

Alert | Energy & Natural Resources



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Winds of Change: Proposed Revisions to Japan's Offshore Wind Public Auction Process

In December 2021, consortia led by Mitsubishi Corporation won the rights to develop all three projects offered in Japan's first major offshore wind public auction with an aggregate capacity of approximately 1.7 gigawatts (GW). Mitsubishi's success was underpinned by tariff prices well below the ceiling price of 29 yen per kilowatt-hour. This auction result is likely to have led to concerns amongst international developers regarding the low tariff pricing. Media reporting also suggests criticism from businesses about the lack of clarity around the bid process.

However, with Japan targeting 10 GW of offshore wind by 2030 and 45 GW by 2040, a more internationally competitive environment with better transparency to the auction process and regulatory regime is needed. The relevant authorities appear to be responding, with media reporting proposed new rules for future public auction processes:

- Single bidder / consortium prevented from bidding for more than 1 GW of capacity
- Higher weighting in the assessment given to the speed at which a project can be developed
- Target price to be disclosed prior to submission of bids, with bids below the target price given an equal score in the assessment

The above changes are intended to draw a wider range of bidders and encourage the faster development of new infrastructure and local market participation. While industry players may receive these changes positively, potential concerns include:

- Whether the 1 GW capacity limit provides international developers with sufficient scale to justify the required investment, especially considering the necessary grid upgrades and port facilities fit out. While this is a legitimate concern, the proposed cap is significantly higher than the 500 MW capacity limit (with potential step-up of additional 100 MW) that applies to the Taiwan Round 3 Auction later in 2022.
- Whether the change to the pricing assessment will result in all developers bidding at the target price, effectively making the pricing assessment meaningless. Given that pricing accounts for 50% of the assessment, increased focus may turn to other areas of the assessment, such as local content and commitment to more aggressive construction timelines.

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