



*The Beacon Hill Institute for  
Public Policy Research*

# News Release

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EMBARGOED UNTIL:  
Monday, May 15, 2006  
12:01 a.m.

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## ***Windfall profits: Cape Wind project spins on generous public subsidy***

BOSTON – A study released today by the Beacon Hill Institute at Suffolk University finds that a proposed wind energy plant for Nantucket Sound would confer above-average profits on its developer thanks to hundreds of millions of dollars in public subsidies. In its analysis, the institute found that the developer, Cape Wind Associates, would receive a 25% return on equity, 2.5 times the historical average for all corporations.

Said David G. Tuerck, Executive Director of the Beacon Hill Institute: “We knew that the project was in line to receive massive subsidies. The purpose of our study was to determine how large the subsidies would be and how much Cape Wind would benefit from them. What we found was quite remarkable. Cape Wind stands to receive subsidies worth \$731 million, or 77% of the cost of installing the project and 48% of the revenues it would generate. The policy question that this amount of subsidy raises is whether the project’s benefit is worth the huge public subsidies that the developer gets.”

The wind plant planned by Cape Wind calls for the installation of 130 wind turbines in Nantucket Sound, each 426 feet in height and visible from Cape Cod, Martha’s Vineyard and Nantucket. The project, which would cost \$950 million to build, would generate about 2.5% of the electricity used by Massachusetts, equivalent to 1% of that used by New England.

In 2008, if, as planned, the wind plant is nearing completion, Cape Wind would be looking forward to three subsidies that it would receive at different stages over the 25-year lifespan of the project: (1) Federal production tax credits, (2) Massachusetts green credits and (3) a tax break through the accelerated depreciation feature of the federal tax code.

Because these subsidies vary in size and timing over the lifespan of the project, it is necessary to compare them in “present-value” terms, i.e., according to their value to the developer in 2008, discounted to account for the time-value of money. Thus, for example, subsidies received over the first 10 years of the project through the Federal production tax credit would total \$337 million but would be worth \$180 million in present-value terms. Massachusetts green credits, totaling \$1.7 billion over the entire 25-year lifespan, would be worth \$487 million. The accelerated depreciation feature of the tax code would be worth \$65 million in present-value terms. Adding these amounts leads to the estimated total subsidy of \$731 million (except for rounding).

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Cape Wind would pay taxes to federal, state and local governments. The taxes that it would pay over the lifespan of the project would have a present value of \$151 million in 2008. Subtracting this amount from the \$731 million in subsidies leaves a “net subsidy” of \$581 million. Yet, it is the \$731 million “gross” subsidy (subsidy before taxes) that seems most germane to the question what Cape Wind would cost taxpayers and electric ratepayers. Businesses that generate average or above-average profits for their investors ordinarily pay taxes on those profits without the benefit of any subsidies. Had the \$950 million that Cape Wind would invest in this project been invested elsewhere, there would have been a similar contribution to the tax rolls without the need for any public subsidy.

The wind plant is currently under review by the Minerals Management Service of the U.S. Department of Interior. “Before the project gets approval, taxpayers and ratepayers should know what they will have to pay in subsidies so that Cape Wind can provide for a very small fraction of the region’s energy needs,” said Tuerck. “We suspect that they will be surprised to discover just how much they have to pay.”

The Beacon Hill Institute received no financial support for this study.