

RIEDC consultant paid \$200k for testimony and opinion on wind farm benefits

by Jane Vercelli and Steve Stycos
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After six hours of cross examination at the Rhode Island Public Utilities Commission hearing on Wednesday, attorney Michael McElroy, representing Toray Plastics of North Kingstown and Polytop Corp. of North Smithfield, asked consultant Seth Parker what he was paid to testify on behalf of the Rhode Island Economic Development Corporation. A hush fell over the audience section of the hearing room as everyone listened attentively.

Parker, a Boston-based consultant specializing in the power and fuels market, had submitted direct testimony and an advisory opinion to the PUC stating that the prices in the amended Purchase Power Agreement between Deepwater Wind and National Grid are “commercially reasonable.”

In his written testimony Parker said that the Block Island wind farm project could inject anywhere from \$92 million to \$107 million into the state’s economy.

In response to McElroy's questions about his fee, Parker said that the contract for direct testimony was for \$127,000 and the advisory opinion contract was for \$73,000, “subject to change.” He said that a provision in the amended statute provides that Deepwater Wind would pay for one of the contracts. Parker said that both were put out to bid and he won the bid for both.

Before Parker took the witness stand, McElroy made a motion to strike his advisory opinion in its entirety, arguing that the opinion was invalid. He was joined by attorneys for the Citizen Intervenors and the Ocean State Policy Research Institute. Attorney Alan Shoer, representing the EDC, objected. PUC Chairman Elia Germani denied the motions “because I want to give the commission an opportunity to consider the evidence.”

McElroy then moved to strike portions of Parker’s advisory opinion for the EDC that referenced the utility scale project — a proposed 100-plus turbine wind farm that would be built in federal waters after the eight-turbine Block Island demonstration project was installed.

Attorney Joseph Keough, Jr., representing Deepwater Wind, objected, arguing that witnesses called by McElroy had made references to the utility scale project.

Chairman Germani granted the motion, saying, “I’m not going to admit testimony on the utility scale project. We have enough on our plate as it is.”

Earlier Wednesday, Dr. Edward Mazze, a professor and former dean of business administration at the University of Rhode Island, who previously testified on behalf of Toray Plastics and Polytop Corp. was cross examined as was Shigeru Osada, senior

vice president of Toray Plastics.

Mazze stood by his testimony from last week that the Block Island project would have a detrimental effect on the state's businesses and would only benefit Block Island ratepayers. He did not agree with Parker's model that suggested sizeable economic benefits coming from the wind farm.

At Tuesday's hearing, Germani and PUC member Paul Roberti questioned why National Grid had abandoned its role as advocate for lower utility prices.

National Grid lawyer Ronald Gerwatowski answered that at no point in lengthy legal proceedings had the utility stated a position on the wind project's wider economic impact.

Commissioner Roberti noted that the Rhode Island General Assembly has relied on the British based National Grid and its predecessor companies to provide an honest opinion on policy questions concerning electricity prices. Yet by backing an agreement to buy power from Deepwater, Roberti observed, National Grid supports a proposal that will increase typical residential electric rates on the mainland by an estimated 1.7 percent. In addition, attorney Michael McElroy projected that the rate increase caused by the Deepwater project would cost one of his clients, Toray Plastics, \$304,000 a year.

In the past, Roberti noted, National Grid's revenue would decline when the economy declined. In the future, however, if the Rhode Island economy suffers as a result of higher prices caused by Deepwater, "National Grid would be protected." Roberti then referred to Rhode Island's new "decoupling" law which allows utilities, with PUC approval, to collect a set amount of revenue regardless of electricity usage. If usage is lower than anticipated due to conservation, the utility would profit under the decoupling system. National Grid would also not suffer financially if high electric rates caused manufacturers to leave Rhode Island.

Led by construction industry unions, supporters of the Deepwater project argue that it would make Rhode Island the center for American offshore wind development creating manufacturing and assembly jobs in addition to numerous short term construction jobs. But under questioning from McElroy, Madison Milhous Jr., director of wholesale market relations for the energy portfolio management organization at National Grid, admitted he knew of no new manufacturing company investigating relocation to Rhode Island.

Milhous also reluctantly conceded that the plan would not financially benefit consumers because it will sell power to National Grid for 24.4 cents per kilowatt-hour, rather than the current 9 cents. Under the terms of the contract, that price would rise by 3.5 percent each year of the 20-year contract. Deepwater and National Grid have defended the proposal as beneficial to the environment and similar to European offshore wind power arrangements.

On August 11, the PUC will decide whether the power purchase agreement is

“commercially reasonable,” as required by state law. It unanimously rejected a similar proposal this spring, prompting the state legislature to rewrite the law governing the wind power proposal and order the PUC to consider a slightly revised Deepwater-National Grid deal.

The new law so offended the Conservation Law Foundation that it switched sides. Although the environmental group supported the original proposal, it opposes the current plan. CLF staff attorney Jerry Elmer calls the current law “special interest legislation to benefit just one developer.” And he adds, “To create a strong renewable energy future for Rhode Island, we need to create a level playing field for all renewable energy developers. This is not the way to do it right.”

Tuesday’s final witness, energy expert Robert McCullough, testified on behalf of seven citizens of Block Island and North Kingstown, including Republican state Rep. Lawrence Ehrhardt, who oppose the project. McCullough said the power purchase agreement was not commercially reasonable because it estimates costs without stating what equipment would be used on the project. “We don’t know where the prices are coming from,” he stated, “We don’t even know what the equipment is.”

On Monday Deepwater Wind’s CEO and its consultants faced a barrage of skepticism.

Attorney McElroy, representing two of Rhode Island’s largest manufacturers, persistently questioned Deepwater CEO William Moore to show that the cost and projected profit were understated for the company’s proposed wind farm three miles off Block Island. Deepwater is seeking PUC approval for a \$205 million wind turbine project that would lower electric rates on the island, but raise them on the mainland.

McElroy, who usually represents Interstate Navigation Company and Block Island Power Company at the PUC, noted that the project’s estimated cost, which is required by state law to be “commercially reasonable,” does not include the estimated \$42 million needed to install an electric cable connecting Block Island with the mainland. Deepwater consultant David Nickerson agreed that 87 percent of the electricity generated by the project would be sent to the mainland, with only 13 percent used on Block Island. Nickerson argued, however, that the cable to the mainland should not be included in cost estimates because Block Island is the end point of Deepwater’s power purchase agreement with National Grid that is being considered by the PUC. A later PUC case will be required to review the cable project, he said.

McElroy, however, was not convinced and noted that if the \$42 million were factored into the project’s cost, it would be 23 percent more expensive than the average cost of the European offshore projects cited by Nickerson to prove that the Block Island project is commercially reasonable.

But McElroy’s most dogged questioning was reserved for CEO Moore, who often failed to directly answer the attorney’s questions until asked multiple times. The power purchase agreement calls for Deepwater to sell National Grid electricity for 24.4 cents

per kilowatt-hour, although the current price of electricity generated from fossil fuel and nuclear plants is 9 cents per kilowatt-hour. McElroy asked Moore if Rhode Island's high electric costs would discourage manufacturers from locating in the state. Moore responded that it would not be a large factor in costs for an assembly plant, McElroy then asked repeatedly about discouraging manufacturing investment before getting Moore to concede, "That theoretically could be the case."

Next McElroy asked how Rhode Island's electric rates compared with rates around the country. Moore responded that Rhode Island's rates were comparable to those in other New England states. After several more tries, Moore again conceded, "Yes, Rhode Island has above average electricity costs for the country."

McElroy also pointed out that even a unique profit sharing plan would force mainland ratepayer costs upwards. The power purchase agreement assumes that the Deepwater turbines will operate at 40 percent of their capacity, an accepted estimate in the wind industry. If they operate at a higher capacity, however, the "savings" would be split equally between Deepwater and consumers. McElroy noted that the provision would still mean mainland consumers would pay 12 cents per kilowatt-hour, rather than the current 9 cents.

McElroy was not the only person to question Deepwater's testimony. PUC Senior Legal Counsel Cindy Wilson-Frias gently asked Moore why the corporation's cost estimates included warranty repairs and repairs of vendor work. Shouldn't the equipment warranty cover the cost of warranty repairs, she asked, and wouldn't contractors be responsible for shoddy work? Moore struggled, then admitted he could not explain.

PUC Commissioner Mary Bray asked if the project would fail without a \$55 million loan from the United States Department of Energy. Deepwater's first attempt to win the loan was rejected, but the company plans to reapply in August. The company is only eligible for the loan, however, if the project is completed by the end of 2012. No DOE loan "would make it that much harder," Moore responded, to arrange the private sector borrowing required for the project, "but it would not be a reason to abandon the project."

PUC chairman Germani also questioned the project's viability, calling Deepwater "a shell company," that "isn't really in a position to know what the project's going to cost." Moore strongly disagreed, citing a British consultant hired to estimate construction costs.

The hearings are expected to continue through Thursday.

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