Japan Offshore Wind Report (2nd Edition): At the Crossroads of Key Decisions

November 2019
Offshore wind in Asia has progressed rapidly in the past 12 months. Governments have strengthened the regulatory environment through introducing new legislation, giving more certainty to developers and financiers. This has already resulted in significant investment in new markets and means that, while some challenges remain in certain markets, the outlook in Asia looks increasingly positive.

John Maxwell, Asia Head of Projects, Tokyo
Executive summary

Significant progress has been made since our previous publication. The first round of public auctions under the Act on Promotion of Use of Sea Areas to Develop Marine Renewable Energy Facilities (“Marine Renewables Energy Act”) are expected to start in the first half of 2020 and the government authorities are moving fast to achieve their policy targets (see the timetable set out in Appendix 1).

The key updates are as set out below.

> The Marine Renewables Energy Act and the relevant enforcement orders and regulations thereto came into effect on 1 April 2019. See section 1.1.

> The basic policies prepared by the Prime Minister (the “Basic Policies”) under the Marine Renewables Energy Act set out, among other things, the principles for the designation of certain areas of territorial waters as marine renewable energy facility development promotion areas (the “Promotion Areas”). These Basic Policies were approved and published by the Cabinet on 17 May 2019. See section 1.2.

> The Guidelines on Designation of Marine Renewable Energy Facilities Development Promotion Areas were published in June 2019 by the Ministry of Economy, Trade and Industry (“METI”)’s ANRE1 and the Ministry of Land, Infrastructure, Transport and Tourism (“MLIT”) following the Basic Policies. The guidelines set out 6 key criteria and certain factors to be considered in designating the Promotion Areas. See section 1.3.

> On 30 July 2019, METI and MLIT selected 11 areas that are at a certain preparatory stage and, amongst those, the following 4 areas were selected as potential promotion areas. See section 1.3 for details, as well as Appendix 2 which identifies the 11 areas on a map:

   i. Noshiro City, Mitane Town and Ojika City, Akita Prefecture;
   ii. Yurihonjo City, Akita Prefecture;
   iii. Choshi City, Chiba Prefecture; and
   iv. Goto City, Nagasaki Prefecture.

> METI/ANRE, MLIT, the governor of the relevant prefecture, the Minister of Agriculture, Forestry and Fisheries, the mayor of the relevant local government, representatives from the fishery industry and academics formed a council (the “Council”). The relevant Council’s first meeting was convened on 8 October 2019 (for areas in (i) and (ii)), 10 October 2019 (for area in (iv)) and 18 November 2019 (for area in (iii)).

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1 The Agency for Natural Resource and Energy (“ANRE”) is part of METI.
In June 2019, METI and MLIT published the guidelines for implementation of the public auction process (the “General Sea Areas Public Auction Implementation Guidelines”). Among other things, these provide detailed guidance on the evaluation criteria. There will be two parts to the evaluation – the first will relate to pricing of the bid and the second will be a qualitative evaluation based on the feasibility of the project. Initially, both of these sections will have 120 points at play, totalling 240 points for the overall assessment. The actual auction protocol for each Promotion Area will be set out in the guidelines for the public auction process (koubo senyou shishin) (the “Public Auction Guidelines”) and the details of these Public Auction Guidelines are currently under discussion – including the granting of an “option” in favour of an existing developer to match the lowest bid price on the condition that it provides the necessary information to the relevant authorities. See sections 1.4, 1.5, 1.6 and 1.7.

The industry in general has identified two areas which may be potential bottlenecks: (i) restrictions on the use of foreign vessels, and (ii) construction and lease of port infrastructures. Both have been under discussion for some time and, with regards to the latter, the Cabinet approved a draft bill on 18 October 2019 that proposes to amend the Port and Harbour Act (and approved by the lower house in November 2019). See section 2.

It is fair to say that we are at a juncture where important political, regulatory and strategic decisions are being made. Striking the right balance between (i) energy cost efficiency and (ii) local/national economy contribution will be the key to achieve success.
Regulatory Update
1 Regulatory Update

To achieve the government’s energy policy and 2030 energy mix target, the Marine Renewables Energy Act was approved by the Diet on 30 November 2018 and promulgated on 7 December 2018. The purpose of the Marine Renewables Energy Act is to empower and require the state to engage and co-ordinate with the public and existing stakeholders in order to allow long-term occupation of a particular area of the sea for the purposes of renewable energy projects. The Marine Renewables Energy Act applies to general territorial waters (not the exclusive economic zone) except for areas governed by, _inter alia_, the Port Harbour Act. See Appendix 3.

1.1 Enforcement Orders and Enforcement Regulations

1.1.1 On 15 March 2019, the Cabinet approved two enforcement orders (sekourei) in respect of the Marine Renewables Energy Act, which provide for the following:

i. effective Date of the Marine Renewables Energy Act: 1 April 2019;

ii. sources of renewable energy: wind (tidal not included);

iii. altitude and depth of the occupancy permit area: 315 meters above sea level and 100 meters below sea bed;

iv. activities permitted in the promotion area: activities for the operation and maintenance of the facilities;

v. activities restricted in the promotion area:
   a. excavation or cutting of the sea bed or any activities which change the topographical features of the sea bed; and
   b. disposal of waste as designated by MLIT per promotion area;

vi. Occupation period:
   a. facilities and structures that can be easily transported or removed: five years;
   b. renewable energy facility in respect of the approved auctioned occupancy plan: 30 years; and
   c. other occupancy: 10 years; and

vii. Feed-in-tariff cap: the Ministers of METI and MLIT will need to announce the ceiling amount (cap) for the first round of public auctions.³

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² The Enforcement Order Providing for the Effective Date of the Act on Promotion of Use of Sea Areas to Develop Marine Renewable Energy Facilities (海洋再生可能エネルギー発電設備の整備に係る海域の利用の促進に関する法律の施行期日を定める政令) and the Enforcement Order of the Act on Promotion of Use of Sea Areas to Develop Marine Renewable Energy Facilities (海洋再生可能エネルギー発電設備の整備に係る海域の利用の促進に関する法律施行令).

³ The proviso of Article 14, Paragraph 3 of the Marine Renewables Energy Act does not apply until the earlier of (i) the announcement of the feed-in-tariff of the first selected business operator and 6 December 2020.
1.1.2 On 29 March 2019, two enforcement regulations were approved and published. These aim to regulate, inter alia:

i. the use of the official gazette (kanpou), the internet and other means for publication of the Potential Areas (as defined in 1.3.2 below) and selected Promotion Areas;

ii. the means of designating Promotion Areas ((i) through the use of coordinates or reference points ((a) distance from certain facilities or structures or (b) the combination of latitude and longitude) and (ii) with maps or charts);

iii. the requirement of obtaining views of two or more academics when determining: (i) the evaluation criteria, and (ii) the selection of successful bidder;

iv. the safety measures to be put in place, taking into account the natural conditions, weight of the facilities, water pressure, waves, earth pressure, wind pressure and measures against earthquakes and collision with floating objects;

v. the means of increasing visibility and the taking of appropriate measures to ensure safe navigation of vessels;

vi. requirements of scheduled and unscheduled maintenance and inspections;

vii. retention of documents relevant to operation and maintenance;

viii. minor changes in the Occupancy Plan (as defined in 1.4.2 below) which do not require re-approval from the Ministers of METI and MLIT (re-scheduling of the commencement or completion of construction not exceeding three months);

ix. items to be set out in the application form in respect of the Occupancy Plan;

x. occupancy fees, and sand and earth collection fees, which will be determined by the Minister of MLIT having regard to rent and collection fees in the vicinity (penalty of five times the unpaid amount for any fraudulent non-payment and 10.75% of delinquency for any non-payment).

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4 Enforcement Regulation on Promotion of Use of Sea Areas to Develop Marine Renewable Energy Facilities (海洋再生可能エネルギー発電設備の整備に係る海域の利用の促進に関する法律施行規則) (the “Enforcement Regulations”), Ministry of Land, Infrastructure, Transportation and Tourism Enforcement Regulation on Promotion of Use of Sea Areas to Develop Marine Renewable Energy Facilities (国土交通省関連海洋再生可能エネルギー発電設備の整備に係る海域の利用の促進に関する法律施行令) (the “MLIT Enforcement Regulations”).

5 Article 1, Paragraph 1, Item 1 and Article 2, Paragraph 1, Item 1.

6 Article 1, Paragraph 2 and Article 2, Paragraph 2 of the Enforcement Regulations.

7 Article 3 of the Enforcement Regulations.

8 Article 5, Paragraph 1, Item 1 of the Enforcement Regulations.

9 Article 5, Paragraph 1, Item 2 of the Enforcement Regulations.

10 Article 5, Paragraph 2, Item 1 of the Enforcement Regulations.

11 Article 5, Paragraph 2, Item 2 of the Enforcement Regulations.

12 Article 7 of the Enforcement Regulations.

13 Article 1 of the MLIT Enforcement Regulations.

14 Article 2 of the MLIT Enforcement Regulations.

15 Article 3 of the MLIT Enforcement Regulations.

16 Article 12 of the MLIT Enforcement Regulations.
1.2 Basic Policies

In accordance with the Marine Renewables Energy Act,\(^{17}\) the Prime Minister prepared a draft of the Basic Policies, setting out:

**The purpose**

Contributing to (a) the sound development of the national economy and society; and (b) the stabilisation and improvement of the citizens’ lives through (I) the active development and use of territorial waters, and (II) the transition to renewable energy as the long-term, stable and primary source of power.

**Specific targets**

(a) Long-term, stable and efficient generation, (b) balancing interests with existing stakeholders, (c) impartial, fair and transparent implementation of the Marine Renewables Energy Act, and (d) systematic and continuous development of marine renewable projects (and therefore supporting sound development of the industry and supply chains).

**Supporting government policies**

In relation to the **State**: (a) provision of information (e.g. building and/or upgrading of port facilities), (b) supporting connectivity to the grid, optimisation of the existing grid and upgrading to the next-generation transmission network, (c) reducing the lead time for EIA, and (d) and research and development of new technology.

In relation to **local governments**: (a) provision of information on permits, and (b) provision of information to the existing stakeholders.

**Designation of Promotion Areas**\(^{18}\)

Basic principles for the designation of Promotion Areas are: (a) conformity with the standards set out in the Marine Renewables Energy Act, (b) impartial, fair and transparent procedures for the designation process, (c) a systematic and continuous process for the designation of Promotion Areas, and (d) coordination with the relevant Ministries, local governments and relevant Council\(^{19}\). The Basic Policies emphasise the importance of communication with existing stakeholders and taking into account the opinions of the local community and existing stakeholders. Anything agreed with the Council will need to be reflected in the Public Auction Guidelines.

**Coordination with other government policies**

Coordination with (a) the fishery industry, submarine telecommunications cables businesses, natural resource projects, tourism and cruising businesses, (b) preservation of the marine environment\(^{20}\), (c) security (consultation with Ministries and other government bodies with respect to vessel passage routes, coastal protection zones, national security and defence, coast guard, aviation and the establishment of safety standards for the generation facilities including earthquake and tsunami resistance standards), and (d) ensuring funds have been secured for an eventual decommissioning.

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17 Article 7 of the Marine Renewables Energy Act.
18 See section 1.3.
19 The Council shall meet upon each major milestone for the relevant project. In principle, the discussion of the Council will be open to the public (see page 5 of the Basic Policies).
20 For example, preservation of National Parks (as defined in the Natural Parks Act) and designated cultural properties under the Act for the Protection of Cultural Properties and carrying out of the EIA.
Based on the Basic Policies, the Ministers of METI and MLIT are entitled to designate Promotion Areas. In June 2019, METI’s ANRE and MLIT published the Guidelines on the Designation of Promotion Areas for the Development of Marine Renewable Energy Facilities (the “Promotion Area Designation Guidelines”). These set out (i) the designation criteria, and (ii) the specific procedures for the designation of Promotion Areas. The designation process for each Promotion Area will be initiated by METI’s ANRE and MLIT and it is expected to be carried out on an annual basis with a view to enhancing the systematic and continuous development. See Appendix 4 for details.

1.3.1 Promotion Area designation criteria

There are 6 key criteria for the designation of Promotion Areas:

- **The use of ports**
  Integral use of the Promotion Areas and ports in their vicinity with capacity to offload and store for heavy loads.

- **Administrative burden and continuous improvement**
  The Ministers of METI and MLIT will endeavour to reduce the administrative burden of bidders and improve the efficiency of the process.

- **Integral use of the Promotion Areas and ports in their vicinity with capacity to offload and store for heavy loads.**

- **Wind and other natural conditions and expected capacity**
  (the Promotion Area Designation Guidelines refer to 7m/s, 30m depth in respect of natural conditions and 350MW as the average capacity per zone in Europe (which implies this would be the benchmark) – the Promotion Area Designation Guidelines provide that such references will be revised and updated to reflect any new developments that follow the implementation of the Marine Renewables Energy Act and/or any new technological innovations).

- **No impact on the vessel passages and ports in the vicinity**
  Avoiding areas in which large vessels frequently pass through, keeping an appropriate distance from any Passage Needing Development or Maintenance and emergency waterways, and not affecting the ability of large-scale vessels to enter into or depart from ports in the vicinity. The Promotion Area Designation Guidelines also require that (a) vessels needed for the construction and operation/maintenance of the offshore wind farm(s) not be hindered or obstructed when discharging their duties and (b) there be sufficient distance between wind turbines.

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22 Namely, the Act on Development of Fishing Ports and Grounds, Ports and Harbours Act, Coast Act, Act on the Preservation of Low Tide Levels and Development of Infrastructure to Preserve and Facilitate Use of Exclusive Economic Zones and Continental Shelf.
1.3.2 Procedure for the designation of Promotion Areas

As a first step, METI and MLIT will need to gather sufficient information to enable them to designate a site as a potential Promotion Area (ゆうぼう くいき) (a “Potential Area”). To ensure that the designation is made in an impartial, fair and transparent manner, METI and MLIT will gather information from Prefectures that are willing to participate in the process. This process will take approximately three months and is expected to be carried out every fiscal year. The first stage for the first Promotion Area started on 8 February 2019.26

Following collection of information from the Prefectures, METI and MLIT will select Potential Areas if the following three conditions are satisfied:

i. existence of a potential site;
ii. the stakeholders are identified and consent is obtained to form a Council (i.e. formation of the Council is feasible); and
iii. the Potential Area is expected to satisfy the criteria for designation as a Promotion Area (set out in section 1.3.1).

No overlap with other areas or zones designated in accordance with other statutes.23

1.3.3 Integral use of the area and the relevant port

There is a base port which (a) will enable efficient installation and operation/maintenance of the generation facilities having regard to the capacity and scale of SEP vessels at the point of designation, (b) has (or is expected to have) (I) pier(s) that is/are capable of offloading international freight and (II) capacity to offload and store heavy loads. When upgrading port facilities, consideration should be given to the possibility of use by multiple projects/developers.

Connection to the grid

If a bidder already has secured grid connection rights by (a) entering into a connection agreement with the relevant utility, (b) the application is accepted by the relevant utility, (c) a successful bidder is determined by a grid connection auction process23, or (d) it is likely that grid connection will be secured by the application of the “connect and manage” scheme.24

No impact on the fishery industry

If the Council expects an impact on the fishery industry, no designation will be made. The Promotion Area Designation Guidelines provide that the consent of the relevant fishery (that is also a member of the relevant Council) will be a condition to the granting of the occupancy permit.

Given certain technical aspects, METI’s ANRE and MLIT will consult with an experts’ panel. This consultation is expected to take one month.

No overlap with fishing ports, ports and harbours, and coastal protection zones

The Promotion Area must not overlap with other areas or zones designated in accordance with other statutes.23

In addition to the key criteria listed above, the preservation of the marine environment, safety considerations (including aviation) and coordination with other governmental policies will also be considered when designating the Promotion Areas.

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23 This process would be carried out by the Organization for Cross-regional Coordination of Transmission Operators and the relevant general transmission and distribution business operator. Grid connection auctions have been carried out since 2016.
25 As defined under the Ports and Harbours Act.
26 https://www.enecho.meti.go.jp/category/saving_and_new/new/information/190208a/
On 30 July 2019, METI and MLIT selected 11 areas that are “at a certain preparatory stage” (see Appendix 2) and amongst these, the following four areas were selected as Potential Areas:

i. Noshiro City, Mitane Town and Ojika City, Akita Prefecture;
ii. Yurihonjo City, Akita Prefecture;
iii. Choshi City, Chiba Prefecture; and
iv. Goto City, Nagasaki Prefecture.

1.3.3 For the Potential Areas, METI’s ANRE and MLIT will immediately (i) commence preparations for forming the Council, and (ii) start conducting surveys on geological and wind conditions of the relevant areas. The formation of, and consultations with, the Council, are meant to allow stakeholders to voice their opinions on the potential designation of the Promotion Areas. This stage is expected to take three months, but it might take longer. Concurrently with the Council meetings, METI’s ANRE and MLIT will conduct further surveys on the geological, wind, wave and seabed conditions and make enquiries to local authorities about the fishery industry, national security and defence, and the marine environment.

1.3.4 After the processes set out in sections 1.3.3, an experts’ panel meeting will be held to consult on the designation of the Promotion Areas. With a view to establishing a systematic and continuous development of the market, the experts’ panel will also discuss:

i. consistency of total capacity per annum from medium and long-term points of view; and
ii. the incremental increase of overall capacity, having regard to the pace of development of the offshore wind industry.

METI’s ANRE and MLIT will also provide information on the prospects of expansion of the offshore wind capacity in order to improve visibility and promote inbound investment.

1.3.5 METI’s ANRE and MLIT will then publish their proposed list of Promotion Areas with the grounds for their decisions. This list will be available for public inspection for two weeks. A stakeholder may submit its written opinion to the Ministers of METI and MLIT during the public inspection period.

1.3.6 Once the public inspection period has lapsed, the Ministers of METI and MLIT shall consult with other Ministers (including the Minister of Agriculture, Forestry and Fisheries and the Minister for the Environment) and the governors of the relevant prefectures to discuss the written opinions received during the public inspection period. If a Council is formed, the Ministers of METI and MLIT are required to seek that Council’s opinion. After this consultation has finished, the Ministers of METI and MLIT will officially designate the Promotion Areas and make their decision public in accordance with the enforcement regulations.

1.3.7 The official designation of the Promotion Areas is expected to take place two months after the proposed list was first made public.

1.3.8 In addition, the Promotion Area Designation Guidelines provide that, for areas that have the potential for offshore wind projects, the procedures of the Marine Renewables Energy Act shall be followed (and not be based on individual Prefectures’ ordinances).28

27 The first Council meetings with respect to (i) Noshiro City, Mitane Town and Ojika City and (ii) Yurihonjo City took place on 8 October 2019. The first Council with repeat to (i) Goto City was held on 10 October 2019 and (ii) Choshi City was held on 18 November 2019.

28 See the Promotion Area Designation Guidelines, page 17.
1.4 Public Auction Process

In June 2019, METI and MLIT published the General Sea Areas Public Auction Implementation Guidelines.29 Set out below is a summary of the public auction process (see also Appendix 5).

1.4.1 Upon designation of the Promotion Areas, Public Auction Guidelines will be prepared by the Ministers of METI and MLIT.30 Public Auction Guidelines are expected to be prepared for each Promotion Area in accordance with the Basic Policies.

1.4.2 Once the Public Auction Guidelines are announced, the public auction processes will commence, and each bidder must submit its proposal (koubo senyou keikaku, the “Occupancy Plan”) to the Ministers of METI and MLIT. The bid submission date will be at least six months after the day following the announcement of the Public Auction Guidelines.31

1.4.3 The Occupancy Plans received by the Ministers of METI and MLIT must be reviewed and examined through a two-step process:

i. **first**, a review in respect of: (a) conformity with the Public Auction Guidelines (including confirmation that the proposed price is equal to, or less than, the cap set out in the Public Auction Guidelines), (b) compliance with the requirements of the Marine Renewables Energy Act (no impediments to the use or preservation of the Promotion Area or the functionality of the relevant port)32, (c) compliance with the Enforcement Regulations that relate to safety and to the potential impact on the navigation of vessels33, and (d) the relevant bidder to confirm that it has not committed any illegal or dishonest acts; and

ii. **second**, an evaluation of the Occupancy Plans based on the selection criteria set out in the Public Auction Guidelines. The evaluation of the Occupancy Plans is subject to consultation with two or more academics (the General Sea Areas Public Auction Implementation Guidelines provide that there will be a committee of third-party experts and, in respect of contribution to the local community, the governor of the relevant prefecture will be consulted).

1.4.4 Once this review of the plans has taken place, the Ministers of METI and MLIT will announce the successful bidder.

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29 一般海域における占用公募制度の運用指針（令和元年6月経済産業省資源エネルギー庁・国土交通省港湾局）
30 Article 13 of the Marine Renewables Energy Act.
31 See General Sea Areas Public Auction Implementation Guidelines, page 22.
32 Article 10, Paragraph 2 of the Marine Renewables Energy Act.
33 See sections 1.1.2 (iv) and (v).
1.5 Public Auction Guidelines

The Public Auction Guidelines will include the following requirements for the auction:

i. **category of marine renewable energy facilities:** fixed-bottom or floating turbines;

ii. **area of occupancy:** identified on a map attached to the Public Auction Guidelines;

iii. **commencement of occupancy:** METI and MLIT anticipate approximately five years for completion of the surveys, the EIA and the design of the offshore wind project. The Public Auction Guidelines are likely to require the commencement of occupancy to be a date within [six] years from the date of the approval of the Occupancy Plan;

iv. **capacity requirements:** plus/minus 20% of the capacity estimated upon the selection of that Promotion Area (determined in consultation with the Procurement Price Calculation Committee and the general transmission and distribution business operator);

v. **eligibility requirements:**
   a. satisfaction of the eligibility requirements for feed-in-tariff;
   b. all of the following:
      A. an incorporated entity which is headquartered or has its main office in Japan (if the applicant is a consortium, all members of the consortium must satisfy this requirement);
      B. track-record of construction and operation of wind power projects (in Japan or other countries) within the 10 years preceding the commencement of the public auction;
      C. track-record of marine civil works (in Japan or other countries) within the 10 years preceding the commencement of the public auction (including track-record of its cooperating entities/contractors);
      D. potential lenders’ track-record of project finance transactions in Japan and letters of intent entered with those potential lenders;
   E. confirmation that the applicant:
      > has not been sentenced to fine or more severe punishment for violating the provisions of the Marine Renewables Energy Act, the Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electricity Utilities (the “FIT Act”) or the Electricity Business Act without two years having elapsed since the execution of the sentence was terminated or since he/she was no longer subject to the execution of the sentence (or in the case of a corporate, the above does not apply to its directors);
      > has not filed, or is not subject to, any insolvency proceedings (bankruptcy, corporate reorganisation or civil rehabilitation proceedings);
      > has not been suspended by METI or MLIT and prohibited from participating in public auctions;
      > is not delinquent in corporation tax payments;
      > does not have any capital or personal relationship with other parties participating in the public auction;
      > is not associated with anti-social forces;
      > has not had its Occupancy Plan revoked by METI or MLIT;
      > has not refused to transfer the grid connection rights to the successful bidder;
      > has not concealed, counterfeited or altered information provided to METI/MLIT for the designation of the Promotion Areas;
      > has not contacted local stakeholders, thereby undermining the impartiality and fairness of the auction process; and
      > has not carried out acts that would prevent that person from participating in the auction;
vi. bid guarantee deposit: this will be determined following consultation with the Procurement Price Calculation Committee (the Committee that determines the feed-in-tariff) and by reference to auctions carried out under the FIT Act;  

vii. cap for the feed-in-tariff: same as (vi) above;  

viii. determining factors of the feed-in-tariff: same as (vi) above;  

ix. term of the feed-in-tariff: same as (vi) above;  

x. time limit for METI certification with respect to the feed-in-tariff: same as (vi) above;  

xi. requirements for use of the relevant port: a specific port which satisfies the following conditions:  

a. efficient construction, operation and maintenance of the generation facilities are expected having regard to the capacity of the generation facilities and to the size of the vessels, including any SEP vessels; and  

b. has (or is expected to have) (A) pier(s) that is/are capable of offloading international freight and (B) the capacity to offload and store heavy loads;  

xii. decommissioning: the bidder would be required to prepare a decommissioning plan that satisfies the following conditions:  

a. it complies with applicable law; and  

b. secured funds for the decommissioning upon the expiry of the occupancy period or in the case of insolvency of the bidder (the General Sea Areas Public Auction Implementation Guidelines refer to requirements in Europe where bank guarantees are submitted to the relevant authorities with respect to decommissioning costs and this would be required – the amount and timing would be determined based on other jurisdictions’ practices);  

xiii. effective period (term) of the Promotion Area occupancy certification: in principle, 30 years;  

xiv. coordination with the relevant authority: requirement to coordinate with the relevant Ministers, prefecture governor(s), mayors of municipalities;  

xv. evaluation criteria: (see section 1.6 below);  

xvi. conditions to the granting of the occupancy permit;  

xvii. information to be provided to the bidder: the Ministers of METI and MLIT shall provide information collected in connection with the designation of the relevant Promotion Area;  

xviii. if grid connection rights are to be transferred to the preferred bidder, the capacity and price: if an auction participant has already secured grid connection rights and is not the successful bidder, the unsuccessful bidder is required to transfer the connection rights to the successful bidder. The price of the grid connection rights shall be set out in the Public Auction Guidelines and shall be calculated using an ‘objective’ formula. All grid connection rights shall be subject to the transfer even where the successful bidder is not expected to use the total grid connection capacity. As a pre-condition to its participation in the auction, a bidder that has secured connection rights must agree upfront to transfer the connection rights if it is not the successful bidder. Failure to appropriately transfer the relevant connection rights will result in the bidder being disqualified from participating in future auctions;
xix. **granting of an “option”:** the General Sea Areas Public Auction Implementation Guidelines refer to an arrangement (Germany is noted as an example) where an existing developer is granted an “option” to match the lowest bid price on the condition that it provides all survey information to the State;

xx. **any agreements with the Council:** any conditions required by the Council in connection with the public auction;

xxi. **regular reporting requirements:** performance against the Occupancy Plan will need to be reported to METI and MLIT at least annually; and

xxii. **other undertakings are as follows:**
   a. **not to approach the local stakeholders during the auction period;**
   b. **to carry out the project in accordance with the Public Auction Guidelines and the submitted Occupancy Plan;**
   c. **if unsuccessful, to transfer existing grid connection rights (if any) – see xviii above;**
   d. **to ensure that the items set out in the Occupancy Plan are true and accurate;**
   e. **to comply with laws applicable to the renewable energy generation business and to the renewable energy generation facilities.**

### 1.6 Evaluation Criteria

The General Sea Areas Public Auction Implementation Guidelines provide some guidance on the ways in which the government will be evaluating the Occupancy Plans submitted to the Ministers of METI and MLIT. Please refer to them at Appendix 6.

The General Sea Areas Public Auction Implementation Guidelines provide that there will be two parts to the evaluation of Occupancy Plans:

i. **price (the proposed feed-in-tariff),** which will involve a calculation based on the indicative pricing of the plan provided in the Occupancy Plan; and

ii. **a qualitative evaluation of the Occupancy Plan based on the project feasibility (jigyou no jitsugen sei) criteria set out in the General Sea Areas Public Auction Implementation Guidelines (the “Project Feasibility Criteria”).**

Both sections will have 120 points, bringing the total points to be achieved by any given bid to 240 points. According to the General Sea Areas Public Auction Implementation Guidelines, the weight of the respective parts is currently 1:1. However, once track records for the project feasibility have been established, more weight will be placed on the pricing criteria.

#### 1.6.1 Price

The first part of the evaluation will include a comparison of the prices provided in all Occupancy Plans submitted for a Promotion Area. They will be assessed against one another with the following formula:

\[
\text{Score for bid}_{\text{p}} = \left( \frac{\text{Lowest price submitted}}{\text{Price proposed in bid}_{\text{p}}} \right) \times 120
\]

For any designated Promotion Area, the pricing assessment of the bids will therefore involve the selection of the lowest price submitted, which will be the baseline against which other bids will be assessed. The score will then be multiplied by 120, meaning that the highest grade will be 120 points and that this grade will only be achieved by the bid with the lowest price (as its score will come down to 1 \times 120).
1.6.2 Project Feasibility Criteria

The Project Feasibility Criteria will be set out in the Public Auction Guidelines based on the specific conditions of the relevant Promotion Area. Nonetheless, the General Sea Areas Public Auction Implementation Guidelines provide that the following criteria are expected to be included:

i. the candidate’s ability to implement the project (the “Project Implementation Capability”) which is further classified as set out below:
   a. project implementation:
      I. the candidate’s experience of construction, operation and maintenance of (i) offshore wind projects or (ii) onshore wind and offshore civil works (30 points);
   b. stable supply of electricity:
      I. procurement strategy (e.g. supply and storage of spare parts), facilities for future repair and maintenance works, and a supply chain establishment plan (including cost reduction measures) (10 points); and
   II. project feasibility (“Project Feasibility”):
      A. granularity, feasibility and credibility of the overall project timeline, engineering and design, construction programme, operation and maintenance plan, revenue and expenditure plan (20 points);
      B. risk identification and analysis – analysis of risks (construction, operation and maintenance, financial (from changes in wind assumptions)) and mitigation measures (15 points); and
      C. financial plan, and revenue and expenditure plan (0 points);

ii. relationship with the local community and contribution to the local economy (the “Local Community/Economic Impact”):
   a. the candidate’s track record of coordinating with heads of relevant municipalities in relation to (I) offshore wind projects in Japan, (II) onshore wind projects in Japan, and (III) any other track record in Japan (10 points);
   b. means of communication and gaining understanding of relevant fisheries, the shipping industry, and other local stakeholders (10 points);
   c. contribution to the local economy, including specific targets with respect to local employment and investments (e.g, into the construction of manufacturing plants) (10 points); and
   d. contribution to the national economy, including specific targets with respect to domestic employment and investments (e.g, into the construction of manufacturing plants) (10 points).

The total score that can be achieved is 120 points. The ratio between Project Implementation Capability and Local Community/Economic Impact is 2:1 (i.e. 80:40).
In addition, the General Sea Areas Public Auction Implementation Guidelines provide that all categories will have five possible ranks that can be achieved: (i) the top rank for any Occupancy Plan(s) that receive(s) a 100% score (“A Rank” – “top runner”); (ii) the middle rank for bids that have a 70% score (“B Rank” – “middle runner”); (iii) the bottom passing rank for bids that receive a 30% score (“C Rank” – “minimum requirement”); (iv) a failing rank for bids that receive 0% in a category, but the bid is not altogether dismissed (“D Rank”); and (v) a failing rank that disqualifies the bid in its entirety (“E Rank”).

For each criterion with respect to Project Feasibility and Local Community/Economic Impact (other than the candidate’s track record of coordinating with heads of relevant municipalities (see section 1.6.2 (ii) (a))), there will be only one Occupancy Plan that can receive an A Rank. Any Occupancy Plan scoring (equal to or) less than 50% (equal to or less than 60 points in total) is also automatically disqualified.

1.7 Occupancy Plan
The items set out below must be included in the Occupancy Plan:

i. **area and period of occupation**: details of the exact locations within the relevant Promotion Area in which the turbines and other facilities are expected to be installed and the area specified in the Public Auction Guidelines;

ii. **details of the offshore wind project and project timetable**: the 30-year occupancy period assumes four to five years for the EIA, two to three years for construction, 20 years for operation (i.e. the feed-in-tariff period) and two years for decommissioning. A bidder may propose to start operation earlier and thereby contemplate a longer operation period even after the expiry of the feed-in-tariff period (note that the bidder will be bound by the proposal and, if there are delays in the EIA/construction, the feed-in-tariff period will not be extended for the delayed period);

iii. **category of renewable energy generation facilities**: fixed-bottom or floating;

iv. **structure of the generation facilities**: design drawings, including those demonstrating resistance to earthquakes and high waves;

v. **overall construction plan**;

vi. **construction programme**;

vii. **capacity of the generation facilities**;

viii. **proposed feed-in-tariff**;

ix. **operation and maintenance plan**;

x. **name of the relevant port and pier(s)**;

xi. **decommissioning plan and funding of decommissioning costs**;

xii. **any historical dialogue with the relevant Minister, prefectural governor or mayor of municipalities and personnel dealing with such authorities**;

34 It is not clear if the bidder scoring 50%/60 points is automatically disqualified.
xiii. **a finance plan and a business plan:**
   a. a finance plan, including total project cost, sponsors, shareholding percentages, debt amount, finance costs, potential financial institutions, terms and conditions of bonds (if any), and a cash-flow statement;
   b. a business plan, including the survey and design costs, construction costs, procurement costs, operation and maintenance costs, decommissioning costs (including reserves), occupancy fees, availability of the turbines, the expected profit and loss statement, and the IRR; and
   c. the sponsors’ credit ratings, net worth, letter of intent provided by potential financial institutions, credit rating, consolidated capital adequacy ratio and track-records of the financial institutions;

xiv. **information relevant to the evaluation criteria;** and

xv. **an undertaking providing that the bidder shall:**
   a. not approach the local stakeholders during the auction period;
   b. carry out the project in accordance with the Public Auction Guidelines and the submitted Occupancy Plan;
   c. if unsuccessful, transfer existing grid connection rights (if any) – see 1.5 xviii above;
   d. ensure that the items set out in the Occupancy Plan are true and accurate;
   e. cooperate with the general transmission and distribution business operator if curtailment is required under applicable law;
   f. post signs on the generation facilities indicating the name of the operator;
   g. provide information with respect to the development and construction to the Minister of METI; and
   h. provide information on the actual energy generated and on the operation and maintenance costs to the Minister of METI.

1.8 **Transfer**

Transfers after the announcement of the successful bidder are subject to the consent of the Ministers of both METI and MLIT. In principle, any transfers post-award should not undermine the transparency and fairness of the public auction.

“**We are at the juncture where key decisions are being made. Striking the right balance between energy cost and contribution to the local community is crucial to the success of the Japan offshore wind market.**

*Hirofumi Taba, Projects Partner, Tokyo*
Supply Chain Issues
2 Supply Chain Issues

The development of local offshore wind supply chains is one of the key challenges in a new market (a high-level overview of a supply chain for an offshore wind project is attached at Appendix 8A). A number of factors create potential bottlenecks which need to be considered:

i. localisation requirements;
ii. local market capacity of sophisticated, robust and wide-ranging industries supporting the new offshore wind industry;
iii. international project and financing experience of local contractors;
iv. access to specialist vessels, and whether foreign vessels are permitted to fulfil these specialist functions; and
v. the need to develop new port infrastructure fit for purpose for the offshore wind industry.

New markets often impose substantial local content requirements to foster local supply chain development in order to provide deeper benefits. Taiwan, as the first large-scale offshore wind market outside of Europe, and the fastest moving commercial offshore wind market in Asia, presents an interesting example of how a new market, combined with an evolving regulatory regime dealing with local content requirements, creates both challenges and opportunities.

The evaluation criteria in Japan also require the submission of a proposal for the establishment of a new supply chain and anticipated contribution to the local and national economy (see section 1.6). As such, each bidder is expected to make strategic decisions whilst maintaining a competitive price.

A notable difference from Taiwan is that Japan has the potential to leverage off strong, export capable, corporations with deep industrial expertise and experience. In Europe, production of key components of wind turbine generators are undertaken locally to realise cost savings and this should be possible in Japan if a critical mass is reached. It may be possible for Japanese corporations to add further value given Japan’s cutting-edge technology in carbon fibre, steelworks and electricity cables. 35

In addition, Japanese trading houses and utilities have been active in the European and Taiwanese offshore wind markets via acquisitions of equity stakes in developing and operational projects, and the Japanese mega-banks have been leading the financing in the offshore wind sector in both Europe and Taiwan. The challenge is to bring these experiences together to support the development of supply chains in Japan at a manageable cost.

Whilst i to iii above may be strategic decisions for each bidder to consider, the two segments of a supply chain described in iv and v above have potential to become bottlenecks in the supply chain. In the sections below, we discuss the potential issues and recent updates.

35 「洋上風力発電の導入促進に向けて～特に洋上風力新法に係る課題と要望～」一般社団法人日本風力発電協会2018年3月16日 (http://jwpa.jp/k5uBz6e6gfsf4x/180316_offshore_request.pdf) p. 27
2.1 Specialist Vessels and Availability

One of the key challenges in an emerging offshore wind sector is the lack of availability of the necessary specialist vessels and personnel to operate said vessels, particularly those needed for the transport and installation of the substructures, turbines and substations, as well as cable laying. These vessels are expensive to build and hire, are committed years in advance, and difficult to replace. This makes it imperative to stick to project timelines in order to ensure availability.

In the medium- to long-run, specialist vessels suited to unique oceanic and meteorological conditions in Japan may be developed (which may increase operational efficiency of these vessels and contribute to a reduction in costs) but, in the short-term, the shortage of such specialist vessels is a key risk factor for the construction, operation and maintenance of offshore wind projects. Japan faces a further challenge in reserving or developing sufficient availability, at manageable costs, of vessels capable of operating in the Japanese specific context – being able to handle deep water, floating turbine installation. This presents both a challenge, but also an opportunity for Japan to develop export-ready capacity in this space (given the potential for floating turbine growth in other markets).

Japan has already seen some positive developments in sourcing specialist vessels, in part due to helpful developments such as Marubeni and Innovation Network Corporation of Japan’s acquisition of SeaJacks, a British firm that designs and builds bespoke installation vessels for the offshore wind industry.36

However, under the Ship Act, only a Japanese registered vessel can call at a non-open port37 or deal in the carriage of goods and individuals by sea between Japanese ports, except with special approval from the Minister of MLIT. Furthermore, with certain exceptions, the navigation by foreign vessels through the Japanese territorial waters or internal waters are subject to restrictions under the Act on Navigation of Foreign Ships through the Territorial Sea and Internal Waters (together with the Ship Act, the “Cabotage Restrictions”). The Cabotage Restrictions are not unique, similar issues also arise in other jurisdictions (such as the U.S.).

Given the lack of specialist vessels in Japan, it is almost inevitable (at least in the short-term) that developers will need to hire foreign vessels and seek the special approvals under the statutes mentioned above. It is not clear if such special approvals will be granted on a project basis or will be required for each calling at a port. This issue was raised in the deliberations of the Diet’s committee on 21 November 2018.38 MLIT’s response at that point was that the special approval would be considered appropriately in the given circumstances depending on the availability of the specialist vessels of the required scale.

Separately, if a developer wants to employ foreign crews, the relevant residence permits under the Immigration Control and Refugee Recognition Act will be required. The Ministry of Justice is in charge of these matters and is expected to consider measures to harmonize the residence permit regulations with the Marine Renewables Energy Act, but no specific actions have been reported to date. MLIT’s response at the Diet’s committee was that it will coordinate with the relevant Ministries. This remains a key issue which may not be politically straightforward. Discussions between the relevant authorities and industry groups are ongoing.

37 “Non-open ports” means the ports other than open-ports. The list of open ports is available at: http://www.mlit.go.jp/common/001257673.pdf
38 Questions asked by Mr Masatoshi Akimoto (Liberal Democratic Party).
2.2 Port infrastructure

Port facilities provide a crucial role in supporting construction, installation and maintenance of offshore wind projects. In the construction and installation phase, the port affords sea transportation of construction materials and wind turbine components and provides an area to assemble components in order to minimise higher cost assembly activities offshore. It also acts as a base for specialist vessels engaging in transportation, assembly and installation of wind turbines and foundations. In the operations and maintenance phase, it provides a base for maintenance vessels and an area to store key components, spare parts and other equipment.

Such ports should ideally be:

i. proximate to the proposed wind farm site;
ii. capable of handling manufacturing, assembly and storage functions. For example, in order to withstand the weight of heavy wind turbine components, it must have a ground capacity of 30 tons/m², whereas the typical ground capacity of Japanese port is currently 3 tons/m²; and
iii. equipped with lifting facilities for loading large turbine components.

While Europe already has mature markets with sufficient infrastructure, the development or redevelopment of appropriate port facilities presented a challenge in new markets such as Taiwan. Some progress has been made in Taiwan, with the announcement of an MoU signed between a leading international player (Siemens Gamesa Renewable Energy) and the local firm Yeong Guan Energy to jointly develop the Taichung harbour.

Studies have noted the potential for offshore wind in the north of Japan. New port facilities will need to be developed close to these potential sites in order to reduce vessel travel time to conduct installation and maintenance works, thereby reducing costs. The development of appropriate infrastructure is another area where the Japanese government can play a vital role in facilitating supply chain growth.

To that end, on 18 October 2019, the Cabinet determined to submit to the Diet an amendment to the Port and Harbour Act. The amendment will allow the government to: (i) designate ports and harbours to be bases for installing offshore wind power generation facilities (the “Renewable Energy Generation Base Ports”), and (ii) lease the docks of the Renewable Energy Generation Base Ports to offshore wind project developers on a long-term basis. The Renewable Energy Generation Base Ports are expected to be used by multiple project developers and the government is expected to reconcile any conflicts of interest between the developers.

The requirements for the designation of Renewable Energy Generation Base Ports are as set out below:

i. the port or harbour is expected to support use by multiple developers;
ii. existence of quays with enhanced soil bearing capacity (government-owned port and harbour facilities); and
iii. presence of cargo handling areas that can store and assemble long-length equipment.

The long-term lease of wharves (state owned assets i.e. “administrative assets”) would need to satisfy the following requirements:

i. the lease is in favour of developers of offshore wind projects in the Promotion Area under the Marine Renewables Energy Act or the port and harbour areas; and
ii. a long-term and stable use is expected for the construction, operation, repair, maintenance and decommissioning of offshore wind power generation facilities.

39 Research Institute of Economy, Trade & Industry “RIETI Policy Discussion Paper Series 16-P-004”
41 The amendment was approved by the House of Representatives on 13 November 2019.
42 If required, it is expected that the state carries out the port construction work.
Conclusion

How to balance the cost of energy (bid price) with the establishment of local supply chains is largely a strategic decision to be made by each bidder.

However, there are certain issues that have been identified as potential bottlenecks, for which the entire industry needs solutions. Important decisions are expected to be made in the coming months. These decisions may not be straightforward, but the guiding principle should always be the long-term success of the offshore wind industry.
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Appendix 8A
High-level Supply Chain according to Project Development Stages

Appendix 8B
Supply Chain: Possible Commercial Challenges
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Procedure Summary

The government draws up the Basic Policies

METI and the MLIT designate the Promotion Area

METI and MLIT draw up the Public Auction Guidelines

Bidders submit their application and proposal for the project

METI and MLIT select the application and proposal that best meet the criteria

METI reviews the approved proposal from a FIT perspective and provides a FIT certification

MLIT provides the occupancy permit to the developer whose plan was approved (maximum occupation period is 30 years)

Consultations occur with other stakeholders, including the Ministry of Agriculture, Forestry & Fisheries and the Ministry for the Environment

Further consultations are held to hear the opinions of other stakeholders that had prior use of the Promotion Area

The plan for the Promotion Area is made public (those affected by the plan can voice their concern)
APPENDIX 2

Preparatory Stage Areas

- Northern side of Japan sea off the coast of Aomori Prefecture
- Southern side of Japan sea off the coast of Aomori Prefecture
- Noshiro city, Mitane Town, Oga City, Akita Prefecture
- Happo Town, Akita Prefecture
- Katagami City, Akita Prefecture
- Yorihonjo City, Akita Prefecture
- Murakami City, Tainai City, Niigata Prefecture
- Goto City, Nagasaki Prefecture
- Saikai City, Nagasaki Prefecture
- Choshi City, Chiba Prefecture

Northern side of Japan sea off the coast of Aomori Prefecture
Southern side of Japan sea off the coast of Aomori Prefecture
Noshiro city, Mitane Town, Oga City, Akita Prefecture
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Yorihonjo City, Akita Prefecture
Murakami City, Tainai City, Niigata Prefecture
Goto City, Nagasaki Prefecture
Saikai City, Nagasaki Prefecture
Choshi City, Chiba Prefecture
Establishment and Enforcement of the Marine Renewables Energy Act

> Previously, in terms of offshore wind energy, there were a few problems (including insufficient rules for governing the use of sea areas).

> Based on this, the Act on Promotion of Use of Sea Areas to Develop Marine Renewable Energy (the "Marine Renewables Energy Act") came into force on 1 April 2019 in order to establish the necessary rules.

<table>
<thead>
<tr>
<th>Issues</th>
<th>Countermeasures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issue 1</strong> No uniform rules for occupation of sea areas</td>
<td>&gt; New rules which enable offshore wind generators to occupy sea areas in the long-term have been established. The government will designate Promotion Areas where offshore wind projects can be implemented and select developers through public auction processes.</td>
</tr>
<tr>
<td>&gt; There is no uniform rule for utilisation or occupation of general sea areas, which accounts for the majority of sea areas. Prefectures’ approval for occupation is short; general occupancy period is 3 to 5 years.</td>
<td>&gt; This will secure the stability of business by ensuring that developers have sufficiently long-term occupancy (30 years) in order to properly carry out construction works and implement a FIT.</td>
</tr>
<tr>
<td>&gt; Offshore wind projects have difficulty finding funding due to the low visibility of medium- to long-term business.</td>
<td></td>
</tr>
<tr>
<td><strong>Issue 2</strong> Uncertainty of framework for reconciliation of interests with existing stakeholders</td>
<td>&gt; Councils as a venue of discussion between related parties have been set up in order to promote reconciliation between stakeholders of local areas.</td>
</tr>
<tr>
<td>&gt; There is no framework for reconciliation with stakeholders with prior use of the Promotion Area (such as shipping agents and fisheries).</td>
<td>&gt; Relevant parties and authorities will discuss when Promotion Areas will be designated in order to confirm the consistency with other public interests.</td>
</tr>
<tr>
<td><strong>Issue 3</strong> High-cost</td>
<td>&gt; Certainty of the process has improved allowing bidders better visibility and reducing their burden.</td>
</tr>
<tr>
<td>&gt; FIT (JPY36/kWh) is expensive compared to European markets.</td>
<td>&gt; Bidders will be selected based on price through a public auction process.</td>
</tr>
<tr>
<td>&gt; There are few experienced developers in Japan.</td>
<td>&gt; Related costs are reduced by promoting competition.</td>
</tr>
<tr>
<td><strong>Issue 4</strong> No grid connection/Burden to grid</td>
<td>&gt; Lifts on grid restrictions by using Japanese – Connect &amp; Management and converting these into next-generation power networks (i.e. reforms of transportation systems) have been implemented.</td>
</tr>
<tr>
<td>&gt; Offshore wind may not be able to connect to grid networks in appropriate areas right away. Excessive burden might also be imposed on grids.</td>
<td>&gt; The outcome of these measures will be utilised for offshore wind.</td>
</tr>
<tr>
<td><strong>Issue 5</strong> Needs of ports as a base for offshore wind</td>
<td>&gt; The appropriate development of ports to be a base will be considered, taking into consideration opinions of potential offshore wind power developers and port managers.</td>
</tr>
<tr>
<td>&gt; The ports which can be a base for installing and operating offshore wind power facilities are limited compared to current offshore wind implementation plans.</td>
<td>&gt; Related authorities will coordinate with each other regarding systems for offshore wind related businesses (such as speeding up environmental assessments), so that offshore wind power will be promoted.</td>
</tr>
<tr>
<td><strong>Issue 6</strong> Promotion of offshore wind through other related regulations</td>
<td></td>
</tr>
</tbody>
</table>
Process and schedule for the designation of a Promotion Area

To ensure that the process is conducted fairly, without interruption and according to plan, this process should only be started once in any given fiscal year.

1. **The government gathers information so as to select a Promotion Area for the project**

   **A. The local government provides information (and makes enquiries) to the government**
   - The local government that wishes to designate a Promotion Area must provide the following information to the government:
     - a. a prospective site to be designated as a Promotion
     - b. the state of discussions with the local stakeholders (once those that will be affected have been identified, it must be determined whether their consent can be obtained (i.e. whether a council can be set up))
     - c. any information that could the standards to be set for the designation of a Promotion Area (e.g., the local government’s findings on strength of the winds, depth of the water, sedimentary conditions of the sea bed, height of the waves, distance from the shore etc.)

   **B. Other information**
   - Opinions of stakeholders
   - Regulatory concerns
   - Other relevant important information

2. **Suitable areas are designated based on the opinions expressed at the experts’ panel meeting (such panel meeting to be held regularly)**

3. **Discussion in the council**
   - Councils are established
   - Meetings are held to designate the Promotion Area
   - Consensus is reached on the proposed Promotion Area, including the other stakeholders

4. **National government to conduct detailed investigation**
   - A decision is made as to which areas are to be prioritised for investigations
   - Implementation of the necessary investigations into:
     - Environmental status
     - Shipping routes
     - Grid connection
     - Other aspects to be required
   - Narrow down the number of sites

5. **The government will determine the candidate of the Promotion Area based on the evaluation of the experts’ panel and on the Promotion Area Designation Guidelines (such panel meeting to be held regularly)**

6. **The plan for the Promotion Area is published and views of the public are gathered**

7. **The heads of relevant administrative bodies meet to discuss; the views of the prefectural governors and the Council meeting are assembled**

8. **The Promotion Area is designated**

---

**At least 3 months required**
To ensure fairness, impartiality and transparency, the government collects information from prefectures and other stakeholders (and holds a hearing of opinions) for a pre-determined period of time (about 3 months).

**At least 1 month required**
An experts’ panel meeting is held.

**At least 3 months required**
The government will determine the candidate of the Promotion Area based on the evaluation of the experts’ panel and on the Promotion Area Designation Guidelines.
The plan for the public auction process must be drafted based on the strategy devised for its operation.

The Promotion Area is designated:
- Evaluation criteria
- FIT ceiling amount
- Other items (Participants’ qualifications etc.)
- Opinions to be gathered from the local authorities and the experts’ on the matter
- The panel for determining the procurement price must advise on the pricing of the procurement

The Public Auction Guidelines are decided

Implementation of the public auction process:
- The public auction process begins (the Public Auction Guidelines are made public)
- Bidders submit their Occupancy Plans
- First step: the Occupancy Plans submitted by the bidders are examined (by the authorities)
- Step 2: the Occupancy Plans are evaluated
  - The local authorities must deliberate on the project’s potential impact on the local economy
  - The experts’ panel examine the Occupancy Plans

Selection of the successful bidder

Public Auction Process

At least 2 months required
Whilst considering the information from prefectures, the government must draft the plan for the public auction process

6 months is standard
Public procurement procedures require a minimum period of 6 months

At least 2 months required
This review requires at least 2 months

At least 3 months required
Evaluation require a minimum period of 3 months
## Evaluation Criteria

<table>
<thead>
<tr>
<th>Detailed Category</th>
<th>Project Implementation Capability</th>
<th>Ability to provide a stable source of power</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Broad Category</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Project implementation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Maximum amount of points</strong></td>
<td>[65 points]</td>
<td>[15 points]</td>
</tr>
<tr>
<td><strong>Determining Factors</strong></td>
<td>Bidder’s previous experience</td>
<td>Project Feasibility</td>
</tr>
<tr>
<td><strong>Maximum amount of points</strong></td>
<td>[30 points]</td>
<td>[35 points]</td>
</tr>
<tr>
<td><strong>Feasibility of the project plans</strong></td>
<td>[20 points]</td>
<td></td>
</tr>
<tr>
<td><strong>Identification and management of risks</strong></td>
<td>[15 points]</td>
<td></td>
</tr>
<tr>
<td><strong>Adequacy of the financial plans</strong></td>
<td>[10 points]</td>
<td></td>
</tr>
<tr>
<td><strong>Ability to provide a stable source of power (“Aspect A”) and plans to further reduce costs in the future (“Aspect B”)</strong></td>
<td>[5 points]</td>
<td></td>
</tr>
<tr>
<td><strong>Use of leading-edge technology</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Evaluation Criteria

**Top Rank** (100%)
- Most relevant and successful experience (limited domestic experience)
- Most feasible plans
- Best analysis and management of risks
- Most relevant bid taking into account both Aspect A and Aspect B
- Plan provides for use of world’s current leading technologies

**Middle Rank** (70%)
- Relevant experience with excellent results (which may include overseas experience)
- Very feasible plans
- Excellent analysis and management of risks
- Most relevant bid in relation to either Aspect A or Aspect B and excellent bid in relation to the other Aspect
- Plan is considering the use of leading technologies

**Bottom Rank** (30%)
- Relevant experience with good results (includes overseas experience)
- Feasible plans
- Good analysis and management of risks
- Good bid in relation to both Aspects
- Installation of some leading technology amidst other generic technologies

Although the entire bid does not automatically fail, the jury does not feel it appropriate to give points to one of the categories

1. Please note that receiving a score of (equal to or) less than 50% ((equal to or) less than 60 points in total) will result in the bid’s automatic failure. Receiving a score of (equal to or) less than 50% in the “Ability to implement projects” will also result in the bid’s automatic failure. It is not clear whether the bidder scoring 50% points is automatically disqualified.

2. Please note that the points in magenta for the determining factors are the ones that will be attributed to the bidders. The sub-division split is for reference only. This means that it is not possible to receive a top rank for a subset of the category and a middle or bottom rank for another subset of the category. See the scoring table below for details.

3. Factors marked with an asterisk can only see one bidder be given full marks. These include: “Feasibility of the project plans”, “Impact on the local economy”, and “Impact on the national economy”.

---

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3. Factors marked with an asterisk can only see one bidder be given full marks. These include: “Feasibility of the project plans”, “Impact on the local economy”, and “Impact on the national economy”.

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**APPENDIX 6**

Evaluation Criteria

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**APPENDIX 6**

Evaluation Criteria

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30 Japan Offshore Wind Report (2nd Edition): At the Crossroads of Key Decisions
### Evaluation Criteria

<table>
<thead>
<tr>
<th>Entire bid fails automatically if any category falls into this rank</th>
<th>No relevant experience</th>
<th>Inability to ascertain feasibility of plans</th>
<th>Inability to identify or provide plans to mitigate risks</th>
<th>Inability to provide adequate financial plans</th>
<th>[Although not specified in the table, automatic failure of the bid due to a poor performance in this category is possible]</th>
</tr>
</thead>
</table>

**Broad Category**

<table>
<thead>
<tr>
<th>Local Community / Economic Impact</th>
<th>[40 points]</th>
</tr>
</thead>
</table>

**Detailed Category**

<table>
<thead>
<tr>
<th>Coordination with the local community</th>
<th>Impact on the local community</th>
</tr>
</thead>
</table>

**Maximum amount of points**

| 20 points | 20 points |

**Determining Factors**

<table>
<thead>
<tr>
<th>Ability to cooperate with the heads of the administrative agencies</th>
<th>Coordination and coexistence with the local associations and fisheries regarding the use of sea routes*</th>
<th>Impact on the local economy*</th>
<th>Impact on the national economy*</th>
</tr>
</thead>
</table>

**Top Rank (100%)**

<table>
<thead>
<tr>
<th>Successful experience cooperating with the heads of the administrative bodies relating to offshore wind</th>
<th>High probability that the bidder will be the most apt at coordinating and coexisting with the local associations and fisheries regarding the use of sea routes*</th>
<th>Bid that will have the greatest impact on the local economy</th>
<th>Bid that will have the greatest impact on the national economy</th>
</tr>
</thead>
</table>

**Middle Rank (70%)**

<table>
<thead>
<tr>
<th>Successful experience cooperating with the heads of the administrative bodies relating to onshore wind</th>
<th>Excellent probability that the bidder will be very apt at coordinating and coexisting with the local associations and fisheries</th>
<th>Bid that will have an excellent impact on the local economy</th>
<th>Bid that will have an excellent impact on the national economy</th>
</tr>
</thead>
</table>

**Bottom Rank (30%)**

<table>
<thead>
<tr>
<th>Successful experience cooperating with the heads of administrative bodies (other than those relating to offshore and onshore wind)</th>
<th>Good probability that the bidder will be apt at coordinating and coexisting with the local associations and fisheries</th>
<th>Bid that will have a good impact on the local economy</th>
<th>Bid that will have a good impact on the national economy</th>
</tr>
</thead>
</table>

**APPENDIX 6**

- **Even if the bidder has experience, the bidder can still be seen as lacking the requisite ability to cooperate with local administrative bodies in relation to the project’s implementation**

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Evaluation Assessment

(Evaluation Standards) Evaluation

<table>
<thead>
<tr>
<th>Pricing (120 points)</th>
<th>Bid Evaluation Scoring Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Project Implementation Capability (80 points)</td>
</tr>
<tr>
<td>Evaluation will depend on pricing</td>
<td>1. Bidder’s previous experience</td>
</tr>
<tr>
<td>Total</td>
<td>2. Feasibility of the project</td>
</tr>
<tr>
<td></td>
<td>3. Ability to provide a stable source of power</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Automatic failure if either is less than 50%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A</strong></td>
<td><strong>A</strong></td>
<td><strong>A</strong></td>
<td><strong>A</strong></td>
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<tr>
<td><strong>B</strong></td>
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</tbody>
</table>

Automatic failure if bid receives an **E** in any category

A: Top Ranked (100%)  B: Middle Rank (70%)  C: Bottom Rank (30%)  D: Section failed but not bid (0 points)  E: Bid fails

Pre-requisites

The supply price stated must be below the upper limit set.

1. The bid submitted conforms to the Public Auction Guidelines.
2. The bid submitted presents no notable obstacles to overcome in terms of: (i) using or preserving the seas within the Promotion Area; or (ii) maintaining the surrounding port facilities.
3. The power generation facilities and the means to supervise their maintenance are in line with the standards set by METI and MLIT.
4. There is no evident risk that the bidder has committed fraud or demonstrated bad faith.
### High-level Supply Chain according to Project Development Stages

<table>
<thead>
<tr>
<th>Development</th>
<th>&gt; Owner &lt;br&gt; &gt; Engineering company &lt;br&gt; &gt; Port operator*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement</td>
<td>&gt; WTG manufacturer &lt;br&gt; &gt; Substructure manufacturers &lt;br&gt; &gt; Electrical infrastructure &amp; Cable manufacturers</td>
</tr>
<tr>
<td>Construction &amp; Installation</td>
<td>&gt; Marine contractor (multiple) &lt;br&gt; &gt; High voltage cable laying company &lt;br&gt; &gt; Construction manager &lt;br&gt; &gt; Vessels** &lt;br&gt; &gt; Onshore substation/ facilities</td>
</tr>
<tr>
<td>Operations &amp; Maintenance</td>
<td>&gt; Owner &lt;br&gt; &gt; WTG manufacturer &lt;br&gt; &gt; O&amp;M contractor &lt;br&gt; &gt; Vessels**</td>
</tr>
</tbody>
</table>

* There is a lack of ports catering to the needs of offshore wind farms construction and operation. ** Query if Japan has enough supply of these vessels considering cabotage restrictions.

### Supply Chain: Possible Commercial Challenges

- **Development**
  - Grid connectivity.
  - Lack of sufficient number of ports satisfying the needs of offshore wind business.

- **Procurement**
  - Japan has a sophisticated, robust and wide range of industries which can potentially support offshore wind business. The offshore wind business itself needs to grow further to entice these industries to come in and drive economy of scale.
  - Key components of WTGs are manufactured outside Japan. There may be scope for cost savings by bringing such businesses back to the country.

- **Construction & Installation**
  - There are not enough special vessels (e.g. SEP vessels) to service the industry as it grows.
  - In addition, such special vessels must be designed to meet harsher weather conditions around Japan (such as lightening and cyclones). Simply using vessels suited for Europe and other areas will increase downtime and insurance cost.

- **Operations & Maintenance**
  - Operations & maintenance are typically provided by manufacturers, owner’s inhouse personnel or third-party maintenance companies. There is no uniform standard of technical proficiency for service engineers to assure consistent quality.
  - Lack of service vessels suited to the country’s natural environment leads to lower uptime of such vessels, contributing to higher costs of maintenance.
Contacts

To find out more about Japan offshore wind, please contact any of the following individuals:

**Japan**

John Maxwell  
Partner, Tokyo  
Asia Head of Renewable Energy  
Tel: +81 3 6212 1227  
john.maxwell@linklaters.com

Hirofumi Taba  
Partner, Tokyo  
Tel: +81 3 6212 1245  
hirofumi.taba@linklaters.com

Ryokichi Asaka  
Senior Legal Advisor, Tokyo  
Tel: +81 3 6212 1223  
ryokichi.asaka@linklaters.com

Xylia Sim  
Managing Associate, Tokyo/Singapore  
Tel: +65 6692 5893  
xylia.sim@linklaters.com

**Hong Kong**

James McLaren  
Partner, Hong Kong  
Asia Head of Renewable Energy  
Tel: +852 2842 4106  
james.mclaren@linklaters.com

Ying Fu  
Managing Associate, Hong Kong  
Tel: +852 2901 5379  
ying.fu@linklaters.com

**London**

John Pickett  
Partner, London  
Tel: +44 20 7456 5926  
john.pickett@linklaters.com

**South Korea**

Joo Hee Lee  
Managing Partner, Seoul  
Tel: +82 2 6320 1040  
joo.hee.lee@linklaters.com

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