers : U.S. Bureau of Labor Statistics \(bls.gov\)](https://www.bls.gov)

2. What is an appropriate way to set IndexI and IndexM, 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.

Vineyard Offshore recommends setting the value of each index on November 1, 2023 or before. At least ninety days' notice is needed to allow developers to assess supply chain commitments and determine business case implications of these initial values prior to bid submission. A single value should suffice at the fixing date but an average of recent values (i.e., previous 3-month index average) would be appropriate for the adjustment date. In any given scenario where indices are applied, Vineyard Offshore

requests that DOER provide transparency on the values that will be considered at the time of adjustment.

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?

Most commodities have futures and options markets, however, hedging these at bid submission or contracting with the intention of executing the options towards the beginning of the second half of the decade (expected financial close), would be costly. The option costs would result in a higher bid and the resulting PPA prices. Therefore, Vineyard Offshore does not believe that any components of project cost can be reasonably hedged through options or futures contracts and, furthermore, many components of project cost will not be hedged (perfectly or at all) with the Indexing Adjustment.

4. Will a PPA with an Indexing Adjustment be sufficient to support executing binding agreements with primary OEMs, and ultimately project financing? Are there similar indexing adjustments in contracts with suppliers, and if so, what are the primary components or commodities?

Similar indexing adjustments are provided in most OEM quotes; however, most contracts are not binding at bid submission and price changes unrelated to indices are likely. With or without adjustment, before financial close any binding contract will include a termination provision associated with significant changes in indexed prices (e.g., 8-10%). For this reason, indexing adjustments provide some risk mitigation to developers that allow for agreements to be executed with primary OEMs and ultimately project financing. However, indexing adjustments are not the basis on which these contractual decisions are made.

NYSERDA's Offshore Renewable Energy Credit (OREC) Purchase and Sale Agreement (PSA) offshore wind contract currently offers a clear indexation mechanism. NYSERDA's inflation adjustment mechanism includes indices to adjust for steel, copper, fuel, labor, and manufacturing prices.

5. 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.

Offshore wind component prices have risen relatively significantly in the last 3 years. Near-term upward price fluctuations of this same extraordinary magnitude are less likely but exposure to commodity price changes and indices will continue to be a principal driver of offshore wind project finance ability and viability. These changes will also remain hard to predict. Inflation and interest rate increases are likely to slow in coming years after seeing a period of record high inflation, which has had a direct impact on interest rate hikes from the Federal Reserve, ECB, Bank of England, etc.

6. 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.

Vineyard Offshore does not believe that the Indexing Adjustment should include interest rates as these are significantly developer-specific and confidential in their assumed values.

7. 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.