

PUBLIC VERSION

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

In the Matter of the Petition of Nautilus)
Offshore Wind, LLC for the Approval of)
the State Waters Wind Project and)
Authorizing Offshore Wind Renewable)
Energy Certificates)
)

BPU Docket No. QO18080843

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INITIAL BRIEF

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PROCEDURAL HISTORY & STATEMENT OF FACTS

In May 2011 and as amended in 2012, Fishermen's Energy Atlantic City Windfarm L.L.C. ("FACW") filed a petition with the New Jersey Board of Public Utilities ("the Board" or "BPU") for an offshore wind ("OSW") project approximately 2.8 miles off the coast at Atlantic City. That petition was supplemented in 2013 and denied by the Board in March 2014. The Project was for a facility with a total capacity of 25 MW, estimated to cost \$188.2 million with ratepayer financial support at a starting rate of \$263 per Offshore Renewable Energy Certificates ("OREC"). FACW proposed an annual escalator of 3.5%, estimating the net present value of the anticipated stream of ratepayer financial support at \$240.3 million.

In denying the petition, the Board found that the Project did not meet the standard for a qualified offshore wind facility set forth in N.J.S.A. 48:3-87.1 and N.J.A.C. 14:8-6.5 et. seq.

The Board reviewed the five conditions outlined in the Offshore Wind Act legislation that needed to be satisfied in order to approve the FACW Project:

- (1) The filing must be consistent with the New Jersey Energy Master Plan ("EMP"), in effect at the time the Board is considering the application;
- (2) The cost-benefit analysis demonstrates positive economic and environmental net benefits to the State;
- (3) The financing mechanism is based upon the actual electrical output of the project, fairly balances the risks and rewards of the project between ratepayers and shareholders, and ensures that any costs of non-performance, in either the construction or operational phase of the project, shall be borne by shareholders;
- (4) The entity proposing the project demonstrates financial integrity and sufficient access to capital to allow for a reasonable expectation of completion of construction of the project; and
- (5) The total level of subsidies to be paid by ratepayers for qualified offshore wind projects over the life of the project and any other elements the Board deems

appropriate.¹

The Board found several shortcomings in the 2013 FACW proposal, most of which were associated with the project's purported positive economic and environmental benefits. In its decision, the Board found that: (1) the proposed project was inconsistent with the EMP because the project resulted in a net cost to ratepayers; (2) that the OREC price used in calculating economic benefits should not include the Department of Energy ("DOE") grants or the federal Investment Tax Credit ("ITC"); (3) the applicant has the burden to reasonably and justifiably quantify the value of economic benefits; (4) the estimated benefits of tourism were not substantiated; (5) environmental benefits should be tied to market prices in order to ensure fair, just, and reasonable ratepayer impact; (6) the estimates of the merit order effect were not supported; (7) there is no economic benefit associated with "lessons learned;" (8) the Company had not demonstrated financial integrity; and (9) the ratepayer subsidy was too expensive and should not be imposed.²

On January 31, 2018, Governor Murphy signed Executive Order No. 8 ("E.O.8") calling for the development of 3,500 MW of offshore wind capacity by 2030. On September 17, 2018, the Board began to implement E.O.8 by opening the application window for the solicitation of 1,100 MW of OSW. Both of these actions promoted the quick movement to large-scale OSW project development. There is nothing in E.O.8 or the Board Order initiating the solicitation to suggest that the State should use a small-scale pilot to study the evolution of OSW development and supply chain economics.³

¹ N.J.S.A. 48:3-87.1 (a) to (b); *In the Matter of the Petition of Fisherman's Atlantic City Wind Farm, LLC for the Approval of the State Waters Project and Authorizing offshore Wind Renewable Energy Certificates*, BPU Docket No. EO11050314V, (March 28, 2014), ("2014 Decision").

² 2014 Decision, pp. 22-25.

³ Executive Order No. 8 (January 31, 2018), and *Guidelines for Application Submission for Proposed Offshore Wind Facilities*, (September 17, 2018), attached to the BPU Order *In the Matter of the Opening of Offshore Wind*

However, on May 30, 2018, new legislation took effect to allow the Board to approve a “qualified wind energy project located in territorial waters offshore of a municipality in which casino gaming is authorized” and authorized ORECs for the project. Pursuant to the statute, the project should be between 20 and 25 megawatts, the Board may consider relevant information from any prior applications, and a final determination by the Board must be made within 90 days after a complete application is filed.⁴

This Petition was filed on August 1, 2018 by Nautilus Offshore Wind, L.L.C., (“Nautilus” or “the Company”) an entity owned by FACW. In its application, the Company seeks to build an offshore wind facility with capacity similar to the 2012 version in a similar location (“the Project”). The Company contends the Project satisfies the pertinent elements of N.J.S.A. 48:3-87.2 (the “Offshore Wind Energy Development Act” or “OWEDA”), and Nautilus is again seeking **##BEGIN CONFIDENTIAL##** [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] **##END CONFIDENTIAL##**

On September 17, 2018, the Board retained the Nautilus Petition for hearing and designated President Joseph Fiordaliso as the presiding officer and set September 26, 2018 as the date for entities to move for intervention in the proceeding. The Order set October 2, 2018 for parties to file their testimony and Evidentiary Hearings were scheduled for October 11th and 12th.⁵

Renewable Energy Certificate (OREC) Application Window for 1,100 Megawatts of Offshore Wind Capacity in Furtherance of Executive Order No. 8, QO18080851 (September 17, 2018).

⁴ N.J.S.A. 48:3-87.2, effective May 30, 2018.

⁵ *In the Matter of the Petition of Nautilus Offshore Wind, LLC for the Approval of the State Waters Wind Project and Authorizing Offshore Wind Renewable Energy Certificates, QO18080843 (September 17, 2018, effective September 27, 2018).*

On September 26, 2018, the New Jersey Laborers-Employers Cooperation and Education Trust (“NJLECET”), the International Union of Operating Engineers Local 825 (“IUOE”) and jointly, National Wildlife Federation and New Jersey Audubon Society (“NWF/NJA”), (together, “Intervenors”) filed timely motions to intervene in the proceeding. However, on October 1, 2018, Nautilus filed opposition to the Intervention Motion filed by NWF/NJA, citing, among other things, that they should be barred from any discussions regarding pricing and other topics unrelated to wildlife protection.

On October 2, 2018, Rate Counsel filed the direct testimony of our expert, Dr. David Dismukes along with 32 schedules in support of the testimony. He recommended that the “Board not approve the Nautilus Project and reject its requested OREC plan since neither are in the public interest and do not meet the statutory requirements of the OWEDA.” Dr. Dismukes concluded that both the Project and proposed OREC plan “do not produce a net economic benefit to New Jersey ratepayers and should be rejected by the Board.”⁶

On October 3, 2018, the Board granted the September 26th Motions to Intervene filed by the Intervenors.⁷ On October 5, 2018, Nautilus sought a stay of the procedural schedule to allow for the filing of a motion for a protective order. The motion was filed on October 9th, arguing that release of any confidential information to Intervenors, even those that signed a non-disclosure agreement (“NDA”), would in turn violate any NDAs it has with third-parties. Both NWF/NJA and Rate Counsel replied on October 16th and the Company responded on the 18th.

⁶ Direct Testimony of David E. Dismukes, Ph.D., on behalf of the Division of Rate Counsel (October 2, 2018), JR-14, p.3.

⁷ *In the Matter of Nautilus Offshore Wind, LLC – Consideration of the State Wind Project and Offshore Wind Renewable Energy Certificate*, QO18080843 (October 3, 2018).

On October 24, 2018, the Board issued an Order directing the parties to utilize the Board's standard NDA prior to receiving confidential information.⁸

On November 1, 2018, the Board issued an Order setting forth a new Procedural Schedule, with testimony to be filed by the Intervenors by November 2, 2018 and Evidentiary Hearings on November 16th and 21st.⁹

ARGUMENT

A. THE OREC PRICE AND ESCALATION RATE PROPOSED BY NAUTILUS ARE TOO EXPENSIVE AND NOT IN THE BEST INTERESTS OF NJ RATEPAYERS.

The OREC pricing schedule originally submitted to the BPU by Nautilus OSW in its August 1, 2018 application contained **##BEGIN CONFIDENTIAL##** [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] **##END CONFIDENTIAL##** In response to the direct testimony of Rate Counsel witness, Dr. David Dismukes, Nautilus offered a revised OREC price in its rebuttal testimony of **##BEGIN CONFIDENTIAL##** [REDACTED]

⁸ *In the Matter of Consideration of the State Water Wind Project and Offshore Wind Renewable Energy Certificate, QO18080843* (October 24, 2018) and around that time Nautilus consented to extend the 90 day application review period.

⁹ *In the Matter of Consideration of the State Water Wind Project and Offshore Wind Renewable Energy Certificate, QO18080843* (November 1, 2018).

¹⁰ Exhibit JR-1(c), Appendix B, Attachment 74.

¹¹ Ibid.

¹² Id., at Appendix B, Attachment 59.

##END CONFIDENTIAL## As explained below, neither the original nor the revised OREC price are sufficient to satisfy the statutory requirement that there be a net benefit to ratepayers and thus, the Nautilus OSW Project should not be approved.

Pursuant to the requirements of OWEDA, "...[t]he burden remains on the applicant to propose a reasonable OREC price..."¹⁴ The components of the OREC price must include "...the total revenue requirements of the project over a 20-year period including the cost of equipment, financing, taxes, construction, operation, and maintenance..."¹⁵ The burden of proof also remains on Nautilus to demonstrate net positive benefits as a result of its cost-benefit analysis for approval, and therefore its OREC Pricing Plan as an integral component, must also pass a "reasonableness test".¹⁶ Although Nautilus claims its revised OREC Pricing Plan offers NJ ratepayers a reasonable and positive net benefit for the costs of the offshore wind project,

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In his review of the Nautilus Project, Dr. Dismukes' Schedule DED-6 compared the cost of the Project to operating European OSW projects of various capacities and comparable costs.¹⁸ Of the numerous OSW projects constructed since 1991, the Nautilus Project – as proposed – will

¹³ Exhibit JR-19(c) and 19(f), Rebuttal Testimonies of Chris Wissemann and Steven Gabel, dated 11/8/2018.

¹⁴ N.J.A.C. §14:8-6.5(a)(12) (iii).

¹⁵ N.J.A.C. §14:8-6.5(a)(12) (iii); and N.J.S.A. §48:3-87.1(6).

¹⁶ N.J.S.A. §48:3-87.1(6)(1)(6); N.J.A.C. §14:8-6.5(6)(2). See also, Exhibit JR-14. Direct Testimony of David Dismukes, page 6, lines 19-23 and page 7, lines 1-4 (dated 10/2/2018).

¹⁷ See, Exhibit JR-14, Testimony of David Dismukes, page 24, lines 14-21.

¹⁸ Id. at Schedule DED-6.

cost **##BEGIN CONFIDENTIAL##** [REDACTED]

[REDACTED]

##END CONFIDENTIAL##

Another example of the excessive cost of the Nautilus OSW proposal is illustrated by Dr. Dismukes in his testimony comparing facilities using the same wind turbine technology.

##BEGIN CONFIDENTIAL## [REDACTED]

[REDACTED]

¹⁹ Ibid.

²⁰ Ibid.

²¹ Ibid.

²² See, Exhibit JR-1(c), Appendix B, pages 22-24.

²³ Exhibit JR-14, Dismukes Testimony; Schedule DED-7; see also, Dismukes Direct Testimony, page 25, lines 1-11.

[REDACTED]

[REDACTED] **##END CONFIDENTIAL##**

Dr. Dismukes further revealed the excessive cost of the Nautilus Project by comparing it to recently approved US-based OSW projects. **##BEGIN CONFIDENTIAL##** [REDACTED]

[REDACTED]

[REDACTED] **##END CONFIDENTIAL##**

²⁴ Ibid.
²⁵ Ibid.
²⁶ Exhibit JR-14, Dismukes Testimony; Schedule DED-8.
²⁷ Ibid.
²⁸ Exhibit Jr-14, Dismukes Testimony, p. 27, lines 3-19; Schedules DED-10 to DED-12.
²⁹ Id., at p. 27, lines 18-19.

Dr. Dismukes' analysis led him to conclude that the more appropriate development cost for a project of Nautilus' size should be \$4,169/kW.³⁰ Dr. Dismukes reached this conclusion after conducting four distinct exercises in which the Nautilus Project was compared to numerous European OSW facilities of varying sizes.³¹ As illustrated in his Schedule DED-6, Dr. Dismukes measured the Nautilus project to: (1) total project costs of all European OSW projects; (2) total project costs for smaller capacity European facilities; (3) unit development costs (\$/kW) of all European projects; and (4) unit development costs of smaller capacity European facilities.³² Based on his analysis of the exercises, Dr. Dismukes summarized his findings in Schedules DED – 9 through DED – 12.³³ In each exercise, Dr. Dismukes shows that the Nautilus project costs are **##BEGIN CONFIDENTIAL##** [REDACTED] **##END CONFIDENTIAL##** Based on these exercises, Dr. Dismukes opined that a reasonable development cost would be \$4,169/kW.

Also, as part of his analysis of the development cost of \$4,169/kW, Dr. Dismukes further concluded that the OREC price of **##BEGIN CONFIDENTIAL##** [REDACTED] **##END CONFIDENTIAL##** However, given Nautilus' proposed excessive unit development cost and OREC pricing, the Board should not accept the application as too expensive and unreasonable for NJ ratepayers.

³⁰ Exhibit JR-14, Dismukes Testimony, page 28, lines 1-6; Schedules DED-12 and 13.

³¹ *Id.*, at p. 26-27.

³² *Id.*, at page 26, lines 10 -16.

³³ *Id.*, Schedules DED – 9 to DED – 12

³⁴ *Id.*, at pp. 26 – 27

³⁵ Exhibit JR-14, Dismukes Testimony, page 28, lines 15-22; Schedules DED-14 and 15.

³⁶ *Id.*, at p. 29, lines 1-7.

In an attempt to counter Dr. Dismukes' analysis, Nautilus offered a revised OREC price in its rebuttal of **##BEGIN CONFIDENTIAL##** [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] **##END**

CONFIDENTIAL##

As discussed in greater detailed below, Nautilus also failed to show in its rebuttal that its costs and price are adequate to demonstrate a net positive benefit to ratepayers. Reviewing Nautilus' revised OREC Pricing Plan, Dr. Dismukes applied the recommended inputs from the Board's September 17, 2018 OSW Application Guidance Document and concluded that the Nautilus Project does not meet a positive net benefit result, as illustrated in his Schedule DED-SR-6.³⁹ Applying Nautilus' net benefits data offered in its revised OREC Pricing Plan to the Board's OSW Guidance Document results in a score of **##BEGIN CONFIDENTIAL##** [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] **##END CONFIDENTIAL##**

³⁷ Exhibit JR-19(c) and 19(f), Rebuttal Testimonies of Chris Wissemann and Steven Gabel, dated 11/8/2018.

³⁸ See, Exhibit JR-19(c), Wissemann Testimony, pages 2-4; dated 11/8/2018, and, Exhibit JR-19(f), Gabel Testimony, page 3, lines 23-31, and Exhibit SG-5.

³⁹ Exhibit JR-14, Dismukes Surrebuttal Testimony, Schedule DED-SR-6.

##BEGIN CONFIDENTIAL## [REDACTED]

##END CONFIDENTIAL## As an initial OSW Project for New Jersey, the Board should seek to adopt the most cost-effective practices from other states in setting an OREC price. ##BEGIN CONFIDENTIAL## [REDACTED]

##END CONFIDENTIAL## Accordingly, controlling for comparisons to similar capacity OSW projects located the same distance from shore, and utilizing similar turbine technology, the proposed Nautilus OSW Project should not be approved as it is too costly for New Jersey ratepayers. In order to justify subsidizing the Nautilus Project, New Jersey ratepayers should receive a significantly better return on their investment.

⁴⁰ Exhibit JR-1(c), Appendix B, Attachment 72.

⁴¹ Exhibit JR-1(c), Appendix B, Attachment 73.

⁴² See, Exhibit JR-24, Dismukes Testimony, Schedule DED-13, dated 10/2/2018.

⁴³ Ibid.

⁴⁴ See, Exhibit JR-19(c), Wisemann Testimony, pages 2-4; dated 11/8/2018, and, Exhibit JR-19(f), Gabel Testimony, page 3, lines 23-31, and Exhibit SG-5.

B. THE COMPANY HAS NOT MET ITS BURDEN TO DEMONSTRATE POSITIVE ENVIRONMENTAL AND ECONOMIC BENEFITS, AND THEREFORE, THE APPLICATION SHOULD BE REJECTED.

In its Order denying the 2012 Petition, the Board found that “it is the burden of the applicant to reasonably and justifiably quantify” the value of the purported economic and environmental benefits.⁴⁵ It also found that the use of societal values in the determination of the emissions reduction benefits were not reasonable since they were not tied to market prices.⁴⁶ “Environmental benefits should be tied to market prices because that is a reasonable manner to ensure fair, just and reasonable ratepayer impact.”⁴⁷ Tying environmental benefits to market prices is “consistent with the EMP, which focuses on quantifiable market-based gains that can be measured.”⁴⁸

In its Petition, the Company asserts that the Project will provide environmental benefits as it does not emit greenhouse gases and other harmful particulate matter.⁴⁹ However, the issue is how those benefits should be quantified. In the 2014 Order on this Project, the Board noted:

Environmental benefits were not demonstrated because they are based on an estimate of the social benefits of displacing CO₂, SO₂, and NO_x emissions from fossil-fuel generation, rather than a market price for the emission. **The calculation of environmental benefits should be tied directly to the market prices because offshore wind is just one alternative to cutting emissions and its ‘benefit’ occurs if, and only if, it is less expensive than the alternative ways.**⁵⁰

The Board also noted that it is an economic regulator concerned with just and reasonable rates, not an environmental regulator such as the EPA. Market-based valuations are not like

⁴⁵ 2014 Decision, p. 21.

⁴⁶ *Id.*, pp. 23-24.

⁴⁷ *Id.*, p. 24.

⁴⁸ *Id.*, p. 24.

⁴⁹ Petition, Appendix B, p. 66. l:13-20.

⁵⁰ 2014 Decision, p. 23, emphasis supplied.

societal costs, as they are more easily measured by looking at compliance with the Regional Greenhouse Gas Initiative or EPA clean air markets.⁵¹ As the Board stated,

The Board agrees with Rate Counsel and Staff – environmental benefits should be tied to market prices because that is a reasonable manner to ensure fair, just and reasonable ratepayer impact. This approach is also consistent with the EMP, which focuses on quantifiable market-based gains that can be measured. As such, the Boards FINDS that this presumed benefit was not demonstrated.⁵²

To support its use of societal costs to evaluate the avoided carbon dioxide (“CO2”) emissions of the Project, the Company cited N.J.S.A. 48:3-87.3, the findings section of the legislation enacted to subsidize nuclear generation facilities. As set forth in the Direct Testimony of David Dismukes, the referenced portion of the statute rationalizes the Zero-Emission Certificate program (“ZEC”) but does not require the use of societal values nor does it mandate use of the 2016 Technical Support Document mentioned in the statute.⁵³

Even if the Board decides to modify its 2014 precedent, Dr. Dismukes suggests utilizing the assumptions already used by the New Jersey Office of Clean Energy (“OCE”) to evaluate the societal value of energy efficiency programs. These assumptions include the social values of reducing carbon emissions that were prepared by the Rutgers Center for Energy Economic and Environmental Polies (“CEEPP”).⁵⁴ CEEPP has utilized these avoided cost assumptions over the past decade and they include damage estimates for sulphur dioxide (“SO2”), nitrous oxide

⁵¹ 2014 Decision, p. 24.

⁵² *Id.*, p. 23.

⁵³ Dismukes Direct testimony, pp. 41-45.

⁵⁴ Center for Energy, Economic & Environmental Policy, *Energy Efficiency Cost-Benefit Analysis Avoided Cost Assumptions*, (2018), (“CEEPP Avoided Cost Assumptions”). Available at: [http://www.njcleanenergy.com/files/file/Library/Market%20Research/Avoided%20Cost%20Memo%20\(3-13-18\).pdf](http://www.njcleanenergy.com/files/file/Library/Market%20Research/Avoided%20Cost%20Memo%20(3-13-18).pdf).

("NOx") and values for the cost of carbon as published by the U.S. Government Interagency Working Group on Social Cost of Carbon.⁵⁵

A project's ability to demonstrate "positive economic and environmental net benefits to the State" is a core requirement of N.J.S.A. 48:3-87.1(b)(1)(b) and the EMP. To demonstrate such benefits both the statute, N.J.S.A. 48:3-87.1(a)(10), and applicable regulations, N.J.A.C. 14:8-6.5(a)(11), require the applicant to conduct a cost benefit analysis ("CBA") that uses input-output models that have the ability to capture New Jersey economic benefits. Thus, the cost benefit analysis should include inputs and outputs related to in-State spending levels, manufacturing, employment, wages, and indirect business taxes among other items. N.J.A.C. 14:8-6.5(a)(11)(v). The regulation states that "The Board will evaluate the credibility of asserted economic benefits" and may rerun the economic model using other inputs and assumptions provided by BPU Staff. N.J.A.C. 14.8-6.5(a)(11)(viii), (xi). After all of the various inputs and outputs are factored, net benefits are demonstrated only if the quantifiable benefits of the project exceed the quantifiable costs.

As set forth in Dr. Dismukes' Direct Testimony, the Company's current CBA for the Project relies on inflated benefits that, once adjusted, do not exceed the Project costs. The CBA has the same deficiencies as the 2012 version. The Project's CBA relies heavily on societal and not market-based values in attempting to quantify the Project's environmental benefits.⁵⁶ The CBA also fails to adequately quantify many of the "lessons learned," or "learning by doing" impacts.⁵⁷ The Petition claims that a pilot project has "significant importance because it provides an opportunity for all stakeholders . . . to learn on a small scale. It thereby provides

⁵⁵ Id., p. 1.

⁵⁶ 2014 Order, p. 24.

⁵⁷ Id. p. 25.

extra value based on ‘lessons learned’ that can be applied to the larger projects to follow.”⁵⁸ As was true of the Project prior application, the Company has again relied upon many of these same benefits, and has claimed that the Board should consider these in its evaluation, and yet has failed to directly quantify any of these benefits.⁵⁹

There are a number of differences in the results between the 2012 CBA and the instant CBA. These differences are in the areas of quantified environmental benefits, avoided REC purchase assumptions, volatility hedge benefits and the omitted “lessons learned” and tourism benefits.⁶⁰ Dr. Dismukes provides a summary and comparison in his Schedule DED-32. The high degree of variability between the results of the two CBA studies raises serious questions about the reliability of the results.⁶¹ In the opinion of Dr. Dismukes, the Board “needs to highly discount the Company’s currently purported benefits particularly given prior REC benefit estimates” provided in the 2012 FACW filing.⁶²

Nautilus included a rate impact model which includes a revenue credit for avoided RPS Class I REC purchases, reflecting a reduced need for New Jersey’s retail electric suppliers to purchase Class I RECs.⁶³ Dr. Dismukes reviewed this credit and noted the Company used an “aggressive and artificially inflated rate of increase in Class I REC prices.”⁶⁴ He recommended that the Board should not use the Nautilus model and instead use the more reasonable energy adder included in the CEEEP analysis used for evaluating energy efficiency program.⁶⁵

⁵⁸ Petition, Appendix B, JR-1(c), p. 91.

⁵⁹ Petition, Appendix B, p. 91 and p. 96.

⁶⁰ Dismukes Direct, JR-14, p.68.

⁶¹ *Id.* at p. 69, and Schedule DED-32 to JR-14.

⁶² *Id.* at p. 72.

⁶³ Petition Appendix B, JR-1(c), p. 86.

⁶⁴ Dismukes’ testimony, JR-14, p.50.

⁶⁵ *Id.* p. 52 and accompanying Schedules DED-24 to 27.

In terms of the volatility hedge benefits, Nautilus argues that its Project will provide electricity at a known price and allow ratepayers to avoid the purchase of electricity at unknown future prices.⁶⁶ So the Project would provide a fixed price hedge against volatile energy costs and the Company argues these benefits will accrue for the twenty year life of the Project.⁶⁷ Dr. Dismukes disagrees with these claims. The Project will not provide a fixed (constant) price to ratepayers since the OREC payment made by ratepayers will be made net of Nautilus energy and capacity sales revenues, which will vary with the market and not be constant. Thus, the OREC price seen by the ratepayers will vary annually due to the PJM market-based revenue credits. The Project will not act as a hedge since the revenues associated with the sales of electricity from the Project will move with natural gas prices.⁶⁸

Dr. Dismukes also noted some analytic problems associated with the Company's volatility hedge benefit estimate such as the timing of the study, not basing their study on the Project specifics, and utilizing electricity market data from Ohio, Oregon and Mississippi instead of New Jersey.⁶⁹ When Dr. Dismukes estimated his own independent volatility hedge benefit using historic real-time prices for the PJM-based New Jersey Hub for the period January 2008 to July 2018, he estimated the total recognized monetary value to be only \$793,917.⁷⁰ That estimation may be overstated as natural gas price volatility has decreased and excess generation capacity exists in many regional power markets.

In sum, the Company's CBA has shortcomings which overstate the Project benefits. The estimates and analysis provided by Dr. Dismukes highlights the issues he has with the methods, data, input and assumptions utilized by Nautilus. Dr. Dismukes recommends that the Board

⁶⁶ Company Petition, Appendix B, p. 89.

⁶⁷ *Id.*

⁶⁸ Dismukes testimony, JR-14, p. 54.

⁶⁹ *Id.* at pp. 54-55 and Schedule DED-28.

⁷⁰ *Id.* at 57 and Schedule DED-29.

reject the Nautilus proposal since it fails the net benefits test required under OWEDA. The Project is too expensive and will lead to more costs than benefits for New Jersey ratepayers.

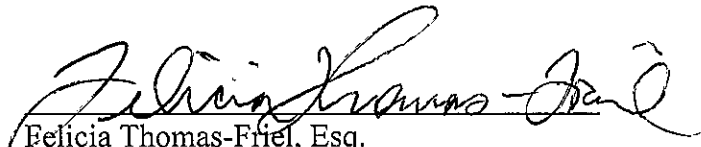
CONCLUSION

For all the foregoing reasons and as the Company's OSW application does not result in the positive net benefits as set forth in the Offshore Wind Development Act and does not pass a cost benefit analysis once assumptions and estimates are corrected, the proposal should be denied.

Respectfully submitted,

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