

## **Statoil Proposed Term Sheet**

**January 14, 2013**

The following terms reflect the essential elements of a long-term contract for energy and capacity from the Statoil Hywind Maine Project (the Project) that will be negotiated in good faith by Statoil North America, Inc. (Statoil), the Maine Public Utilities Commission (Commission), and the investor-owned transmission and distribution utilities (T&D Utilities), and is anticipated to be executed by Statoil and the T&D Utilities (hereinafter referred to as the Contract).

Project Description: The Project is as presented in the May 2011 Proposal by Statoil, comprised of four floating wind turbines with a total nameplate capacity of 12 MW, located in the Gulf of Maine at a location 300 feet or greater in depth and no less than 10 nautical miles from any land area of the State of Maine. The transmission interconnection to Maine is presently contemplated to occur in the Boothbay region.

T&D Utilities: Central Maine Power Company (CMP), Bangor Hydro Electric Company (BHE), and Maine Public Service Company (MPS).

Contract Term: The Contract Term is twenty (20) years beginning on the Commercial Operations Date (COD) of the Project as designated by Statoil (Contract Start Date) and ending twenty (20) years after the Contract Start Date (Contract End Date). For purposes of this provision, COD is the date designated in writing by Statoil to the T&D Utilities once all of the following have been completed: (a) 1-4 of the wind turbines at the Project have been commissioned, as evidenced by a commissioning certificate executed by the wind turbine manufacturer and delivered to the T&Ds by Statoil; (b) such wind turbines have been synchronized with the utility grid and are capable of generating Energy that may be delivered to the Delivery Point; (c) Statoil has obtained all permits, approvals and/or authorizations required from any governmental authority to develop, construct and operate the Project other than the T&D Required Permits (Seller Required Permits); (d) the T&Ds have obtained any and all permits, approvals and/or authorizations required from any governmental authority to accept delivery of the Products, including without limitation all required construction and operating permits required to develop, construct, own and operate the Interconnection Facility (T&D Required Permits); and (e) all other requirements necessary under any agreement, including the Project's interconnection agreement, have been met or are otherwise satisfied and the Project is authorized to generate and deliver the Energy and related Contract Products to the Delivery Point, all as set forth in a certificate Statoil shall submit to the T&Ds certifying that the COD has been achieved. All amounts and prices are provided on a Contract Year basis. Contract Year means the 12-month period beginning on the Contract Start Date and each successive 12-month

period commencing on the annual anniversary of the Contract Start Date (Contract Year). For example, if the Contract Start Date is October 1, 2016, Contract Year 1 is October 1, 2016 through September 30, 2017 and Contract Year 2 is October 1, 2017 through September 30, 2018. Any adjustments to the Contract Start Date may result in changes to the amounts and prices contained in this term sheet.

Contract Products: The Contract Products to be purchased and sold under the Contract are the energy generated by the Project and delivered to the Delivery Point (Energy) and the Project's electrical capacity (Capacity) (collectively, the Contract Products). The Energy purchased and sold under the Contract must be produced by the Project and delivered to the ISO-NE energy market during the Contract Term. Statoil will use commercially reasonable efforts to qualify, clear and deliver Capacity from the Project in the ISO-NE Forward Capacity Market (FCM) (or successor market) such that Capacity purchased by the T&D Utilities receives full market value at the prevailing adjusted clearing price in the FCM (or successor market). Capacity provided by the Project, if any, will be sold to the T&D Utilities and all value realized in the FCM (or successor market) will flow to Statoil.

Energy and Capacity provided by the Project are the sole Contract Products to be purchased under the Contract. RECs or other market products associated with the environmental attributes of the Project are not included in the Contract and the rights to such attributes are retained by Statoil.

Contract Quantity: The amount of Energy purchased and sold under the Contract shall be the entire generation output produced by the Project. The amount of Energy produced and sold under the contract *at the Contract Pricing provided below* is subject to a 41 GWh Annual Energy Cap applicable to each Contract Year. The price for Energy produced by the Project in excess of the applicable Annual Energy Cap shall be the applicable Day-Ahead or Real-Time (at Statoil's option) LMP in the ISO-NE wholesale energy market (or successor) applicable to the Project.

At the conclusion of a Contract Year, if the Energy produced by the Project is below the Annual Energy Cap (an Annual Energy Shortfall), the number of megawatt-hours of the Annual Energy Shortfall may be carried forward for up to three successive Contract Years and added as a credit (Shortfall Credit) to the Annual Energy Cap for such three successive Contract Years until utilized. Any payment for Energy pursuant to such Shortfall Credit mechanism shall be at the Contract Price in effect during the Contract Year when such Annual Energy Shortfall occurred.

Contract Price- Energy: Contract Prices are specified by Contract Year and are stated in nominal dollar terms. The Contract Price shall apply to all Energy produced by the Project up to the Annual Energy Cap of 41 GWh.

The Contract Price for Energy is \$270/MWh<sup>1</sup> for Energy provided during Contract Year 1. The Contract Price for Energy will change annually during each subsequent Contract Year over the Contract Term at a rate equal to 1% percent plus or minus the applicable annual rate of change in the aggregate retail sales of distribution voltage customers of CMP, BHE and MPS ("Rate of Change"). For any particular Contract Year, the Rate of Change will be calculated as follows:

$$\text{Rate of Change} = \frac{\text{Retail Sales (Contract Year N-1)}}{\text{Retail Sales (Contract Year N-2)}}$$

For purposes of applying this formula, aggregate retail sales of distribution voltage customers shall be determined on a calendar year basis.

Contract Price – Capacity: The Contract Price for Capacity shall be the market value per kW-month at the prevailing clearing price in the FCM (or successor market) received by the T&D Utilities and passed through to Statoil in addition to the Contract Price for Energy.

Grants and Other Sources of Project Revenue: Statoil will use commercially reasonable efforts to pursue and acquire State, Federal, non-profit organization, for-profit organization, and other grant and subsidy opportunities applicable to the Project, including those that provide for the reduction of construction costs, capital or financing costs, and/or operating costs of the Project. The Project will retain any and all funds stemming from the Department of Energy Funding Opportunity Announcement Number DE-FOA-0000410 in their entirety. For any additional grants received by Statoil, the Contract Price-Energy will be reduced for the applicable Contract Year to reflect a credit for the net grant proceeds realized unless Statoil proposes, and the Commission agrees to, an increase in the Project scope which increases the costs of the Project (including, without limitations, use of larger turbines, more extensive test programs or other relevant activities) to the benefit of future offshore wind developments. In the event the current federal Investment Tax Credit is materially adversely modified with respect to the Project or has not been extended to cover the full expected construction period of the Project, and if notwithstanding such event Statoil proceeds to construct the Project, Statoil shall be entitled to retain any additional grant proceeds to the extent necessary to offset the loss of the economic benefits to Statoil associated with the Investment Tax Credit.

Non-Pricing Terms:

**Statoil Ambitions:**

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<sup>1</sup> Prices are given in nominal terms for Contract Year 1. Estimated equivalent 2013 price reference is 254\$/MWh (assuming start-up in 2016, and a yearly 2% growth rate )

Statoil will actively contribute to the building of a renewable energy sector supply chain in Maine. In order to achieve this, Statoil will aim, to the greatest extent possible, to utilize local suppliers in the planning and execution phase of the project. In addition, the main operational base will be located in the State of Maine in order to secure a long term foothold for the project and exposure to the wind industry.

A majority of local jobs will be created by subcontractors. Statoil will, through its bidding documents and procedures, use commercially reasonable efforts to ensure that its contractors and suppliers use Maine-based employees to the maximum extent possible, provided that qualified Maine employees are available. Statoil will use local employment in Maine as a positive ranking factor in the procurement process such that a contractor or subcontractor using local Maine employees will, if otherwise qualified and competitive, have an advantage over other bidders in the evaluation process.

Statoil currently estimates that suppliers to the Project will employ approximately 150 persons full time in Maine during the peak construction period. Additional indirect jobs will result from multiplier effects and are not included in this figure.

**Statoil specifically commits to:**

1. **Capital Expenditures.** Statoil will use commercially reasonable efforts to spend in Maine and/or allocate to Maine suppliers, at least 40% of the capital expenditures for the Project.
2. **O&M Expenditures.** Statoil will use commercially reasonable efforts to spend at least 40% of the operating and maintenance expenditures for the Project in Maine.
3. **Employment.** Statoil will, either directly or indirectly through its suppliers, employ 150 persons full time in Maine during the peak construction period.
4. **Operations Center in Maine.** The Operations Center for the Project including full-time operations staff will be located in Maine. The base will have facilities for offices, storage and workshops. This will function as the main operational base for the Project where local staff presence is required for preparedness and stand-by. During operations Statoil will use commercially reasonable efforts to utilize local suppliers in order to maximize the presence of local content and efficiency.
5. **Local Content in Pre-FID (Financial Investment Decision) Phase.** Statoil has contracted with an Environmental Impact Assessment (EIA) coordinator with offices in Maine, resulting in a comprehensive survey program by which a number of local vessel owners and specialists will be

engaged. In addition, Statoil has retained other local consultants and attorneys and will continue to engage local consultants. Currently Statoil is actively utilizing approximately 20-25 persons employed by 5 local consultant and law firms, and Statoil commits to utilizing the services of at least this number of local persons and firms through the development period of the Project. Statoil will use commercially reasonable efforts to allocate front end engineering & design (FEED) studies to Maine based companies as part of the Project definition towards the FID.

6. **Supplier Development Activities.** Statoil will apply an extended supplier development process as outlined in Attachment 1 attached hereto with the goal of maximizing local suppliers and contractors providing goods and services during construction and operation of the Project, including:

- Initiating an early market screening process to systematically identify and assess potential Maine suppliers and contractors.
- Holding dedicated supplier workshops targeting local suppliers for the Project.
- Performing studies with Maine suppliers to familiarize the suppliers with the Project, to understand the deliverables, to identify challenges and bottlenecks and to bring forward the suppliers' proposals for methodology improvements and process simplifications.
- Arranging and conducting tailored training events for parts of the supply chain, including vessels and harbors, steel manufacturing, construction infrastructure, logistics and transport, onshore electrical facilities, marine operations and installation.
- Statoil commits to nominate local suppliers for all areas in which local capabilities are present or can be developed, and Statoil will prequalify local suppliers for contract tendering to the greatest reasonable extent. In lieu of nomination for direct contracting with Statoil, Maine-based vendors may be nominated as sub-suppliers under Statoil's contracts.
- During tender evaluation, Statoil will include local content as one of the evaluation criteria. Statoil commits to award contracts to Maine based contractors and suppliers whenever a technically acceptable bid is present on commercially reasonable terms and at a cost that is not materially in excess of alternative goods or services.

7. **R&D Collaboration.** Statoil has established a Collaboration Program within technology development with the University of Maine (UMaine) to use the Advanced Structures & Composites Center's capabilities in materials development and testing. The Program will cover important areas of technology development for establishing a commercially viable offshore wind industry over time. The program was initiated in 2<sup>nd</sup> half of 2012 and will gradually be extended as the project matures. Statoil foresees the involvement of Maine based manufacturing industries as contributors within this Program. Statoil will enter into an agreement with UMaine through which Statoil will share certain Intellectual Property Rights developed through the program.
  
8. **Large Park Commitment.** Statoil will involve Maine contractors and suppliers in any large park development utilizing the Hywind technology on the Northeast U.S. coast (Maryland to Maine), which Statoil places into service prior to 2025. Statoil will work actively with Maine contractors and suppliers who were pre-qualified for the Project to assist them to become pre-qualified for the larger project.

In evaluating contractor and supplier bids for any such future Northeast park, Statoil will first comply with any local content requirements and other legal obligations it is required to meet in order for the project to be successful.

Subject to such requirements, Statoil will use good faith, diligent efforts to award contracts representing not less than the lesser of 10% of capital expenditures in the future Northeast park or \$100 million to qualified Maine-based contractors and suppliers provided that Statoil determines that Maine-based suppliers or contractors have submitted technically acceptable bids on commercially reasonable terms and at a cost that is not materially in excess of alternative goods or services.

For purposes of this Term Sheet, the term "commercially reasonable efforts" as referred to above means good faith diligent efforts to achieve identified local economic benefits provided that qualified local contractors, suppliers or employees are available to provide goods or services that meet Statoil's quality and technical standards at a cost that is not materially in excess of alternative goods or services.

Further, for purposes of this Term Sheet, the terms "capital expenditures" and "O&M expenditures" shall mean expenditures as budgeted per August 2012 (cited in Statoil's letter to the PUC dated August 15, 2012).

### **Process Outline for Documentation of Local Content**

Not later than one year after the Contract is executed by the parties, Statoil shall prepare and file a report (the Initial Local Benefit Report) with the Commission documenting how the project is progressing in achieving the local economic benefits. Statoil shall file an updated version of this report prior to commencement of construction (the Pre-Construction Report). To the extent that Statoil did not achieve the committed local benefits, Statoil's report shall explain why it was not commercially reasonable to do so. Statoil shall further file reports documenting the local benefits in the operational phase, annually for the first 5 years after COD, and every 3 years thereafter during the Contract Term.<sup>2</sup>

If at any time after COD the Commission Staff or the T&D Utilities, at their option, believe that Statoil has failed to comply with its obligation, the Commission Staff and/or the T&D Utilities may convene an informal conference of Parties to remedy the dispute. Statoil shall participate in such informal conference. If the dispute cannot be remedied by the informal conference process, the Commission may, at its option, open a proceeding to determine whether Statoil has complied with the obligations set forth in this provision. Statoil shall have all the due process rights accorded to parties under Chapter 110 of the Commission's Rules, including a right to hearing at which Statoil would have the opportunity to present evidence to support the reasonableness of its efforts. If, after notice and an opportunity for hearing, the Commission determines that Statoil has failed to comply with this provision, the Commission may assess a reasonable payment, the amount of which is within the Commission's sole discretion, provided that payments assessed by the Commission shall not exceed 7% of the revenue in any given year generated within the annual cap of 41 GWh. In reaching a determination of the amount of the payment, the Commission shall consider the magnitude of the deficiency associated with Statoil's failure to comply with its contractual obligation. The Commission may also notify Statoil what actions may be taken by Statoil within a specified timeframe to cure the deficiency and avoid the payment.

The Contract will contain a contract termination provision as set forth herein. Upon Statoil's filing of the Pre-Construction Report, the Commission may initiate an expedited adjudicatory proceeding to evaluate the Pre-Construction Report and to determine whether Statoil has achieved, or is likely to achieve a significant portion of the local economic benefits set forth above. In such a proceeding, which shall be concluded within 90 days of submission of the Pre-Construction Report, Statoil shall have all of the due process rights accorded to parties under Chapter 110 of the Commission's Rules, including a right to hearing at which Statoil would have the opportunity to present evidence. If, after notice and hearing, the Commission finds that Statoil is not likely to achieve a significant portion of the local economic benefits set forth in numbered items 1, 3, 5, 6 and 7 above, the Commission may declare the Contract terminated, and Statoil and the

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<sup>2</sup> See Attachment 2 for illustration of this process.

Utilities shall have no further obligations to one another under the Contract. For purposes of the foregoing sentence, a significant portion of the capital expenditure commitment means that Statoil will allocate to Maine suppliers or spend in Maine at least 30% of the capital investments. This commitment is illustrated in Attachment 3. If Statoil disputes the Commission's findings or conclusions, Statoil may appeal to the Maine Supreme Judicial Court. During the pendency of any such appeal, the Contract termination shall be stayed, but Statoil will not initiate construction of the Project pending a final decision. In the event of a termination pursuant to this paragraph, Statoil will not be subject to payment obligations under this section. The Commission may not initiate a termination of the Contract under this paragraph after the commencement of construction of the Project.

Termination Right: In the event that any of the following events occur, Statoil has the right to terminate the Contract by written notice to the T&Ds without any liability or obligation to Statoil or the T&Ds, and upon such termination each Party will return any unused credit support provided as performance security to the issuing Party:

- a) notwithstanding Statoil's good faith efforts, Statoil is unable to obtain all necessary State and Federal permits by January 1, 2015,
- b) prior to January 1, 2015, the investment tax credit or any Department of Energy support which may have been awarded to Statoil to develop the Project are materially adversely modified with respect to the Project or have not been extended to cover the full expected construction period of the Project,
- c) prior to January 1, 2015 the Project fails to obtain the necessary internal approvals from Statoil and its parent Statoil ASA, or
- d) the Commercial Operations Date is not achieved on or before the date that is 5 years after the execution date of the Contract.



**[Attachments 1-3 Redacted]**