Review Results of Round 1 Offshore Wind Auction in Japan

Points on Further Improvements

REvision 2022

Part III Direction of the Wind Over the Japan's Sea

2 March 2022

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Results of Round 1 Offshore Wind Auction Akita x 2 and Chiba Choshi

- Following are all bottom fixed, Price (120 points) and Realization (120 points) competition within JPY 29/kwh maximum price (€¢22.3/kWh) 1 Euro = JPY 130

Mitsubishi Corporation Consortium won all 3 sites.

- Akita (Noshiro-shi, Mitane-cho and Ogashi) 478.8MW GE 12.6 MW x 38 JPY 13.26/kWh
- Akita (Yurihonjo-shi) North and South 819 MW GE 12.6 MW x 65 JPY 11.99/kWh
- Chiba (Choshi-shi) 390.6 MW GE 12.6 MW x 31 JPY 16.49/kWh

- Surprisingly low from the beginning but understandable compared to overseas prices with some discount due to low wind speed and immaturity of supply chain in Japan
  - Europe UK 3rd CfD 47 Euro = JPY 6/kWh
  - Taiwan Hai Long II NTD 2.2245 = JPY 9.12/kWh

Points for Improvement for Future Auctions

- 1 More disclosure of auction results for future improvements by competing bidders
  - In airport privatization PFI concession auctions, name of evaluators, summary of business plan, points of divided individual evaluation criteria were also disclosed in public.
  - There is no harm to disclose these information and it benefits for future improvement of proposals.
  - A bidder is informed his own points of divided individual evaluation criteria but not of others.
  - Evaluators will have sound pressure to evaluate fairly and objectively to meet disclosure obligation and explanation requirement
  - How many points were allocated to 2 year advanced COD
  - How many points were allocated to 10 year experience of offshore wind construction management skill

- 2 Evaluators should be rotated to gather wider evaluation view point

- 3 Acceptable Power Sales Structure should be explained in advance, i.e. Special Wholesale Supply (*Tokutei Oroshi Kyokyu*) and payment of premium from a retailer to the project SPC in addition to FIT from a grid company is allowed in the Auction Guideline (*Kobo Senyo Shishin*)

- 4 Consider Pre-Qualification (PQ) Selection System
  - To reduce burden of bidders, such as Akita 2 sites with 5 bidders each
  - Select 3 bidders in PQ stage with realization points in mind and then have price competition in the final selection

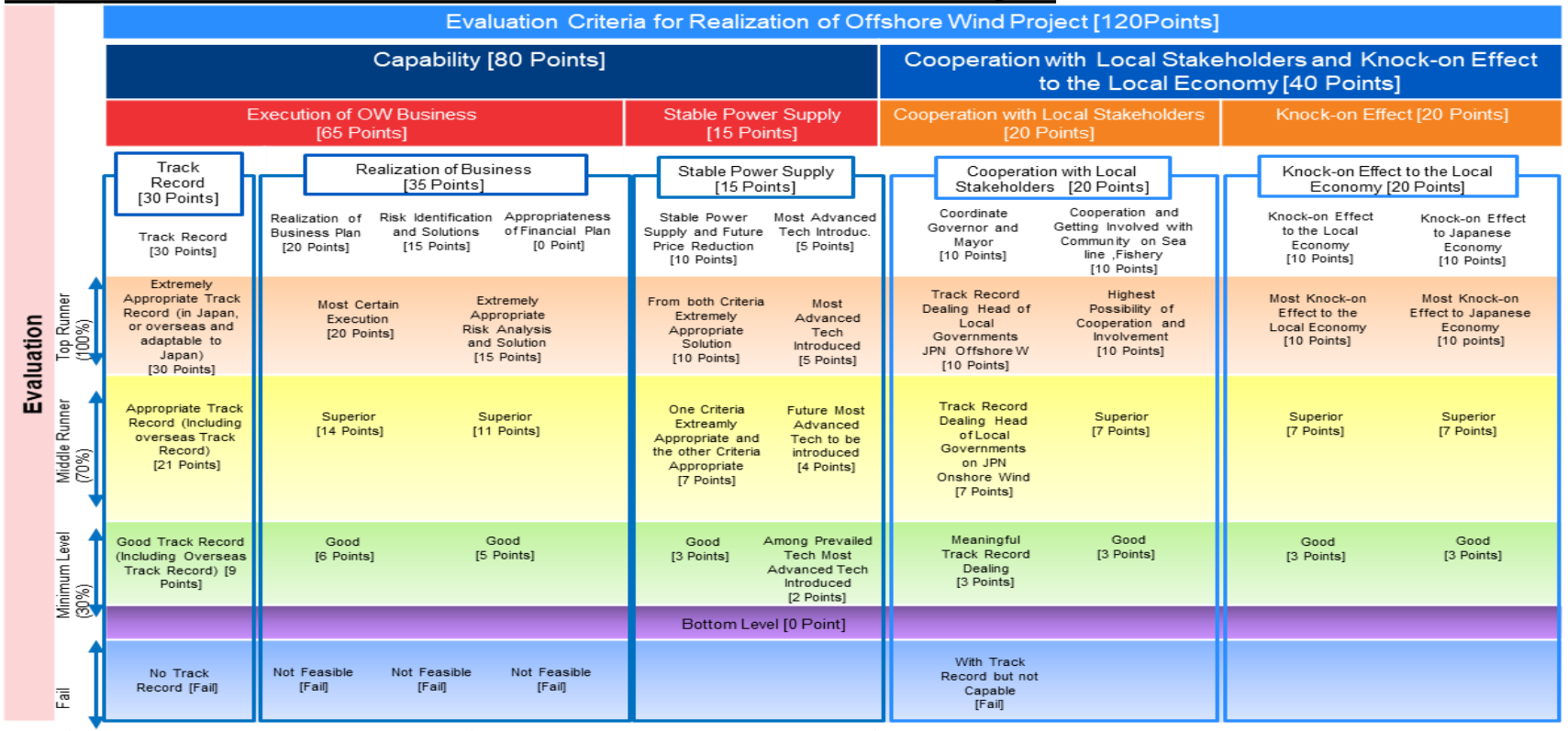
Favorable Policy Framework for OSW Expansion

- 1 Steady annual auction for 10 to 20 years to show pipeline (including floating offshore wind) to developers, investors and supply chain key players such as turbine manufactures, BOP manufactures, and parts manufactures and EPCI contractors
  - For this purpose, local stakeholders discussion and co-operation with fishermen union is key for success
  - For this purpose, to show success cases of Round 1 development in Japan and overseas success cases

- 2 More government budget for the Centralized Auction System which needs detailed boring survey to reduce geotechnical risk
- 3 Consider to include grid to the Centralized Auction System
- 4 Speed up HVDC undersea grid from Hokkaido to Kanto area to exploit huge wind reserve in Hokkaido
- 5 Create battery business cash flow to fly utility scale battery business to stabilize grid situation to absorb more renewable power into grid
- 6 Start discussion on long term occupation right for expansion to EEZ for floating offshore wind

Auction Point System

Point Allocation to Evaluate Realization of Offshore Wind Project



Top left part, “Limited to Track Record in Japan” in Goto Island auction was relaxed in Akita and Choshi auctions and it is now said “Limited to Track Record in Japan etc. which take account of Japanese natural and social situations. This means a bidder who has overseas track record which take into account of Japanese natural and social situations may be selected as a top runner. See Q&A #416 dated 27 November 2020

Renewable Energy Sea Area Use Law)

What are the key characteristics of the new law?	
Area subject to lease	▪ General waters (i.e. non ports and harbors areas, Port Law provides port offshore wind designation 30 years separately) EEZ is not included yet.
Procedure to grant lease	▪ Two-step process: 1. Promotion Zone designation 2. Auction Process, 1GW/year and average size is more than 350 MW
Lease period	▪ Maximum 30 years (20 year FIT PPA + construction and decommissioning periods)
Feed-in Tariff	▪ FIT rate granted by reverse auction and maximum price is JPY 29/kWh €¢22.3) ▪ Power is sold to a grid company with high credit (monthly payment and no default) ▪ FIT system is sustained by electricity users FIT surcharge payment (USD 10/month for average household in 2021)
Award Criteria	▪ Points system, based on supply price (120 points)/bidder capability (120 points) (i.e. ability to deliver and operate project)

Speaker Profile

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Naoaki ("Nick") Eguchi is Co-head of the Tokyo office's Renewable Energy Group. Nick's practice focuses on Renewable Energy, Project Finance, Infrastructure PPP/PFI. He was a special member of the Japanese Government Cabinet Office (*Naikaku-fu*)'s PFI Promotion Committee (2010 – 2020). Nick is a member of the Japan Wind Power Association (JWPA) since 2006 and the leader of Offshore Wind Finance Task Force since 2020 and co-authored “Offshore Wind Finance Guide Book” vol.1 2021.

Representative work for Nick includes:

(a) more than 1GW Offshore Wind projects on Port Offshore Wind projects (220 WM and 150 MW) and Round 1 Auction advice,

(b) 17 onshore wind power projects totaling more than 300 MW.

(c) advised a Japanese utility company for their due diligence and SPA negotiation of European offshore wind project.

(d) on solar power project finance of Marubeni's 82 MW Oita No. 6 solar power plant, SB Energy / Mitsui & Co's 111 MW Tomatoh and 43 MW Yonago solar power plants and Renova's 40 MW Futtsu solar power plant among more than 250 projects totaling over 3,000 MW last 9 years.

(e) on biomass power, financing of 75 MW x 3 and 50 MW x 5 biomass power projects in total more than 500 MW.

(f) Nick was involved in project finance (1) to Universal Studios in Osaka financed by SMBC, the Development Bank of Japan and other syndicated banks (USD 1.1 billion), (2) to Soma Port of 1, 180 MW Gas-to-Power (USD 1.3 billion) for JAPEX, Mitsui & Co, Osaka Gas and other sponsors and, (3) to Fukushima 1,080 MW IGCC power project (USD 2.65 billion) for MUFG Bank and other syndicated banks, (4) to Hokkaido 7 Airports PPP project (USD 3.32 billion) for sponsors.