



Deadlines and Fiscal Terms:

Walking Through the Massachusetts Auction Process

New Bedford, Massachusetts

July 22, 2014

Deadlines and Milestones

Overview

- The PSN and the Comment Period
- From PSN Comment Close to FSN
- During FSN Waiting Period
- The Auction Itself
- From Auction to the Execution of Leases

The Competitive Process (One Slide Summary)

- Call for Information
- Proposed Sale Notice
 - 60-day Comment Period (We are here)
- BOEM prepares Final Sale Notice
- Final Sale Notice
 - 30-day (minimum) Waiting Period
- Auction
- 30-day DOJ/FTC Review
- Send blank leases to winner
 - Winner has 10 days to sign, file financial assurance, and pay balance of auction bids.
- BOEM signs

During PSN Comment Period

- Publish the PSN, Open the Public Comment Period
- Auction Seminar
- BOEM receives **Qualifications** materials (legal, financial and technical)
 - Deadline for Bidders to submit materials: End of PSN Comment period
 - Deadline for BOEM to establish all qualifications: Publication of FSN.
 - If a company is not qualified by publication of the FSN, it may not participate in this auction.
 - Eligible Bidders List will be published in the FSN.

From PSN Comment Close to FSN

- PSN Comment Period Closes
- BOEM will review PSN Comments.
- BOEM will finalize company qualification evaluations.
- BOEM will appoint the non-monetary factor package review panelists.
- BOEM will consider what should change from the PSN to the FSN, update the FSN, and publish it in the *Federal Register*.

FSN Waiting Period Milestones

- BOEM Publishes the Final Sale Notice
- **Bidders Financial Forms (BFFs)** are due (FSN + 15?)
 - Once BOEM has processed this information, bidders may log in to pay.gov and leave bid deposits.
 - BFF includes a Self-Certification of antitrust compliance
- **Bid Deposit** due date (FSN + 30?)
 - All bidders must submit a bid deposit of:
 - \$450,000 (allows a bidder to bid on ONE lease area) or
 - \$900,000 (allows a bidder to bid on both lease areas).

FSN Waiting Period Milestones

- Mock Auction (FSN + 40?)
 - Will be shortly before the auction date.
 - Mock Auction details will be published in the FSN.
 - Mock Auction participation is for bidders in this lease sale only.
- Non-monetary panel convenes (FSN + 42?)
- BOEM notifies bidders if they are eligible for a bid credit
 - Via email because the monetary auction is happening soon.
- Monetary (“live”) Auction Begins! (FSN + 45?)
- Confirmation by the panel
- Return Bid Deposits of non-winning bidders
 - Note: this is different from past practice. For ATLW-2 and ATLW-1, we returned bid deposits after the leases were executed.

From Auction to Lease Execution

- BOEM will allow DOJ 30 days to conduct an Antitrust review of the auction, subject to 43 USC 1337(c):
 - *Antitrust review of lease sales.* (1) *Following each notice of a proposed lease sale and before the acceptance of bids and the issuance of leases based on such bids, the Secretary [of the Interior] shall allow the Attorney General, in consultation with the Federal Trade Commission, thirty days to review the results of such lease sale, except that the Attorney General, after consultation with the Federal Trade Commission, may agree to a shorter review period.*
- BOEM will consider the DOJ response.
- If BOEM determines that the government would not receive a fair return for the leases, BOEM could decide, even at this stage, not to issue any leases pursuant to the sale.

From Auction to Lease Execution

- BOEM will send three lease copies to the winners.
(rent is due within 45 days of this date).
- Unless BOEM allows more time, winners have 10 days in which to post financial assurance, pay the balance of the bonus bid at auction, and sign and return the three copies.
 - If a winner fails to execute the lease for whatever reason, BOEM has the authority to offer the lease to a runner-up, if one can be identified based on the auction results.
- BOEM receives these copies, and executes the leases.

Fiscal Terms

Overview

- Annual rent
 - First annual payment due within 45 days of lessee receiving lease
 - Subsequent annual payments on lease anniversary
 - Rent is charged on the portion of a 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. Financial assurance obligations will be updated throughout the lease term.

Annual Rent Payment

- Formula: Leased acreage x \$3 per acre
 - OCS-A 0500: 187,523 acres. \$562,569 total for first year rent
 - OCS-A 0501: 166,886 acres. \$500,658 total for first year rent
 - OCS-A 0502: 248,015 acres. \$744,045 total for first year rent
 - OCS-A 0503: 140,554 acres. \$421,662 total for first year rent
- No rent is due on acreage relinquished within the first 45 days.
- Subsequent rent payments would reflect any 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

- Formula: \$70 per statute mile x statute miles in 200-foot wide transmission easement, and greater of \$5/a or \$450 for any additional easement required, per year
- Last annual project easement rent payment prior to lease termination will not be pro-rated

Annual Operating Fee

F=	M	x	H	x	c	x	P	x	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)

- Formula is based on the *anticipated* annual power output, valued at the preceding year's regional wholesale power price, times an operating fee rate

Annual Operating Fee (M x H)

F=	M	x	H	x	c	x	P	x	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)

- Nameplate capacity is the planned available capacity measured in megawatts (MW)
 - Based on COP to reflect installation, repowering, and decommissioning activities on the lease
- [M x H] is the nameplate capacity operating at continuous full operation for a year.
- EXAMPLE, assuming a 500 MW project: If 500 MW of capacity are available the maximum annual generation at continuous full power operation would be 4.38 million MWh

Annual Operating Fee

$$(M \times H \times c)$$

F=	M	x	H	x	c	x	P	x	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)

- Projects don't operate at full capacity all the time (due to wind variation, maintenance, etc.).
- 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 years of commercial operations (meaning it's operating at 40% of the theoretical full capacity)
 - Value adjusted in 5-year intervals thereafter to reflect actual metered generation over the preceding 5 years
- Continuing the example, the anticipated annual power output of the 500 MW project is 4.38 million MWh times 0.400, or 1.752 million MWh

Annual Operating Fee

$$(M \times H \times c \times P)$$

F=	M	x	H	x	c	x	P	x	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)

- Power price is determined at the time each payment is due based on the latest available annual wholesale spot price for Northeast-PJM West, as reported by FERC (in \$/MWh), adjusted for inflation.
- $[M \times H \times c \times P]$ is the spot market value of the anticipated annual power output of the project.
 - For example, for the 2014 fee, if the latest Northeast—Massachusetts Hub price information available was for 2012, and the price was \$50/MWh, and the latest Commerce Dept, BEA, inflator is 1.02 for 2011 to 2012, then the adjusted price is \$52.02/MWh for payment in 2014.
 - Continuing the example, the estimated market value in 2014 of the estimated annual power output is 1.752 million MWh times \$52.02/MWh, or \$91,139,040

Annual Operating Fee

(M x H x c x P x r)

F=	M	x	H	x	c	x	P	x	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)

- 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 life of commercial operations on the lease
 - Continuing the example of 500 MW project, the estimated market value of the power produced of \$91,139,040 is multiplied by 0.02, resulting in an annual operating fee of \$1,822,781

Annual Operating Fee

- Recapping the example

• Nameplate Capacity	500 MW
• Hours Per Year	8,760
<i>Generation at continuous full power operation</i>	<i>4.38 million MWh</i>
• Capacity Factor	0.400
<i>Anticipated annual power output</i>	<i>1.752 million MWh</i>
• Power Price	\$52.02/MWh
<i>Estimated market value</i>	<i>\$91,139,040</i>
• Operating Fee Rate	0.02
Annual Operating Fee	\$1,822,781

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 rent, decommissioning, operating fees, and other obligations as the lease progresses
- 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

Questions and Comments

Wright Frank

202-208-2315

Wright.Frank@boem.gov