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NOTICE¹

**In the Matter of Offshore Wind Renewable Energy Certificate (OREC) Funding Mechanism
Proposed New Rule N.J.A.C. 14:8-6.6
Docket Number EX11060353**

Stakeholder Meeting – February 21, 2013

The Staff of the Board of Public Utilities (BPU) invites all interested parties and members of the public to stakeholder meetings on the Offshore Renewable Energy Certificate (OREC) funding mechanism specified in the Offshore Wind Renewable Energy rules at N.J.A.C. 14:8-6.6.

BPU Staff has determined that the OREC funding mechanism should be developed through rulemaking with a formal stakeholder process. The proposal and adoption of the funding mechanism by the Board will provide the cost certainty that the industry has indicated is necessary to proceed with prospective projects.

Offshore Wind (OSW) Stakeholders had previously proposed the establishment of an OREC Clearinghouse to facilitate the flow of OREC payments from suppliers to developers. BPU Staff considered the viability of a clearinghouse model and solicited additional input from Boston Pacific Company, Inc., on alternate OREC funding mechanism models. BPU Staff's primary objective was to create a funding mechanism proposal that allows for proper regulatory oversight, adequately balances ratepayer interests, and satisfies the OSW Developers' ability to finance their offshore wind projects.

Along with this notice, BPU Staff is providing stakeholders and members of the public with a proposal prepared by Boston Pacific on the design of a funding mechanism for ORECs. The proposal does not include all details that would be necessary for a rulemaking, but rather provides a framework for discussion with stakeholders.

Questions should be directed to Jake Gertsman in the BPU Counsel's office at 609-292-1527 or via email at jake.gertsman@bpu.state.nj.us.

¹ Not a paid legal advertisement.

Stakeholder Meeting Schedule: OSW Rulemaking for OREC Funding Mechanism

Dates: February 21, 2013

Location: New Jersey Board of Public Utilities
44 South Clinton Avenue
Trenton, NJ 08625
Multipurpose Room

Time: 1pm – 4pm



Kristi Izzo
Secretary of the Board

Dated: January 18, 2013

OREC FUNDING MECHANISM PROPOSAL (INVOICING OPTION)

December 11, 2012

BACKGROUND

Boston Pacific Company, Inc. was selected to advise the New Jersey Board of Public Utilities (BPU) on the design of a funding mechanism for Offshore Renewable Energy Credits (ORECs). The BPU stated that the primary objective for the design was to mitigate the risk of possible state appropriation of funds. The BPU believed that doing so would improve the Developers' ability to finance their offshore wind projects.¹ To this end, Boston Pacific met with President Hanna and BPU Staff, as well as with Susan Fischer and Jean Reilly from the Office of the Attorney General, to discuss ways in which this objective could be achieved. It was determined that the design options that had been considered during the stakeholder process did not adequately mitigate the risk of state appropriation of funds. It was then concluded that the best protection would come from an OREC funding mechanism in which all money is handled directly between buyers and sellers of ORECs. Based on that feedback, this memo presents a proposed funding mechanism design that mitigates the risk of state appropriation of funds. We refer to this design as the "Invoicing Option."

The "Invoicing Option" requires one new entity and has two flows of payments. The entity is an OREC Administrator hired by the Electric Distribution Companies (EDCs)². The two payment flows are (a) OREC payments from all electricity Suppliers³ in New Jersey to Developers, and (b) PJM revenues paid to the Developers and passed through to ratepayers by the EDCs. This memo provides a high level overview of how the payment flows of the "Invoicing Option" would actually work. A graphical depiction of these flows is shown in Attachment A.

OREC PAYMENTS FROM SUPPLIERS TO DEVELOPERS

The first step in the flow of OREC payments is for PJM Environmental Information Services (PJM EIS) to issue ORECs into each Developer's PJM EIS Generation Attribute Tracking System (GATS)⁴ account. PJM EIS will issue one OREC for each MWh of electricity that is generated by the Developer's offshore wind facility.⁵

¹ Developers are those who will construct and then operate the offshore wind facilities in New Jersey.

² EDCs are the New Jersey utilities: Atlantic City Electric, JCP&L, Rockland Electric Company, and PSE&G.

³ Suppliers are all entities in New Jersey serving the function of Basic Generation Service (BGS) provider or third party retail electric supplier.

⁴ A "GATS" account is an account within the PJM EIS system. This system tracks the output of renewable energy generators in order to issue RECs into that generator's GATS account. One OREC is created for each megawatt hour (MWh) that an offshore wind farm generates.

⁵ Note that there is a lag of up to two months between the time that energy is generated and ORECs are produced by PJM EIS. For example, ORECs associated with July generation would only be available to be transferred to the OREC Administrator at the beginning of September.

At the end of each month, each Developer will provide to the OREC Administrator proof of all ORECs that were issued into their GATS account in that month. The OREC Administrator then arrives at a cost of ORECs for each Developer by multiplying that number of ORECs by the Developer's OREC price.⁶ For example, assume that Developer A had 50,000 ORECs created in its GATS account during October. If Developer A's OREC price was \$180/MWh, then the cost of its October ORECs would be \$9 million.

The next step is for the OREC Administrator to allocate each Developer's ORECs and OREC costs among the many Suppliers that serve load in New Jersey.⁷ The amount owed by each Supplier to each Developer is based on that Supplier's percentage share of New Jersey's total electricity supply for the month in which the ORECs were generated.⁸ The OREC Administrator will get that data from PJM.⁹ Continuing with the above example, if Supplier X supplied 2% of all MWh used in New Jersey's in October, then the OREC Administrator would calculate that Supplier X owes Developer A \$180,000 for the purchase of 1,000 October ORECs. Every month the OREC Administrator would make the same calculation about how much each Supplier owes each Developer. Each Developer will then invoice each Supplier for this amount. Payments are sent directly from Suppliers to the Developers. This method provides a high level of protection against the risk of possible state appropriation of funds.¹⁰

As a final step, Developers will transfer the designated number of ORECs to each Supplier using the GATS tracking system. Suppliers would then retire all such ORECs in their GATS accounts, to demonstrate compliance with the OREC portion of New Jersey's renewable portfolio standard.

PJM REVENUES FROM DEVELOPERS TO RATEPAYERS

Developers will sell their offshore wind project's energy, capacity and ancillary services in PJM markets and forward all revenues directly to the four New Jersey EDCs.¹¹ The EDCs

⁶ The OREC price will have been pre-approved by the Board.

⁷ As of September 25, 2012, there were 66 alternative electric suppliers in PSEG's service territory alone.

⁸ Having Suppliers pay based on a share of the total cost of ORECs produced in a given month marks a significant difference between the "Invoicing Option" and other options considered in the past in which Suppliers would pay for ORECs based on a pre-defined percentage of their actual monthly load. With the past options there was a risk that actual demand could end up being lower than expected, and this would result in insufficient funds being collected from Suppliers to meet the full payment obligation to Developers. To mitigate this risk, a reserve fund was proposed. However, the reserve fund creates a risk of state appropriation. The "Invoicing Option" removes the risk of collecting insufficient funds from suppliers, so there is no longer a need for a reserve fund.

⁹ PJM releases this data on a two month lag; therefore, the flow of payments from Suppliers to Developers will occur on a two month lag in order to incorporate PJM reconciliation data. This schedule also provides the time required for PJM EIS to create the ORECs.

¹⁰ Under this method, Developers face a significant administrative burden to directly invoice and collect payments from each of the dozens of New Jersey Suppliers. If the Developers wish to minimize this burden, they could, at their own initiative, hire an administrator to send invoices and collect payments from Suppliers. The administrator could combine the amount that each Supplier owed to all Developers into a single invoice and, once payment is received, allocate that payment amongst Developers.

¹¹ Note that a preferred method of getting PJM revenue to EDCs would be for PJM to send it directly, so that the Developers never touch it. For example, Developers could authorize PJM to deposit PJM Revenues directly into each EDC's PJM account. PJM would also be given instructions on how to split the revenues among the four EDCs.

will then pass through all PJM revenues received to their respective ratepayers. The portion of each Developer's PJM revenues to go to each of the four EDCs will be determined by the OREC Administrator at the beginning of each energy year based on the EDCs' relative shares of total New Jersey electricity sales in the previous energy year. At the end of each year the EDCs will conduct an annual true-up to actual electricity sales. The OREC Administrator will validate that the correct payments are sent each month and will also validate the annual true-up.

NEXT STEPS

The "Invoicing Option" is significantly different than the other options that were previously discussed by stakeholders. Stakeholders should be given a chance to review and provide feedback on this option before further detailed design is provided. Thank you.

However, further explorations with PJM are needed before determining whether this type of arrangement would be allowed.

Attachment A - Graphical Depiction of the Invoicing Option

