

State gives National Grid approval to purchase Cape Wind power

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By Beth Daley, Globe Staff

The state Department of Public Utilities gave permission today for National Grid to purchase half of Cape Wind's power, removing the last significant hurdle for the controversial wind farm to start construction in Nantucket Sound next year.

However, the agency refused to approve a second agreement for the sale of the other 50 percent of the project's power. Without a buyer for that power, Cape Wind's efforts to get financing for the proposed 130-turbine project could suffer, energy specialists say, with some suggesting only half of the turbines may now be built.

"The power from this contract is expensive in light of today's energy prices," the 374-page DPU decision reads. "It may also be expensive in light of forecasted energy prices -- although less so than its critics suggest. There are opportunities to purchase renewable energy less expensively. However, it is abundantly clear that the Cape Wind facility offers significant benefits that are not currently available from any other renewable resource."

While Cape Wind is expected to cost National Grid residential customers less than \$2 a month because it will account for a small percentage of the utility's power supply, the cost of Cape Wind's electricity will be double the current cost of power generated from fossil fuels. That higher price erupted into a major controversy in recent months -- including in the gubernatorial race -- against the backdrop of an economic recession and a state with some of the nation's highest electric costs. The Cape Wind project is expected to cost more than \$2 billion.

"This project is all about our clean energy future, and today that future is closer than ever," Governor Deval Patrick, a champion of the project, said in a statement today. "I am pleased that the nation's first offshore wind farm now has a contract, and under terms that protect consumers' interests."

Opponents said they would appeal the decision to the state Supreme Judicial Court.

"We are disappointed in the DPU's decision," said Robert Rio, senior vice president for Associated Industries of Massachusetts. "National Grid ratepayers will be on the hook for billions of dollars in unnecessary rate increases to pay for the most expensive renewable power currently available. The DPU ignored calls for a competitive process which would have gotten a much lower cost."

The project, which Cape Wind says could produce the equivalent of three-quarters of the electric needs of the Cape and Islands, has undergone years of environmental review and political maneuvering, overcoming opposition from the late Senator Edward M. Kennedy, whose Hyannisport home overlooked Nantucket Sound. While opponents' main concern is aesthetics -- the turbines would be visible low on the horizon from the Cape and Martha's Vineyard and Nantucket -- the battle was fought by raising other issues, including possible effects on property values and harm to birds, fishing, aviation, and historic and cultural sites.

Horseshoe Shoals, the part of Nantucket Sound where the wind farm is proposed, is widely considered the best place along the East Coast to build a wind farm. That's in part because the site is in shallow, sheltered waters close to shore -- the nearest beach is five miles away. But it is also because it is in federal waters -- Political will to build such a massive wind farm in state waters three miles from shore had not existed in the past.

The DPU decision was made, in part, because Cape Wind is necessary to meet a state requirement that utilities buy 25 percent of their power from renewable sources by 2030. While the project's electricity, at 18.7 cents per kilowatt hour, is more than double the cost of fossil fuels today, the Patrick-appointed three-member commission said the increase in "electricity bills is acceptable, given the significant and unique benefits of the project."

Under the agreement, residential customers' bills would increase by roughly 1.3 to 1.7 percent, with businesses' bills increasing roughly 1.7 to 2.2 percent. In the end, the commission said the most likely cost to consumers above market prices would be between \$420 to \$695 million.

But that is if the entire project gets built -- and if it receives the bulk of the federal incentives it is hoping to get. Last week, Cape Wind acknowledged it would not meet the deadline for the most lucrative federal incentive, an up to 30 percent cash grant that could have been worth hundreds of millions of dollars. The deadline for that grant, which required construction to begin by the end of the year, will be missed, Cape Wind officials said, because two permits -- one from the US Environmental Protection Agency for air pollution during construction, and the other from the US Army Corps of Engineers for placing a structure in navigable waters -- are not in hand yet. An EPA spokesman said its permit is expected in the next month; an Army Corp officials said its decision could come as soon as next month but more likely won't come until next year.

While the project is still eligible for significant other incentives, most would be based on the number of turbines installed by the end of 2012. If fewer turbines are built, the price will increase, but is capped at 19.3 cents per kilowatt hour, according to an agreement the Massachusetts Attorney General's office struck with Cape Wind.

In its decision, the DPU also laid out its reasoning for denying the second contract, which would have allowed National Grid to assign the remaining portion of Cape Wind's power to another customer under the same financial terms. That contract could have been sold to a party outside the DPU's jurisdiction, they said, among other reasons. Now, if Cape Wind enters into another contract, the DPU will review it, the order reads.

Some observers said that denial - coupled with the loss of the most lucrative financial incentive - could mean big changes for the project.

"Talk about Solomon, (the DPU) cut that baby in half, said Robert McCullough, of the Oregon-based McCullough Research, which is not involved in the Cape Wind project but worked for opponents of a proposed wind farm off Block Island. He said it was clear Cape Wind did not have a buyer for the other 50 percent of power.

"They are body blows to the project. Everytime they get one of these halfway results, it reduces their ability to finance," McCullough said.

Cape Wind disputed that assertion, releasing a statement saying, "We are pursuing multiple options for selling more power. Cape Wind will be built and is moving forward."

Sue Reid, an attorney with the Conservation Law Foundation, an advocacy group in favor of the wind farm said she doubted fewer turbines would be built because the cost per turbine would be higher while the electricity rate would be capped, reducing Cape Wind's profits. She said any utility that bought Cape Wind's remaining power would have to go before the DPU.

"And why would anyone come in until they know what the regulators will do with the first contract?" she asked. "I am convinced that Cape Wind will sign a contract for the other half" of its power.

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