

Developer says costs can be kept down

An energy chief in N.Y. says numbers don't add up

By AARON NATHANS, The News Journal

Posted Sunday, October 21, 2007

The developer of the proposed Delaware offshore wind farm says it can beat the costly prices that plagued a Long Island wind farm.

But a Long Island man who has crunched offshore wind farm numbers says it's unclear from Bluewater's financial documents how it intends to accomplish that and remain financially viable.

Bluewater Wind wants to build a 150-turbine wind farm off the coast of Rehoboth Beach, and enter into a 25-year agreement to provide electricity to Delmarva Power.

But Delmarva is a reluctant participant, having been forced by four state agencies to negotiate with Bluewater. Delmarva officials have fretted about the cost of wind power to their ratepayers, pointing out that the Long Island project is on the brink of being canceled because it cost too much.

Bluewater spokesman Jim Lanard said his company will be able to build wind projects "considerably cheaper" by paying less for the same types of components. Lanard said Bluewater can beat Long Island wind farm developer FPL Energy's price on turbines, labor, ship rentals and installation costs.

Lanard declined to provide specific costs, saying that information was proprietary.

The Public Service Commission is expected to issue an analysis of the economics of the Delaware project on Oct. 29. It will take a closer look at the proposed terms and conditions of the wind farm, and a planned backup natural gas plant.

Dorian Dale, energy director for the town of Babylon, N.Y., performed an economic analysis of the proposed Long Island offshore wind farm in April. The analysis showed the project would be much more costly than the original bid.

At the request of The News Journal, he reviewed the Delaware term sheet.

Bluewater's Delaware plan calls for the 450-megawatt Delaware project to cost \$1.6 billion to build in 2007 numbers, or \$1.8 billion in 2014 numbers, when the wind farm would be up and running.

Dale noted that on a per-megawatt basis, Bluewater's proposed costs are much lower than FPL's proposed costs for the 144-megawatt, \$811 million Long Island wind farm.

Bluewater's project would cost \$4 million per megawatt when it opens, he said. The latest figures put the Long Island project at \$5.6 million per megawatt in 2010, which would translate to \$6.2 million in 2014 numbers, Dale calculated.

But Dale said he didn't understand how Bluewater could afford to cover its costs at its lower rate. He noted that Bluewater would still be subject to many of the same market forces that plagued FPL: increasing costs of the metals required to build the turbines, increasing demand for turbines leading to higher costs for the finished product, and increasing labor and equipment costs.

In addition, with the Delaware wind farm planned to be 11.5 miles offshore, cabling and offshore construction operations would cost more than the proposed Long Island project, which went only 3.7 miles offshore, Dale said.

The Bluewater contract includes "escalators" for increases in the price of commodities such as steel, copper, aluminum and lead, to cover increases during the two-year period between the time the contract is signed and executed. There are also escalators for increases in the price of fuel and the value of the dollar against the currencies in the countries from which parts are purchased.

But Dale said that even with major increases in the price of commodities, those escalators wouldn't account for the full cost difference between the Delaware and Long Island projects. A more important hedge would be to account for increases in the cost of finished turbines, but that's missing from the term sheet, Dale said.

"If they could do it, that would be great," Dale said of the lower price. "The materials cost escalation will not be insignificant, but won't come close to covering the tab."