Fiscal Terms

VA – PSN Public Seminar

January 17, 2013

1

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

2

Annual Rent Payment

- Formula: Leased acreage x $3 per acre
  - Proposed lease sale acreage offshore Virginia: 112,799 acres
  - Initial annual rent payment: $338,397
- 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

3

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

4

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 value of the *anticipated* annual power output of a project in a regional wholesale power market times an operating fee rate

5

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]

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 1,000 MW of capacity are available the maximum annual generation at continuous full power operation would be 8.76 million MWh

6

Annual Operating Fee

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

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]

Anticipated Annual Power Output [MWh]

- 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 full 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 8.76 million MWh times 0.400, or 3.504 million MWh
  - This is enough electricity to power over 310,000 households annually

7

Annual Operating Fee

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

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]

Estimated Market Value [$]

- Power price is determined at the time each payment is due based on the latest year's annual spot price index for PJM – West as reported by FERC (in $/MWh)
  - The 2011 PJM-West price index is $43.33/MWh which would be adjusted for one year of inflation to $44.25/MWh for payments in 2012
  - Continuing the example, the estimated market value in 2012 of the estimated annual power output is 3.504 million MWh times $44.25/MWh, or $155,052,000

8

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 8th year of commercial operations on the lease, and 0.04 thereafter
  - Continuing the example of 1000 MW project, the estimated market value of the power produced of $155,052,000 is multiplied by 0.02, resulting in an annual operating fee of $3,101,040

9

Annual Operating Fee

- Recapping the example

• Nameplate Capacity	1,000 MW
• Hours Per Year	8,760
Generation at continuous full power operation	***8.76 million MWh***
• Capacity Factor	0.400
Anticipated annual power output	***3.504 million MWh***
• Power Price	$44.25/MWh
Estimated market value	***$155,052,000***
• Operating Fee Rate	0.02
Annual Operating Fee	**$3,101,040**

10

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

11

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

12

Questions and Comments

David Harper
703-787-1657
David.Harper@boem.gov