

NJ Off-Shore Wind – Recommended Compliance Structure

Stakeholder Meeting

January 13, 2009

NJ Off-Shore Wind – Recommended Compliance Structure



Objectives:

- Achieve customer fairness across all NJ load through one common off-shore wind compliance and cost structure
- Wind supplier funding set upfront at levels that encourage off-shore wind development

ACE Proposed Structure:

- NJ Renewable Energy Credit (REC) requirement to have an off-shore carve-out (O-RECs) separate from all other forms of renewable requirements (O-RECs to be set as an “up to” amount)
- O-REC compliance to be the responsibility of the utilities for all DISTRIBUTION load
- Utilities are not obligated to buy energy from the off-shore providers, only O-RECs; eliminating the need for utilities to enter into long-term PPA contracts with the wind providers*
- O-REC carve-out compliance volumes not to exceed the MW goals set by the state (1,000 MW by 2012 and 3,000 by 2020)
- Utilities O-REC compliance weighted by all NJ load (ACE currently has 13% of state distribution load):

	<u>2012</u>	<u>2020</u>
ACE’s O-REC compliance (in MWs)	130	390

- An O-REC is created from every Mwh of off-shore wind energy produced and delivered into PJM

* *Separate utility long-term PPA contracts are not recommended by ACE as the approach would not achieve “cost” consistency across the State and would create a major O-REC compliance issue if a wind facility under contract does not come to fruition.*

Structure Cont'd:

- State to designate wind facilities to be O-REC providers (Designated Facilities):
 - Designated Facilities 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 utilities with O-RECs (no secondary market for NJ O-RECs)
 - O-REC volumetric compliance levels to be set annually equal the Mwhs of energy produced by the Designated Facilities

- State to establish the LONG-TERM O-REC pricing upfront at an above market cost of off-shore wind to be netted against energy prices:
 - State could benchmark the pre-established pricing: through a Request For Pricing, to that of DE BWB, a multiple of land-based (2x), and rely on an Independent Consultant to provide comment as to reasonableness of pricing
 - Annual O-REC price = pre-established cost of off-shore wind minus annual energy rate received by the Designated Facilities for selling energy into PJM
 - Annual true-ups

O-REC Carve-out - Cost Allocation Example for Year 2012

Forecast:

Level of Installed Offshore Wind (MW)	1,000	
Output (Gwh)	2,900	
O-REC Pricing:		
State Pre-Established Cost of Off-Shore Wind	140.00	\$/Mwh
Forecasted Weighted Cost of Energy	70.00	\$/Mwh
O-REC Price for Year 2012	<u>70.00</u>	\$/Mwh

	State	ACE	% of Load Served by ACE
Delivered Sales (Gwh)	79,000	10,270	13%
O-REC compliance based on off-shore wind output	2,523	377	
O-REC Pricing (Kwh)		\$ 0.00257	

Actual:

Level of Installed Offshore Wind (MW)	1,000	
Output (Gwh)	3,000	
O-REC Pricing:		
State Pre-Established Cost of Off-Shore Wind*	140.00	\$/Mwh
Actual Weighted Cost of Energy	70.00	\$/Mwh
O-REC Price for Year 2012	<u>70.00</u>	\$/Mwh

	State	ACE	% of Load Served by ACE
Delivered Sales (Gwh)	79,000	10,270	13%
O-REC compliance based on off-shore wind output	2,610	390	
O-REC Pricing (Kwh)		\$ 0.00266	
True-Up (Kwh) - Debit/(Credit)*		0.00009	

* Excludes carrying charges



Rate Making:

- O-REC charges recovered through surcharge to distribution customers
- O-REC rate treatment to be similar to fuel adjustment clauses whereby:
 - O-REC cost recovery to be set from an annual forecast with true-ups for over/under recovery

Legislative and Regulatory Policy Changes:

- Legislative approval of utilities' obligation to meet O-REC compliance with right of recovery
- O-REC compliance separated from all other renewable compliance obligations set as an "up to" amount dependent on actual energy (O-RECs) produced from the Designated Facilities
- Alternative Compliance Payments (ACP) charged to utilities for non-compliance no longer required for off-shore wind (O-RECs) as structure establishes automatic compliance