Testimony embargoed until 1300, 28 January 2013

Good afternoon, Chairman Gordon;

Vice-Chair Buono;

distinguished members of the Committee.

My name is Chris Hart. Thank you very much for the opportunity to speak with you today. By way of background, I am a PhD Naval Architect with an MBA who has disarmed Improvised Explosive Devices by hand on the battlefields of the War on Terror and negotiated with lawmakers in both Houses of Congress in Washington, DC. (I'm not going to make any comments about which of these endeavors was more hair-raising.)

Until June of 2012, I served as the Founding Offshore Wind Manager at the United States Department of Energy. As such, I led the drafting and publication of the National Offshore Wind Strategy, conceived and raised the funding for the Offshore Wind Innovation and Demonstration (OSWInD) Initiative, which grew from that Strategy, and built the team that is now executing the Initiative and the rest of the Strategy. In all, this effort grew from an idea to a $500 M program, with a time horizon of almost seven years, in the two years that I had the privilege of holding this post.

Since leaving DOE in June of 2012, I have been consulting to and advising the global offshore wind industry, with a particular focus on bringing its benefits to these United States.

It is from this background and set of experiences that I take great pleasure in congratulating the State of New Jersey on its vision and foresight in passing the Offshore Wind Economic Development Act in 2010.

It is without a doubt that this vision and foresight was informed by the Offshore Wind Industry in Europe, but I will spend a moment or two now to give my own personal interpretation of this industry for the record.

It is impossible to ignore the fact that offshore wind is big business in Europe, where 4994 MW of offshore wind is currently generating electricity. The United Kingdom, which is currently the global leader in installed capacity with around 3000 MW—that’s approximately three large nuclear or coal-fired power plants or enough electricity to power 2 million homes—is currently starting its third round of development. This third round looks to install nearly 35 GW total by the end of 2020. One development alone, the monstrous Dogger Bank, looks to be the largest renewable development on earth, with a capacity of between 9 and 13 GW.

To put these numbers into further perspective, this is a total capital expenditure of approximately $50 B for just the Dogger Bank project, and well over $150 B for the entire Round 3 build out. This is indeed big business.

And who are the players that are going to be making this happen? The answer to this question also points to the realities of big business in Europe. DONG Energy, a Danish company with a market capitalization of around $15 B. Statoil ASA, a Norwegian energy company that is #67 on the global 500, RWE, SSE, Statkraft, Iberdrola, Vattenfall, Siemens. These are some of the largest industrial companies in Europe, and they are all playing, and investing, big in the offshore wind arena in Europe.
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So what about jobs? Does this big business bring jobs? Yes, there are jobs. I could recite the jobs numbers to you, but perhaps more compelling would be two short vignettes about my favorite two offshore wind ports in Europe. You see, I'm a nautical guy. I like to see seafaring folk doing well, and that's exactly what you see in ports like Ramsgate in the UK and Esbjerg in Denmark. Both of these ports service several UK round two farms, including the London Array project, the recently-completed first phase of which, at 630 MW, is the largest offshore wind farm in the world. You may have heard of the poster child of offshore wind ports, Germany's Bremerhaven, but I will not be speaking to this port, although there is plenty to say.

I arrived into Ramsgate on the early morning train from King's Cross in London (no, not from Platform 9 ¾). As the sun rose over the sea, I couldn't help but notice the depressed nature of the area surrounding the port. This fact contrasted sharply with the bustling activity in the port itself. The attendant in the train station was quick to sing the praises of the new industry she had seen spring up in her hometown. The mansions on the bluff overlooking the port were starting to be renovated and updated by the local workers who were moving up in the world. Local restaurants were busy. Taxi cabs were newer and nicer in Ramsgate than their counterparts in the surrounding municipalities.

Similar things could be said for the town of Esbjerg in Denmark, but on an even larger scale. Esbjerg and the surrounding areas are a tourist destination on the western coast of the Jutland peninsula. Whereas Ramsgate was more of the commissioning and management side of the installations, Esbjerg was where the heavy industrial activities were going on. There were nacelles, blades, and tower sections as far as the eye could see, and these are not small structures. Towers are as tall as a football field is long, nacelles are about 20 feet tall and wide and 40 feet long, and the blades are 150 – 200 feet long. MPI Discovery and Adventure, two of the largest jack-up vessels in the world – enormous self-propelled ships capable of transporting and installing up to nine complete towers and turbines in one trip – were making regular stops in the port to load up with components to be installed in the farms between Denmark and the UK.

Again, the town of Esbjerg was much the better for the wear. I specifically remember a pub which my host from Siemens Wind introduced me to. The proprietor of the pub was quick and proud to let me know that he had been considering closing up shop prior to the arrival of offshore wind. "Now," he confided, "I've had to hire more help."

So, yes, offshore wind is big business in Europe, and by extension it could also be big business here in America. But a second thing that impressed me about the OWEDA legislation, and the vision and foresight that made up its foundation, was that New Jersey realized that America is not Europe. Just because offshore wind is big business in Europe, doesn't ensure that offshore wind will be big business in America. If we are to see the jobs and economic growth that these European ports have enjoyed, the offshore wind industry is going to have to develop differently here in America than it did in Europe.

We will not legislate the growth of the industry.

We will not mandate the growth of the industry.

Rather, we must do it the American way, by innovating the growth of the industry.
We will not see the rich subsidy regimes that have enabled the growth of the European offshore wind industry. Therefore we must innovate financially in order to drive down the cost of capital. We must innovate technologically in order to drive down the capital costs for the projects.

In New Jersey, you knew this already, and, in 2010, you passed a law that allows for this approach, by:

1. Creating a new mechanism for funding offshore wind development in the OREC, and
2. Supporting the idea of a demonstration-scale farm that will test and prove all of the ideas and theories about how offshore wind should be deployed in this country, thereby removing doubts in the minds of investors and enabling the unfettered growth of the industry Nationally.

Detractors will ask, "Why should New Jersey ratepayers pay to reduce the risk so New York bankers can benefit from these investments?"

The answer to this question is simple: due to the happy confluence of a number of factors – the OWEDA legislation, proximity to a strong electric load, the shallow, wide continental shelf off the coast of New Jersey, the strong ports in the state, the manufacturing infrastructure that is still comparatively vibrant, and the presence of the maritime know-how in companies such as Cranford-based Weeks Marine and Clermont-based Northstar Marine, just to name a few – put New Jersey squarely in the lead of the race to win the jobs that will surely come with the creation of this 21st Century industry.

If you are looking for examples of other states that were successful in capitalizing on just such an opportunity, simply look westward to Michigan. Henry Ford and his innovative approach to automobile design and manufacturing enabled the state of Michigan to grow to be the center of the car universe.

For a less hackneyed, and more timely example, we must look a little further westward, and pay attention to the words of former Governor of Iowa, Chet Culver, spoken at the New Jersey Alliance for Action event in Holmdel on January 17. Governor Culver spoke glowingly of the benefits to his state of capturing a large portion of the supply chain for the world's leading onshore wind industry. His words rang true to me, since my family in South Dakota and Montana, and my wife's family in North Dakota, have all seen the benefits of the growth of this homegrown industry.

Although New Jersey may now be in the lead in the race for economic development benefits similar to those seen in Michigan and Iowa, other states in the Eastern seaboard, and indeed around the country, are hot in pursuit. The US Department of Energy is supporting projects in the Great Lakes, the Gulf of Mexico and the West Coast, as well as in Virginia and two projects in Maine. The way was cleared for the third power purchase agreement in the country when the Maine Public Utilities Commission conditionally approved the Norwegian energy giant Statoil's 12 MW demonstration project on January 24, 2013. The Maryland Legislature introduced an offshore wind bill in early 2013 as well. Due to the recently extended Investment Tax Credit (ITC), these initial movements will soon be followed by action in other interested states...

The time to act is now, New Jersey. Capitalize on the position of leadership created by your legislative vision and foresight. Seize the opportunity to own an outsized portion of the jobs and economic development that will accompany this new industry. Reclaim your position as a seat of innovation and bold action. The time to act is now, New Jersey.
Testimony embargoed until 1300, 28 January 2013

The time to act is now.
Fishermen’s Energy is a developer of offshore wind energy projects, founded by New Jersey commercial fishermen (who already own and operate much of that $1.3 Billion industry here in New Jersey) to respond to the public’s need to develop the ocean for renewable wind energy. Fishermen’s goal is to turn Atlantic coastal waters into an unmatched source of clean energy, while maintaining a vibrant commercial fishing industry. Fishermen’s Energy has partnered with experienced professionals in the renewable energy and the offshore wind business community to propose, plan, and build responsible projects to serve the public’s need for safe renewable energy. Fishermen’s intends to harvest the wind and the sea, side by side, in an environmentally responsible and sustainable manner.

The first Fishermen’s Energy proposal is to build five turbines (totaling 25 megawatts) approximately 2.8 miles off the shore of Atlantic City. The project will benefit New Jersey economically and environmentally, as well as facilitate the State’s emergence as the national leader in offshore wind. Atlantic City will be the Birthplace of Offshore Wind in the Americas.

The Project has received all of its permits and approvals from the NJDEP, the US Army Corp of Engineers, the City of Atlantic City and other reviewing agencies. It has been awarded an Advanced Technology Grant by the US Department of Energy. The single remaining approval is pending at the New Jersey Board of Public Utilities (BPU) where it requires designation as a “qualified project” under the Offshore Wind Economic Development Act (OWEDA) and thereby be approved to recover its costs through the sale of Offshore Wind Renewable Energy Certificates (ORECs). This will allow the project to move to financial close and commence construction. More importantly, with action by the BPU no later than the 2Q 2013, the Project can commence construction in 2013 and qualify for the recently re-enacted Federal Investment Tax Credit which will further reduce OREC costs.

Fishermen’ Energy has worked to maximize the utilization of New Jersey based companies and workers for construction and operations. Almost $80 million will be spent directly in New Jersey during construction and another $2.5 million annually thereafter for operations and maintenance. Additional benefits include reduced emissions...
from fossil fuels, increased tourism dollars spent in Atlantic City, and the opportunity for New Jersey to enhance its historic role as a cradle of innovation, to become the base for research, development, manufacturing and assembly for this new 21st century industry.

Fishermen’s Energy has worked extensively to assemble a New Jersey based consortium that would implement, operate and maintain the project including Weeks Marine, Northstar Marine, Gabel Associates, DCO Energy and others and will center construction operations at the South Jersey Port. Overall this results in over 50% of the capital cost landing in New Jersey. Fishermen’s Energy has clearly stated a willingness to make this “build New Jersey” a contractual obligation to truly demonstrate the job creation and positive impact that offshore wind will bring to New Jersey. In documenting this economic impact on New Jersey, Fishermen’s Energy used the same software and multipliers that were used recently by the BPU in substantiating the positive benefits in the solar market.

The reason New Jersey has such an opportunity for economic development is precisely because it will be first:

- If New Jersey is the first to have an operational port, it will be best positioned for successive projects.
- If New Jersey contractors are experienced in building a demonstration project, they will be best positioned for successive projects.
- If New Jersey labor is experienced in building a demonstration project, it will be best positioned for successive projects.
- If New Jersey demonstrates the efficacy of its OREC for financing on a small scale, it will execute its large scale projects that much faster – consolidating its’ hold on the economic benefits associated with offshore wind.
- And lastly, if New Jersey attracts manufacturing because of its early dedication to offshore wind, then that factory will land here and nowhere else.

**Let’s Build the Atlantic City Wind Farm!**
January 25, 2013

Members of the Senate Legislative Oversight Committee
PO Box 099
Trenton, NJ 08625-0099

RE: Implementation of the Offshore Wind Development Act

Members of the Senate Legislative Oversight Committee:

I regret that I am unable to attend the Senate Legislative Oversight Committee’s January 28, 2013, meeting regarding the implementation of Offshore Wind Development as I am slated for jury duty. I would ask that you please accept the attached comments on behalf of the Division of Rate Counsel (“Rate Counsel”) regarding offshore wind. The comments are those that I made last year regarding “The State’s Progress on the Energy Master Plan’s Goals for Offshore Wind Energy.” I hope these comments will be helpful as you consider what’s best for the citizens of New Jersey.

As you are aware, Rate Counsel represents and protects the interests of all utility customers—residential customers, small business customers, small and large industrial customers, schools, libraries, and other institutions in our communities. Rate Counsel is a party in cases where New Jersey utilities seek changes in their rates or services. Rate Counsel also gives consumers a voice in setting energy, water, and telecommunications policy that will affect the rendering of utility services well into the future.

We very much appreciate the opportunity to share our perspective on behalf of the state’s ratepayers. Please feel free to contact our office if you have any questions or would like further information on this important topic. Thank you for your attention to these important matters.

Sincerely,

Stefanie A. Brand
Director, Division of Rate Counsel

c: Jennifer Mancuso, Chief of Staff, Senator Robert Gordon
   Adam Neary, Democratic Aide, Senate Legislative Oversight Committee
   Michael Molimock, Office of Administrative Services
   Felicia Thomas-Friel, Managing Attorney, Gas/Clean Energy, Division of Rate Counsel
   Robyn Roberts, Legislative Liaison, Division of Rate Counsel
NOTICE

In the Matter of Offshore Wind Renewable Energy Certificate (OREC) Funding Mechanism
Proposed New Rule N.J.A.C. 14:8-6.6
Docket Number EX11060353

Stakeholder Meeting – February 21, 2013

The Staff of the Board of Public Utilities (BPU) invites all interested parties and members of the public to stakeholder meetings on the Offshore Renewable Energy Certificate (OREC) funding mechanism specified in the Offshore Wind Renewable Energy rules at N.J.A.C. 14:8-6.6.

BPU Staff has determined that the OREC funding mechanism should be developed through rulemaking with a formal stakeholder process. The proposal and adoption of the funding mechanism by the Board will provide the cost certainty that the industry has indicated is necessary to proceed with prospective projects.

Offshore Wind (OSW) Stakeholders had previously proposed the establishment of an OREC Clearinghouse to facilitate the flow of OREC payments from suppliers to developers. BPU Staff considered the viability of a clearinghouse model and solicited additional input from Boston Pacific Company, Inc., on alternate OREC funding mechanism models. BPU Staff's primary objective was to create a funding mechanism proposal that allows for proper regulatory oversight, adequately balances ratepayer interests, and satisfies the OSW Developers' ability to finance their offshore wind projects.

Along with this notice, BPU Staff is providing stakeholders and members of the public with a proposal prepared by Boston Pacific on the design of a funding mechanism for OREC$s. The proposal does not include all details that would be necessary for a rulemaking, but rather provides a framework for discussion with stakeholders.

Questions should be directed to Jake Gertsman in the BPU Counsel's office at 609-292-1527 or via email at jake.gertsman@bpu.state.nj.us.

\[\text{\textsuperscript{1}} \text{Not a paid legal advertisement.}\]
Stakeholder Meeting Schedule: OSW Rulemaking for OREC Funding Mechanism

Dates: February 21, 2013

Location: New Jersey Board of Public Utilities
44 South Clinton Avenue
Trenton, NJ 08625
Multipurpose Room

Time: 1pm – 4pm

Kristi Izzo
Secretary of the Board

Dated: January 18, 2013
OREC FUNDING MECHANISM PROPOSAL (INVOICING OPTION)
December 11, 2012

BACKGROUND

Boston Pacific Company, Inc. was selected to advise the New Jersey Board of Public Utilities (BPU) on the design of a funding mechanism for Offshore Renewable Energy Credits (ORECs). The BPU stated that the primary objective for the design was to mitigate the risk of possible state appropriation of funds. The BPU believed that doing so would improve the Developers’ ability to finance their offshore wind projects.\(^1\) To this end, Boston Pacific met with President Hanna and BPU Staff, as well as with Susan Fischer and Jean Reilly from the Office of the Attorney General, to discuss ways in which this objective could be achieved. It was determined that the design options that had been considered during the stakeholder process did not adequately mitigate the risk of state appropriation of funds. It was then concluded that the best protection would come from an OREC funding mechanism in which all money is handled directly between buyers and sellers of OREC s. Based on that feedback, this memo presents a proposed funding mechanism design that mitigates the risk of state appropriation of funds. We refer to this design as the “Invoicing Option.”

The “Invoicing Option” requires one new entity and has two flows of payments. The entity is an OREC Administrator hired by the Electric Distribution Companies (EDCs)\(^2\). The two payment flows are (a) OREC payments from all electricity Suppliers\(^3\) in New Jersey to Developers, and (b) PJM revenues paid to the Developers and passed through to ratepayers by the EDCs. This memo provides a high level overview of how the payment flows of the “Invoicing Option” would actually work. A graphical depiction of these flows is shown in Attachment A.

OREC PAYMENTS FROM SUPPLIERS TO DEVELOPERS

The first step in the flow of OREC payments is for PJM Environmental Information Services (PJM EIS) to issue ORECs into each Developer’s PJM EIS Generation Attribute Tracking System (GATS)\(^4\) account. PJM EIS will issue one OREC for each MWh of electricity that is generated by the Developer’s offshore wind facility.\(^5\)

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\(^1\) Developers are those who will construct and then operate the offshore wind facilities in New Jersey.

\(^2\) EDCs are the New Jersey utilities: Atlantic City Electric, JCP&L, Rockland Electric Company, and PSE&G.

\(^3\) Suppliers are all entities in New Jersey serving the function of Basic Generation Service (BGS) provider or third party retail electric supplier.

\(^4\) A “GATS” account is an account within the PJM EIS system. This system tracks the output of renewable energy generators in order to issue RECs into that generator’s GATS account. One OREC is created for each megawatt hour (MWh) that an offshore wind farm generates.

\(^5\) Note that there is a lag of up to two months between the time that energy is generated and ORECs are produced by PJM EIS. For example, ORECs associated with July generation would only be available to be transferred to the OREC Administrator at the beginning of September.
At the end of each month, each Developer will provide to the OREC Administrator proof of all ORECs that were issued into their GATS account in that month. The OREC Administrator then arrives at a cost of ORECs for each Developer by multiplying that number of ORECs by the Developer’s OREC price. For example, assume that Developer A had 50,000 ORECs created in its GATS account during October. If Developer A’s OREC price was $180/MWh, then the cost of its October ORECs would be $9 million.

The next step is for the OREC Administrator to allocate each Developer’s ORECs and OREC costs among the many Suppliers that serve load in New Jersey. The amount owed by each Supplier to each Developer is based on that Supplier’s percentage share of New Jersey’s total electricity supply for the month in which the ORECs were generated. The OREC Administrator will get that data from PJM. Continuing with the above example, if Supplier X supplied 2% of all MWh used in New Jersey’s in October, then the OREC Administrator would calculate that Supplier X owes Developer A $180,000 for the purchase of 1,000 October ORECs. Every month the OREC Administrator would make the same calculation about how much each Supplier owes each Developer. Each Developer will then invoice each Supplier for this amount. Payments are sent directly from Suppliers to the Developers. This method provides a high level of protection against the risk of possible state appropriation of funds.

As a final step, Developers will transfer the designated number of ORECs to each Supplier using the GATS tracking system. Suppliers would then retire all such ORECs in their GATS accounts, to demonstrate compliance with the OREC portion of New Jersey’s renewable portfolio standard.

**PJM REVENUES FROM DEVELOPERS TO RATEPAYERS**

Developers will sell their offshore wind project’s energy, capacity and ancillary services in PJM markets and forward all revenues directly to the four New Jersey EDCs. The EDCs

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6 The OREC price will have been pre-approved by the Board.
7 As of September 25, 2012, there were 66 alternative electric suppliers in PSEG’s service territory alone.
8 Having Suppliers pay based on a share of the total cost of ORECs produced in a given month marks a significant difference between the “Invoicing Option” and other options considered in the past in which Suppliers would pay for ORECs based on a pre-defined percentage of their actual monthly load. With the past options there was a risk that actual demand could end up being lower than expected, and this would result in insufficient funds being collected from Suppliers to meet the full payment obligation to Developers. To mitigate this risk, a reserve fund was proposed. However, the reserve fund creates a risk of state appropriation. The “Invoicing Option” removes the risk of collecting insufficient funds from Suppliers, so there is no longer a need for a reserve fund.
9 PJM releases this data on a two month lag; therefore, the flow of payments from Suppliers to Developers will occur on a two month lag in order to incorporate PJM reconciliation data. This schedule also provides the time required for PJM EIS to create the ORECs.
10 Under this method, Developers face a significant administrative burden to directly invoice and collect payments from each of the dozens of New Jersey Suppliers. If the Developers wish to minimize this burden, they could, at their own initiative, hire an administrator to send invoices and collect payments from Suppliers. The administrator could combine the amount that each Supplier owed to all Developers into a single invoice and, once payment is received, allocate that payment amongst Developers.
11 Note that a preferred method of getting PJM revenue to EDCs would be for PJM to send it directly, so that the Developers never touch it. For example, Developers could authorize PJM to deposit PJM Revenues directly into each EDC’s PJM account. PJM would also be given instructions on how to split the revenues among the four EDCs.
will then pass through all PJM revenues received to their respective ratepayers. The portion of each Developer's PJM revenues to go to each of the four EDCs will be determined by the OREC Administrator at the beginning of each energy year based on the EDCs' relative shares of total New Jersey electricity sales in the previous energy year. At the end of each year the EDCs will conduct an annual true-up to actual electricity sales. The OREC Administrator will validate that the correct payments are sent each month and will also validate the annual true-up.

NEXT STEPS

The “Invoicing Option” is significantly different than the other options that were previously discussed by stakeholders. Stakeholders should be given a chance to review and provide feedback on this option before further detailed design is provided. Thank you.

However, further explorations with PJM are needed before determining whether this type of arrangement would be allowed.
Attachment A - Graphical Depiction of the Invoicing Option

Payment to BGS and 3rd Party Suppliers with OREC cost built in

Payment to EDCs with OREC cost built in

Instructs each Developer how much to invoice Suppliers

Validates amount of PJM revenues returned to EDCs

PJM Revenues
Remarks of Stefanie A. Brand,  
Director, Division of Rate Counsel,  
Regarding the State’s Progress on the Energy Master Plan’s  
Goals for Offshore Wind Energy, Presented at the Assembly  
Telecommunications and Utilities Committee Stakeholder  
Meeting on  
March 5, 2012

Good morning. My name is Stefanie Brand, I am the Director of the  
Division of Rate Counsel. I would like to thank Chairman Chivukula and  
members of the committee for the opportunity to testify today regarding the  
state’s progress towards the Energy Master Plan’s goal of adding offshore wind  
energy generation to the state’s renewable energy portfolio.

The Division of Rate Counsel represents and protects the interest of all  
utility consumers—residential customers, small business customers, small and  
large industrial customers, schools, libraries and other institutions in our  
communities. Rate Counsel is a party in cases where New Jersey utilities seek  
changes in their rates and/or services. Rate Counsel also gives consumers a  
voice in setting energy, water and telecommunications policy that will affect the  
rendering of utility services well into the future.
When the Legislature passed the Offshore Wind Economic Development Act (OWEDA) a year and a half ago, those of us who supported it knew that we were on the cutting edge and that the process of making off-shore wind a reality was going to be long and challenging. We knew there would be difficult problems to solve, such as how to facilitate financing, how to value an OREC, how to connect these facilities to existing infrastructure and more. The beauty of the Act is that it encourages a resolution of these difficult issues while ensuring that New Jersey's ratepayers are protected. The Act's fundamental structure, that ties ratepayer subsidies to projects that demonstrate net benefits to the state and postpones payment of those subsidies only once the facility is generating electricity, ensures that we are supporting worthy projects and not merely throwing ratepayer money at projects that may not work. In fact, New Jersey's statute is now touted as the model for off-shore wind legislation, cited by advocates and regulators in Maryland and other states as a framework to be emulated.

And it is indeed working as intended. With respect to the projects to be built in federal waters, a series of stakeholder meetings were held, in which proposals from the industry relating to the application process and payment mechanisms were debated. These stakeholder meetings were attended by representatives from the wind industry, third party suppliers, electric distribution companies, Rate Counsel and Board Staff. The discussions were extensive and frank, and all of the varying interests were discussed and debated. It was, frankly, the type of process that we need in order to figure out the difficult issues
raised by trying to develop the first off-shore wind farms in the U.S. Those discussions I believe led to a framework Board Staff can use to develop regulations governing the off-shore wind program and I look forward to seeing the draft regulations and seeing that process move forward.

With respect to the proposed project in state waters off the coast of Atlantic City, you may be aware that Rate Counsel had significant concerns regarding that project as proposed. Rate Counsel was concerned about the high cost of the project and our expert concluded that the applicant had not demonstrated that the project would provide net benefits to New Jersey’s ratepayers. Experts retained by Board Staff reached similar conclusions. This should not, however, be viewed as failure. To the contrary, the statutory framework is working precisely as intended. As a result of the analysis performed by the experts retained by Rate Counsel and Board Staff, the applicant is going back to refine its submission and submit a revised application. I sincerely hope that it is able to produce an application that does demonstrate net benefits, and we will examine that application carefully to make sure that it does. To me, these protections that the Legislature incorporated in the statute are working to make sure that any application that may ultimately be approved is worthy of the ratepayer subsidies they are seeking.

I do believe that the larger projects in the federal waters may be able to avoid some of the pitfalls of these early applications. I hope to see economies of scale. I also believe that the fact that several developers will be competing for a finite amount of ratepayer subsidies will encourage those developers to offer the
best, and lowest, bids they can. Although there are a limited number of developers, and a market that is no where near as diverse as we’d like, any competition within the process should provide a downward pressure on price and upward pressure on the quality of the applications.

Of course, there are some things we can’t control. It is my understanding that the drop in natural gas prices has created some difficulty for developers with respect to financing. I think this is a significant problem as we view natural gas as a “bridge fuel” to get us through this period between reliance on dirtier fossil fuels to an energy mix that relies more on renewable resources. We should not be lulled into a false belief that we do not need renewable resources simply because we have a significant supply of natural gas. We need to continue the path toward developing cost-effective renewable resources and be grateful that we have natural gas to serve as a bridge during this transitional period.

What we cannot do, however, is attempt to make up for the reluctance of lenders to finance projects by substituting ratepayer dollars. If the banks believe a project is too risky to fund, we should not ask ratepayers to assume that risk. The OWEDA appropriately committed ratepayer funds to secure a long-term and adequate stream of revenue to assist the developers in obtaining financing. If that is not enough for investors to assume the risk of financing a project, then ratepayers should not be asked to take on more.

Finally, to answer the question posed in the notice of today’s hearing, I would say the State is making steady progress toward reaching the Energy Master Plan’s goals of adding offshore wind energy generation to the State’s
renewable portfolio. We all knew that this would take time and substantial effort, and I believe that all of the interested parties have approached this difficult task diligently. New Jersey's statute fairly balances the desire to encourage offshore wind with the need to protect ratepayers from risky investments. It ensures that we will benefit from the process overall and will ultimately have available a substantial number of working offshore turbines.

New Jersey's statute is becoming the model for other states and that is something to be very proud of. I applaud the Legislature for its foresight and thank you for the opportunity to testify today. I am available to answer any questions.