

STATE OF RHODE ISLAND PUBLIC UTILITIES COMMISSION
DOCKET No. 4185
Deepwater Wind Block Island, LLC
Response To
The Division Of Public Utilities And Carriers' Data Requests
SET 1

Div. 1-1: In Docket 4111, in response to Div 1-13, Deepwater stated that the current estimate of the capital cost is \$219,311,412 for installing eight turbines. Specifically, what elements of the PPA Exhibit E, Appendix X, Section 1.c. definition of "Cost" are included and excluded in that \$219 million capital cost estimate?

Response: The \$219,311,412 capital cost estimate from Docket 4111 (the "Docket 4111 Estimate") included all of the elements of "Cost" as defined in the PPA, and also included contingency. This figure was the basis for the fixed price in the power purchase agreement that was the subject of the Docket 4111 (the "Docket 4111 PPA").

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Div. 1-2: In Docket 4111, in response to the Public Utilities Commission 4-14, Deepwater stated: "Deepwater Wind estimates the total construction cost of the Block Island Wind Farm to be \$200,478,927 (excluding development and financing costs), equivalent to \$6,961/kW." Specifically, what elements of the PPA Exhibit E, Appendix X, Section c. definition of "Cost" are included and excluded in that \$200 million cost estimate?

Response: The amount referenced in response to the Public Utilities Commission Data Request 4-14 was an EPC (engineering, procurement and construction) estimate and includes engineering cost, equipment and supply cost (turbine, foundation, and cable), transportation cost, onshore and offshore installation cost, project management cost, insurance cost, and contingency. This figure excluded development expenses and financing costs.

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Div. 1-3: Please reconcile the two different cost estimates noted in question 1-1 and 1-2 above.

Response: See responses to Div. 1-1 and Div. 1-2. The following is a reconciliation of the \$219,311,412 estimate and the \$200,478,927 estimate:

| | |
|----------------------|---------------|
| EPC Cost | \$200,478,927 |
| Development Costs | \$10,000,000 |
| Financing Costs | \$8,832,485 |
| Docket 4111 estimate | \$219,311,412 |

Prepared by: William Moore

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Div 1-4: What is Deepwater's current estimate of the total cost of the project, including all the elements of "Cost" as defined and described in Exhibit E, Appendix X of the PPA?

Response: \$205,403,512.

The reconciliation between Docket 4111 Estimate and the base amount of \$205,403,512 in this Docket ("Base Amount") is addressed below. However, to fully understand the differences, it is important to understand the difference between the risk profile embodied in the Docket 4111 PPA and the PPA.

The Docket 4111 PPA reflected a fixed price bid. At the price in the Docket 4111 PPA (\$244/Mhr), if the cost to build the facility was equal to the Docket 4111 Estimate, Deepwater Wind projected its unlevered return to be approximately 9.7%. That return is below the range of returns (10-12%) identified by Deepwater Wind as necessary to finance and construct this project. Within the context of the Docket 4111 PPA, Deepwater Wind assumed all of the risk (and retained all of the benefit) related to the cost to construct the project. For Deepwater Wind to have proceeded with the project with the Docket 4111 PPA, significant construction cost savings would have to have been identified to bring the unlevered returns into an acceptable range. Deepwater Wind was prepared to accept the risk that it would be able to achieve returns in such a range.

The Base Amount, which is the measure against which realized savings are shared with the ratepayer, is approximately \$14,000,000 less than the Docket 4111 Estimate. The Base Amount represents Deepwater Wind's estimate of a facility cost that Deepwater Wind projects will yield an acceptable unlevered return (approximately 10.5%) and a risk/return profile that will likely attract the financing necessary to construct the project. To the extent that the actual Costs to build the facility are less than the Base Amount, all of those savings are passed along to the ratepayer in the form of lower power prices. To the extent that the actual costs to build the facility are greater than the Base Amount, those Costs do not result in an increase to the PPA price and Deepwater Wind's returns will be negatively impacted. This risk sharing mechanism is dramatically different than the risk sharing mechanism in the Docket 4111 PPA.

Deepwater Wind is accepting this suboptimal risk/return profile (10.5% is on the low end of the range of acceptable returns for an infrastructure project like the Block Island Wind Farm) in recognition of the fact that the Block Island Wind Farm is a demonstration project, and in the belief that working with Rhode Island will allow the broader policy goals in the new law to become reality.

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Under the PPA, Deepwater Wind's return can increase in only two limited circumstances, which may or may not occur:

First, Deepwater Wind's return on investment can increase if the actual costs to operate and maintain the facility are less than currently estimated (understanding that the assumed level of turbine performance is predicated on adequate ongoing investment in major maintenance.) These estimates have not changed from the assumptions in the calculation of Deepwater Wind's rates of return in Docket 4111.

Second, if over time there is a higher than expected wind resource, the higher level of generation and PPA revenue may also lead to an increase in Deepwater Wind's return on investment, other things being equal. However, in the event this occurs it is important to note that the PPA offers ratepayer protections in the form of a price credit (the Wind Outperformance Adjustment Credit). As in the case with construction cost savings and operations and maintenance cost overruns, this benefit is **asymmetrical**. Deepwater Wind has assumed all of the risk that the wind resource is less than anticipated. The capacity factor and the Wind Outperformance Adjustment Credit are unchanged from the Docket 4111 PPA.

The following differences reconcile the difference between the Docket 4111 Estimate and the Base Amount.

(1) The contingency in the Docket 4111 Estimate has been reduced. This reduction results from a combination of factors. First, since the date of the development of the Docket 4111 Estimate last fall, Deepwater Wind has been engaged with various vendors and has done additional engineering of the facility. As a result, Deepwater Wind has removed various areas of uncertainty, and therefore Deepwater Wind's confidence in its estimates is greater than it was in the fall of 2009.

(2) When Docket 4111 was pending, Deepwater Wind was still being considered for a Department of Energy Federal Loan Guarantee. Since the decision in Docket 4111, Deepwater Wind has been notified by the Department of Energy, that Deepwater Wind's application was not accepted. Accordingly, the financing costs of the facility that are in the Base Amount are higher than the financing costs in the Docket 4111 Estimate.

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Div. 1-5: Please state whether the “Base Amount” of \$205,403,512 set-forth in Appendix X 1.(a) of the Amended Power Purchase Agreement was arrived at in the manner and process described by William Moore on cross-examination in Docket 4111, Transcript 3/10/10, page 19, lines 20-24 and Page 20, lines 1-15. If not, why not, and please describe the process by which the Base Amount was derived.

Response: The Base Amount was not arrived in the manner described by Mr. Moore on cross-examination. The process described by William Moore in his previous testimony was a typical symmetrical open book pricing proposal. The PPA includes asymmetric risk, which is not included in a typical open book pricing proposal.

In a typical open book price structure, the sponsor:

- agrees to build against a target budget that imposes limits on its “base case” return;
- accepts in exchange, protection against cost overruns (i.e., the budget is increased to reflect costs that exceed the target); and,
- is allowed to keep part of any capital cost savings, which enables the sponsor to improve its base case return expectations.

The PPA sets forth a transparent, but asymmetric, ‘open book’ pricing arrangement that Deepwater Wind advocated and which is reflected in the new law. In accordance with that structure, Deepwater Wind must:

- disclose its total cost to build the Block Island Wind Farm;
- accept as a cap the pricing agreed to in the Docket 4111 PPA; and
- reduce the pricing if savings can be achieved in the actual cost of the project.

Implicit in this structure is that Deepwater Wind must:

- accept a rate of return limit imposed by this “not-to-exceed” pricing arrangement, in the range of 10.5 % (unlevered);
- accept the return consequences of any capital or operating cost overruns, or turbine under-performance - i.e., earn a lower rate of return.

The Base Amount reflects Deepwater Wind’s best current estimate of the cost to build the facility and was derived based on information from vendors, engineering work, and the experience of Deepwater Wind employees and representatives.

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Div. 1-6: Does Deepwater agree with National Grid's June 30, 2010 letter accompanying the PPA that the law "requires the price to be reduced to the extent that the project costs are lower than originally estimated?"

Response: The law requires and the PPA provides that the pricing in the PPA "shall decrease if savings can be achieved in the actual cost of the project, with all realized savings allocated to the benefit of ratepayers". (emphasis added)

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Div. 1-7: Was the original estimate of the project cost of the eight turbine project \$219,311,412 as introduced in evidence by Deepwater in Docket 4111 through discovery responses?

Response: The \$219,311,412 was Deepwater Wind's estimate and basis for the its fixed price proposal in the Docket 4111 PPA.

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Div. 1-8: Is the “Base Amount” in Appendix X in the PPA intended to reflect the best current estimate of what the “Total Facility Cost” will be?

Response: The Base Amount reflects Deepwater Wind’s best current estimate of the Total Facility Cost. More importantly, it is also the basis for the ratepayer protections set forth in the PPA. To the extent that the actual costs to build the facility are greater than the Base Amount, those Costs do not result in an increase to the PPA price and Deepwater Wind’s returns will be reduced proportionately.

STATE OF RHODE ISLAND PUBLIC UTILITIES COMMISSION**DOCKET No. 4185****Deepwater Wind Block Island, LLC****Response To****The Division Of Public Utilities And Carriers' Data Requests****SET 1****CERTIFICATION**

I hereby certify that on July 13, 2010, a copy of the within was sent to all parties set forth on the attached Service List by electronic mail and copies were sent to Luly Massaro, Commission Clerk, by electronic mail and first class mail.

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