Testimony of Randall Luthi
President, National Ocean Industries Association
To the
U.S. House of Representatives Committee on Natural Resources
Subcommittee on Energy and Mineral Resources
At the hearing on
"Legislative Hearing on Offshore Renewable Energy Opportunities"
June 26, 2018 at 10:00 a.m. in 1324 Longworth HOB
Specifically focusing on

Discussion Draft H.R. ___ (Rep. Madeleine Bordallo of Guam) To amend the Outer Continental Shelf Lands Act to apply to territories of the United States, to establish offshore wind lease sale requirements, to provide dedicated funding for coral reef conservation, and for other purposes. Offshore Renewable Energy for Territories Act.

H.R. 5291 (Rep. Niki Tsongas of Massachusetts for herself, Rep. Raul Grijalva and Rep. Bill Keating) To establish an offshore wind career training grant program, and for other purposes. Offshore Wind Jobs and Opportunity Act.

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- Testimony for the Record –
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Chairman Gosar, Ranking Member Lowenthal, and Members of the Subcommittee, good morning, and thank you for the opportunity to testify today. My name is Randall Luthi, and I am the President of the National Ocean Industries Association (NOIA). I appreciate the opportunity to offer NOIA's views on the future of offshore wind in the United States before the Committee today.

Comprised of approximately 250 member companies, NOIA is the only national trade association representing all segments of the offshore energy industry. For over 45 years, NOIA has been committed to ensuring a strong, viable U.S. offshore energy industry capable of meeting the energy needs of our nation in an efficient, safe and environmentally responsible manner. NOIA member companies are engaged in offshore wind energy development, as well as traditional oil and natural gas exploration and production. Our member companies are proud that they have been able to contribute to America's energy security, and we want to be able to continue providing that service for generations to come.

<u>NOIA and Wind Industry</u>

NOIA has served as the trade association for offshore energy for 46 years, representing the myriad of companies that have been exploring and developing energy from the Outer Continental Shelf. Since our beginning, NOIA has represented a wide spectrum of companies, including operators, finance, seismic, service, law firms, and now wind developers and support companies. That diversity of companies and energy sources makes us unique from other trade associations.

It should come as no surprise that NOIA has embraced the expansion of offshore wind development in the United States. Like oil and gas, wind is an energy source. Offshore wind developers and offshore oil and gas developers share the same tremendous technical challenges of working in the offshore environment, and they demonstrate the same compatibility with fishing, shipping and other ocean users. Both industries also share the ability, when allowed to operate, to create jobs, provide energy for US consumers and advance technological innovation..

The United States needs more energy

By every measure, the United States is a significant consumer of energy and over the last decade we have made tremendous strides in producing more energy from oil and natural gas, while growing our renewable energy sources. However, the U.S. may see the closure of thousands of megawatts of energy production in the nuclear and coal facilities which must be replaced with new sources of energy. The leading contender for this replacement is natural gas: it is affordable and plentiful domestically, but has significant constraints getting delivered to the Northeast region. This has resulted in large volumes of LNG shipments to the US from foreign countries, including Russia. We are in a unique position to develop offshore oil, gas and wind.

However, there are alternatives, particularly in the Northeastern United States. We could build massive transmission lines and grow our dependence on Canadian energy sources, like natural gas or hydropower. Or we could build our own energy domestically, producing our resources in the offshore space here.

Offshore wind is a homegrown power source that can help us achieve not just energy independence and security, but energy dominance in the global economy. This industry is growing throughout the world because it simply makes sense. Oceans are big, with lots of space and the wind is a consistent endless resource. As we develop this power source for our homes and businesses, we can break our bonds on foreign energy. Failure to lead and aggressively develop will prompt nations like China to grab the lead and steal our opportunity to become the leader in offshore wind energy.

Offshore wind power presents a significant business opportunity that has attracted major corporations including international oil and gas firms. Together they have invested hundreds of millions of dollars in US offshore wind in the last few years. For workers, offshore wind is projected to support 160,000 US jobs by 2050. Offshore wind power is trending, cutting-edge and BIG offshore energy technology. Building a US offshore wind industry will draw on US offshore oil and gas technology, and it's becoming clear that offshore wind technology can also benefit offshore oil and gas firms. It's another example of synergies US offshore oil and gas and US offshore wind can leverage in a seamless US offshore energy industry.

Offshore wind benefits from a great connection with demand, as 53% of the nation’s population live in coastal areas, where all energy costs tend to be higher due to land restrictions and transmission constraints. Abundant offshore wind energy resources have the potential, if we can develop it, to supply immense quantities of renewable energy to major coastal cities, like New York, Boston and San Francisco. Synergies in Industries

Similar to the evolution of offshore oil and gas, the first offshore wind facilities are being built in shallower water. This technology is more cost effective and reduces the distance for transmission.

NOIA member company Deepwater Wind, whose facility at Block Island off of Rhode Island will be highlighted today, was the first U.S. offshore wind farm. Their installation was aided by two other NOIA members, Gulf Island Fabrication and Montco Offshore. While Gulf Island built all five foundations and Montco heavy lift vessels aided in transportation and installation.

These synergies between industries are no accident. The technical and engineering experiences from the offshore oil and gas industry are incredibly applicable to the construction and development of offshore wind farms. There is also an immediate tie in between oil and gas and wind in the physical nature of construction. Building anything requires energy, and that energy is generally from oil, and in some cases, natural gas. According to a piece published in Forbes, installing the foundation of a single offshore turbine can consume nearly 19,000 barrels of marine fuel during construction. Globally, offshore wind farms often have over 100 wind turbines, meaning that building them requires almost 2 million barrels of fuel just to power the ships involved in construction.

In addition to driving the foundations into the seabed, offshore wind farm construction and maintenance activities include laying export and array cables; port construction; offshore substation installation; turbine installation; and crew transfer for the 20-year lifespans of these installations. These activities are completed using vessels that run on oil or liquefied natural gas. There are about 80 LNG fueled ships expected to be constructed over the next three years. While that is the immediate relationship, there is more in common.

Both industries have faced significant push back in the form of NIMBY opposition. Frequently, headlines from the NY Times, Guardian, ABC, the Atlantic, etc… read that people don't want to see turbines or oil and gas platforms. There are pushes for 25 mile buffer zones, dramatic complaints about potential conflict with fishing, the Department of Defense, the Coast Guard, shipping channels, or the FAA, in addition to opposition to seismic work and endless legal challenges.

Over the last few years, we have witnessed continuous efforts to derail offshore wind projects, including efforts to halt the Cape Wind Project off of Massachusetts, which ultimately succeeded in forcing a valid OCS leaseholder to abandon the project after millions of dollars were invested. We are now seeing more challenges to legitimate leaseholders, including efforts to establish 25-mile buffer zones off of Maryland. These efforts violate leaseholder rights; threaten investment and potentially financing and construction. Just this year, another effort surfaced to force an additional two-year study of offshore wind farms onto the National Oceanic and Atmospheric Administration. If successful, this could result in a two-year halt to offshore wind development nationwide. I am submitting with my testimony letters from NOIA to Congress on these issues.

These amendments are clear efforts to stop the development of offshore energy. Those fights that violate the "sanctity of contracts" between the leaseholders and the federal government threaten our ability to bring investment into the US. Sadly for the taxpayer, each one of these fights cheapens the value of the OCS by driving down certainty and leaving investors with less confidence in the American system. Simply said, it would be bad practice for Congress to come in and attempt to change conditions or contracts after they are signed. We would call on Congress to consider the impact on leasing, investment and job creation before agreeing to measures which would hinder that development.

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We applaud the legislation for considering a reexamination of the MOU between DOI and DOD for leasing in the offshore. We have seen the effectiveness of that agreement work in the OCS of the Gulf of Mexico, however in new areas like the Atlantic and Pacific there have been hurdles in getting clearance for leasing. Congress working to encourage the two agencies to work more closely to find common ground for leasing is critically important to building a larger offshore energy future.

NOIA has been working to promote a more focused offshore wind leasing process at BOEM through the Royalty Policy Committee established by the Secretary of the Interior. NOIA has supported a recommendation to ensure a consistent offshore wind supply through leasing activity at BOEM.

That recommendation, which was adopted by the RPC at the June 6th meeting, asked the Secretary to plan a wind leasing program to bring at least 20 additional gigawatts of offshore wind to the United States over the decade beginning in 2024; this is on top of what is currently included in the planned leasing program being considered by BOEM. This goal shall be achieved by leasing at least two gigawatts annually through at least four lease sales on the United States Outer Continental Shelf (OCS) of at least 500 megawatts each. Due the legitimate concern of other ocean users, it also directs a significant effort at stakeholder education prior to beginning the program. The recommendation as adopted is included with my testimony.

Experience from Europe has shown that an industrial commitment of two gigawatts of development annually is necessary to establish a significant and competitive supply chain for the offshore wind industry. This level of federal commitment, planning and investment of resources by the Federal Government, will spur follow-on investment from States, industries, and researchers nationwide. Too often major energy projects, particularly in new areas, suffer from a "chicken and the egg" syndrome. For offshore wind this means no leasing, without power contracts, but no power contracts without leasing. By ensuring that the Federal Government is making an active effort to plan, prepare and initiate leasing of areas of the OCS, the Department of the Interior creates an important benefit of signaling that the Federal resources are open and available for investment and development.

Considering that a single lease can take as long as five years to prepare and plan prior to an actual lease sale, initiating a plan now to begin in 2024 puts us right on schedule for kick starting an American energy future with offshore wind throughout the U.S. OCS.

Finally, with regard to bidding credits, in the beginning of the OCS leasing program, BOEM built a leasing structure based on multiple factor auction (MFA) arrangements in lease sales to ensure that successful bidders were able to achieve successful wind development. While this process worked in some cases in the early development, today's offshore wind industry has reached the point where greater competition means BOEM can focus on maximizing return to the taxpayer. It should be our goal to provide a statutory and regulatory framework where bidding credits are no longer deemed necessary.

Awarding leases to companies with the highest bid removes any doubt about transparency and avoids criticism of how BOEM has determined to allocate credits or which factors BOEM believes to be worth non-monetary rewards. As an industry, wind producers have built models of Community Benefits Agreements, Power Purchase Agreements and other factors that are important and will continue to be pursued by companies regardless of whether credits or other incentives are offered, because it makes good business sense for companies to work with their partners. The offshore wind industry has a track record of working across the board with stakeholders and will continue to do so regardless of credits. While we recognize that the immediate elimination of bidding credits and other factors from leasing may be a shock to the system, we encourage Congress to urge BOEM to consider doing so.

However, if BOEM cannot, or will not, eliminate multiple factor bidding, there should be some clear conditions that BOEM considers unacceptable as factors to include. BOEM's own study, "Multiple Factor Auction Design for Wind Rights," included the recommendation that:

> "Crucially the criteria need to be transparent (documented ahead of time), objective (must not require subjective evaluation), simple (ideally, it should have a clear "yes" or "no" answer), and verifiable (BOEMRE can ask for evidence to support the answer)." [1]

We suggest adding "competitive" to these conditions. Any condition that BOEM considers in a multiple factored sale should be competitive and available to any bidder in the lease sale. The development of non-competitive clauses for factors which may be considered by BOEM as "creditable" in lease sales should be unacceptable. If any factor considered for a lease is deemed non-competitive or includes a non-competitive clause, BOEM should not allow that factor to be used. Setting a system where bidders must rush to game non-competitive agreements with various communities, agencies or institutions prior to leasing in order to gain fractional benefit harms taxpayer return and sets poor precedent for development.

In addition, BOEM's own multiple factor study recommended, "that the total bid discount be no more than 25%," however we consider that number to be too high. We support

[1] Multiple Factor Auction Design for Wind Rights Authors: Lawrence M. Ausubel Peter Cramton https://www.boem.gov/uploadedFiles/BOEM/Renewable_Energy_Program/Regulatory_Information/AusubelCramtonPaper2.pdf

the recommendation in the legislation that the level be set no higher than 10% of potential credits and only then if clearly identified under the conditions above: transparent, objective, simple, verifiable and competitive.

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NOIA supports the draft legislation expanding the Outer Continental Shelf Lands Act to the United States Territories. NOIA has been working to highlight this discrepancy and urges Congress to enact this reform. At the recent Royalty Policy Committee meeting on June 6th, the RPC adopted a recommendation that the Secretary push Congress to enact this change. A copy of that recommendation is included with this testimony.

There is tremendous wind energy potential off of the US territories and real need for electricity. In addition, the Defense Department build up on Guam and electric grid rebuilding of Puerto Rico and other islands damaged by last year's storms, provide tremendous opportunity to build offshore wind energy into the system. Congress would be foolish to allow these opportunities, and desperate needs, to pass without giving this simple authority to BOEM and allowing energy leasing to occur.

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While we haven't deeply studied the Tsongas bill being considered by the Committee today, there have been challenges in the offshore wind workforce dynamic. While much of the work in the offshore space translates between oil and gas industry supply and service companies to offshore wind work, there are certain specialties within the offshore wind turbine and industry workforce that need more domestic growth. Additionally, there have been problems securing visas for experienced workers who can train and do the work domestically while our workforce here grows.

CLOSING

In closing, we face a choice, and it is entirely our choice. Offshore wind, oil and gas present a chance to ensure our energy security in a dangerous world. Today we are discussing wind. Do we grab this opportunity to make our nation more secure and energy independent, or do we yield to those opposed to energy development and NIMBY voices opposed to energy development?

We have entered a new area of cooperation, opportunity and synergy between the offshore oil and gas and wind industries. U.S. service companies with decades of experience in the oil and gas industry are available to build, install and maintain wind facilities. We have

ample space and resources in the U.S. OCS and we have American's desperate to work and supply energy. It isn't enough that Congress give words to this opportunity. We need decisive action. While it is appropriate to thank the thousands of men and women who get up everyday, travel leagues of miles offshore to work, and face the dangers of climbing tall poles and installing massive turbines, it requires Congress to actively encourage this opportunity for the betterment of our nation, our future and our world.

Thank you again for the opportunity to testify before your Subcommittee, and I would be happy to answer any questions.