

July 15, 2010

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4185 - 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

Dear Ms. Massaro:

On behalf of National Grid¹, enclosed please find an original and twelve (12) copies of the direct testimony and exhibit of Madison N. Milhous, Jr., concerning the above-captioned proceeding.

Thank you for your attention to this transmittal. If you have any questions, please feel free to contact me at (781) 907-2121.

Very truly yours,



Jennifer Brooks Hutchinson

Enclosure

cc: Docket 4185 Service List
Steve Scialabba, Division
Leo Wold, Esq.

¹ The Narragansett Electric Company d/b/a National Grid ("National Grid" or "the Company").

Certificate of Service

I hereby certify that a copy of the cover letter and/or any materials accompanying this certificate were electronically submitted, hand delivered and/or mailed to the individuals listed below.



Joanne M. Scanlon

July 15, 2010
Date

National Grid – Review of Proposed Town of New Shoreham Project
Docket No. 4185 – Service List Updated 7/15/10

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National Grid

The Narragansett Electric Company

**REVIEW OF AMENDED
POWER PURCHASE
AGREEMENT
DEEPWATER BLOCK ISLAND
PROJECT PURSUANT TO
R.I.G.L. § 39-26.1-7**

Testimony & Exhibits of:
Madison N. Milhous, Jr.

July 15, 2010

Submitted to:
Rhode Island Public Utilities Commission
R.I.P.U.C. Docket No. 4185

Submitted by:

nationalgrid

**Testimony of
Madison N. Milhous, Jr.**

**THE NARRAGANSETT ELECTRIC COMPANY
D/B/A NATIONAL GRID
DOCKET No. 4185
REVIEW OF AMENDED POWER PURCHASE AGREEMENT
TOWN OF NEW SHOREHAM PROJECT
PURSUANT TO R.I.G.L. § 39-26.1-7
WITNESS: MADISON N. MILHOUS, JR.**

DIRECT TESTIMONY

OF

MADISON N. MILHOUS, JR.

JULY 15, 2010

**THE NARRAGANSETT ELECTRIC COMPANY
D/B/A NATIONAL GRID
DOCKET No. 4185
REVIEW OF AMENDED POWER PURCHASE AGREEMENT
TOWN OF NEW SHOREHAM PROJECT
PURSUANT TO R.I.G.L. § 39-26.1-7
WITNESS: MADISON N. MILHOUS, JR.**

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1 **I. Introduction**

2 **Q. Please state your name and business address.**

3 **A.**My name is Madison N. Milhous, Jr., and my business address is 100 East Old Country
4 Road, Hicksville, New York 11801.

6 **Q. Please state your position with National Grid USA (“National Grid”).**

7 **A.**I am Director of Wholesale Market Relations for the Energy Portfolio Management
8 organization at National Grid. In this capacity, I am responsible for monitoring and
9 engaging in developments in market structure and operations in the New York
10 Independent System Operator (“NYISO”) and ISO New England Inc. (“ISO-NE”)
11 markets, and in other regulatory and policy developments that directly affect electric
12 power procurement. I represent National Grid on the NYISO Business Issues Committee
13 and its working groups. Recently, I served as acting director of Electric Supply and
14 Distributed Generation, which is responsible for electric supply procurement for National
15 Grid’s four distribution companies. I continue to work with that department on electric
16 power market policy issues.

18 **Q. Please describe your educational background.**

19 **A.**I have Bachelor of Engineering and Master of Science degrees in Aerospace Engineering
20 from Georgia Institute of Technology and a Master of Science Degree in Marine Science
21 from New York’s Stony Brook University.

1 **Q. What is your professional background?**

2 **A.** In my prior assignment, I handled the market relations function for KeySpan Energy
3 Supply, which was responsible for fuel supply and electric energy trading for the
4 generating units owned by KeySpan-Ravenswood, LLC (“Ravenswood”). I represented
5 Ravenswood on various committees and working groups of the NYISO, and provided
6 direct technical support to the electric trading operation. In 2006, I served as chair of the
7 NYISO Operating Committee. Previously, I was Director of the Power Engineering
8 Department, which provided engineering services for Ravenswood, and other KeySpan
9 generating units. Prior to that position, I was Director of the Electric Planning and
10 Forecasting Department, which provided resource and transmission and distribution
11 system planning services to the Long Island Power Authority. Preceding this assignment,
12 I was the Manager of Environmental Engineering at the Long Island Lighting Company,
13 a predecessor company to KeySpan. I am registered as a Professional Engineer in New
14 York and South Carolina (currently inactive). I am familiar with wholesale power
15 pricing, ISO market structures and operations, load forecasting, power generation
16 equipment, environmental regulations and permitting, and electric transmission and
17 distribution.

1 **Q. What is your experience with power purchase agreements (“PPAs”) and pricing of**
2 **capacity, energy and renewable energy certificates (“RECs”)?**

3 **A.** I have been involved in evaluation and operation of power projects from a resource
4 planning and market operations perspective. As Director of Electric Planning and
5 Forecasting, I managed a group that evaluated power supply resource options for the
6 Long Island Power Authority, including transmission alternatives. As Director of
7 Regulatory Affairs for KeySpan Energy Supply, I represented the interests of KeySpan
8 Ravenswood in, among other things, development of analyses to support capacity and
9 energy trading operations. I also supported the KeySpan Energy Development group in
10 analysis of power supply projects, including responses to RFPs, and the acquisition and
11 sale of power generation assets.

12
13 For a period of approximately one year, I was responsible for the power supply
14 procurement function for the four National Grid distribution companies: The
15 Narragansett Electric Company, Massachusetts Electric Company, Granite State Electric
16 Company, and Niagara Mohawk Power Corporation. This work included the purchase of
17 RECs for the Massachusetts, Rhode Island, and New Hampshire companies.

18
19 More recently, I led National Grid’s efforts to negotiate the Power Purchase Agreement
20 with Rhode Island LFG Genco, LLC that was recently certified by the Division of Public

1 Utilities and Carriers, the Economic Development Corporation, the Office of Energy
2 Resources and Department of Administration. I am also responsible for coordinating
3 National Grid's Request for Proposals for renewable energy under Section 29-26.1 of the
4 Rhode Island General Laws. In addition, I am currently leading National Grid's
5 participation in the joint effort of the Massachusetts electric distribution companies and
6 the Massachusetts Department of Energy Resources in a solicitation process leading to
7 long-term contracts for renewable energy resources, under the provisions of the
8 Massachusetts Green Communities Act.

9
10 **Q. Have you previously testified before the Rhode Island Public Utilities Commission?**

11 **A.** Yes. I testified in RIPUC Docket No. 4041, the National Grid Standard Offer
12 Procurement Plan proceeding, regarding how National Grid would meet the Renewable
13 Energy Standard. I also testified in RIPUC Docket No. 4050, the Renewable Resource
14 Adequacy proceeding, regarding adequacy of renewable energy supplies for the year
15 2011. I also testified in Docket No. 4111, regarding the first power purchase agreement
16 with Deepwater Wind Block Island, LLC ("Deepwater") that had been filed with the
17 Commission in December of 2009. It is my understanding that the Commission will be
18 taking administrative notice of the record in that docket. Most recently, I testified in
19 Docket No. 4150, Long-Term Contracts for Renewable Energy Projects.

1 **Q. Have you testified before any other state regulatory agencies?**

2 **A.** Yes. I have testified before the New York Public Service Commission regarding electric
3 system planning and wholesale electric market activities, and before the New York State
4 Department of Environmental Conservation regarding environmental matters. I also have
5 sponsored pre-filed testimony in a proceeding before the Massachusetts Department of
6 Public Utilities relating to a petition for approval of a power purchase agreement between
7 Cape Wind Associates, LLC and National Grid’s distribution affiliates in Massachusetts.

9 **Q. What is the purpose of your testimony in this proceeding?**

10 **A.** The purpose of my testimony is to explain the reasons for the filing and confirm National
11 Grid’s belief that the terms and conditions of this revised PPA are commercially
12 reasonable within the meaning of the standard set forth in the new law recently passed by
13 the General Assembly. I then describe the differences between this revised PPA (“the
14 Amended PPA”) between The Narragansett Electric Company, d/b/a “National Grid”
15 and Deepwater and the prior PPA submitted in Docket 4111 on December 9, 2009 (the
16 “2009 PPA”), especially the pricing related changes.

18 **Q. What was your involvement with this project?**

19 **A.** I was the principal National Grid representative involved in the negotiation of the 2009
20 PPA that was submitted in Docket 4111. My involvement was described in greater detail

1 in the testimony that I filed in that docket. I also was the principal National Grid
2 representative involved in the negotiation of the Amended PPA that has been filed in this
3 docket, including the review of Deepwater's revised pricing proposal.
4

5 **II. National Grid's Support of the PPA**

6 **Q. Why is National Grid seeking approval of the PPA?**

7 **A.** National Grid has filed the Amended PPA in compliance with Section 39-26.1-7, as
8 recently amended by the General Assembly. The filing carries out the very clear
9 intention of the General Assembly to support the construction of a small-scale offshore
10 wind demonstration project off the coast of Block Island. The General Assembly's
11 amendments to Section 39-26.1-7 authorized National Grid to enter into a revised PPA
12 with Deepwater for the purchase of energy, capacity, and other environmental and market
13 attributes, on terms that are consistent with the 2009 PPA, subject to certain other pricing
14 modifications being made. The Company believes it has negotiated amendments
15 consistent with the amended law.
16

17 **Q. Can you please explain National Grid's perspective on the PPA?**

18 **A.** Yes. As I stated earlier, the General Assembly has passed very specific amendments to
19 the law that are designed to facilitate the construction of this specific offshore wind
20 demonstration project. This PPA was not the outcome of a typical renewable supply

1 procurement. The General Assembly was clearly aware of the prior PPA when it passed
2 the amendments and specifically required the prior PPA to be renegotiated from its pre-
3 existing terms, with an additional provision that provided some potential pricing benefits.
4 Thus, the starting point for National Grid was not to compare Deepwater against other
5 pricing proposals or other alternative renewable projects. Rather, it was to make the
6 pricing adjustments specified in the law, along with any other revisions that were
7 appropriate, and re-file the Amended PPA with the Commission. Of course, the new
8 statute set forth a brand new standard of review, including findings relating to economic
9 development, jobs, and environmental benefits. In addition, the new law set forth a more
10 specific and different standard of commercial reasonableness, requiring a finding that the
11 amended agreement contains terms and conditions that are “reasonably consistent with
12 what an experienced power market analyst would expect to see for a project of a similar
13 size, technology and location”, and that meet the State of Rhode Island’s policy goals as
14 set forth in the new law.

15
16 **Q. Is the Amended PPA commercially reasonable, as specified in the statute?**

17 **A.** Yes. National Grid believes that the terms and conditions of the Amended PPA are
18 commercially reasonable for a small offshore wind demonstration project that is limited
19 to eight wind turbines. This was the same opinion that I offered in my testimony in
20 Docket 4111. As I stated in that docket, this project has very unique characteristics. It is

1 designed as a demonstration project which, by definition, cannot achieve economies of
2 scale. Given the limitations of the project size and its purpose, it is my opinion that the
3 terms that have been negotiated are commercially reasonable. In fact, the pricing under
4 the Amended PPA has improved from the one presented in Docket 4111, incorporating a
5 provision that calls for the bundled price to be reduced if Deepwater is able to achieve
6 cost savings below specified estimated project costs.¹

7
8 **Q. Does National Grid believe this project is worth doing, given the price?**

9 **A.** Yes. While the price is higher than some of the other renewable alternatives that are
10 available in the market today, this is a small project. The bill impact on customers is not
11 going to cause “rate shock.” The impact was estimated in Docket 4111. It represents
12 less than 1.7% on a typical 500 kWh residential customer monthly bill. And this
13 estimated impact takes into account the estimated additional cost of the cable that would
14 be built between Block Island and the mainland. National Grid understands that any
15 time we make a proposal that can result in rates increasing, customers are concerned. But
16 the General Assembly has made a determination that the project is in the public interest,
17 despite the cost, for a host of reasons that are reflected in the law. National Grid
18 supports this policy intention.

¹ It should also be noted that the new law provides that the pricing under the Amended PPA will not have any precedential effect for purposes of determining whether other long-term contracts are commercially reasonable.

1 **III. Amended Pricing**

2 **Q. Please describe the pricing changes from the 2009 PPA.**

3 **A.** Under the Amended PPA, the fixed price contained in the 2009 PPA now becomes the
4 initial maximum price, with any realized savings reducing that price. Pricing in the
5 Amended PPA still includes both the adjustment for the capacity clearing price and the
6 wind outperformance adjustment credit that appeared in the 2009 PPA. Pricing still
7 excludes costs associated with the transmission cable that would run from the mainland
8 to Block Island, since the Amended PPA still requires that those costs be set forth in a
9 separate transmission cable purchase agreement. However, the price does include the
10 cable from the turbines to Block Island. The price also escalates by 3.5% per year,
11 subject to a total limit of 20 escalations during the Amended PPA's term, as it did in the
12 2009 PPA. The pricing in the Amended PPA was modified to provide for a decrease in
13 pricing if savings can be achieved, such that all savings flow to National Grid and its
14 customers.

15 **Q. What is the savings and price reduction mechanism in the Amended PPA?**

16 **A.** The savings and price reduction mechanism is included in Exhibit E to the Amended
17 PPA. The pricing in Exhibit E starts with a base amount of \$205,403,512 of the total cost
18 to construct the Project (the "Total Facility Cost"). Deepwater has informed National
19 Grid that the base amount is consistent with the total project cost, net of contingencies, as
20 contained in confidential financial information filed in Docket 4111, and increased to

1 reflect the fact that Deepwater was rejected for a Department of Energy loan guarantee,
2 resulting in higher financing costs. If the Total Facility Cost is equal to or greater than
3 the base amount, then the bundled price starts at \$235.70/MWh in 2012. Exhibit E then
4 sets out a table providing reductions in the 2012 pricing based on specified reductions in
5 the Total Facility Cost and corresponding savings from the base amount. This table is
6 reproduced and attached to my testimony as Exhibit MNM-1. If the Total Facility Cost
7 falls between any of the specified cost reductions listed on the table, then the pricing
8 reduction will be determined by interpolation of two specified amounts nearest to the
9 actual Total Facility Cost. Consistent with Section 39-26.1-7, the Total Facility Cost
10 must be certified by Deepwater, verified for accuracy by an independent third party
11 retained by the Division (the "Verification Agent"), and filed with the Division according
12 to the process described below.

13
14 **Q. Please describe the verification and reconciliation process in the Amended PPA.**

15 **A.** Within 90 days after the start of commercial operation of the project, Deepwater will
16 certify three items: the total facility cost, any savings from the base amount, and its
17 determination of the bundled price that is calculated from any savings. This three-part
18 certification will then be provided to the Verification Agent who will review the project
19 costs and issue a draft report confirming Deepwater's certification or disputing any of the
20 items certified by Deepwater. The Verification Agent then must issue a final report which

1 will be delivered to the Division. The report also will notify National Grid of any
2 resulting adjustment to the bundled price. Once the new bundled price is established,
3 National Grid then would substitute the new bundled price in the price schedule and pay
4 Deepwater that price going forward, as escalated. Prior to issuance of the final report,
5 National Grid will pay Deepwater in accordance with the initial schedule, which starts at
6 \$235.70/MWhr in 2012, escalating at 3.5%. Following issuance of the final report,
7 National Grid and Deepwater will reconcile prior payments actually made by National
8 Grid to Deepwater with the payments that would have been made had the new adjusted
9 bundled price been in effect from the start of commercial operation, providing a credit for
10 the difference.

11
12 **Q. Do all other aspects of the pricing remain the same from the 2009 PPA?**

13 **A.** Generally, yes. The only other substantive change to the pricing is to set the portion of
14 the bundled price allocated to the RECs at the price for similar Massachusetts RECs on
15 the Chicago Climate Futures Exchange (“CCFE”), rather than using the alternative
16 compliance payment amount for those RECs. The use of a market-based rate for this
17 purpose could permit National Grid to avoid adverse impacts to its financial statements if
18 it were required to use mark-to-market accounting for those RECs in the future. National
19 Grid is using the pricing for Massachusetts RECs on the CCFE because the CCFE does
20 not report prices for Rhode Island RECs. This pricing change has no effect on the

1 bundled price. Rather, it merely is a means of allocating a portion of the bundled price to
2 the RECs being purchased.

3
4 **IV. Other Differences**

5 **Q. What are the other differences from the 2009 PPA?**

6 **A.** The language in Section 8.2 in the 2009 PPA described filings that needed to be made by
7 National Grid in 2009 in requesting regulatory approval of the 2009 PPA by the
8 Commission in Docket 4111. That language was revised to reflect accurately the
9 regulatory approval being sought in these proceedings, along with corresponding
10 revisions to the definition of “PPA Regulatory Approval.” In addition, the PPA
11 Regulatory Approval must now be acceptable to National Grid and Deepwater, as
12 opposed to just National Grid in the 2009 PPA.

13
14 In Section 8.4, the date regarding Deepwater’s right to terminate the Amended PPA if
15 federal subsidies are not extended was moved from December 31, 2010 to December 31,
16 2011, to take into account the passage of time between the submission of the two PPAs.

17
18 In Section 8.5(a), the deadline for the satisfaction of the conditions relating to the
19 negotiation, execution, and federal regulatory approvals and state regulatory input for the
20 transmission cable purchase agreement was changed from December 31, 2010 to the

1 second anniversary of the regulatory approval of the Amended PPA. In Section 8.5(c)
2 and (d), the last date Deepwater may elect to own the transmission cable before the
3 Amended PPA automatically terminates was changed from 12 months after the filing of
4 the application to the Commission for regulatory approval of changes to the Amended
5 PPA (resulting from a failure to reach agreement on the transmission cable purchase
6 agreement) to three years from the date on which that application was filed.
7

8 **Q. Are there any changes to the assignment clause?**

9 **A.** Yes. The assignment language in Section 14 was revised in response to the
10 Commission's concerns regarding the assignment provisions in the 2009 PPA, as
11 expressed by the Commission in Docket 4111. Section 14 now prohibits Deepwater from
12 making any assignment of the Amended PPA without National Grid's prior written
13 consent, which may not be unreasonably withheld, conditioned or delayed.
14

15 **Q. Were there any other changes?**

16 **A.** Yes. The language in Section 4.3 has been modified to permit National Grid to retain
17 Energy, Capacity, and RECs with the Commission's approval, consistent with R.I.G.L.
18 Section 39-26.1-9(d), should it be beneficial or desirable in the future to retain them for
19 standard offer service. In addition, Section 8.5(e) was added to permit National Grid, in
20 its sole discretion, to elect to waive certain conditions relating to the transmission cable

1 and construct the transmission cable without the involvement of Deepwater. If National
2 Grid elects to do so, it must do so pursuant to an agreement that is acceptable to both
3 National Grid and Deepwater.

4
5 The language in Section 18 regarding National Grid's obligation to determine, in its sole
6 discretion, whether any amendment or waiver of the Amended PPA requires
7 governmental approval, was modified slightly. Prior to this modification, National Grid
8 had discretion to determine only if the Commission's approval was required to approve
9 an amendment or waiver of any Amended PPA provision. This language now states that
10 National Grid must determine whether an amendment or waiver of any Amended PPA
11 provisions requires approval of or filing with the Commission or any other governmental
12 agency. This modification was included in the Amended PPA to clarify that if, as a result
13 of future legislative action, a governmental agency other than the Commission is granted
14 authority over National Grid or the Amended PPA, there may be required approvals from
15 and filings with other governmental agencies.

16
17 Finally, some minor revisions were made to the Exhibits. The escalation provisions that
18 had been in Section 5.1(b) of the 2009 PPA have been moved to Exhibit E in order to
19 consolidate all of the pricing provisions in one place. Also, Exhibit B has been updated
20 to reflect Deepwater's current understanding of its permitting requirements.

1 **Q. Are any of these additional changes to the Amended PPA substantive?**

2 **A.** No. The other terms of the Amended PPA otherwise remain consistent with the
3 corresponding provisions of the 2009 PPA.

4

5 **Q. Does this conclude your testimony?**

6 **A.** Yes.

7

Price Reduction Table

Total Facility Costs (USD)	Savings (USD)	Bundled Price (USD)
≥220,403,512	≥(15,000,000)	235.70
215,403,512	>(10,000,000)	235.70
210,403,512	>(5,000,000)	235.70
205,403,512	0	235.70
200,403,512	5,000,000	231.10
195,403,512	10,000,000	226.50
190,403,512	15,000,000	221.80
185,403,512	20,000,000	217.30
180,403,512	25,000,000	212.70
175,403,512	30,000,000	208.00
170,403,512	35,000,000	203.40
165,403,512	40,000,000	198.80
160,403,512	45,000,000	194.20
155,403,512	50,000,000	189.70

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Current work experience:

Director, Wholesale Market Relations, Energy Portfolio Management. Currently responsible for long term contracting for renewable energy resources, and for market operations interface with NYISO and ISONE in support of capacity and energy supply for regulated electric load, in coordination with National Grid transmission and regulatory groups. Previously responsible for NYISO and regulatory interface for KeySpan Ravenswood generating assets, providing direct support to electric trading, electric market strategy, generation operations and generation development functions. Areas of emphasis included installed capacity, interconnection requirements, system planning, and market structures.

Past work experience:

Two years as Director, Power Engineering Department, which provides mechanical, electrical, controls, civil, structural, and metallurgical engineering services for generation operations, and support of gas and electric transmission and distribution system operations. Eight years as Director, Electric Planning and Forecasting Department, which was responsible for resource, transmission and distribution planning, distributed resource interconnection and power contract administration, and load forecasting for the Long Island Power Authority (LIPA) under Management Services Agreement with KeySpan, a predecessor company. Ten years as Manager of Environmental Engineering at Long Island Lighting Company, also a predecessor company, and ten years in various other environmental positions. Five years with Grumman Aerospace Corp. in aerospace and environmental engineering positions.

Accomplishments:

Directed engineering and project planning for Ravenswood, and for KeySpan generating units under Power Supply Agreement (PSA) with LIPA. Areas of concentration included interface with LIPA, capital project planning, and root cause analyses. Led numerous transmission and distribution system and resource planning studies that defined LIPA requirements, including the Riverhead-Southampton electric transmission line, for which certification and construction were completed in record time. Developed the framework for LIPA acquisition of the Northrop Grumman electric distribution system, including interface with an existing power supply contract. As a subcommittee chairman on New York Department of Environmental Conservation's (DEC) Air Management Advisory Committee, led development of stakeholder consensus on New Source Review Regulations. As Chairman of New York Power Pool NO_x Task Force, led development of a flexible regulation for Reasonably Available Control Technology (RACT); participated in Ozone Transport Commission development of Model Rule and allowance allocation for Phase 2 NO_x emission regulations, including a stakeholder agreement for New York emission allowance allocation. Led fast-track environmental permit process for 240 MW gas turbine installation, and development of an effective RACT compliance plan for existing generation units.

Education:

BAE, MSAE, Georgia Institute of Technology; MS Marine Environmental Science, SUNY Stony Brook. Professional Engineer, New York, South Carolina.