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Beacon Hill Institute Study: Cape Wind proposal fails cost-benefits test

BOSTON - *Free But Costly*, a study released today by the Beacon Hill Institute at Suffolk University finds that a proposed wind farm in Nantucket Sound fails a cost-benefit test of the kind recommended by the U.S. government for assessing large-scale projects.

Cape Wind Associates, the developer of the wind farm, has stressed the value of wind power as a source of clean, renewable energy. However, using guidelines established by the U.S. Office of Management and Budget (OMB), the authors, Douglas Giuffre, Jonathan Haughton and David G. Tuerck, find that the overall economic costs of the project would exceed benefits by \$211.8 million. The actual net cost of the project could be as small as \$84 million or as great as \$337 million.

In addition, the authors find that the 130-turbine wind farm would receive a combined subsidy of \$241 million from state and federal sources. This subsidy, without which the project would not be financially viable, exceeds by \$74 million the subsidy to which the project would be eligible on the basis of cost-benefit criteria. Other findings are:

- Even when the permanent jobs associated with the maintenance and operation of the project are taken into account, Cape Cod still stands to lose at least 1,000 jobs if the project goes forward.
- The wind farm would increase the power supply of New England by 0.94% and for Massachusetts by 2.51%.
- Even with the help of existing subsidies, the wind farm will probably make a only modest profit for its developers. On the other hand, there is a 12% chance that it will incur a loss of at least \$50 million.
- A land-based site would substantially reduce the costs associated with the project.
- The negative effects of the wind farm on the pristine character of Nantucket Sound and on bird and marine life figure partly in the Institute's cost-benefit analysis. Yet, even without these negative effects, the wind farm would fail a cost-benefit test by a wide margin.

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“The wind farm proposed by Cape Wind fails a cost-benefit test by any measure and by a wide margin,” says Haughton, an Associate Professor of Economics at Suffolk University and the principal author of the study. “It is one thing to make claims about the contribution of the project to energy independence and to clear air, but it is another to tally up these benefits and to compare them to the very real costs of installing, operating and integrating the project into the New England power grid.”

Haughton and his co-authors recognize that wind power might well pass a cost-benefit test when generated from land-based sites with suitably strong winds. The problem appears to lie in the high installation and maintenance costs associated with an offshore site.

BHI acknowledges the Egan Family Foundation for partial support of the study. The Foundation played no role in the design or performance of the study.

The Beacon Hill Institute for Public Policy Research focuses on federal, state and local economic policies as they affect citizens and businesses, particularly in Massachusetts. The Institute, which is part of Suffolk University, uses state-of-the-art statistical, mathematical and econometric methods to provide timely and readable analyses that help voters, policymakers and opinion leaders understand today's leading public policy issues.

A printed copy of the report is available for \$15.00 by calling 617-573-8750 or online at <http://www.beaconhill.org>.