LIPA
Long Island Power Authority

Michael Deering
Director of Customer Service Oversight
and Stakeholder Relations
(516) 222-7700

July 9, 2018

Mr. Thomas Bjurlof
thomas.bjurlof@outlook.com

SENT VIA E-MAIL

Dear Mr. Bjurlof,

I received your e-mail to LIPA's CEO Tom Falcone dated July 5, 2018. Mr. Falcone asked me to reply on his behalf.

Your e-mail concerned the 90-megawatt South Fork Offshore Wind Farm, which will be in service by the end of 2022. You asked how LIPA determined that the price quoted by Deepwater Wind was "fair and competitive" if Deepwater was the only bidder in the South Fork RFP. Second, you stated that you were "...trouble by the secrecy of the pricing. Surely, secrecy of this kind will not be allowed under New York State rules." You further stated that secrecy is "counter-productive since it raises a number of questions about the procurement such as: What methodology was used in the selection process? Was Deepwater's proposal evaluated on its own merits?" And you noted that the quoted "rate impact" was not for the offshore wind farm but a portfolio constructed by LIPA that included the wind farm as one of several components.

To answer your questions, it is important to note that the South Fork RFP, which resulted in the South Fork Offshore Wind Farm, among several other projects, was issued to solve a problem. The South Fork continues to experience electric demand growth due to high levels of residential and commercial development. The electric infrastructure on the South Fork was built at a time when there were fewer and smaller homes and less commercial activity, so it needs to be upgraded to meet the future needs of residents. LIPA estimates those future needs will require the existing transmission infrastructure on the South Fork to be expanded by approximately 170 megawatts of peak capacity by 2030.

LIPA issued a technology-neutral, competitive Request for Proposals ("RFP") to evaluate the many alternatives that could solve the need on the South Fork. That RFP was issued on June 24, 2015. A technology-neutral RFP is a best practice in the utility industry, and LIPA has issued two – the South Fork RFP and the Western Nassau RFP. The State's investor-owned utilities have issued similar requests, which are referred to as "non-wires alternatives," most notably the Brooklyn-Queens Demand Management Program run by ConEdison.

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By technology-neutral, we mean that clean energy technologies, including energy efficiency and demand response, as well as conventional generation, compete with conventional transmission reinforcements to find the least cost solution for all our customers on Long Island. This contrasts with other RFPs whose sole purpose is to secure specific types of energy resources. For more information on the history of the selection of the South Fork Wind Project, please see PSEG Long Island's South Fork RFP website.[1]

The solution LIPA selected for the South Fork involves the South Fork Offshore Wind Farm, two 5-megawatt battery projects, a demand response contract, and transmission reinforcements. From our prior conversations, I know that you were unhappy with our selection of these bidders, as you wished to be a demand response provider on the South Fork but did not participate in the RFP.

The RFP received 21 responses from 16 developers. The 21 proposals included a wide range of technologies, including offshore wind, solar photovoltaic, lithium ion batteries, thermal storage, fuel cells, direct load control, aeroderivative combustion turbines, and reciprocating engines. No single proposal was sufficient to meet the needs of the South Fork. Therefore, the selection methodology, which was reviewed in detail by the Department of Public Service, involved assembling proposals into portfolios, each of which would reduce or defer the need for transmission reinforcements and meet the needs of the South Fork.

The portfolios were then compared based on cost to customers, both to each other and to a transmission-only solution. In doing so, we evaluated not just the contract costs but also the benefits of the various technologies, such as the value of the energy produced based on the time of day, the ability to defer transmission investments, and the value of other power purchases that would be displaced.

We briefed the LIPA Board of Trustees in a public session on both the selection methodology and the net cost of the various portfolios to customers, which cannot be inferred simply by looking at the contract costs, for the reasons stated above. Therefore, this information was available to the public at the time of the South Fork RFP selections. Notably, the selected portfolio of projects provided the least cost to all our Long Island customers – an average of $1.19 per month, which was also less expensive than the transmission-only solution.

Second, the confidentiality provisions for a few commercial terms are standard for all LIPA power purchase agreements and are in the interests of our customers. LIPA runs competitive solicitations among multiple developers and technologies to get the best prices to meet identified needs. Imagine a shopper buying a car. The shopper will get a better price by having many dealers provide a quote for various car models, and by negotiating among the dealers and car makes. The shopper

[1] South Fork Project Website: https://www.psegliny.com/aboutpseglongisland/proposalsandbids/2015southforkrfp

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would not benefit from the dealers sharing their quotes. LIPA is like the car shopper, only we are routinely in the market for power purchase agreements, and a project not selected in one competitive solicitation may be selected on more attractive terms in another. Protecting developers' trade secrets from disclosure to competitors, both the projects selected and those not selected, and protecting the latest price negotiated with a developer for a technology ensures that the next procurement is as competitive as possible. Disclosure of these terms helps the developers, not our customers.

Nevertheless, all commercial terms, including prices have been reviewed and approved by the LIPA Board of Trustees, the New York State Attorney General, and the Office of the New York State Comptroller. The Comptroller's Office reviewed extensive analysis related to how the South Fork RFP projects were selected, and the comparative economics and feasibility of alternative solutions. To your question, our practices fully comply with long-established "New York State rules."

Finally, although, as you noted, Deepwater Wind was the only offshore wind developer to bid into the South Fork RFP, the absence of other wind proposals did not make the RFP non-competitive, as described above.

Since the South Fork RFP was issued, the offshore wind industry has rapidly advanced in the United States, in part due to the award of the South Fork Offshore Wind project. To list a few milestones that have occurred since 2015:

- the Block Island project, the nation's first offshore wind farm, became operational;
- several states including New York, Massachusetts, Connecticut, Rhode Island, New Jersey, and Maryland announced offshore wind commitments, and four have awarded power purchase agreements during 2018; and
- the federal leasing process has advanced considerably, with the Statoil lease awarded by competitive bid and several new lease areas identified for future bidding processes.

The South Fork Offshore Wind project was only the second such power purchase agreement in the country. The recent (mostly 2018) developments in the offshore wind industry do not reflect on the quality or thoroughness of the evaluation of the South Fork RFP, described above, which was concluded nearly two years ago. We expect favorable developments in all types of clean energy technology to continue, which is why LIPA is procuring clean energy in increments over time. The South Fork Offshore Wind project is only 90-megawatts of the more than 800-megawatts of clean energy LIPA expects to procure by 2030.

Sincerely,

Michael Deering

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cc: Thomas Falcone