

Submitted electronically to [Rule.Comments@bpu.nj.gov](mailto:Rule.Comments@bpu.nj.gov)

May 17, 2018

Aida Camacho,  
Secretary, New Jersey Board of Public Utilities  
44 South Clinton Avenue, 3rd Floor, Suite 314, CN 350  
Trenton, New Jersey 08625

**Re: Docket No. QX18040466 – In the Matter of Offshore Wind Renewable Energy Certificate (OREC) Funding Mechanism**

Dear Ms Camacho:

innogy US Renewables Projects LLC (“innogy”) is pleased to have the opportunity to comment on the offshore Wind Renewable Energy Certificate Funding Mechanism (OREC). Although not a household name in the US yet, innogy is with more than 1,000 MW of installed capacity (pro-rata) and a project pipeline of a further 2,500 MW one of the world’s leading operators of offshore wind farms trailblazing the industry since 2004. With the offshore market taking shape in the US and innogy always looking for exciting project opportunities we have a keen interest in the New Jersey OREC mechanism and the timing of any future solicitations.

innogy has extensive experience with various offshore wind power offtake mechanisms across Europe some of which have evolved over time to address market conditions and structural deficiencies. Our comments reflect that experience.

Comments:

1. **Structurally Sound:** The mechanism of collecting payments and distributing ORECs to qualified projects, using the EDCs as the payment agents, appears structurally sound. EDCs appear to be the most financially sound intermediary, provided that the OREC Administrator’s mandate clearly isolates funds from either general EDC funds or the ability of the State of New Jersey to access those funds.
2. **Issue #13:** There is a concern about the current structure of the OREC under which each qualified project will sell its power and capacity to the PJM and return the revenues to ratepayers to offset the cost of the OREC (topic #13). The ideal structure from a finance perspective is that the OREC will essentially

top-off the payment up to the OREC price, thereby crediting the ratepayer with full value of energy and capacity sold into the PJM and avoiding further administrative actions by the offshore operator. This mechanism does indeed assure that each project will receive the expected revenues.

However, it should be noted, that with the renewable energy markets evolution over the years, a subsidy scheme not taking market conditions into account is not state of the art anymore. Earlier this year the State of New York has suggested more complex OREC mechanisms taking some of these developments into account. In the State of New Jersey, these debates are also reflected by the pending nature of the Minimum Offer Pricing Rules (MOPR) by the PJM. Therefore, in order for the State of New Jersey to achieve the optimal OREC prices, and the lowest ratepayer impact, projects will need to achieve the highest value for energy and capacity. As such, it is suggested that the BPU finalize the OREC mechanism only after the MOPR rules are concluded allowing energy and capacity to be properly valued and OREC subsidies minimized. Engaging further in dialog with developers and other stakeholders on the OREC would act beneficial. Ultimately, an efficient mechanism would further the acceptance of offshore in New Jersey and play a vital part in becoming a success story for the State.

3. **Issue #16:** In order for projects to be financed, the OREC mechanism needs to be structured so that there would not be a “scenario in which an OSW project experiences a period of Insufficient OREC demand” unless this is to address a relatively long period of time in which a project substantially outperforms expectations. Variations in output are weather driven and can be substantial over short periods of time. Our recommendation is that reasonable boundaries be established on an annual basis – perhaps allowing up to 10% greater than projected output and that there be no limitations on short term output. It is important that this element will be structured reasonably to allow projects to predict that they will have a market for all of their ORECs. If developers are expecting any curtailment required, predicted or projected, they will price that curtailment into their OREC and the prices will be higher. We encourage the BPU to engage with all developers to determine what boundaries might be acceptable without driving up OREC prices.
4. **OREC Details Influence Pricing:** Optimal pricing is dependent on many details that are yet to be developed and/or published. Fundamentally, for New Jersey to achieve its 3,500 MW goal for offshore wind, the impact on ratepayers will need to be minimized. This in return can only come from optimizing OREC prices. To achieve optimal OREC pricing, innogy suggests two potential paths forward: either (a) engage in further dialog with developers to arrive at a fully detailed mechanism, with details akin to those that would appear in a bilateral power purchase agreement, before finalizing the rule; or (b) bifurcate the 1,100 MW procurement into two phases such that a first phase (i.e. <500 MW) could refine and flesh out the OREC mechanism before the second phase procurement takes place. Path (a) would require additional

hearings and preferably two way discussions with industry experts, including bankers, so that the OREC mechanism can benefit from lessons learned both overseas and in the project finance world. Path (b) would allow one project to be fully procured, allow the winning OSW project to finalize the essential details in negotiations with the BPU (perhaps as part of the competitive submission/evaluation process), allowing a fully formed OREC mechanism to be awarded in the relatively near term and used as the basis for a subsequent OREC solicitations.

5. **Competition Drives Optimal Pricing:** The single biggest factor responsible for driving pricing down in Europe was robust competition. At present New Jersey faces relatively limited competition. New Jersey has two near-shore lease areas, only one of which is owned by a developer with extensive offshore wind experience. A third lease off the coast of Delaware may technically be capable of supplying New Jersey ORECs but only at a higher price given the relatively lower wind resources and distance from New Jersey shores. These factors do not create optimal pricing. Understanding New Jersey's desire to get the industry moving, one course of action would be to embark on a single commercial scale project in the near term and wait for additional leases to be auctioned by BOEM in 2019. With BOEM expected to issue at least four new leases, this would more than double the competition and create much lower OREC prices.

innogy appreciates the opportunity to participate in the work with New Jersey over the coming years to bring the benefits of offshore wind to the State.

Sincerely,

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innogy SE  
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