

US OFFSHORE FIRMS TO AVOID ONSHORE HURDLES

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The United States offshore wind industry has caught a gust of momentum. In contrast, the Texas utility commission recently dropped the 2GW Wind Catcher onshore scheme, which would have been the largest wind project in the United States. This shows the headwinds that the industry is facing onshore to maintain its rate of growth.

Onshore wind faces a challenge, in that places where the wind blows the strongest are distant from the major coastal population centers. Constructing transmission lines to reach those centers over long distances requires approval from multiple governmental bodies and the acquisition of numerous land rights. For example, Clean Line Energy had an ambitious business plan to tackle the multi-state transmission challenges, but it appears to have fizzled.

Further, the politics of many of those windy areas are not necessarily friendly to wind, as shown by Wyoming imposing a tax on wind energy and the Texas utility commission rejecting Wind Catcher.

WHY IS IT DIFFERENT OFFSHORE?

Offshore wind avoids these challenges. First, it can be constructed near the major coastal population centers, so transmission is not much of an issue. Second, the voters and politicians of such coastal states generally embrace renewable energy. Third, the Trump administration has been surprisingly cooperative with respect to granting site leases for offshore wind projects.

Offshore wind is a nascent industry in the United States, with the 30MW Block Island project being the only operational project to date. However, Block Island has performed so well that its lenders have agreed to refinance its debt on more favorable terms.

Vineyard Wind's joint developers, Avangrid and Copenhagen Infrastructure, are capitalizing on the offshore wind opportunity with their



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planned 800 MW project near Martha's Vineyard in the waters of Massachusetts. That project would satisfy half of Massachusetts's current offshore wind target.

Even more ambitious are New Jersey, which has a target of 3.5 GW, and New York, which has a target of 2.4 GW by 2030. The governor of Massachusetts is set to sign legislation doubling its target.

The Massachusetts Department of Energy Resources wrote that it expects Vineyard Wind to provide power at a levelized price of \$65/MWh (in 2017 dollars) over the project's 20-year power contract term, which is an 18% discount to market prices in Massachusetts.

Further, that price is less than half of \$132/MWh in power purchase agreements awarded to two projects off

the cost of Maryland in 2017. Vineyard's economics reflect tremendous progress.

All of the proposals that were submitted to Massachusetts that led to the selection of Vineyard Wind included energy storage (i.e. batteries). Offshore wind has a tax advantage over onshore wind with respect to energy storage.

WHAT DOES THIS MEAN FOR TAX?

The main incentive for wind projects in the US is tax credits. Wind projects have the choice of a \$24/MWh production tax credit (PTC) for electricity sold in the project's first ten years of operation; or an investment tax credit (ITC) equal to 30% of the project's cost.

The PTC is, typically, optimal for onshore wind, while the ITC is generally optimal for offshore wind. The preference for one or the other is a function of the cost of the project relative to the level of production over ten years.

Energy storage does not result in greater generation of megawatt hours, so it results in no greater level of PTC. Energy storage does result in a greater ITC as the ITC is cost-based.

However, storage-only qualifies for the ITC, if it's charged by a project for which the ITC is claimed. Thus, due to the peculiarities of the tax law, it is more favorable economically to combine storage with offshore than onshore wind.

To qualify for the full amount of the tax credits as described above, a wind project must have "begun construction" under a somewhat adaptive but highly technical definition before 2017. Offshore wind developers bringing their experience from Europe may not have taken the steps necessary to do that in 2016.

However, with careful tax planning, they can partner with onshore developers who did so with respect to a project that is no longer advancing and use that status to qualify an offshore project for full tax credits. ■