Fiscal Terms

Maryland PSN Public Seminar

January 24, 2014

Overview

- Annual rent
  - First 6-month payment due within 45 days of lessee receiving lease
  - Second 6-month payment due at start of 7th month of lease
  - Subsequent annual payments 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
  - Zone 1 (OCS-A 0489): 32,737 a -> $98,211 total for first year
  - Zone 2 (OCS-A 0490): 46,970 a -> $140,910 total for first year
- 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

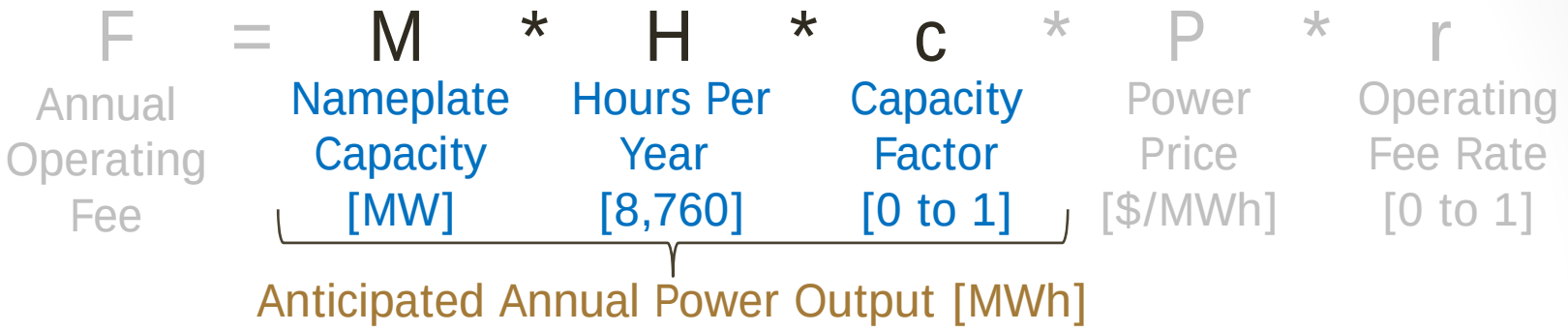
F	=	M	*	H	*	c	*	P	*	r
Annual Operating Fee		Nameplate Capacity [MW]		Hours Per Year [8,760]		Capacity Factor [0 to 1]		Power Price [$/MWh]		Operating Fee Rate [0 to 1]

- 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

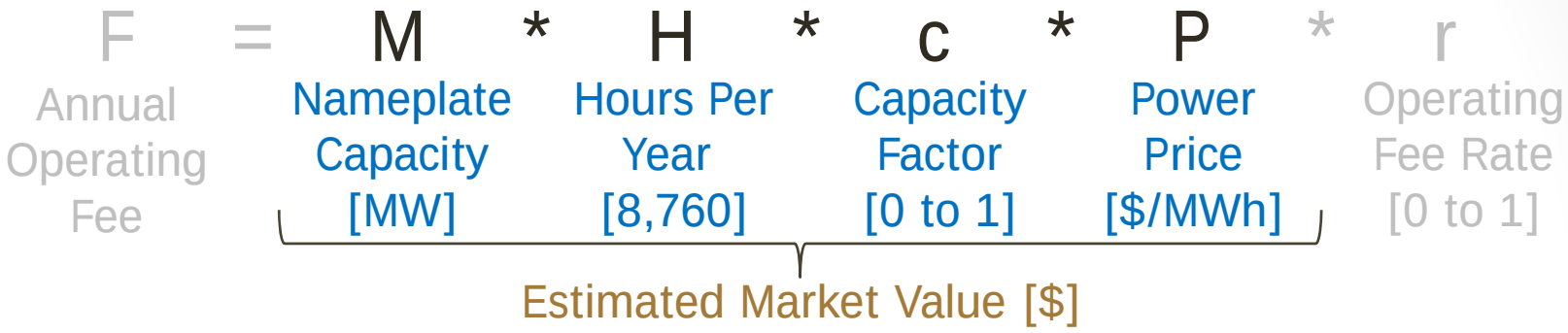
- Nameplate capacity is the planned available capacity measured in megawatts (MW)
  - Based on COP to reflect installation, repowering, and decommissioning activities on the lease
  - If 500 MW of capacity are available the maximum annual generation at continuous full power operation would be 4.38 million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

Annual Operating Fee



- 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 intervals thereafter to reflect actual metered generation over the preceding 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

Annual Operating Fee



- Power price is determined at the time each payment is due based on the latest available annual wholesale spot price for PJM-West as reported by FERC (in $/MWh), adjusted for inflation
  - For example, for the 2014 fee, if the latest PJM0-West price, in 2012, is $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

F	=	M	*	H	*	c	*	P	*	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 is required to cover all 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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