Fiscal Terms

New Jersey Auction Seminar

Mercerville, New Jersey

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Overview

- Annual rent
  - First annual payment due within 45 days of lessee receiving lease
  - Subsequent annual payments on lease anniversary
  - Rent is charged on the portion of a 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. Financial assurance obligations will be updated throughout the lease term.

Annual Rent Payment

- Formula: Leased acreage x $3 per acre
  - OCS-A 0498 (South): 160,480 acres -> $481,440
  - OCS-A 0499 (North): 183,353 acres -> $550,059
- No rent is due on acreage relinquished within the first 45 days.
- Subsequent rent payments would reflect any 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

- Formula: $70 per statute mile x statute miles in 200-feet wide transmission easement, and greater of $5/a or $450 for any additional easement required, per year
- Last annual project easement rent payment prior to lease termination will not be pro-rated

Annual Operating Fee

F=	M	x	H	x	c	x	P	x	r
Annual Operating Fee	Nameplate Capacity (MW)		Hours per Year (8,760)		Capacity Factor (0 to 1)		Power Price ($/MWh)		Operating Fee Rate (0 to 1)

Formula is based on the *anticipated* annual power output, valued at the preceding year's regional wholesale power price, times an operating fee rate

Annual Operating Fee (M x H)

F=	M	x	H	x	c	x	P	x	r
Annual Operating Fee	**Nameplate Capacity (MW)**		**Hours per Year (8,760)**		Capacity Factor (0 to 1)		Power Price ($/MWh)		Operating Fee Rate (0 to 1)

- Nameplate capacity is the planned available capacity measured in megawatts (MW); based on COP
- [M x H] is the nameplate capacity operating at continuous full operation for a year.
- EXAMPLE, assuming a 500 MW project: 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 (M x H x c)

F=	M	x	H	x	c	x	P	x	r
Annual Operating Fee	**Nameplate Capacity (MW)**		**Hours per Year (8,760)**		**Capacity Factor (0 to 1)**		Power Price ($/MWh)		Operating Fee Rate (0 to 1)

- Projects don't operate at full capacity all the time (due to wind variation, maintenance, etc.).
- 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
  - After that, value adjusted in 5-year intervals to reflect actual metered generation over the preceding 5 years
- Continuing the example, the anticipated annual power output of the 500 MW project is 4.38 million MWh times 0.400, or 1.752 million MWh

Annual Operating Fee (M x H x c x P)

F=	M	x	H	x	c	x	P	x	r
Annual Operating Fee	**Nameplate Capacity (MW)**		**Hours per Year (8,760)**		**Capacity Factor (0 to 1)**		**Power Price ($/MWh)**		Operating Fee Rate (0 to 1)

- Power price is determined at the time each payment is due based on the latest available annual wholesale spot price for Northeast-PJM West, as reported by FERC (in $/MWh), adjusted for inflation.
- [M x H x c x P] is the spot market value of the anticipated annual power output of the project.
  - For example, for the 2014 fee, if the latest Northeast— PJM West price information available was for 2012, and the price was $50/MWh, and the latest Commerce Dept, BEA, inflator is 1.02 for 2011 to 2012, then the adjusted price is $52.02/MWh for payment in 2014.
  - Continuing the example, the estimated market value in 2014 of the estimated annual power output is 1.752 million MWh times $52.02/MWh, or $91,139,040

Annual Operating Fee (M x H x c x P x r)

F=	M	x	H	x	c	x	P	x	r
Annual Operating Fee	**Nameplate Capacity (MW)**		**Hours per Year (8,760)**		**Capacity Factor (0 to 1)**		**Power Price ($/MWh)**		**Operating Fee Rate (0 to 1)**

- 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 life of commercial operations on the lease
  - Continuing the example of 500 MW project, the estimated market value of the power produced of $91,139,040 is multiplied by 0.02, resulting in an annual operating fee of $1,822,781

Annual Operating Fee

Recapping the example--

• Nameplate Capacity	500 MW
• Hours Per Year	8,760
Generation at continuous full power operation	***4.38 million MWh***
• Capacity Factor	0.400
Anticipated annual power output	***1.752 million MWh***
• Power Price	$52.02/MWh
Estimated market value	***$91,139,040***
• Operating Fee Rate	0.02
Annual Operating Fee	***$1,822,781***

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 may be required to cover rent, decommissioning, operating fees, and other obligations as the lease progresses
- 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

Questions and Comments

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