



THE BEACON HILL INSTITUTE
AT SUFFOLK UNIVERSITY

The Economic Impact of the Above-Market Deepwater Contract

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DEEPWATER IMPACT

On December 13th, National Grid supplied new details about its contract with Deepwater Wind to purchase power produced by its proposed offshore wind farm. The contract calls for above-market rates, with the total cost estimated in the response along with other details.¹ Based on the underlying assumptions that the project will produce 125,000 MWh of electricity, requiring an annual capacity of 47.8%, the paper predicts a total of \$474.3 million above market costs over the expected 20-year lifetime of the project.

We simulated the annual “Above Market Cost” predicted by National Grid in the Rhode Island STAMP[®] model as a percentage price increase on electricity to measure the dynamic effects on the state economy. The model provided estimates of the project’s impact on employment, wages, and income. Each estimate represents the change that would take place in the indicated variable against a “baseline” assumption of what it would have been in the absence of the Deepwater contract.

The agreement to pay above-market prices for the power produced by Deepwater will have negative economic effects on the state of Rhode Island. The touted job effect of a wind farm is true to a degree; some jobs will be created, such as those that maintain the turbines. But the model shows that the

net effect is negative. Individuals and companies forced to pay more for electricity will consume less in other areas, leading to job losses across all sectors. There will be a net job loss of 75 jobs in 2020. Job losses and price increases, due to higher costs for commercial and industrial electricity consumers, will reduce real incomes as firms, households, and governments spend more of their budgets on electricity and less on other items.

Table 1
The Impact of Deepwater Wind Contract on Rhode Island (2013 Dollars)

	Expected Value
Cost Estimates	
Above market cost in 2020 (\$m)	15.0
Total above market cost 2018–2037 (\$m)	474.3
Economic Indicators (cumulative to 2020)	
Total employment (jobs)	(75)
Investment (\$m)	(3.3)
Real disposable income (\$m)	(23.4)
Annual Effect on Electricity Ratepayers	
Residential (\$)	10
Commercial (\$)	125
Industrial (\$)	1,050

Source: Beacon Hill Institute, RI-STAMP

In 2020, real disposable income will fall by an expected \$23.4 million. Net investment will fall by \$2.3 million, compared to a baseline of no Deepwater contract. In 2020, the “higher than market” electricity contract is expected to cost families \$10 per year; commercial businesses \$125 per year; and industrial businesses \$1,050 per year.

¹ Docket 4371: National Grid’s Responses the Division’s Second Set of Post Hearing Data Requests. Rhode Island Public Utilities Commission. Available at: www.ripuc.org/eventsactions/docket/4371-NGrid-PHDR-DPU2_12-13-13.pdf (Accessed March 26, 2014.)

RENEWABLE ENERGY STANDARD IMPACT

Last month, Beacon Hill and the RI Center for Freedom & Prosperity released a similar analysis of Rhode Island’s Clean Energy Act Renewable Energy Standards (RES).² These effects would be in addition to the Deepwater contract.

Rhode Island’s renewable energy standard mandate and Deepwater Wind cost \$36.4 million annually by 2020.

Table 2
The Impact of the RES Mandate on Rhode Island (2013 Dollars)

	Expected Value
Cost Estimates	
Total net cost in 2020 (\$m)	21.4
Total net cost 2014–2020 (\$m)	149.1
Electricity price increase in 2020 (cents per kWh)	0.24
Percentage increase (%)	1.85
Economic Indicators (cumulative to 2020)	
Total employment (jobs)	(105)
Investment (\$m)	(4.6)
Real disposable income (\$m)	(33.0)
Annual Effect on Electricity Ratepayers as of 2020	
Residential ratepayer (\$)	15
Commercial ratepayer (\$)	160
Industrial ratepayer (\$)	1,330

Source: Beacon Hill Institute, RI-STAMP

University, also serves as chairman and professor of economics. He holds a Ph.D. in economics from the University of Virginia and has written extensively on issues of taxation and public economics.

Paul Bachman, director of research at BHI, manages the development and deployment of the STAMP model, among other projects. Mr. Bachman has authored research papers on state and national tax policy, state labor policy. He also produces the institute’s state revenue forecasts for Massachusetts. He holds a Master Science in International Economics from Suffolk University.

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ABOUT THE AUTHORS

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² RI Center for Freedom & Prosperity and the Beacon Hill Institute. “The Economic Impact of Rhode Island’s Renewable Energy Standard.” February 2014. Available at: www.rifreedom.org/2014/02/economic-impact-of-rhode-islands-renewable-energy-standard/ (Accessed March 26,2014.)