

92DC42  
PO Box 6066  
Newark, DE 19714-6066

302.429.3105 - Telephone  
302.429.3801 - Facsimile  
philip.passanante@pepcoholdings.com

500 N. Wakefield Drive  
Newark, DE 19702

atlanticcityelectric.com

July 26, 2018

**VIA ELECTRONIC MAIL**  
[rule.comments@bpu.nj.gov](mailto:rule.comments@bpu.nj.gov)

Aida Camacho-Welch  
Secretary of the Board  
Board of Public Utilities  
44 South Clinton Avenue, 3<sup>rd</sup> Floor, Suite 314  
P.O. Box 350  
Trenton, New Jersey 08625-0350

**RE:** Comments of Atlantic City Electric Company  
Offshore Wind Solicitation of 1,100 Megawatts  
BPU Docket No. QX18040466

Dear Secretary Camacho-Welch:

Atlantic City Electric Company (“ACE” or the “Company”) appreciates the opportunity to submit comments to the New Jersey Board of Public Utilities (“BPU”) regarding the future solicitation of 1,100 megawatts of offshore wind capacity.

### **Executive Summary**

ACE supports Governor Murphy’s goal to transition to 100 percent clean, renewable energy by 2050. Achieving this goal and making it affordable to customers are of critical importance. Offshore wind is a resource that is widely expected to play a critical role in transitioning to renewable resources. New Jersey must balance the need to control costs for offshore wind with its desire to foster an important local supply chain that will create jobs and contribute to the New Jersey economy. In addition, all large-scale energy developments typically include environmental and social impacts that must be considered to minimize potential adverse impacts.

ACE submits that planning for an open access, non-discriminatory transmission system at the onset is a critical element to ensure that New Jersey offshore wind solicitations provide for strong competition from multiple offshore wind developers and a fair playing field for new developers in future solicitations. In addition, a coordinated transmission system to integrate offshore wind would increase reliability, lower costs for customers, and lessen potential environmental and community impacts.

**1. How should BPU stagger/phase in New Jersey's offshore wind procurements to realize the State's goal of 3,500 megawatts? Should this schedule be announced before any solicitations are released?**

ACE understands New Jersey's desire to develop and interconnect offshore wind in a timely fashion. If robust competition and establishing a local supply chain are important, then announcing the schedule prior to the first solicitation would be beneficial. Knowing the target schedule will provide investors with a confident view of the long-term outlook of New Jersey's offshore wind program. For the reasons explained below, ACE further believes that multi-phased solicitations will be ultimately most beneficial for New Jersey customers.

First, as the offshore wind industry matures in the United States, costs are likely to drop. Smaller solicitations with longer durations between solicitations would best mitigate rate shock. Offshore wind costs will decline through time, which favors pushing out solicitations, but it may also be beneficial for New Jersey to establish its commitment to offshore wind, in order to spur development of a local supply chain. An initial, early phase procurement can benefit consumers greatly, as offshore wind developers may look to take advantage of the federal investment tax credit ("ITC"), which will benefit New Jersey through lower Offshore Renewable Energy Credit ("OREC") bids. While offshore wind prices will be higher in the beginning years, being able to take advantage of the ITC will soften the price impact and serve as a catalyst for the development of a local supply chain.

Second, establishing the local supply chain will put downward pressure on future offshore wind prices. The subsequent phases should be spread out into the later years to take advantage of the declining offshore wind prices and to benefit from the increased number of offshore wind lease areas, such as leases in the NY Bright area that the Bureau of Ocean Energy Management ("BOEM") is currently studying. Engaging in a multi-phased approach should strike the right balance between higher costs in the early years with the benefits realized through cost reductions and local sourcing in the later years. Allowing for a coordinated, open-access transmission system to be developed will give New Jersey the flexibility required to implement any phasing in the timeliest, most efficient, and least cost manner.

Third, only a small number of offshore wind leases off the coast of New Jersey have been issued (two leases directly east of ACE's service territory and one lease directly south of the Company's service territory), and a handful of developers does not constitute robust competition. Waiting to allow for BOEM to solicit more offshore wind lease areas should increase the pool of possible competitors.

Finally, upfront planning of the transmission system to integrate the offshore wind will provide New Jersey with the flexibility to phase in its procurement. A coordinated, expandable, open-access transmission system would allow New Jersey to integrate procurement cycles at its own pace regardless of whether it is looking to be aggressive in the early years in order to develop a local supply chain in New Jersey or if it prefers to wait for later years where the price of offshore wind is predicted to be lower due to the US offshore wind industry having matured.

**2. How should the BPU structure the initial solicitation for 1,100 megawatts of offshore wind capacity as called for under EO8?**

The BPU should structure the initial solicitation in a manner that benefits consumers, not just in the short run, but also throughout the entire 3,500 megawatt implementation process. The desire to have robust competition, from one solicitation to the next, while taking advantage of the cost reductions that a maturing offshore wind industry brings, must start with the initial solicitation.

The transmission for offshore wind typically represents 15 – 20 percent of the total cost of an individual offshore wind project; the generation component is a relatively larger component of the total cost. Thus, competition amongst the offshore wind generation itself will be important to reducing overall costs for the program to New Jersey customers. If the structure and implementation plan for the initial solicitation lacks careful planning for the transmission system, the detrimental effect on New Jersey customers, and the competitiveness of other offshore wind developers in subsequent solicitations will be significant, and the long-term implications will extend well beyond the initial wind-farm development. Even at an early stage of offshore wind development, providing non-discriminatory, open-access transmission is a critical element to improving competition amongst wind-farm applicants. Should the first transmission system get developed as a wind-farm specific “gen tie-line,” the windfarm owner would begin to establish a competitive advantage in all subsequent solicitations through incurring only incremental costs for transmission as compared to other bidders that are required to pay the full costs to establish their own system. The effect can multiply in subsequent solicitations, which furthers the cost advantage to the early mover, making new entrants less competitive.

**3. Should the BPU request proposals scaled at 1,100 megawatts, or should the BPU request proposals in smaller blocks of capacity (i.e., 400 megawatts)?**

A well-planned, expandable, coordinated, open-access transmission system will give New Jersey the flexibility to scale the offshore wind solicitation to any size in the most timely, efficient, and least cost manner. The benefit of unbundling and building the transmission system to accommodate the State’s offshore wind targets will allow New Jersey to solicit any size blocks of offshore wind capacity. New Jersey can manage the offshore wind blocks as it desires and not be locked into any specific blocks for each solicitation or bid.

**4. How may a solicitation be structured to ensure strong competition from multiple OSW developers?**

Currently, there are only three, possibly four, offshore lease holders around New Jersey positioned to compete in an early solicitation. As noted above, should the first transmission system get developed as a windfarm specific “gen tie-line,” the windfarm owner could establish a competitive advantage in all subsequent solicitations through incurring only incremental costs for transmission as compared to other bidders that are required to pay the full costs to establish

their own systems. The effect can multiply in subsequent solicitations, which furthers the cost advantage to the early mover and makes new entrants less competitive.

Over the past several months, ACE has studied the international and emerging US offshore wind industry and considered the advantages and disadvantages of various implementation approaches. Providing an open access, non-discriminatory transmission system at the onset is a critical element to ensure that New Jersey offshore wind solicitations provide for strong competition from multiple offshore wind developers. This structure provides a fair playing field for new developers in future solicitations. A coordinated transmission system would facilitate the timely deployment of New Jersey's offshore wind goal, increase reliability, lower costs, and lessen the environmental impacts compared to individual "gen tie-lines" for each windfarm.

In addition, the Company maintains that there is an integral role for the local transmission owners in New Jersey to participate in the planning, development, construction, ownership, and operation of the infrastructure necessary to integrate offshore wind. Not only do the local transmission owners have the requisite experience in planning and designing an open-access grid, they also have the extensive permitting and siting experience necessary to facilitate the construction, and ultimately, delivery of that wind to New Jersey customers. The transmission owners are already prospectively planning for the needs of the grid – both on a PJM and local basis – and, as such, may be able to identify cost savings associated with integrating offshore wind along with other ongoing grid-planning priorities. ACE requests that the BPU consider specifically incorporating in its regulations an integral role (such as that articulated above) for the transmission owners in New Jersey as it relates to the design, development, construction, and ownership of the infrastructure associated with offshore wind.

**5. What conditions should be included to ensure maximum competition in terms of OREC price?**

Unbundling the transmission will allow offshore wind developers to focus on what they do best without the need to consider the added risk of planning and building transmission, something that most offshore wind developers are unfamiliar with, especially in the United States. If the risk of permitting and constructing a transmission line through a New Jersey coastal community is taken away from the offshore wind developer, and everyone has access to a non-discriminatory, open access transmission system, competition will be more robust, which will in turn put downward pressure on OREC prices. Unbundling transmission will also benefit the BPU by allowing direct comparison of standalone offshore windfarm proposals separate from the transmission systems.

**6. OWEDA requires the OREC Price to be an all-in price that includes the full cost of the construction, operation and decommissioning of the project with all revenues being refunded to ratepayers. What measures can be included in project proposals to optimize all revenues over the life of the project?**

The Company has no comment at this time.

- 7. OWEDA requires that offshore wind developers demonstrate a net economic benefit for the State. How should the BPU ensure net economic benefits in order to be able to compare applications?**

The Company has no comment at this time.

- 8. What other elements should BPU consider including in the 1,100 megawatt offshore wind solicitation called for under EO8 (e.g., storage, other adjunct technologies)?**

The BPU should allow bidders to submit options for pairing offshore wind with storage or other technologies in a manner that allows the BPU to compare the proposals to each other and analyze the incremental benefits, if any, by adding storage or other adjunct technologies. Other states have encouraged proposals to include elements such as storage. Storage options can increase the economic value of the offshore wind and can count towards New Jersey's goal to deploy storage.

- 9. Should the BPU request bids for expandable, nondiscriminatory, open-access offshore transmission facilities for the efficient delivery of power to the onshore transmission system?**

A coordinated, expandable, open-access transmission system facilitates the sharing of existing transmission infrastructure in a non-discriminatory fashion and encourages competition. Planning and sizing of the offshore transmission grid appropriately can also avoid costly upgrades to the existing grid and reduce stranded onshore injection capability that could have been utilized in a more efficient manner. Further, such planning will mitigate the environmental impacts associated with integrating a significant amount of offshore wind. Advanced planning of the transmission system provides for optimal siting and reduced number of offshore substations and reduces the number of separate rights-of-way required for the offshore and onshore portions of the export cables that interconnect into the land-based grid. Fewer construction cycles within multiple rights-of-way results in less impacts to the local community during and after construction.

Land-based renewable energy is interconnected in this fashion. The transmission owner provides open access, non-discriminatory transmission to any transmission customer. In situations where states anticipate the development of a large new renewable resource in remote locations where the existing bulk power grid is insufficient to integrate such resources, states have developed transmission plans to meet those needs. Examples include the Texas Competitive Renewable Energy Zones ("CREZ"), where the Texas legislature developed a proactive means to alleviate grid congestion and reliably deliver energy from onshore wind localities to major load centers in the state and California's Tehachapi Renewable Transmission Project built specifically for moving utility-scale wind and solar power built in remote areas of the Mohave Desert and the Tehachapi Mountains to serve coastal load pockets of southern California.

Conversely, should the first transmission system get developed as a windfarm specific “gen tie-line,” the windfarm owner would establish a competitive advantage in all subsequent solicitations through incurring only incremental costs for transmission as compared to other bidders that are required to pay the full costs to establish their own system. The effect can multiply in subsequent solicitations, which would further the cost advantage to the early mover and make new entrants less competitive. That first “gen tie-line” is not subject to open-access requirements, and the generator can withhold any excess transmission capacity for its own future advantage. At this early stage of offshore wind development, providing non-discriminatory, open-access transmission is a critical element to improve competition amongst windfarm applicants and create the environment necessary to timely, efficiently, and cost effectively interconnect offshore wind to the bulk power system. If a “gen tie-line” fails, all the generation connected to it is lost. However, if that generation is interconnected with a coordinated, open-access transmission system, there will be multiple paths available for the energy to flow. As such, there is greater assurance of the delivery of that renewable energy to New Jersey customers.

Outside of the United Kingdom, where wind developers are mandated to divest the fully commissioned transmission assets at prudently determined, actual costs to a permanent owner, most European countries plan for offshore wind in a serial fashion where the local Transmission System Operator (“TSO”) is commonly assigned the responsibility to develop, construct, and own the coordinated transmission systems for offshore wind. The TSOs collaborate with wind developers to standardize the transmission design, develop, and announce schedules for energizing the commissioned systems which allow wind developers to integrate windfarm construction timelines with the in-service dates of the transmission systems. This approach results in efficient transmission planning and coordination. In New Jersey, the transmission owners have the requisite experience to participate in the development of an integrated onshore and offshore grid.

ACE expects offshore wind to become an important generating resource for the densely populated east coast region of the United States, particularly for coastal states extending from Massachusetts to South Carolina. The Company anticipates that electrification of the transport and heating sectors will increase total demand for electricity that will be supplied through some combination of distributed generation and utility-scale renewables, including offshore wind. Utility-scale projects will need to be located outside of the densely populated coastal regions and delivered through existing or new transmission. As costs decline and offshore wind matures along the New Jersey coast, transmission systems built for offshore wind will increasingly be needed to supplement the economic, reliability, and resiliency needs of the onshore grid. The perspective that transmission for offshore wind will eventually become an integral part of the bulk power system serving competitive markets along the east coast makes it even more imperative that any transmission built for this objective be operated in an open access and non-discriminatory manner.

Aida Camacho-Welch

July 26, 2018

Page 7

The Company appreciates this opportunity to provide its comments to the BPU and would welcome the opportunity to further explain the details on how a separate solicitation for transmission can be implemented.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Passanante", followed by a horizontal line and the initials "/jpr".

Philip J. Passanante  
An Attorney at Law of the  
State of New Jersey