

Fiscal Terms

RI/MA AMI – PSN Public Seminar

January 15, 2013

Fiscal Terms



Overview

- Annual rent
 - First year's payment due within 45 days of lessee receiving lease
 - Subsequent payments due on lease anniversary on portion of lease not authorized for commercial operations
- Annual project easement rent
 - Initial payment due upon approval of the COP
 - Subsequent payments due annually thereafter until the lease terminates
- Annual operating fee
 - Initial fee due within 45 days of commercial operations
 - Subsequent payments due annually thereafter until commercial operations cease
- Financial assurance requirements
 - Prior to lease issuance the Lessee must provide assurance for initial financial obligations on the lease

Annual Rent Payment

- Formula: Leased acreage x \$3 per acre
 - Proposed lease sale acreage offshore Rhode Island: 164,750 acres
 - North Zone (OCS–A 0486): 97,498 acres
 - South Zone (OCS–A 0487): 67,252 acres
 - Initial annual rent payment: \$494,250
 - North Zone: \$292,494
 - South Zone: \$201,756
- Rent payments would reflect adjustments for relinquished acreage or phased development at the time a payment is due
- Last rent payment prior to the start of commercial operations will not be pro-rated

Annual Project Easement Rent

- Simplified to same treatment as transmission system
- Formula: \$70 per statute mile x statute miles in easement
- Last annual project easement rent payment prior to lease termination will not be pro-rated

Annual Operating Fee

$$F = M * H * C * P * r$$

Annual Operating Fee	=	M Nameplate Capacity [MW]	*	H Hours Per Year [8,760]	*	C Capacity Factor [0 to 1]	*	P Power Price [\$/MWh]	*	r Operating Fee Rate [0 to 1]
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- Formula is based on the value of the *anticipated* annual power output of a project in a regional wholesale power market times an operating fee rate

Annual Operating Fee

$$F = M * H * C * P * r$$

Annual Operating Fee	=	M	*	H	*	C	*	P	*	r
		Nameplate Capacity		Hours Per Year		Capacity Factor		Power Price		Operating Fee Rate
		[MW]		[8,760]		[0 to 1]		[\$/MWh]		[0 to 1]

Generation at Continuous Full Power Operation [MWh]

- Nameplate capacity is the planned available capacity measured in megawatts (MW)
 - Based on COP to reflect installation, repowering, and decommissioning activities on the lease
 - If 500 MW of capacity are available the maximum annual generation at continuous full power operation would be 4.38 million MWh

Annual Operating Fee

$$\begin{array}{ccccccc}
 F & = & M & * & H & * & C & * & P & * & r \\
 \text{Annual} & & \text{Nameplate} & & \text{Hours Per} & & \text{Capacity} & & \text{Power} & & \text{Operating} \\
 \text{Operating} & & \text{Capacity} & & \text{Year} & & \text{Factor} & & \text{Price} & & \text{Fee Rate} \\
 \text{Fee} & & \text{[MW]} & & \text{[8,760]} & & \text{[0 to 1]} & & \text{[$/MWh]} & & \text{[0 to 1]} \\
 & & \underbrace{\hspace{10em}} & & & & & & & & \\
 & & \text{Anticipated Annual Power Output [MWh]} & & & & & & & &
 \end{array}$$

- The capacity factor is the share of anticipated generation relative to its generation at continuous full power operation
 - Value set to 0.400 for first 6 years of commercial operations
 - Value adjusted in 5-year increments thereafter to reflect actual metered generation over the previous 5 years
 - Continuing the example, the anticipated annual power output of the project is 4.38 million MWh times 0.400, or 1.752 million MWh
 - This is enough electricity to power over 155,000 households annually

Annual Operating Fee

$$\begin{array}{cccccc}
 F & = & M & * & H & * & C & * & P & * & r \\
 \text{Annual} & & \text{Nameplate} & & \text{Hours Per} & & \text{Capacity} & & \text{Power} & & \text{Operating} \\
 \text{Operating} & & \text{Capacity} & & \text{Year} & & \text{Factor} & & \text{Price} & & \text{Fee Rate} \\
 \text{Fee} & & \text{[MW]} & & \text{[8,760]} & & \text{[0 to 1]} & & \text{[$/MWh]} & & \text{[0 to 1]} \\
 & & \underbrace{\hspace{15em}} & & & & & & & & \\
 & & \text{Estimated Market Value [\$]} & & & & & & & &
 \end{array}$$

- Power price is determined at the time each payment is due based on the latest year's annual spot price index for Mass Hub as reported by FERC (in \$/MWh)
 - The 2011 Mass Hub price index is \$45.65/MWh which would be adjusted for one year of inflation to \$46.70/MWh for payments in 2012
 - Continuing the example, the estimated market value in 2012 of the estimated annual power output is 1.752 million MWh times \$46.70/MWh, or \$81,818,400

Annual Operating Fee

$$F = M * H * C * P * r$$

Annual Operating Fee	=	M Nameplate Capacity [MW]	*	H Hours Per Year [8,760]	*	C Capacity Factor [0 to 1]	*	P Power Price [\$/MWh]	*	r Operating Fee Rate [0 to 1]
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- Operating fee rate is the share of the estimated market value of the power produced payable to the lessor
 - The operating fee rate is 0.02 through the 8th year of commercial operations on the lease, and 0.04 thereafter
 - Continuing the example of 500 MW project, the estimated market value of the power produced of \$81,818,400 is multiplied by 0.02, resulting in an annual operating fee of \$1,636,368

Annual Operating Fee

- Recapping the example

• Nameplate Capacity	500 MW
• Hours Per Year	8,760
<i>Generation at continuous full power operation</i>	<i>4.38 million MWh</i>
• Capacity Factor	0.400
<i>Anticipated annual power output</i>	<i>1.752 million MWh</i>
• Power Price	\$46.70/MWh
<i>Estimated market value</i>	<i>\$81,818,400</i>
• Operating Fee Rate	0.02
Annual Operating Fee	\$1,636,368

Financial Assurance

- \$100,000 initial financial assurance due prior to lease issuance in the form of a bond or other approved form
- Additional financial assurance is required to cover all decommissioning, operating fees, and other obligations as the lease progresses
 - Prior to approval of a SAP
 - Prior to approval of a COP
 - Commencement of installation of commercial facilities
 - Past due payment amounts or any other monetary obligations
 - Adjustments to financial assurance amounts

Financial Assurance

- Any bond or other acceptable financial assurance instrument that the lessee provides must:
 - Be payable to BOEM upon demand; and
 - Guarantee compliance with all terms and conditions of the lease, any subsequent approvals and authorizations, and all applicable regulations
- All financial assurance must be in a form approved by BOEM
 - Surety bonds are the primary form of assurance
 - BOEM will consider pledges of other forms of assurance
 - BOEM may also consider your financial strength and reliability or third-party guarantor