

Cape Wind backers blew right by cost

Governor Patrick pushed hard for the project, hoping it would jump-start the state's green economy. And it yet may. But at what price? *(Ed note: Bold in body of text added for emphasis)*

By Beth Daley, Globe Staff | October 10, 2010

Amid the maelstrom of controversy over the nation's first offshore wind farm, one truth is as plain as the proposed 440-foot turbines in Nantucket Sound are tall: Its energy will be very expensive.

That's not just compared with power from coal and natural gas, but with renewable power from other sources.

Once the 130 turbines begin rotating, the energy produced will cost up to 50 percent more than energy today from some land-based wind farms and twice as much as some hydroelectric dams. The cost will increase customers' monthly electric bills about 2 percent, and for many that is too steep in tough economic times.

So if Cape Wind is such a pricey proposition, why is it being built at all?

The answer lies at the intersection of a tenacious clean energy entrepreneur's vision and an ambitious governor's green one.

The arresting idea of a new energy source for power-starved New England was seized upon by Deval Patrick during his gubernatorial campaign. Then, after he won election in 2006, his administration helped engineer a sweeping overhaul of state policies that eased the path for the controversial proposal. Patrick and his energy czar, Ian Bowles, saw Cape Wind as just the project to spark a massive expansion of the renewable energy industry

in Massachusetts.

They were focused on making Cape Wind happen; they didn't worry nearly as much about the cost, a Globe review of state documents shows.

At a time of climbing fossil fuel prices, the administration expected that energy from Cape Wind would not cost much more than energy from other sources. Then came the recession, and a sharp decline in the cost of fossil fuels. State officials continued to make public statements about savings from the project, but the truth was that Cape Wind suddenly looked forbiddingly expensive. Even National Grid, which wants to buy half of Cape Wind's power, has noted amid its hundreds of pages of legal testimony that the total cost to consumers over the life of the 15-year contract will be more than \$560 million over the company's forecast of energy prices.

Now, after a new analysis by the attorney general's office placed the cost of building Cape Wind at more than \$2.5 billion, 2 1/2 times the original estimated price tag, the state Department of Public Utilities is weighing whether National Grid's proposed 15-year contract with Cape Wind is a good deal for ratepayers. A decision is expected by mid-November.

Proponents passionately argue that this is Massachusetts' chance to be in the renewable energy vanguard, and that the higher initial costs are an inevitable side effect of launching a breakthrough energy venture. Opponents, who in some cases have been against the project for years for aesthetic reasons, say the state should wait for less expensive renewable power to come on line from Maine or Canada.

If Cape Wind goes forward, electric customers "will be needlessly paying billions of dollars in electric bills and subsidies to line the pockets of a private developer," says Audra Parker of the Alliance to Protect Nantucket Sound, the project's main opposition group.

It is a debate with little middle ground and no end in sight.

It is also the story of energy politics in America today. The environmental benefits of green energy are a tough sell for consumers at a time when power from gas and coal is so much less expensive.

And while most of the public accepts that moving away from fossil fuels is essential if the battle against climate change is to have a chance, it is hard to persuade people to shift their gaze from their utility bills to New England's low-lying coastline — more vulnerable than most to the

projected rise in sea levels from global warming.

“If you look at the science, we are out of time,” says Seth Kaplan of the Conservation Law Foundation, a Boston-based environmental group that supports Cape Wind.

Patrick an early advocate

On a summer day in 2005, Cape Wind president Jim Gordon got a surprise phone call: Deval Patrick, then a long-shot candidate for governor, was on the line.

Gordon, whose project was then four years old and facing stiff opposition from Governor Mitt Romney and Senator Edward M. Kennedy, eagerly picked up the phone. Patrick, who had just learned of Cape Wind, told Gordon he wanted to hear more about it. Patrick later met with opponents and supporters of the project, and even stood on a beach overlooking Nantucket Sound to get a sense of its visual impact. He called Gordon back with tougher questions.

Within weeks, Patrick publicly announced his support for the project. “It was hard to be serious about clean energy and not to [support] Cape Wind,” he recalled in a recent interview.

In the current campaign, Patrick is the sole gubernatorial candidate supporting Cape Wind. Republican Charles D. Baker calls the project a “sweetheart deal” among state officials, Cape Wind, and National Grid. After Patrick won office in 2006, he put Bowles, a native Cape Codder and an environmental official in the Clinton administration, in charge of a new office of Energy and Environmental Affairs.

During months-long negotiating sessions with legislators, utilities, environmental groups and others, state officials revamped state energy laws that favored power plants fueled by natural gas or oil. Developing renewable power would be more expensive, but not hugely so, Patrick and Bowles thought. And they dearly wanted to encourage the construction of clean energy plants to put Massachusetts on the map as a national green innovator.

Over time, as more plants were built, they reasoned, the cost of renewables would decrease and become competitive with fossil fuels.

Cape Wind, which says it can supply the equivalent of three-quarters of the power needs of the Cape and Islands, provided an opportunity to test this idea.

To create a market for green electricity, the state set aggressive mandates for how much energy utilities would have to buy from renewable sources — 25 percent of their total by 2030. Then a clause was written into the 60 plus page Green Communities Act requiring utilities to strike long-term power deals with renewable energy plants in Massachusetts — or “in adjacent federal waters.”

Meeting both requirements — to buy much more renewable power and to buy some of it locally — meant someone was going to do business with the only large-scale local project in the works: Cape Wind.

It was a fait accompli, and it would be a costly one.

“We spent so much time making it sweet for Cape Wind, we skewed the market,” said Robert Rio, senior vice president of the Associated Industries of Massachusetts, an industry group that wants the state to wait for cheaper renewables to be built. “Here, they are picking the winners and losers, but we should let the competitive market decide.”

Of course, there were other wind projects proposed around the state, but all were far smaller and many remain stalled over aesthetic and other concerns. Cape Wind drew even more vocal opposition, but there was little local control over the project because it sat in federal waters.

Plus, Gordon, 57, who had made a fortune building and then selling natural gas plants in New England, had deep pockets — he and his senior managers have already spent \$45 million of their own money on the project — and unlimited drive to withstand years of government review.

The in-state requirement for renewable power was dropped this year after a legal challenge, but by then Cape Wind had struck its deal with National Grid.

Building profit for utilities

Requiring utilities to enter into long-term deals with local renewable plants was a critical piece of the governor’s green dream. Cape Wind and other renewable projects would have a tough time getting financing unless they had buyers for their power far into the future. Banks viewed renewable

projects as too risky otherwise, because less expensive fossil fuel plants could so easily undersell them.

State officials wanted utilities to enter into 20-year contracts to buy power from renewable power plants, but the utilities balked, saying such deals could cost them millions. It was a major sticking point in the negotiations, but a deal was struck: The utilities agreed to sign 10- to 15-year contracts in return for a guaranteed 4 percent markup over whatever price was negotiated for the renewable power.

It was a hedge against uncertainty, and another cost that would be passed on to ratepayers. For National Grid's 1.2 million customers, it would amount to \$5.6 million in the first year of buying power from Cape Wind, and more than \$85 million over 15 years.

Bowles sees the markup as a necessary concession to bring utilities into the market. Without long-term contracts, renewable power plants would never get built, he said in an interview.

It took the markup to "get them to drop their opposition," he said. "Chalk it up to risk aversion and profit-seeking."

Markups structured like the state's are controversial because they are tied to the total cost of the contract, and therefore, critics believe, create an incentive for utilities to seek out the most costly green power source. But they are also occurring more often to help utilities offset the risks attached to long-term deals for renewable power.

In Rhode Island, for example, where the state utility board recently approved a contract between Deepwater Wind and National Grid for eight turbines off Block Island, the utility was awarded a markup of 2.75 percent of its contract cost.

National Grid officials say that, despite the markup, they looked hard for less expensive alternatives, soliciting proposals from a range of renewable power providers early in the process.

"I can say unequivocally that National Grid's primary goal was to drive down the price," said Ron Gerwatowski, the utility's deputy general counsel.

But, in the end, National Grid set aside competitive bidding in favor of direct negotiations with Cape Wind.

The reason was simple, Gerwatowski said. The state had said utilities had to buy a lot of green power and to buy it locally. And for that, Cape Wind was just about the only game in town.

State defended project

Even after the contract was announced and the eye-popping cost of Cape Wind power was clear, the state continued to portray the National Grid deal as a big win for consumers.

“I’m confident that over the life of the contract, the Cape Wind project will save money for Massachusetts customers,” Bowles said in May. Two and a half months later, the attorney general’s office was able to wrest from Cape Wind a 10 percent decrease in the contract’s price, to 18.7 cents per kilowatt hour the first year, with a 3.5 percent increase each year. That price — about 20 cents per kilowatt hour averaged over the life of the contract — is still about double current fossil fuel prices.

Patrick, in the interview, said Cape Wind’s impact on ratepayers is complicated. He said his administration saw Cape Wind’s price as acceptable as measured against high fossil fuel prices a few years ago — and still does today. That’s because he chooses to take the long view on price in an effort to get serious about climate change, create local green jobs, and help turn the nation toward renewable power. Much like in the 1970s, he said, public support for renewable energy fades when fossil fuel prices dip.

“But we are not going to be in a recession forever,” Patrick said. In the end, the cost of Cape Wind will not be known for years after it is built. That’s because its fixed price will look attractive if fossil fuel prices go up substantially. But if those prices go down, it could look like a bad deal. In addition, there’s no way to calculate Cape Wind’s other benefits: The value of reduced greenhouse gas emissions and of building the country’s first offshore wind farm to help chart a path away from fossil fuels is largely incalculable.

Also, because Cape Wind’s costs will be paid for by fixed contracts with National Grid and possibly other utilities, there are likely to be some savings when the turbines are rotating. With no fuel costs, it will displace power on the grid from energy sources with higher fuel prices.

In a recent Boston Globe poll, 69 percent of respondents supported the project, but half were not willing to pay more for it.

But even some of those willing to pay more for green power say they want ironclad assurances that the developer will not make too much profit. And for that, they are hinging hopes on the three commissioners of the Department of Public Utilities, who will rule on the National Grid deal. "I am all for wind power, but that doesn't mean we shouldn't look at their numbers very, very closely," says Charlie Harak, a senior energy attorney with the Boston-based National Consumer Law Center.

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