

Maryland Task Force Meeting Fiscal Terms & Offshore Wind Auction Format

29 January 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 Maryland: 79,706 acres
 - Initial annual rent payment: \$239,118
- 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	Nameplate Capacity [MW]	Hours Per Year [8,760]	Capacity Factor [0 to 1]	Power Price [\$/MWh]	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		Nameplate Capacity [MW]		Hours Per Year [8,760]		Capacity Factor [0 to 1]		Power Price [\$/MWh]		Operating Fee Rate [0 to 1]
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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

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]

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

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]

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

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]
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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

Annual Operating Fee

- An example

• Nameplate Capacity (M)	500 MW
• Hours Per Year (H)	8,760
<i>Generation at continuous full power operation</i>	<i>4.38 million MWh</i>
• Capacity Factor (C)	0.400
<i>Anticipated annual power output</i>	<i>1.752 million MWh</i>
• Power Price (P)	\$44.25/MWh
<i>Estimated market value</i>	<i>\$77,526,000</i>
• Operating Fee Rate (r)	0.02
Annual Operating Fee (F)	\$1,550,520

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
 - Upon approval of a SAP
 - Upon 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

Auction Design

Ascending Clock Auction

Auction Overview

- Sale will be conducted using an internet-based auction system
- Multiple zones (leases) may be offered in the sale
- Bidding will be on a cash bonus basis
- The auction will be conducted over a series of rounds with escalating prices based on demand in each round
 - Simple bidding procedure ensures transparent process
 - Allows for price discovery
 - Discourages harmful bidding practices

Auction Overview

- BOEM will set the stated auction “clock” price for each zone at the opening of each round of bidding
- In each round, bidders are allowed to submit a “live” bid for each zone
 - Live bid indicates bidder is willing to pay the current round’s stated auction price for that zone
- Number of zones a bidder is able to bid on in first round of the auction is based upon the bidder’s bid deposit
 - Subsequent rounds eligibility based on bidder’s bidding in the prior round
- Additional rounds occur as long as at least one of the zones has demand greater than one in the current round
 - Otherwise the auction ends

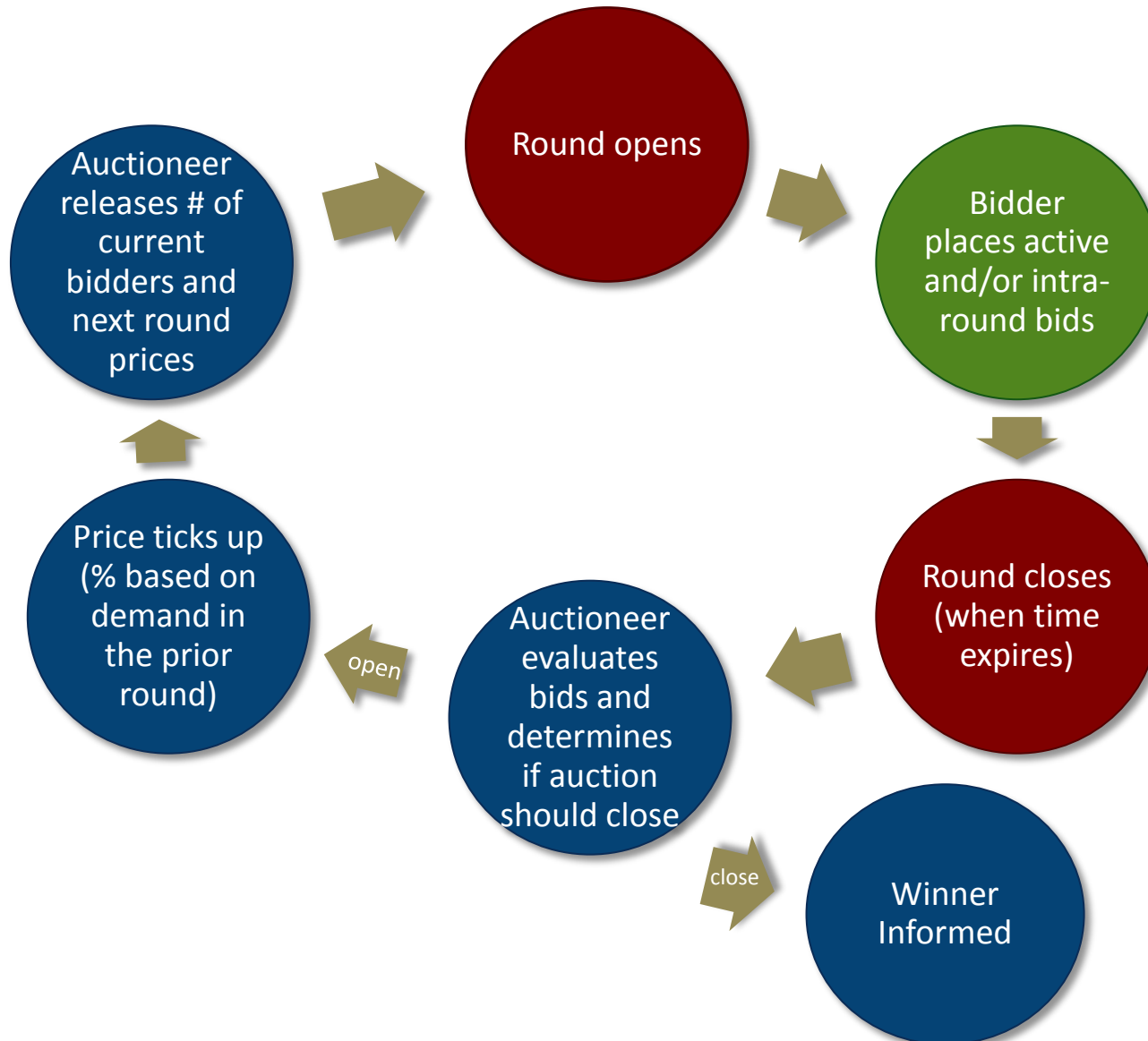
Auction Overview

- In each round (after the first round), bidders also have the option to submit an “intra-round” bid based on bid eligibility
 - Single price bidder would be willing to pay for a set of zones (treated as a “package” bid)
 - Price submitted must be between the previous and current rounds prices
 - Bid eligibility must decrease after placing intra-round bid

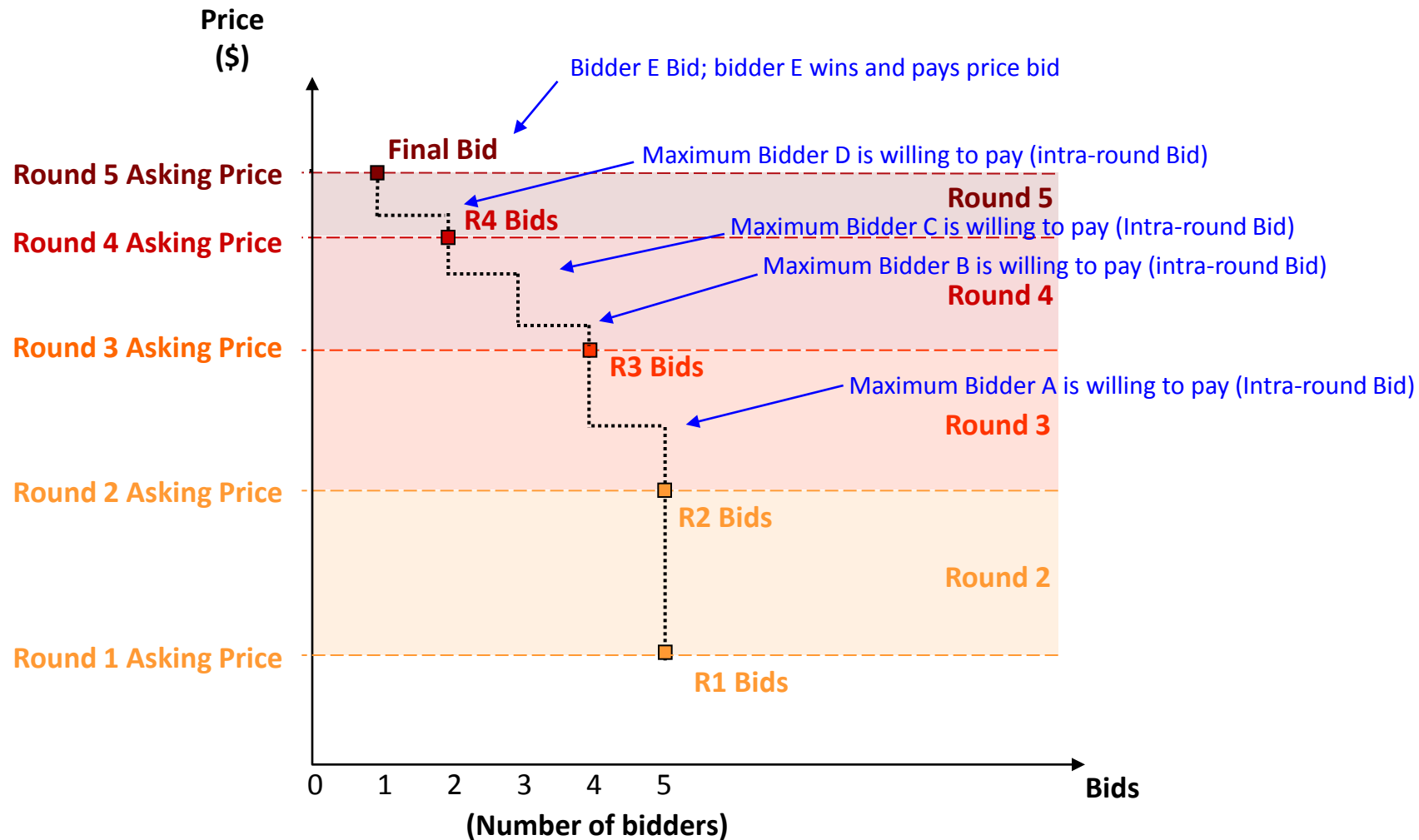
Auction Overview

- Bidders eligible to earn a percentage credit applied to cash bonus bid
 - BOEM will conduct a technical evaluation phase to determine each bidder's eligibility for a percentage credit
 - Assigned to highest valued zone on which the bidder bids in each round
 - Terms and conditions for credits for Maryland lease sale still to be finalized

Illustrative Single Item Ascending Clock Auction Round Process



Ascending clock auction (single item)



Auction Mechanics

Auction Schedule

[\[View Printable Format\]](#)

The Auction Schedule is shown below. The number of rounds will be dependent on bidding in the auction, and thus this screen does not reflect the expected number of rounds.

Round	Status	Start	End
Round 1	Active View Prices	02:59:00 EST	03:29:00 EST
Recess		03:29:00 EST	04:29:00 EST
Round 2	Future	04:29:00 EST	04:59:00 EST
Recess		04:59:00 EST	05:59:00 EST
Round 3	Future	05:59:00 EST	06:29:00 EST
Recess		06:29:00 EST	07:29:00 EST
Round 4	Future	07:29:00 EST	07:59:00 EST
Recess		07:59:00 EST	08:59:00 EST



Time left in Round
15:16

14 January 2013, 03:26:44 EST
Round 1 started at 03:07:00 and will end
at 03:42:00 EST

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Auction Info - Products

Products

My Auction Info

[\[View Printable Format\]](#)

Zone	Opening Price
Commercial Lease Zone 1 ("North Zone")	\$248,530
Commercial Lease Zone 2 ("South Zone")	\$150,000



Time left in Round
14:17

14 January 2013, 03:27:43 EST
Round 1 started at 03:07:00 and will end
at 03:42:00 EST

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My Auction Info

[Products](#)**My Auction Info**[\[View Printable Format\]](#)

My Initial Eligibility: **2 pts**

My Deposit: **\$398,530**

Time left in Round
13:17

14 January 2013, 03:28:43 EST
Round 1 started at 03:07:00 and will end
at 03:42:00 EST

Current Bids

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Current Bids - Round 1

Activity: **0 pts** Eligibility: **2 pts**
Eligibility of Next Round: **0 pts**

☐ ☐

Zone	Live Bid
Commercial Lease Zone 1 ("North Zone")	<input type="checkbox"/> \$248,530
Commercial Lease Zone 2 ("South Zone")	<input type="checkbox"/> \$150,000
Imputed price:	\$0
Credit (25.00%):	\$0
Cash bid:	\$0

Note:

- Credit applies only to the highest priced zone selected.

Time left in Round

11:49

14 January 2013, 03:30:11 EST

Round 1 started at 03:07:00 and will end
at 03:42:00 EST

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Current Bids - Round 1

Activity: **1 pt** Eligibility: **2 pts**

Eligibility of Next Round: **1 pt**

☐ ☐

Zone	Live Bid
Commercial Lease Zone 1 ("North Zone")	<input checked="" type="checkbox"/> \$248,530
Commercial Lease Zone 2 ("South Zone")	<input type="checkbox"/> \$150,000
Imputed price:	\$248,530
Credit (25.00%):	\$62,133
Cash bid:	\$186,398

Note:

- Credit applies only to the highest priced zone selected.

Time left in Round
09:26

14 January 2013, 03:32:34 EST
Round 1 started at 03:07:00 and will end
at 03:42:00 EST

Current Bids

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Current Bids - Round 1

Activity: **1 pt** Eligibility: **2 pts**
Eligibility of Next Round: **1 pt**

☐ ☐

Zone	Live Bid
Commercial Lease Zone 1 ("North Zone")	<input type="checkbox"/> \$248,530
Commercial Lease Zone 2 ("South Zone")	<input checked="" type="checkbox"/> \$150,000
Imputed price:	\$150,000
Credit (25.00%):	\$37,500
Cash bid:	\$112,500

Note:

- Credit applies only to the highest priced zone selected.

Time left in Round

10:57

14 January 2013, 03:31:03 EST

Round 1 started at 03:07:00 and will end
at 03:42:00 EST

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Current Bids - Round 1

Activity: **2 pts** Eligibility: **2 pts**

Eligibility of Next Round: **2 pts**

Zone	Live Bid
Commercial Lease Zone 1 ("North Zone")	<input checked="" type="checkbox"/> \$248,530
Commercial Lease Zone 2 ("South Zone")	<input checked="" type="checkbox"/> \$150,000
Imputed price:	\$398,530
Credit (25.00%):	\$62,133
Cash bid:	\$336,398

Note:

- Credit applies only to the highest priced zone selected.



Time left in Round
07:25

14 January 2013, 03:34:35 EST
Round 1 started at 03:07:00 and will end
at 03:42:00 EST

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Bid Confirmation – Round 1

Round: Round 1 Bid data as of Monday, 14 January 2013, 03:34:07 EST.

[\[Print this page\]](#)

This round's Eligibility: 2 pts

Next round's Eligibility: 2 pts (based on current Live Bid)


Zone	Live Bid	
Commercial Lease Zone 1 ("North Zone")	✓	\$248,530
Commercial Lease Zone 2 ("South Zone")	✓	\$150,000
Imputed price:		\$398,530
Credit (25.00%):		\$62,133
Cash bid:		\$336,398

Note:

- Credit applies only to the highest priced zone selected.

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Round Results

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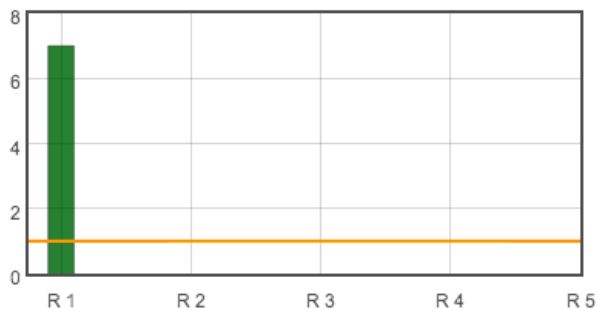
Round 1

Zone	Price	Quantity Posted	Increment	Price
	Round 1			Round 2
Commercial Lease Zone 1 ("North Zone")	\$248,530	7	N/A	N/A
Commercial Lease Zone 2 ("South Zone")	\$150,000	3	N/A	N/A

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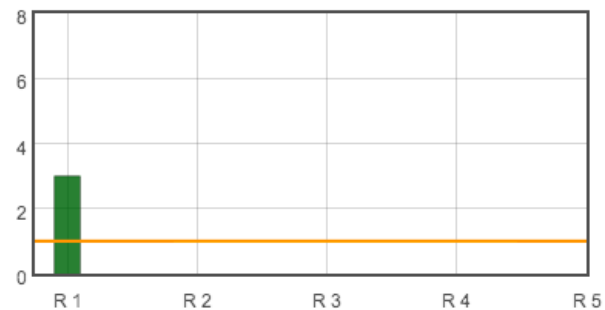
View Demand

Demand



Commercial Lease Zone 1 ("North Zone")

Demand



Commercial Lease Zone 2 ("South Zone")

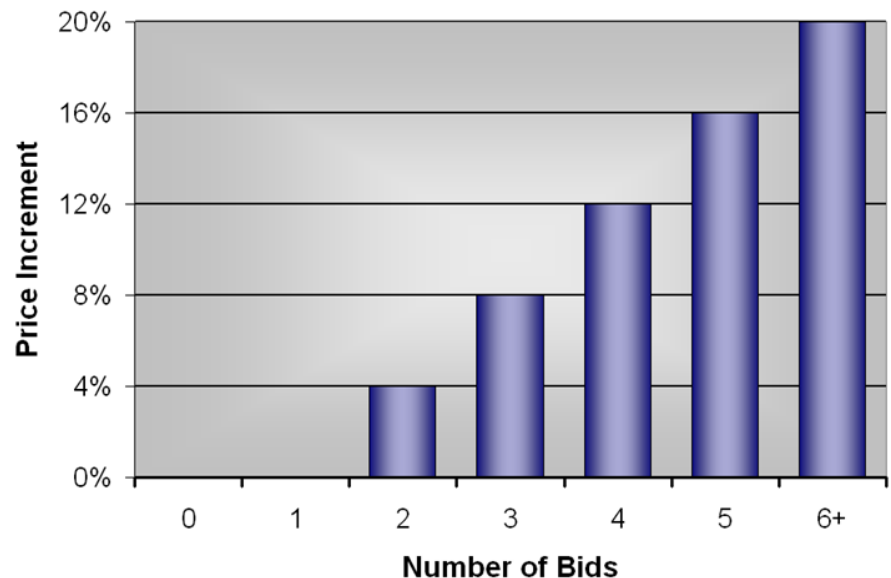
Show Round: Round 1 ▾

Zone	Demand
	Round 1
Commercial Lease Zone 1 ("North Zone")	7
Commercial Lease Zone 2 ("South Zone")	3

Price Movements

- Asking price movements based on demand
- A percentage increase is applied to each zone's price in the previous round based on the level of demand and the pace of the auction

Illustrative Default Increment Percentages for a Clock Auction



Ausubel and Cramton (2011c), p. 39.

Time left in Round
28:51

14 January 2013, 03:40:09 EST
Round 2 started at 03:39:00 and will end
at 04:09:00 EST

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Current Bids - Round 2

Activity: **0 pts** Eligibility: **2 pts**
Eligibility of Next Round: **0 pts**

☐ ☐

Zone		Previous Round Bid	Live Bid
Commercial Lease Zone 1 ("North Zone")		<input checked="" type="checkbox"/> \$248,530	<input type="checkbox"/> \$298,236
Commercial Lease Zone 2 ("South Zone")		<input checked="" type="checkbox"/> \$150,000	<input type="checkbox"/> \$162,000
Intra-Round Bid	<input type="button" value="Place Intra-round Bid"/>	Imputed price:	\$0
Credit (25.00%):	-		\$0
Cash bid:	-		\$0

Note:

- Credit applies only to the highest priced zone selected.
- An intra-round bid may be made on the same set of zones you bid on in the previous round. The price must be more than the total price for that set of zones in the last round and less than the total price for that set of zones in the current round. By making an intra-round bid you reduce your eligibility by one for live bids in this and future rounds.

Time left in Round

26:29

14 January 2013, 03:42:31 EST

Round 2 started at 03:39:00 and will end
at 04:09:00 EST

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Current Bids - Round 2

Activity: **2 pts** Eligibility: **2 pts**

Eligibility of Next Round: **2 pts**

Zone		Previous Round Bid		Live Bid	
Commercial Lease Zone 1 ("North Zone")		<input checked="" type="checkbox"/>	\$248,530	<input checked="" type="checkbox"/>	\$298,236
Commercial Lease Zone 2 ("South Zone")		<input checked="" type="checkbox"/>	\$150,000	<input checked="" type="checkbox"/>	\$162,000
Intra-Round Bid	<input type="text" value="Place Intra-round Bid"/>	Imputed price:			\$460,236
Credit (25.00%):	-				\$74,559
Cash bid:	-				\$385,677

Note:

- Credit applies only to the highest priced zone selected.
- An intra-round bid may be made on the same set of zones you bid on in the previous round. The price must be more than the total price for that set of zones in the last round and less than the total price for that set of zones in the current round. By making an intra-round bid you reduce your eligibility by one for live bids in this and future rounds.

Time left in Round
25:37

14 January 2013, 03:43:23 EST
Round 2 started at 03:39:00 and will end
at 04:09:00 EST

Current Bids

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Current Bids - Round 2

Activity: **1 pt** Eligibility: **2 pts**
Eligibility of Next Round: **1 pt**

☐ ☐

Zone		Previous Round Bid	Live Bid
Commercial Lease Zone 1 ("North Zone")		<input checked="" type="checkbox"/> \$248,530	<input checked="" type="checkbox"/> \$298,236
Commercial Lease Zone 2 ("South Zone")		<input checked="" type="checkbox"/> \$150,000	<input type="checkbox"/> \$162,000
Intra-Round Bid	<input type="text" value="Place Intra-round Bid"/>	Imputed price:	\$298,236
Credit (25.00%):	-		\$74,559
Cash bid:	-		\$223,677

Note:

- Credit applies only to the highest priced zone selected.
- An intra-round bid may be made on the same set of zones you bid on in the previous round. The price must be more than the total price for that set of zones in the last round and less than the total price for that set of zones in the current round. By making an intra-round bid you reduce your eligibility by one for live bids in this and future rounds.

Current Bids - Round 2

Activity: **1 pt** Eligibility: **1 pt**

Eligibility of Next Round: **1 pt**

Zone		Previous Round Bid		Live Bid	
Commercial Lease Zone 1 ("North Zone")		<input checked="" type="checkbox"/>	\$248,530	<input checked="" type="checkbox"/>	\$298,236
Commercial Lease Zone 2 ("South Zone")		<input checked="" type="checkbox"/>	\$150,000	<input type="checkbox"/>	\$162,000
Intra-Round Bid		Imputed price:			\$298,236
Credit (25.00%):		\$398,530 < <input type="text" value="\$425,000"/> < \$460,236			\$74,559
Cash bid:		Please enter a price greater than \$398,530			\$223,677
		<input type="button" value="Submit"/> or <input type="button" value="Cancel"/>			

Note:

- Credit applies only to the highest priced zone selected.
- An intra-round bid may be made on the same set of zones you bid on in the previous round. The price must be more than the total price for that set of zones in the last round and less than the total price for that set of zones in the current round. By making an intra-round bid you reduce your eligibility by one for live bids in this and future rounds.

Time left in Round

15:40

14 January 2013, 03:53:20 EST

Round 2 started at 03:39:00 and will end
at 04:09:00 EST

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Current Bids - Round 2

Activity: **1 pt** Eligibility: **1 pt**

Eligibility of Next Round: **1 pt**


Zone		Previous Round Bid		Live Bid	
Commercial Lease Zone 1 ("North Zone")		<input checked="" type="checkbox"/>	\$248,530	<input checked="" type="checkbox"/>	\$298,236
Commercial Lease Zone 2 ("South Zone")		<input checked="" type="checkbox"/>	\$150,000	<input type="checkbox"/>	\$162,000
Intra-Round Bid	<input type="button" value="Edit"/> or <input type="button" value="Delete"/> \$425,000	Imputed price:			\$298,236
Credit (25.00%):	\$62,133				\$74,559
Cash bid:	\$362,868				\$223,677

Note:

- Credit applies only to the highest priced zone selected.
- An intra-round bid may be made on the same set of zones you bid on in the previous round. The price must be more than the total price for that set of zones in the last round and less than the total price for that set of zones in the current round. By making an intra-round bid you reduce your eligibility by one for live bids in this and future rounds.

Bid Confirmation – Round 2

Round: Round 2 Bid data as of Monday, 14 January 2013, 03:53:51 EST.

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This round's Eligibility: 2 pts

Next round's Eligibility: 1 pt (based on current Live Bid)

You eligibility will be reduced next Round.


Zone	Intra-round Bid	Live Bid
Commercial Lease Zone 1 ("North Zone")	✓	✓ \$298,236
Commercial Lease Zone 2 ("South Zone")	✓	
Imputed price:	\$425,000	\$298,236
Credit (25.00%):	\$62,133	\$74,559
Cash bid:	\$362,868	\$223,677

Note:

- Credit applies only to the highest priced zone selected.
- An intra-round bid may be made on the same set of zones you bid on in the previous round. The price must be more than the total price for that set of zones in the last round and less than the total price for that set of zones in the current round. By making an intra-round bid you reduce your eligibility by one for live bids in this and future rounds.

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Round Results

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Round 2

Zone	Price	Quantity Posted	Increment	Price
	Round 2			Round 3
Commercial Lease Zone 1 ("North Zone")	\$298,236	4	N/A	N/A
Commercial Lease Zone 2 ("South Zone")	\$162,000	1	N/A	N/A

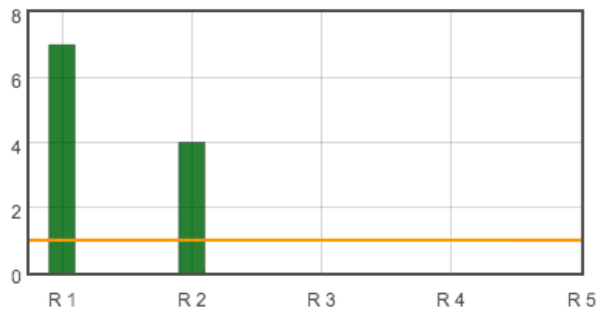
Round 1

Zone	Price	Quantity Posted	Increment	Price
	Round 1			Round 2
Commercial Lease Zone 1 ("North Zone")	\$248,530	7	20.00%	\$298,236
Commercial Lease Zone 2 ("South Zone")	\$150,000	3	8.00%	\$162,000

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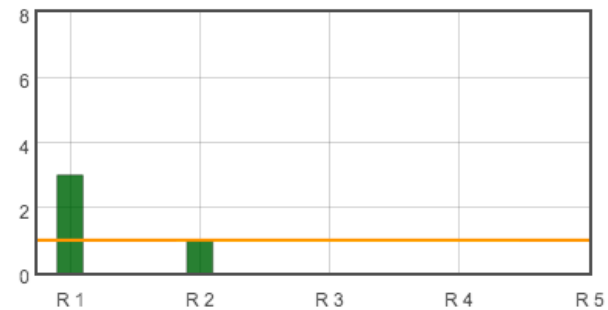
View Demand

Demand



Commercial Lease Zone 1 ("North Zone")

Demand



Commercial Lease Zone 2 ("South Zone")

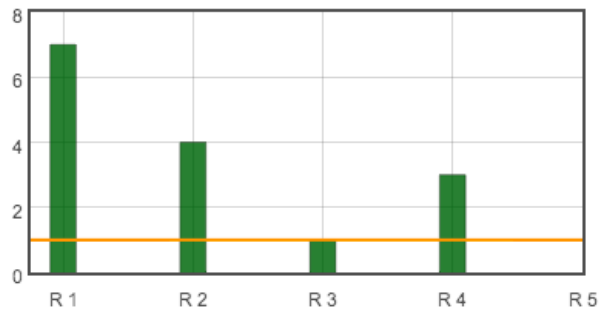
Show Round: (and up to 1 Round before)

Zone	Demand	
	Round 2	Round 1
Commercial Lease Zone 1 ("North Zone")	4	7
Commercial Lease Zone 2 ("South Zone")	1	3

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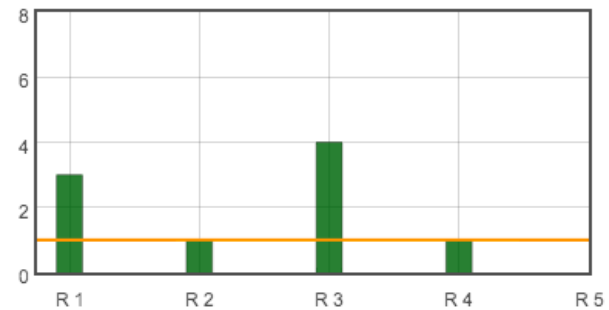
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Demand



Commercial Lease Zone 1 ("North Zone")

Demand



Commercial Lease Zone 2 ("South Zone")

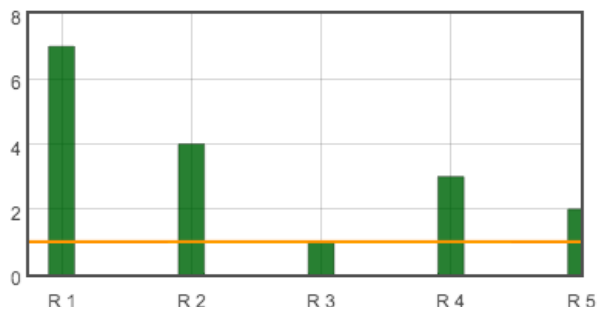
Show Round: Round 4 ▾ (and up to 3 Rounds before)

Zone	Demand			
	Round 4	Round 3	Round 2	Round 1
Commercial Lease Zone 1 ("North Zone")	3	1	4	7
Commercial Lease Zone 2 ("South Zone")	1	4	1	3

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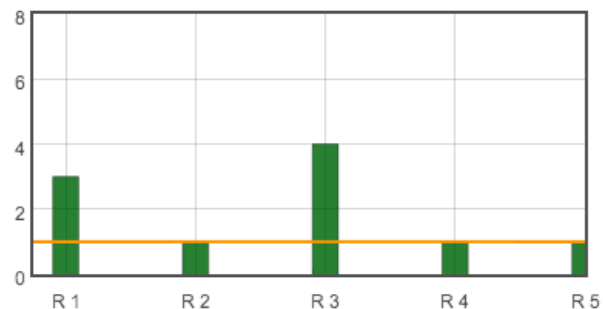
View Demand

Demand



Commercial Lease Zone 1 ("North Zone")

Demand



Commercial Lease Zone 2 ("South Zone")

Show Round: Round 5 (and up to 4 Rounds before)

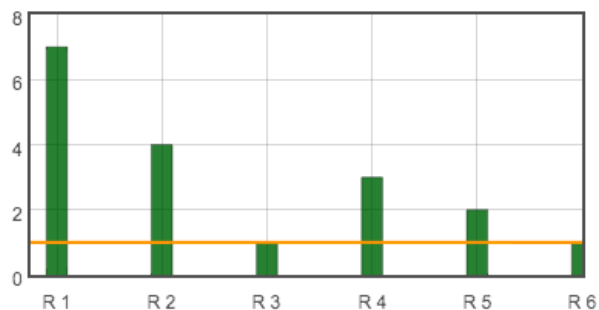
Zone	Demand				
	Round 5	Round 4	Round 3	Round 2	Round 1
Commercial Lease Zone 1 ("North Zone")	2	3	1	4	7
Commercial Lease Zone 2 ("South Zone")	1	1	4	1	3

The Auction has concluded.

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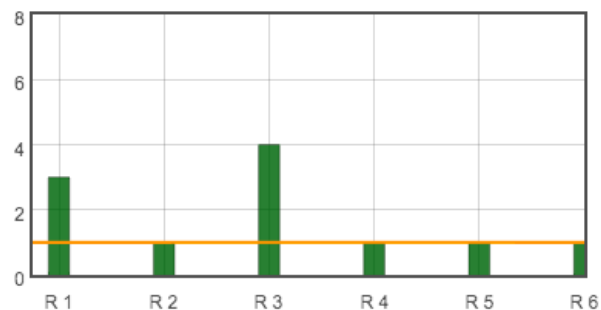
View Demand (Final Round)

Demand



Commercial Lease Zone 1 ("North Zone")

Demand



Commercial Lease Zone 2 ("South Zone")

Show Round: (and up to 5 Rounds before)

Zone	Demand					
	Round 6	Round 5	Round 4	Round 3	Round 2	Round 1
Commercial Lease Zone 1 ("North Zone")	1	2	3	1	4	7
Commercial Lease Zone 2 ("South Zone")	1	1	1	4	1	3

Auction Ends



14 January 2013, 04:56:06 EST

The Auction has concluded.

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Round Results

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Final Results

Winners		Zones	Activity	Price as Bid	Credit	Payment
ID	Company Name					
Total Sold		Commercial Lease Zone 1 (“North Zone”), Commercial Lease Zone 2 (“South Zone”)	Number of Winning Bidders: 2			

Round 6

Zone	Price	Quantity Posted	Increment	Price
	Round 6			Round 7
Commercial Lease Zone 1 ("North Zone")	\$375,176	1	N/A	N/A
Commercial Lease Zone 2 ("South Zone")	\$181,440	1	N/A	N/A

Round 5

DRAFT

What if one zone has zero demand when the auction ends?



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Round Results

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Final Results

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	Round 6			Round 7
Commercial Lease Zone 1 ("North Zone")	\$375,176	1	N/A	N/A
Commercial Lease Zone 2 ("South Zone")	\$181,440	0	N/A	N/A

Round 5

DRAFT

Winner Determination: Stage 2

- Unsold zones are awarded to bidders whose bids in prior-to-final rounds yield the highest auction revenue to BOEM, subject to the conditions noted below
- BOEM considers all live bids from prior-to-final rounds and intra-round bids from any round
- Live bids submitted in a particular round are considered as package bids in the same way as intra-round bids
 - Valued at an aggregate price based on the sum of the prices in the round when each live bid was submitted
- Bids must not conflict with zones awarded already awarded
 - Bids from bidders who were not awarded a zone in final round are eliminated if they contain any zone that was already awarded
 - Bids from bidders who were awarded one or more zones in the final round are eliminated if they do not contain all of the zones the bidder was already awarded (i.e., a “super-set”)
- Ties among bids are resolved by a random process

Questions and Answers

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BOEM Auction Format Research

<http://www.boem.gov/Renewable-Energy-Program/Regulatory-Information/Renewable-Energy-Auction-Formats.aspx>