Off-Shore Energy Projects

The Ocean Energy Act, PL 2009, ch. 615, directed the Commission, in accordance with section 3210-C, to conduct a solicitation for above-market long-term contracts from offshore wind and tidal energy projects (see Section A-6 of the Act which is attached).[1] This part of the Act is intended to incentivize grid size facilities.

Standards for Approval

Pursuant to the Act, projects were evaluated based on cost considerations, short and long term economic benefits, overall project viability, including financial, environmental and other site approvals, construction schedule, operational characteristics and specific evaluation criteria laid out in Section A-6).

Commission Authorized Long-term Contracts

As a result of that process, the Commission has authorized two long-term contracts:

- Statoil Hywind Offshore Wind Project-12 MW (projected to begin operation 2016). In February 2013, the Commission approved a term sheet for Statoil for a long-term contract with Maine utilities for energy and capacity associated with the Hywind deepwater offshore wind pilot project and began negotiating a contract. Those contract negotiations are ongoing. The Commission's Order Approving the Term Sheet and the public version of the Term Sheet are also attached.

- Ocean Renewable Power Company Tidal Project-5 MW (approximately 180 kW currently in operation). The Commission approved a term sheet for a long-term contract in April 2012 with ORPC for the output of its Maine Tidal Energy Project in Washington County. The Commission approved the final contract in December 2012 and it became effective January 1, 2013.

The Commission directed the Statoil contract to be with CMP, and the Ocean Renewable contract to be with BHE and Maine Public Service Company (MPS) on a proportional basis. Under the Commission's current projections, these above market contracts will result in similar costs per kWh to the ratepayers of the three investor-owned T&D utilities. This projection, however, assumes both projects are constructed as currently planned.

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[1] The Commission assumes that LD 1278 is intended to apply to the offshore energy contracts, although the language of the bill is not clear.

Costs and Benefits

Statoil

The Commission estimated the net present value (NPV) of the above-market costs of the Statoil long-term contract to range from $52 million to $76 million or $190 million nominally. The project will involve investment of just over $120 million initially in 2013-2016 to build the project and then just over $4 million annually in operations and maintenance expenses for 20 years. The quantified economic benefits to Maine for the project are estimated to be $33 million (NPV) and $63 million (nominal).

ORPC

The Commission estimated the NPV of the above-market costs to be in the range of $16 million or about $37.5 million nominally. The project is estimated to result in $8.1 million in earnings and $22 million in economic output during the five-year construction phase and $0.7 million per year in earnings and $1.1 million per year in economic output during the subsequent 15- year operating phase. During the construction phase, the project was estimated to create 125 full-time equivalent jobs in Maine, 23 of which would be direct jobs, with another 67 inter-industry or supply-chain jobs, and 33 induced jobs resulting from increases in household spending. During the operation phase, the project is anticipated to create 19 new full-time equivalent jobs annually in Maine, comprising 15 direct jobs, 2 supply chain jobs, and 1 induced job. ORPC had also already spent, at the time the Commission issued its order approving the term sheet in April 2012, approximately $14 million in Maine since 2007, including approximately $4.2 million in the Eastport/Lubec area alone.

RFP for Additional Offshore Proposals

Legislation enacted last session, An Act to Provide For Economic Development With Offshore Wind Power (PL 2013, ch. 378) directs the Commission to conduct a second solicitation for deep-water offshore wind projects (the Commission may not award a contract for a proposal under this section until it completes its review of additional proposals). The Commission issued an RFP on July 9 (Docket No. 2010-00235). Pursuant to the Act, additional proposals were due September 1, 2013. The Commission is currently reviewing any proposals that were submitted. The Act provides that the Commission make all reasonable efforts to complete its review and make decisions on additional proposals by December 31, 2013 and make every effort to finalize a contract.

Related Carryover Bill

<u>LD 1278</u> – <u>An Act to Ensure Equitable Support for Long-term Energy Contracts</u>

- Would amend the long-term contracting and community-based renewable energy pilot program (35-A MRS § 3604) statutes so that ratepayers of the investor-owned T&D utilities share equally in the costs and benefits of long-term energy contracts entered into pursuant to these statutes

- Benefits flow from contracts that have below market rates and costs flow from contracts that have above market prices

- Would apply to both future and existing contracts

- Contains an assessment-remittance mechanism as the means for the PUC to allow for the equitable allocation of long-term contract benefits/costs

- As a general matter – the policy goals sought to be achieved through long-term contracts – either in terms of lowering market prices or new renewable resource development – largely flow to all of the State's ratepayers and so there is a sound rationale for attempting to allocate their costs more generally and equally

- The assessment-remittance mechanism appears to be a workable regulatory means to accomplish the goal of the bill, however, the Committee may want to provide the PUC with the flexibility to use other mechanisms that could accomplish the goal in a more efficient manner