

4185 - Public Comment

## Comments for Public Hearing Block Island Wind Farm

July 22, 2010

Respectfully submitted by Mike Hickey, Cooneymus Road, Block Island, RI  
Chairman Germani, Commissioners Bray and Roberti,

My name is Mike Hickey. My family and my wife's family have had a long association with Block Island.

These comments are my own and not associated with anyone else or organization.

Thank you for coming back out to Block Island to hear public comment on the proposed wind farm off the island. Many might not know that you did not have to come back to the island- the General Assembly only required one public comment and you are convening two, and you were not required to do any here. So thanks for that.

Thank you also for your service to the community. I work for and with some of the most well resourced companies in the world and I can tell you that the PUC and its staff- its responsiveness, diligence, and professionalism are comparable to any of those organizations. You're a credit to the state.

I also want to thank the town council. This is complex issue. You are dealing with one of the most sophisticated organizations on Wall Street backing the developer, the shifting public opinion, the General Assembly, regulators, consultants and so forth. But I have to question the policy at both the state and local level with respect to this project. Nevertheless, I sincerely appreciate the council's service to the community.

In particular last month I appreciate the council stating for the record at the General Assembly House hearing on the new bill that it was likely that a majority of islanders supported the cable only option. I don't pretend to think that political decisions have to be made in accordance with the majority, but it certainly is a factor to consider. And I assume you have.

I said last March when the PUC came here that we only have one opportunity to get this project right and we needed the PUC's help to get it right. That still remains my view. And the PUC has, I believe, proceeded down that path of "getting it right" by opening a docket on the stand alone cable.

Let me quote the PUC from March discussing this: "There is an absolute, there is a mandate that we get New Shoreham connected to the mainland. That is one thing that is abundantly clear. It could be done at considerably less cost (than the wind farm cable)...but Block Island's needs need to be addressed in a separate instance...". I agree with that line of thinking.

It was my contention since last summer, and still is, that someone or some group needed to demonstrate unassailable benefits to Block Island to get my support for this project. Let me say that again because of its importance. There needs to be unequivocal and unassailable benefit to Block Island. The point is, the NET BENEFIT to Block Island still has not been studied...the distribution upgrades needed, and other financial considerations, the myriad of non financial considerations, and the obvious downside risks that there are with a project of this magnitude.

We've had long discussions in this community over the years on building heights, on outdoor lighting, what signs can and can't be downtown, and a number of other "aesthetic" or "quality of life" issues. But to this point we still have not had credible discussions about the impacts of this project. Example: I have yet to see a depiction of this project at night, with the expected regulatory lighting required from the FAA, Coast Guard, etc.

I think it is very important to state that Block Island is the place at most risk with this project. Not DE Shaw providing some relatively modest financing, not Deepwater Wind, not the state. No one has more to lose than Block Island if the project doesn't work out as planned. I have to admit that I am surprised by the certainty and faith some have in the project, as if its success and benefit to the island were a foregone conclusion.

And while I believe the new cable allocation in this docket is attractive to the island, and I assume that it will pass regulatory muster, I also assume with a stand alone cable we could get a similar socialization of costs. Else why would the PUC have even opened the cable docket recently- they know that Block Island can't shoulder it alone and said so in March. I will come back to this in a moment.

And let's be clear- the economic and environmental benefits to Block Island accrue directly from the cable...not the wind farm. The diesel plant shut down and lower energy price comes from the cable.

What does it say that we may have run afoul of the interstate commerce clause in the US Constitution with this new bill? What does that say about the conviction that we should have in the future success of this project? It just does not instill confidence when we have such a basic constitutional issue arising after so many have put in so much time and resources over the last year or so on this project.

I don't want to spend too much time on this, but let's quickly talk about 3 issues that relate directly to this docket.

## 1. The Return

Based on reading Docket 4065, it is evident that the commission yields to no one in its understanding of capital structure and the importance of debt to enhance returns, and this project will likely be financed with 80% debt. This level of debt is concerning in and of itself. But we continue to talk about returns excluding debt. The debate should be over with respect to the return of the project: it's likely somewhere between 25-30%. There are a handful of sources validating this in the previous and current docket- these are people with no financial stake in the project. We have the developers own witness stating it's about 25.4% with realistic and likely assumptions (tax equity is back- in fact there is not enough supply to meet demand). Let me give some context of a return of 25-30%. That would be higher than about 80-90% of the companies in the US (using return on equity of companies in the S&P 500 over the last 5 years as a benchmark).

And that return would be fine if it came with a correspondingly reasonable price for the project, for example the Johnston Landfill project. I don't know what their return is, but with a price of around 12 cents for the power it may not be very important. A final point on this: the whole point of the cash grant from the US Treasury and accelerated depreciate benefits (that the public ultimately pays for) is to lower the price of energy to the public, not juice the return of the developer. So is a 25-30% return an appropriate use of ratepayer funds?

## 2. The 3.5% Escalator

With respect to the escalator, there was not much in docket 4111 on this. That was somewhat of a surprise to me. I don't know what the basis for the 3.5% escalator is. Long term inflation in this country has been 2.5%, and about 70% of the time inflation has been less than 3.5%. The Bluewater Wind Project in Delaware is 2.5%, and a project in the Great Lakes is 2.5%. So I don't know if that is a commercially reasonable escalator. Even Mr. Nickerson, in analysis for the developer, used a 1.5% inflation rate to adjust other project costs over the last few years to create comparables to this project.

## 3. Cape Wind

Cape Wind has been briefly discussed in this new docket. I think it's the best comparable you will find after making some adjustments. There will surely be many comparisons of this project and Cape Wind going forward in the press and by other regulators. I've had the chance to talk to Cape Wind many times and I don't believe they are happy to have their price compared to this project. Examine the chart on page 27 of Mr. Parker's analysis for Deepwater Wind that compares the price of this project to Cape Wind. It may be the most important page in the docket. Then make a few adjustments:

1. Adjust Deepwater price up by the cable and transmission upgrades missing
2. Adjust Deepwater price down by a benefit of scale factor (20-25% per DWW)
3. Adjust Cape Wind price down by the royalties they will pay to government (~10%)

Adjusting for those three factors and it makes the Block Island Wind Farm price startling in comparison. It's about 50-60% higher. Said another way: Cape Wind's ending price to consumers in 2028 is about the same as Deepwater Wind's starting price to consumers in 2013 (see chart).

### Block Island's Value to the State

Getting back to Block Island:

So why should the entire state help with some of that stand alone cable cost here to Block Island? I believe there is a strong economic justification for the state to assist with the cable allocation.

Block Island generates about \$260M in tourism revenue for the state every year (source: Global Insight, 2007). That means Block Island will generate about \$7.5B over the 20 year life of this project for the state- that's ten times the value of this project. Block Island tourism value is likely more than the value of the larger federal project (~350MW x 40% capacity factor x 15 cents (blend of Bluewater/Cape Wind Price) = ~\$210M per year).

Let me pause there to let that sink in.

Ask yourself this: Is it appropriate for RI ratepayers to subsidize an \$800M project, but not appropriate to subsidize a stand alone cable for \$20M-\$30M to protect \$7.5B in state tourism revenue?

Let me make quick comment on the impact to tourism with this project. Now, no one is going to irrefutably prove tourism will increase or decrease with this wind farm. My own feeling is that the wind farm would give a short term bump up in tourism, due to the curiosity factor, but a long term negative. Atlantic City and Staten Island are considering similar projects to this project, three miles off their shore, there's Cape Wind and there are projects planned off the shores of the Great Lakes. But the point is, it puts \$7.5B in tourism revenue "at risk". The same probably can be said of property values of which there is another \$1.6B- at risk. "At risk" is simply defined as "uncertainty" about the impact to.

Most in the room now probably believe I know the price of everything and the value of nothing...so with that:

I again want to quote the PUC from March when they were questioning the siting and permitting of the project which led to the cable only docket: "The whole notion, why we're putting windmills within striking distance of the shores of Block Island, the crown jewel of the State of Rhode Island...where I would characterize it as a significant impact

to the human and natural environment...is because of the expeditious permitting process that will flow...”.

A few weeks ago in the Washington Post there was an article about Block Island, by a woman by the name of Becky Krystal. She kind of writes like Hemmingway, with short, clippy sentences. Here’s what she had to say describing her first visit here:

*“The island slowly appeared on the horizon, presenting a stretch of picturesque cliffs that was soon joined by the classically New England streetscape of Old Harbor. I ambled past grand hotels.... Soon I settled on a bike and pedaled straight for the Mohegan Bluffs, the steep cliffs on the south end of the island named after the Native Americans. The similarities to other places began to run through my mind. What was this like? Prince Edward Island? Ireland? Although meant as compliments, the comparisons aren't entirely fair to Block Island, which possesses a tranquil beauty all its own.*

*...a vegetation-lined path led to the top of the cliffs, where I saw fellow visitors paused at various points on the more than 100 steps leading down along the embankment to the beach below. The payoff could not have been better. Dramatic cliffs rose along the shoreline. Underfoot was not soft sand but an even less stable layer of smooth rocks rounded by time and waves. Larger stones, fuzzy with green sea vegetation, freckled the shallow water. The setting exuded an “end-of-the-earth” aura.” Washington Post July 10, 2010*

*“The setting exuded an “end-of-the-earth” aura.”*

It was a phrase that appeared to echo down through the centuries. It mirrored what Livermore, who wrote a history of the island in the late 1800s, had penned. He was also describing the south and west side of the island, and Martha Ball captured this elegantly in an article in the local paper on Christmas, 1999. He said in 1893,

*“Near Black Rock, and almost at the jumping off point of creation...here nature seems to have made one supreme and final effort to achieve perfection, appearing at her best in all its varied modes....here nature seems to have made one supreme and final effort to achieve perfection, appearing at her best in all its varied modes...”*

Thanks again for coming out to the island and thanks for your service to the community.

Mike Hickey

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1 Q: Can further adjustments be made to reflect the differences in PPA terms  
2 among BIWF, Cape Wind, and Bluewater?  
3 A: Yes, but these adjustments require assumptions regarding the recovery of capital  
4 costs under each PPA. In order to convert the 15-year Cape Wind PPA prices and the 25-  
5 year Bluewater PPA prices to equivalent 20-year prices, I assumed that all capital costs  
6 recovered during the unadjusted PPA terms would be recovered during the adjusted PPA  
7 terms, keeping the NPVs of the total revenues constant for each project. These 20-year  
8 PPA prices are shown in Figure 7. The 2013 price for the Amended PPA is unchanged at  
9 \$244.00/MWh, but the 2013 price for Cape Wind is now \$167.99/MWh and the 2013 price  
10 for Bluewater is \$144.01/MWh.

Figure 7. Bundled Prices with Common Starting Year, 3.5% PPA Escalator and 20-Year PPA Term

