



State of Rhode Island and Providence Plantations
State House, Room 224
Providence, Rhode Island 02903
401-222-2080

Lincoln D. Chafee
Governor

January 31, 2013

Mr. Tommy Beaudreau
Director
Bureau of Ocean Energy Management
Department of the Interior
1849 C Street, NW
Washington, DC 20240

Re: Proposed Sale Notice for Rhode Island-Massachusetts Wind Energy Area

Dear Director Beaudreau:

As the birthplace of the Industrial Revolution, Rhode Island led our country into improved economic times through the introduction of new manufacturing processes at the end of the 18th century. Just as Rhode Island led our nation in a major economic transformation over two hundred years ago, we are positioned to do so once again as the country's current leader on offshore wind.

On January 15, 2013, my cabinet heads and staff, along with Senator Reed's and Senator Whitehouse's staff, met with BOEM Deputy Director Cruickshank and your staff in Rhode Island. The involvement of my Directors of the Rhode Island Department of Administration, the Rhode Island Department of Environmental Management, the Rhode Island Coastal Resources Management Council, and the Rhode Island Office of Energy Resources should signify to you that Rhode Island is working together in a cooperative spirit to move the offshore wind industry forward.

The purpose of this letter is respectfully to request the proposed lease auction process for the identified Rhode Island Wind Energy Area be amended so that Rhode Island's economic, environmental, and stakeholder interests may be given proper weight. I share the federal government's commitment to offshore wind as a way to further our country's clean energy economy, increase our energy security, strengthen our nation's competitiveness, and reduce greenhouse gas emissions. I also appreciate the tremendous work BOEM has undertaken to encourage the appropriate uses of our offshore waters.

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However, I am disappointed that the revised auction format does not offer sufficient weight to Rhode Island's strategic priorities regarding the establishment of public-private partnerships that support the sound and effective development of offshore wind energy. It is my understanding that the current auction format is designed to maximize the financial return to the federal government, but it does little to address the significant risk of high electricity rates for Rhode Island ratepayers as a result. Additionally, it does little to address the necessary need for stakeholder involvement for such a complicated process, nor does it give proper weight to the millions of dollars and years of investment Rhode Island has already committed in this area. On our end, Rhode Island is nimble enough to proceed in a manner to address these concerns, but we can only do so with your partnership.

I would be remiss if I did not note that Rhode Island is going to bear the brunt of the impacts of this proposed project in federal waters off the coast of Rhode Island. I truly hope we can work together to ensure that Rhode Island's needs are taken into consideration so that our state may also receive some of the benefits, and not just the burden.

Proven Leadership

As you know, Rhode Island has been a leader in exploring the development of offshore wind energy. This leadership was recognized in Minerals Management Service's (MMS) Final Rule which states:

Two States—New Jersey and Rhode Island—are well along in planning efforts that will help to determine appropriate areas of the Outer Continental Shelf for development, and MMS has been an active partner with those States. Such efforts—supported by MMS environmental study and technical research initiatives, as well as the Coordinated OCS Mapping Initiative mandated by Energy Policy Act of 2005—will contribute significantly as MMS implements this final rule. (MMS 2009, 19643).

The partnership between Rhode Island and BOEM (and previously MMS) officials provided critical scientific and technical information for identifying the appropriate areas for offshore renewable energy development of the Outer Continental Shelf (OCS). Your agency would not be where it is today in this process without the critical research and information provided by the Ocean Special Area Management Plan (SAMP). Rhode Island intends to continue to be a leader, utilizing the natural capital found throughout our state's academic universities, while continuing to position our state as a regional and national knowledge hub for our country's renewable energy sector.

Significant Investments

Rhode Island has worked in close coordination with BOEM in pursuit of the energy possibilities within the OCS and to proactively plan for offshore wind development. Throughout our state's leadership on the Ocean SAMP process, Rhode Island invested over \$10 million to help inform the site selection process for both state *and* federal waters for offshore wind development. This wealth of information was used by BOEM to facilitate the Environmental Assessment completed last summer, and will continue to be used to facilitate the Environmental Impact Statement that will come with the filing of a Construction and Operation Plan by a developer. The preferred developer, Deepwater Wind, has already invested over \$25 million to develop the Block Island Wind Farm, which I believe will be the

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first offshore wind farm in the United States. As you are aware, significant investments on behalf of the State and our partners have been made to move our country forward with its first viable offshore wind project.

Ocean Special Area Management Plan (SAMP)

The Rhode Island Coastal Resources Management Council adopted the Ocean SAMP on August 19, 2010 as the enforceable policies and recommendations for promoting balanced uses within the Ocean SAMP study area. Rhode Island is the only state in the country that has adopted a SAMP in federal waters with a specific focus on the development of offshore renewable energy resources. An entire chapter of the Ocean SAMP is dedicated to defining the complexities of offshore renewable energy development, the potential areas for development, the potential effects of such development and the regulatory standards for development. The Ocean SAMP was approved by the National Oceanic and Atmospheric Administration thereby requiring federal consistency for any development that takes place within the Ocean SAMP boundary. This boundary includes the OCS Wind Energy Area identified by BOEM for the development of offshore wind energy. At the same time the Ocean SAMP was adopted by the Coastal Resources Management Council, the State held a competitive process to choose a preferred developer for an offshore wind farm. MMS once again recognized Rhode Island's leadership in its final rule stating:

Notably, during the time that MMS has been promulgating this rule, the States of Delaware, New Jersey, and Rhode Island have conducted competitive processes and have selected companies to develop wind resources on the OCS. We believe that the pre-existing State processes are relevant to the competitive processes that MMS is required to conduct following approval of this rule. We intend to do so by using a competitive process that considers, among other things, whether a prospective lessee has a power purchase agreement or is the certified winner of a competitive process conducted by an adjacent State.

Need for Ongoing Coordination

Given the enormity of the State's interests regarding offshore wind development in the waters of southern New England, Rhode Island must continue to serve as a key partner in the process. The same is true for our neighboring state, Massachusetts. To reiterate, we will bear the impacts, and hopefully reap some of the benefits, of such development. Yet I fear that the negatives could outweigh the positives if the State's interests are not adequately and appropriately reflected in the lease auction process. I am prepared, and my staff is quite eager, to continue working in support of an economically and environmentally sound process for leasing and developing suitable offshore wind energy sites. We anticipate contributing in numerous ways, including ongoing coordination and collaboration between state and federal agencies, stakeholders, energy utilities, and the developer(s) with regard to avoiding and mitigating fisheries and other environmental impacts, providing shore side support services, and securing Power Purchase Agreements (PPA) for the energy produced from these large scale offshore wind projects.

Recommendations

I am hopeful that BOEM can better define an auction leasing format that accounts for all of the work already completed in the OCS for this region and for the economic development and environmental mitigation planning that Rhode Island used to gain support for offshore wind development.

I respectfully submit four major recommendations for you and your staff to consider for the proposed auction format:

1. Include More Factors in the Multi-Factor Auction Format: The multi-factor auction format should include more of the factors that the Request for Interest in the Renewable Energy Leasing Offshore Rhode Island defined. There are a number of factors that were defined in the RFI that should be used to award a lease. Most notable of these factors are:

cash bonus, operating fees, rentals, technical merit, including site assessments efforts, project planning, and engineering studies; project experience; credit and security; power purchase agreements, timeliness; financing and economics; environmental consideration; public benefits; and compatibility with State and local needs.

The current auction format being considered is essentially a single factor, highest bid auction. It is not the multi-factor auction contemplated by the RFI. A single factor auction simply does not take into account the state and regional interests in developing this resource, nor does it take into account the complicated process of delivering the energy produced into the state and regional electricity markets. Given Rhode Island's high unemployment rates, I want to ensure this utility scale wind farm proposed by the federal government generates high quality jobs in our state and in the region. At the same time, I want to mitigate the potential effects of offshore development on our existing industries, including, but not limited to, the fishing industry. It is critical that any wind farm development maximize benefit to this region. Any developer chosen to work in the Wind Energy Area must have a strong partnership with Rhode Island in order to maximize the tremendous opportunities to the region while minimizing any negative effects.

2. Include Assessment of Regional Economic and Social Benefits: Factors that provide economic and social benefits to the region should be incorporated into the evaluation. BOEM can still structure this process with a yes/no answer response, but more factors that reflect local priorities need to be added to determine the final discount. In addition, the states need to have a say in the factors that eventually get added. A great deal of site assessment effort, project planning, and engineering studies have been completed, including the data from the Ocean SAMP that could be used to evaluate bids. The environmental effects, financing and economics of a proposed bid, and PPA should be considered, which our state's environmental and energy agency staffs look forward to working with you on in close partnership. Too much careful planning and stakeholder engagement has been undertaken in this region to have a lease awarded solely to the highest bidder. The public benefits of such a major economic development opportunity cannot be dismissed given the investments that will have to be made

by any developer to fabricate, assemble, and construct utility-scale offshore wind farms. More factors should be considered when awarding a lease than just the best price for locating turbines on the OCS. The economic opportunities for Rhode Island must be considered when any bids are evaluated.

3. Recognize Existing Joint Development Agreement: A Joint Development Agreement (JDA) should be awarded at least a 25% discount in this auction. The General Assembly and the Executive Branch committed significant resources to get Rhode Island to where we are today. The JDA that Rhode Island has with Deepwater Wind is the result of a competitive process designed by the State and the State chose Deepwater Wind as a preferred developer. BOEM's predecessor MMS recognized this thorough and competitive process as relevant to the development of its Final Rule and therefore a greater weight should be awarded to developers with a JDA.

4. Ground Expectations for a Power Purchase Agreement (PPA): It is completely unrealistic to expect a PPA to be in place by late Spring or early Summer of 2013 (the current estimated date for the Notice of Lease Sale). Indeed, to date, no states have entered into such a PPA. It is inconceivable to have a PPA before anyone has a lease and thus site control. Consequently, the PPA incentive in the proposed rule is virtually meaningless.

Rhode Island's Long Term Contracting Statute, RI General Laws § 39-26.1-8, authorizes Rhode Island's preferred developer to enter into a long term contract with National Grid for up to 150 MW of power generated by the offshore wind project. The statutory provision strengthens the value of the Rhode Island JDA, offers more assurance to investors, and will help drive down the costs of financing the offshore project. I believe that this type of structure that the State has provided to promote federal offshore wind activities should be factored into any type of PPA structured incentive.

Working with Stakeholders

The State, working with our preferred developer, has a long history of coordinating with stakeholders that have an interest in the development and management of the inshore and offshore waters of southern New England, particularly the fishing industry. Bringing in a new developer now, with no ties to the state or our stakeholders, could slow the timeline for deploying offshore wind energy. Doing so may prevent our country from achieving the goal of 54 gigawatts of deployed offshore wind capacity by 2030 (*National Offshore Wind Strategy*).

Moving Forward

While the current auction format may provide BOEM and the federal government with the greatest financial return, it will not necessarily lead to the greatest economic development for the State of Rhode Island or for the southern New England region. The many other factors I have highlighted must be considered by BOEM when awarding a lease – factors that are critically important to this region. As I shared in my State of the State Address earlier this month, Rhode Island has been hit especially hard by our nation's economic crisis, which has taken its toll on our state's economy, our businesses, and,

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most dramatically, our people. It is my intention to move Rhode Island forward into the clean energy economy while simultaneously getting Rhode Islanders back to work as quickly as possible. I strongly urge BOEM to consider the comments I have provided and amend the auction format accordingly.

In summary, I hope the partnership that BOEM officials have established with Rhode Island can be strengthened by providing greater recognition of state and regional investments in the lease auction process, namely, via an enhanced credit for a JDA or alterations to the type of factors eligible for the PPA incentive. I offer these recommended modifications to the auction rules with my vision to ensure that the lease award provides the greatest overall benefit not only for the nation as a whole, but also for the people of Rhode Island.

Thank you for considering my recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read "L. D. Chafee". The signature is fluid and cursive, with a large initial "L" and "D" followed by the name "Chafee".

Lincoln D. Chafee
Governor