



State of Rhode Island and Providence Plantations

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Patrick C. Lynch, Attorney General

July 29, 2010

Luly Massaro, Clerk
Rhode Island Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02888

**Re: REVIEW OF AMENDED POWER PURCHASE AGREEMENT BETWEEN
NARRAGANSETT ELECTRIC COMPANY D/B/A NATIONAL GRID AND
DEEPWATER WIND BLOCK ISLAND, LLC PURSUANT TO R.I. GEN. LAWS §
39-26.1-7-Docket No. 4185**

Dear Ms. Massaro,

Enclosed for filing with the Commission are an original and twelve (12) copies of the Division of Public Utilities and Carriers (the "Division") supplemental responses to the Commission's Second Set of Data Requests in the above matter.

Thank you for your attention to this matter.

Very truly yours,

Jon G. Hagopian
Special Assistant Attorney General

cc: Service List (e-mail only)

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: REVIEW OF AMENDED POWER :
PURCHASE AGREEMENT BETWEEN :
NARRAGANSETT ELECTRIC COMPANY : DOCKET NO. 4185
D/B/A NATIONAL GRID AND DEEPWATER :
WIND BLOCK ISLAND, LLC PURSUANT :
TO R.I. GEN. LAWS § 39-26.1-7 :

SUPPLEMENTAL RESPONSES OF THE DIVISION TO THE COMMISSION'S
SECOND SET OF DATA REQUESTS
DIRECTED TO DIVISION OF PUBLIC UTILITIES
July 27, 2010

- 2-1. Please provide the following response based on the assumptions discussed in Mr. Pasqualini's direct testimony wherein he claims that the unlevered rate of return is 10.5% (Pasqualini, p. 4). Please utilize the information provided in Exhibit 1 to Mr. Moore's Direct Testimony.
- a. Please provide the unlevered internal rate of return Mr. Hahn would calculate.

Response:

Using the capital outlays, revenues, and expenses provided in Exhibit 1 to Mr. Moore's Direct Testimony, Mr. Hahn calculates an unlevered internal rate of return ("IRR") to be 10.7%.

In response to Commission Set 4 data requests to Deepwater, Mr. Stahle (who is substituting for Mr. Pasqualini as a witness) provided hard copies of certain pro forma statements of project cash flows under different assumptions about leverage (i.e., the amount of debt used to finance the project). The percentages of debt analyzed in the response to Commission's set 4 to Deepwater were 0%, 50%, 75%, and 80%.

The pro forma statement of cash flows provided by Mr. Stahle show an unlevered IRR of 10.56% assuming that tax benefits are not used when generated but rather are carried forward until the project can utilize them. If these tax benefits were used when generated, the unlevered IRR provided by Mr. Stahle is 11.56%. Using Mr. Stahle's estimates of cash flows, Mr. Hahn would calculate IRRs of 10.77% and 11.84% respectively.

The following table summarizes all of the IRRs provided by Deepwater's response to the Commission's Set 4. This table also shows that comparable IRR values that Mr. Hahn would calculate using Mr. Stahle's

estimates of cash flows. In general, as the amount of leverage increases, the differences between the calculated values increase.

Table 1

RI PUC Docket No. 4185							
Division Response to Commission Set 2							
Post-ITC Leverage	per DWW response to Comm set 4			Division Calc's using DWW cash flows			
	50%	75%	80%	50%	75%	80%	
Assumed Pre-COD costs (\$millions)	\$202.710	\$204.531	\$204.822				
IRRs							
unlevered pre-tax cash flows	12.57%	12.65%	12.65%	12.81%	12.78%	12.76%	
unlevered after-tax cash flows with carryforwards	10.56%	10.63%	10.64%	10.77%	10.75%	10.73%	
unlevered after-tax cash flows	11.56%	11.68%	11.69%	11.84%	11.84%	11.82%	
levered pre-tax cash flows	15.36%	18.34%	19.47%	16.09%	19.47%	20.80%	
levered after-tax cash flows with carryforwards	13.47%	16.58%	17.78%	14.16%	17.68%	19.09%	
levered after-tax cash flows	16.29%	22.67%	25.40%	17.48%	25.33%	28.85%	

Please note that the pro forma models provided by Deepwater (as summarized in the above table) show that the Pre-COD costs and the unlevered IRRs change as the level of leverage changes. It is unclear why these figures change, as construction expenditures and unlevered IRRs should be independent of the amount of debt financing assumed. Because Deepwater provided only hard copy printouts in response to the Commission's Set 4 and did not provide the Excel spreadsheets with the formulae intact, Mr. Hahn was unable to analyze the reason why these figures changed. Also, it was not possible to verify the annual cash flows used or to analyze and explain the differences in IRRs as calculated by Deepwater and Mr. Hahn. To do so would also require the Excel spreadsheet files with formulae intact.

It is important to note that the pro forma cash flow models provided by Mr. Moore and Mr. Stahle are very different. While both models appear to utilize consistent estimates of annual revenues and expenses, significant differences exist. Mr. Moore does not analyze any leveraged scenarios, and assumes that construction is funded from equity contributions. Mr. Stahle assumes separate debt for construction financing and permanent financing (i.e., post Commercial Operation Date). Mr. Moore uses an annual model, while Mr. Stahle uses a quarterly model. The estimates of the project's cost are also slightly different.

Prepared by: Richard S. Hahn

- 2-2. Please provide the following response based on the assumptions discussed in Mr. Pasqualini's direct testimony wherein he projects a 17.8% after-tax return assuming 80% post ITC leverage (Pasqualini, p. 6). Please utilize the information provided in Exhibit 1 to Mr. Moore's Direct Testimony.
- a. Please provide the internal rate of return Mr. Hahn would calculate assuming 80% post ITC leverage.

Response:

- 2-2 Please refer to the response to Commission 2-1.

- 2-3. Please provide the following response based on the assumptions discussed in Mr. Pasqualini's direct testimony wherein he projects a 13.5-16.0% after-tax return assuming 50-75% post ITC leverage. (Pasqualini, p. 6). Please utilize the information provided in Exhibit 1 to Mr. Moore's Direct Testimony.
- a. Please provide the internal rate of return Mr. Hahn would calculate assuming 50%-75% post ITC leverage.

Response:

- 2-3 Please refer to the response to Commission 2-1.