

Review of New Jersey Ocean Wind Project Pricing

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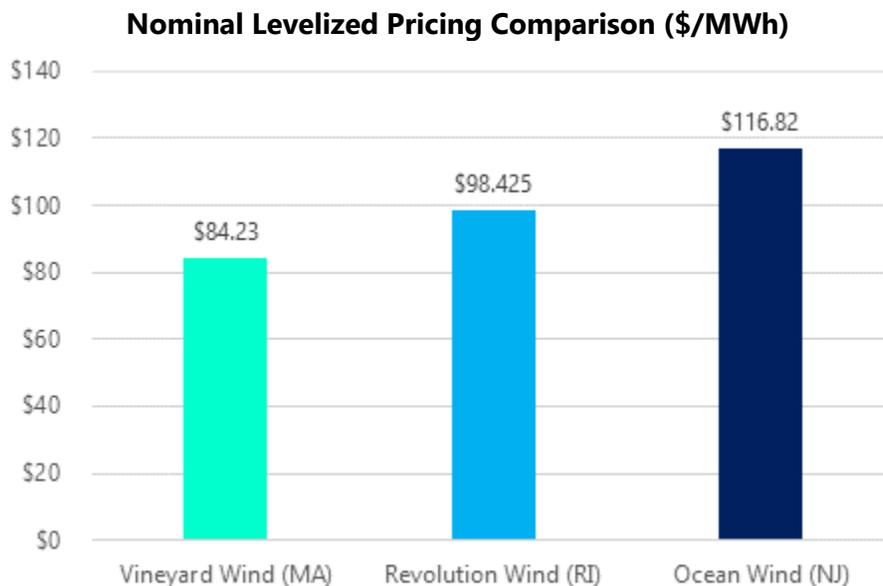
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To: Clients and Colleagues

From: John Dalton, President and Carson Robers, Senior Consultant, Power Advisory LLC

This memo updates our review of the New Jersey Board of Public Utilities (BPU) Offshore Wind Renewable Energy Certificates (OREC) award to Ørsted US Offshore Wind's 1,100 MW Ocean Wind project. The BPU made available its [order](#) and this provided additional details, which required that our earlier memo be updated. In this memo, we focus on the Ocean Wind contract pricing.

The Ocean Wind project will be developed in three tranches of 368 MW each with a COD in 2024. The first year all-in OREC price is \$98.10 per MWh and this price is realized only by Phase 1 for one-month after which it escalates. The price escalates at 2% per year such that in 2045 the contract price will be \$148.68/MWh. This equates to a nominal levelized price of \$116.82/MWh, representing a 19% premium relative to the price for the smaller Revolution Wind project secured by Rhode Island, which has a similar COD in 2024. The premium is considerably greater relative to the contract price for the Vineyard Wind project, which is able to realize a higher investment tax credit.



Frankly, we are surprised by the magnitude of this premium, even with the superior wind resource that is available to the Revolution Wind project. Interestingly, the OREC Order provides for an annual OREC allowance, which implies a 50% capacity factor which is higher than that reported for Revolution Wind. However, Ocean Wind is precluded from selling more ORECs than its annual allowance, so this allowance is likely to be greater than a P50 estimate.

The lack of transparency regarding the evaluation and scoring framework used by the BPU doesn't help in explaining this outcome. The BPU evaluation criteria were identified as the OREC purchase price, economic impact, ratepayer impact, environmental impact, the strength of guarantees for economic impact, and the likelihood of successful commercial operation. However, the relative weights of these evaluation criteria aren't specified and the tradeoffs that the BPU made in selecting Ocean Wind cannot be ascertained.

Nonetheless, it does appear that there were tradeoffs with respect to these evaluation criteria. Specifically, the BPU order indicates that the Ocean Wind project "provides the best economic development benefits to the state of any of the applicants." Further, it notes that "Although other projects presented a lower PVNOC [Present Value of Net OREC Cost], given the Ocean Wind 1,100 MW project's strength in all of the other evaluation criteria, an award to Ocean Wind is in the best interest of the State of New Jersey and its ratepayers" (BPU Order, p. 19).