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By email to: patrick.woodcock@state.ma.us

July 5, 2019

Patrick C. Woodcock
Undersecretary of Energy
Executive Office of Energy and Environmental Affairs
100 Cambridge Street, Suite 900
Boston, MA 02114

RE: Comments of Associated Industries of Massachusetts regarding the price cap on future offshore wind solicitations as contained in Section 83C of Chapter 188 of the Acts of 2016

Dear Mr. Woodcock:

Associated Industries of Massachusetts (AIM) is pleased to provide the following comments as to whether the existing price cap language as indicated above should be modified.

AIM believes that some modification may be justified to maintain the integrity of the bidding process and continue our momentum in offshore wind development.

AIM is the largest general trade association in Massachusetts. AIM's mission is to promote the prosperity of the Commonwealth of Massachusetts by improving the economic climate, proactively advocating fair and equitable public policy, and providing relevant, reliable information and excellent services.

Background

In 2016, *An Act to Promote Energy Diversity* was signed by Governor Baker as Chapter 188 of the Acts of 2016. Section 83C authorized investor owned utilities to competitively solicit up to 1600 MW of offshore wind and provided reasonable and cost-effective proposals were received, enter into long term contracts for these projects. Section 83C(b) included a provision that required that additional solicitations after the first have a lower levelized price per megawatt-hour than the previous one, guaranteeing that prices would decline. Half of the authorized amount was recently awarded to a winning bidder.

At the time of drafting, the cap language contained in the 2016 law was crucial. There was very little precedent for this type of solicitation in North America and there was a genuine concern that the initial price of offshore wind would be steep. Also, due to the limited number of companies engaged in offshore wind development, there was a fear that competition would not be robust and the developer that received the first award would have a lock on future solicitations, allowing them to effectively control the market and raise prices on future awards. Section 83C(b) prevented this type of market manipulation. Surprisingly, competition in the first solicitation was robust and the final contract price was less costly than anyone envisioned.

The existing price cap language may reduce competition and delay construction of offshore wind, slowing our greenhouse gas reduction efforts

Today, as we enter bidding for the second half of the authorized offshore wind procurement, the strict cap language contained in Section 83C(b) is controversial. In the worst case, it could delay our greenhouse gas reductions goals if no developer submits bids in the upcoming solicitation because they are unable to meet the price cap, or if the DPU believes that the process was not fair due to lack of competition. In this case the entire process may have to be redone, delaying the construction schedule and losing our momentum to other states. Developers are going to build where they can get a return on their investment. Too much uncertainty, even in the bidding process, could make them concentrate on other markets.

The original cap language anticipated a stable federal Investment Tax Credit (ITC). However, the ITC is now scheduled for elimination over the next few years and it is questionable what amount of credits will be available for the winner of this solicitation. In fact, even if the developer's price before the ITC on the next solicitation is identical to the first, the cost to Massachusetts consumers would be higher and the cap language would be violated.

Additionally, expected investments in supply chains in Massachusetts have not materialized due to the higher costs of doing business here and the initial concern related to bid pricing. In other states, offshore wind contracts of this magnitude have led to major investments in port cities like those in our south coast.

The price cap language can be modified without significant harm to consumers

Modifications to the cap does not necessarily mean large increase in offshore wind costs, particularly if higher costs mean more investments here.

First, competition for the new solicitation is already fierce. Numerous additional companies are likely to bid on the next solicitation - keeping costs in check.

Second, since the major change to the bidding price is likely whether the ITC is available and at what amount, allowing an adjustment may not necessarily increase costs. Should the ITC in this solicitation be available at the same rate as the first, the prices should increase only modestly.

The fact is that the prices in the first solicitation were suppressed due to the ITC. *However*, our support for such change is predicated on the requirement that should the ITC be restored (or increased as some federal proposals have indicated), those savings which accrue to the developer be passed to the ratepayer, even if such change occurs retroactively after the contracts have been signed.

Third, investment in Massachusetts by winners needs to occur and will benefit everyone. While missing out on some investments from the first solicitation may be a minor blow, from here on Massachusetts cannot stand by and see these investments go elsewhere. Tying contracts to local investments are changes that were not contemplated when the cap was instituted.

Fourth, the Massachusetts DPU must still determine these contracts to be in the interest of consumers. If the price increase is too high or not cost-effective, these projects can be denied. We now know the prices for offshore wind in neighboring states and those can be a guidepost to make sure that Massachusetts is getting the best deal.

Finally, Massachusetts is planning many more solicitations after this next one and Massachusetts will be stepping back and reviewing all the data to see if permanent changes are needed in the solicitation process. Modifying the cap for this solicitation may give Massachusetts more understanding as to the real price for offshore wind and help us make changes for the next rounds.

AIM does not want higher prices for electricity, but these issues were not recognized in discussions during drafting of the 2016 law. Outdated laws should not inhibit our goals – in some cases they need to change as more information becomes available.

The major offshore wind companies have each shown a commitment to Massachusetts and given the right opportunity will make hundreds of millions of dollars in investments here as well as provide us a path to sustainability. Offshore wind, done right, is a win-win for Massachusetts.

We urge you to support changes to the price cap that accomplish these goals.

Thank you for allowing us to make these comments. Should you have any questions please do not hesitate to contact me.

Sincerely yours,

A handwritten signature in black ink that reads "Robert A. Rio". The signature is written in a cursive, flowing style.

Robert A. Rio, Esq.
Senior Vice President and Counsel
Government Affairs