

FOR DISCUSSION ONLY

***DRAFT Straw Proposal:
New Jersey's Offshore Wind Renewable Energy Certificate (OREC)***

Prepared by
New Jersey Board of Public Utilities
Office of Clean Energy

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Executive Summary

On October 23, 2008, Governor Corzine released the Energy Master Plan which establishes the goals and strategies to place New Jersey at the forefront of a growing clean energy economy with aggressive energy efficiency and renewable energy goals and action items. Under regulations already in place, New Jersey's Renewable Portfolio Standards (RPS) requires that renewable energy sources generate 22.5% of the State's electricity consumption by 2020 and to achieve this goal it requires electric power suppliers and basic generation service providers (referred to as "supplier/providers," defined in N.J.A.C. 14:8-1.2) to include minimum percentages of qualified renewable energy in the electricity they sell; those minimum percentages increase over time. However, the Energy Master Plan recognizes that continuing improvement in renewable energy technologies make it possible to exceed this goal, and calls for a 30% goal by 2020.

The EMP also specifically calls for a minimum of 1000 Megawatts of Off-Shore Wind capacity to be developed by 2012 and a minimum of 3000 MW of offshore wind by 2020. It is staff's proposal to meet this target by amending the Renewable Portfolio Standards for Class I resources by incorporating an Off-Shore Wind carve out that calls for 1000 MW by 2012 and 3000 MW by 2020.

OCE Staff offers the following DRAFT Straw Proposal for structuring an offshore wind set-aside, or "carve-out", within New Jersey's Renewable Portfolio Standard (RPS). This DRAFT Straw Proposal is based on the BPU Staff's recommendations which consider the unique challenges in developing offshore wind farms as well as the input of industry stakeholders and other interested parties who have participated in the Offshore Wind Working Group.

Guiding Principles

The following principles have been established to guide the development of an effective Offshore Wind set aside program. Properly structured, a New Jersey Offshore Wind carve out can be an effective stimulus for the entire offshore wind supply chain – helping to provide green manufacturing and service jobs and long-term certainty about energy prices to electricity ratepayers in New Jersey while directly supporting the goals outlined in the new Energy Master Plan:

- Support for Governor's EMP and other policy goals
- Spur economic development in New Jersey including the creation of local jobs
- Consistency with New Jersey's Renewable Portfolio Standards (RPS)
- Provide adequate incentive for the development of Offshore wind
- Minimize ratepayer impacts
- Foster sustained, orderly development of a competitive marketplace
- Reduce transaction costs for market participants

Challenges

- Planning for and accommodating the uncertainty in the Offshore Wind development process originating from such sources as new permitting processes, construction vagaries, or weather related impediments which may impact the timing and amount of new capacity commencement
- Structuring the incentive delivery mechanics to be consistent with scale of logical project capacity and market development
- The need to signal or communicate accurate, transparent, and timely cost and OREC price information to market participants
- Does the RPS regulatory mandate provide enough security to the potential OREC revenue stream to enable developers to secure debt financing

General Approach

- *How should the Off-Shore Wind Renewable Energy Certificate (OREC) be structured to provide adequate incentive for development of OSW to meet the Governor's EMP goals while minimizing cost to ratepayers?*

On October 23, 2008 the Board approved a public stakeholder process, followed by a public hearing, on the proposed RPS amendment for offshore wind to provide staff and the Board with valuable input from stakeholders and interested members of the public. A set of questions on how best to structure an OSW carve-out were circulated to interested stakeholders and discussed at stakeholder meetings held December 11, 2008 and January 13, 2009.

Staff developed the following proposal for an OREC incentive consistent with New Jersey's Renewable Portfolio Standard based in part on the valuable input received from stakeholders.

This proposed incentive structure will be subject to further discussion and subsequent adoption through rulemaking by the Board:

- A target amount of Offshore Wind capacity and a schedule for meeting those targets consistent with the EMP will be established within the NJ RPS regulations,
- All load-serving entities that supply BGS service to EDCs and third party suppliers of retail electricity (together “Suppliers”) will be required to obtain a certain percentage of retail sales from offshore wind. The RPS will be set in MWhs and the Suppliers will be required to buy a percentage based on their market share;
- The percentage of retail sales required from offshore wind will increase over time in two year increments;
- Suppliers will demonstrate compliance with this requirement by purchasing and retiring Offshore Renewable Energy Certificates (OREC) for load served from June 1st through May 31st of each reporting year;
- An annual Request for Pricing Proposals (RPP) process will be established to formally solicit OREC needs from developers to allow the Board to set a fixed OREC price for the established time period. The OREC price would be for the entire cost of the project and would be modified based on the actual cost of electricity that the wind facilities receive (LMPs)
- Proposed projects would then have the opportunity to agree to accept that OREC price and be approved by the Board to receive ORECs from the production of electricity at the “vintage year” OREC prices established in the RPP process;
- The ORECs will be administered; created for OSW developers and allocated, and retired for LSEs, through the PJM Generator Attributes Tracking System (“GATS”). ORECs are not anticipated to be a tradeable certificate for compliance market use similar to SRECs or Class I RECs.

Through this competitive process the Board will establish a fixed, long-term (15 year) OREC price to help ensure a predictable revenue stream that will enable the construction of enough offshore wind generation to meet the State’s Energy Master Plan goals. Offshore wind farms require a large upfront investment and involve considerable commercial and regulatory risk. Consequently, financing this type of project is challenging. Considering the uncertainty in revenues from Class 1 RECs, the volatility in energy markets and the recent difficulties in the credit markets, staff believes that offshore wind development will not occur if the projects cannot demonstrate a predictable source of revenue beyond the expected sale of electricity. The BPU will help minimize these inherent risks and enable project financing by establishing an OREC requirement and long-term, fixed price based on an approved methodology and thereby creating a timely and predictable revenue stream.

Staff believes it is in the best interest of New Jersey Ratepayers to incentivize offshore wind farms in a competitive manner to help ensure the lowest possible cost of development to the ratepayer. By using a competitive Request for Pricing Proposal, staff believes the State can establish OREC prices in a market-driven manner that minimizes risks to ratepayers. OREC Pricing will be set through this competitive process and only those facilities that meet all requirements and agree to the OREC price may generate ORECs in a given year for sale to Suppliers. (*See Request for Pricing Proposals below*)

OREC Requirement & Schedule

- *What type of schedule and requirement will be set to stimulate offshore wind project development and investment?*

The Board will establish an OSW schedule and RPS requirements in two year increments for the total MWs of offshore wind it wants to bring online and the annual volumetric MWhs and ORECs the State expects to be generated from those projects for energy years¹ 2013 to 2020. O-REC volumetric compliance levels will be set biannually equal to the MWhs of energy produced by Designated Facilities

The OSW target will be established as a production requirement expressed in MWhs versus a percentage of total load served, which is likely to decline per the State's energy efficiency goals. The OSW Schedule will be set in 2yr tranches so that the OSW target for 2012/2013 is set at 1000 MW and increases by 500 MW every two years or a total of 1500 MW by 2014/2015; 2000 MW by 2016/2017; 2500 MW by 2018/2019 and 3000 MW by 2020/2021. The two year increments method is designed to provide a strong mandate to stimulate project development while allowing flexibility in the development process consistent with the scale and pace of Offshore wind project development.² Also a flexible goal that can accommodate shifts in project development is more likely to reduce risks and thereby result in a more competitive outcome in terms of project development costs.

Proposed OREC Schedule & Requirements

Energy Year ¹	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
OSW Carve-Out by Capacity MW	Total 1000 MW		Total 1500 MW		Total 2000 MW		Total 2500 MW		Total 3000 MW	
OSW Carve-Out by Production @ 34% Capacity (MWh)	2,978,400		4,467,600		5,956,800		7,446,000		8,935,200	

¹ An energy year runs from June 1 through May 31st as defined by the RPS rules roughly consistent with the BGS Auction (the RPS classifies an EY by the year in which it ends, the BGS auction calls an EY by the year it begins).

OREC Obligated Entities & Payments

- Who should be obligated to meet the Offshore Wind RPS obligation through the purchase of ORECs?

All load-serving entities that supply BGS service to EDCs and third parties suppliers of retail load (together “Suppliers”) will be required to meet the OSW RPS by obtaining the required number of ORECs of a specified vintage year. Each supplier's OREC obligation will be determined based on the total MWh of OSW required in that year, adjusted to their share or percentage of the total load served. In other words, each Supplier’s O-REC compliance obligation will be weighted by their share of NJ load from that energy year. BGS auction winners will determine the percentage of state load served based on the tranches won for that year, and multiply it by the total MWhs of OSW requirement for that energy year. Third party suppliers can similarly determine their percentage of total load served and multiply it by the total OSW requirement.

Vintage year designation will be established in the annual RPP process and facilities will be authorized to produce ORECs for a set vintage year ~~at a set OREC price~~. Unique vintage year OREC prices for these designated facilities will be established in the annual RPP process. If there are not enough ORECs in any given compliance year, the Supplier will be required to buy Class I RECs.

The BGS Auction scheduled to occur in February 2010 is the first year Suppliers would be obligated to purchase ORECs for EY 2013. Bidders will know the MWh requirement and OREC pricing methodology by September 2009. The OREC price for EY 2013 will be set by the Board as soon as possible. In the event that OREC pricing is not established in advance of the 2010 BGS Auction, Suppliers will be able to pass through or recover any additional costs for ORECs similar to the manner in which suppliers recovered their costs of increased SACP payments.

Quarterly estimated payments will be required to ensure revenue stream ~~and~~ cash flow.

Proposed OREC Quarterly Payment Schedule & Annual True-up	
<i>EY Quarter</i>	<i>Payment</i>
June 1 –August 31	1st OREC Payment
September 1 – November 30	2nd OREC Payment
December 1 – February 28	3rd OREC Payment
March 1 – May 31	4th OREC Payment
October 1	Annual True-up

Request for Pricing Proposals

- *What type of competitive solicitation or request for qualifications will be used to qualify projects to receive ORECs and determine the appropriate OREC Price?*

Every two years³ between 2012 and 2020, the State will set targets for the total MWhs of offshore wind it wants to bring online and the annual MWhs and ORECs the State expects to be generated from those projects. The State will then solicit pricing proposals from developers to meet those OREC production targets through a competitive Request for Pricing Proposals. Developer proposals will specify the capacity of the project, the expected ORECs to be produced, and the price per OREC necessary to make the project commercially viable without considering the wholesale price of electricity.

Based on the Request for Pricing Proposals the BPU will set a single fixed 15-year price for the ORECs from all projects for that "Vintage Year." OSW generators would then submit to be registered to generate ORECs at that fixed price. All developers will have to decide if they want to proceed based on the OREC price. If a developer decides not to proceed, those MWs or capacity can be awarded to another developer or carried forward into a subsequent year. If a developer decides to proceed, they will register the project as a Designated Facility with a set MW capacity. The RPS rules will require that Suppliers purchase ORECs of a specified vintage year at the fixed price from Designated Facilities.

**NJ Offshore Wind
OREC PRICING PROPOSAL PROCESS**

- 1. BPU ESTABLISHES OSW QUALIFICATIONS / CRITERIA
for offshore wind developers to participate in Request for Pricing Proposal**
- 2. REQUEST for OREC PRICING PROPOSAL
to include total system cost, projected wholesale electricity pricing and OREC
pricing requirement**
- 3. BPU ESTABLISHES INITIAL OREC PRICE
Based on review of pricing proposals.**
- 4. QUALIFIED OSW PROJECTS SUBMIT REGISTRATION TO BPU
To build project eligible for ORECs at set price.**
- 5. BPU APPROVES PROJECT REGISTRATION**

³ An energy year runs from June 1 through May 31st as defined by the RPS and roughly consistent with the BGS Auction.

Designated Facilities

- *How will facilities or projects be designated to be eligible to generate ORECs?*

The State will designate wind facilities to be eligible for OREC (Designated Facilities) based on Project Registration process. Designated Facilities will be those facilities that submitted a response to the RPP and agree to accept the OREC long term fixed price set by the Board and complete Project Registration. Designated Facilities will be required to be wind-generating facilities located off the coast of NJ and/or neighboring states, at a minimum not to exceed 1,000 MW for 2012 and 3,000 for 2020. Designated Facilities must supply NJ Suppliers with ORECs. OREC volumetric compliance levels will be set annually equal to the MWhs of energy produced by the Designated Facilities.

The BPU will notify the federal Minerals Management Service of all Designated Facilities in order to expedite project permitting.

OREC Pricing Methodology

- *What methodology and formula will be used to determine the price of an OREC?*

Consistent with the establishment of a competitive market, the OREC Price should be transparent and as competitively determined as possible. The Board will establish the long-term OREC pricing upfront based on the responses to the Request for Pricing Proposal process.

A methodology will be approved by the Board that will set the final OREC Price based on the initial price established via the RPP minus annual electricity received by the facility, based on LMP and subject to an annual true-up.

Annual OREC Price = the Initial OREC Price minus annualized LMP at the closest node to point of interconnection

The Board will establish an RPS requirement and OREC Price for EY 2013 and set the price for 15yrs when the Met Tower Data becomes available (around December 2010). However the approved methodology will be established by the Board by September 2009 so that developers know how the price will be set and what the contract will entail vis a vis the offtakers of the ORECs and so that BGS auction bidders can anticipate requirements for the BGS Auction.

The BPU may rely on an Independent Consultant to provide input as to reasonableness of pricing per the information provided in the solicitation process and per benchmarks to similar projects such as the Blue Water Wind project in Delaware. Also note that the price of ORECs may vary between Vintage Years based upon the results of different competitive Requests for Proposals, which would reflect changing market dynamics from year to year. In order to ensure bonafide proposals and project completion, an appropriate level of competitiveness in bid response and OREC delivery obligation will need to be established,

similar to the approach used in BGS. New Jersey's stated goal is to have 1,000 MW of offshore wind in operation for energy year 2013. However, it is unlikely that the RPP process which sets the OREC price will take place before the first BGS auction for energy year 2013. This is because offshore wind developers will not have enough meteorological data to make an informed bid until early 2011. In the absence of a final OREC price for Vintage Year 2013 projects, the BPU will need to administratively establish a placeholder OREC value that Suppliers can use for their BGS auction requirements, anticipated for February 2010 which will serve EY11, 12 and 13, until the actual, first vintage year OREC price is determined.

Other Pre-Qualification Requirements to Participate in the RPP Process

- **Delivery into New Jersey's Distribution System** –Participation in the OREC set-aside program will thus be limited to those offshore wind projects that deliver energy into New Jersey's transmission and distribution system.
- Capacity to Deliver an Operational Project
- Satisfactory progress toward securing all relevant permits and leases; ie non-competitive interest designation by USDOJ MMS
- Met station leasing application finalized at MMS and construction started

All requirements will be specified as part of the competitive Request for Pricing solicitation and Project Registration process.

Proposed Timeline & Milestones

Schedule for the OSW rulemaking and public stakeholder process:

January 26, 2009	Outline of Straw Proposal to be reviewed by Staff to be completed by
February 9, 2009	DRAFT Straw Proposal to be circulated to OSW Working Group by
February 19, 2009	Third OSW Working Group stakeholder meeting
March 6, 2009	Revised Straw Proposal recirculated to OSW Working Group
March 2009	Public hearing presided by President Fox to solicit comments on Straw Proposal from interested parties.
April 2009	Rule Proposal considered by the Board
May 2009	Rule Proposal published in the NJSR
June 1, 2009	Up to three informal stakeholder meetings, to be completed by June 1, 2009. (Meetings scheduled: Dec 11, Jan 13, Feb 19)
July 2009	Public hearing on rule adoption and close of comment period.
September 2009	Rule adoption by the Board
September 2009	OREC pricing methodology established by the Board no later than September 2009
December 2009	MET Tower Data to be available to establish 2013 OREC Pricing
February 2010	BGS Auction for EY 2010-2013 to include OSW requirements for June 1, 2012 to May 31, 2013