

July 8, 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
Responses to Division Data Requests – Set 1**

Dear Ms. Massaro:

Enclosed please find an original and twelve (12) copies of National Grid's¹ responses to the Division's First Set of Data Requests issued on July 6, 2010, in the above-captioned proceeding.

Thank you for your attention to this transmittal. If you have any questions, please feel free to contact me at (401) 784-7667.

Very truly yours,



Jennifer Brooks Hutchinson

Enclosure

cc: Docket 4111 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 8, 2010
Date

National Grid – Review of Proposed Town of New Shoreham Project
Docket No. 4111 – Service List Updated 7/8/10 (9:15 a.m.)

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Division Data Request 1-1(a)

Request:

As discussed above, National Grid criticized Deepwater's Structured Pricing Proposal as lacking a "standard of prudence". Is there a standard of prudence, either explicit or implicit, included in the PPA's Verification and Reconciliation provision? If so, please describe in detail the standard of prudence that will guide the Verification Agent's review?

Response:

There is no prudence standard.

Division Data Request 1-1(b)

Request:

National Grid stated in its 10/15/09 letter that *"the Company was not confident that, under the Structured Pricing Proposal, significant enough construction savings could be achieved to materially lower the cost of the project to customers."* Is National Grid still of the opinion that significant enough construction savings cannot be achieved to materially lower the cost of the project to customers? If that opinion is no longer held, please explain in detail what has caused that opinion to change, and provide the facts and information in National Grid's possession that caused that opinion to change.

Response:

The comments were made at a time before an agreement was reached with Deepwater and National Grid was still in negotiations. The structured pricing proposal on the table at that time was a two-way proposal through which the price could increase if construction costs were higher. That is not the case with the Amended PPA filed in this docket, in which the price can only be reduced. The new pricing provisions were incorporated to comply with the requirements of the new section 39-26.1-7(e).

National Grid does not know what level of cost savings is actually achievable.

Division Data Request 1-1(c)

Request:

Regarding National Grid's statement to the PUC... *"Because Deepwater is not a regulated utility and there is no forum to truly examine the costs of the project in a manner that assures transparency and accuracy, the Company viewed this proposal as one fraught with complexity and the potential for litigation."*: Does National Grid believe these comments on the Structured Pricing Proposal are applicable to the PPA's revised Appendix X including the Verification and Reconciliation provision? If not, please explain why not in light of National Grid's 10/15/09 assertions and apparent similarities in the Appendix X proposal and the Structured Pricing Proposal as National Grid described it.

Response:

No. See the response to Division 1-1(b).

Division Data Request 1-1(d)

Request:

Regarding National Grid's statement to the PUC..." *In a project of this magnitude, the risk of not being able to tie down the true final construction cost is substantial, especially where the entity being scrutinized is not subject to a regulatory review in a fully transparent proceeding.* "

Does National Grid believe these comments on the Structured Pricing Proposal are applicable *to* the PPA's revised Appendix X including the Verification and Reconciliation provision? If not, please explain why not in light of National Grid's 10/15/09 assertions and apparent similarities in the Appendix X proposal and the Structured Pricing Proposal as National Grid described it.

Response:

No. See the response to Division 1-1(b).

Division Data Request 1-2

Request:

In response to Division 1-13 in Docket 4111, Deepwater made the following representation: "Deepwater's current cost estimate of the capital cost is \$219,311,142 for installing eight turbines." Why then does the price reduction only begin if "Cost" as defined in the PPA falls below \$205,403,512, rather than the \$219,311,142 referenced in the data response?

Response:

National Grid understands that the "Base Amount" in Exhibit E to the Amended PPA of \$205,403,512 reflects two principal adjustments to the estimate provided by Deepwater Wind in Docket 4111. First, the capital cost provided in Docket 4111 included a contingency to cover unforeseen expenses in the construction of the project, which is a common practice for budgeting the construction costs of a generating facility. That contingency figure was not included in the Base Amount in the Amended PPA, which was intended to reflect a closer approximation of the actual cost to construct the Deepwater Facility. In addition, the Base Amount reflects an assumed higher financing cost for Deepwater Wind because its application for a loan guaranty from the U.S. Department of Energy was rejected, and that guaranty would have permitted Deepwater Wind to borrow funds at a lower rate.

Division Data Request 1-3

Request:

How did National Grid determine that the \$205,403,512 cost threshold, as defined in the PPA Exhibit E, was the appropriate threshold at which point savings would be allocated to the benefit of ratepayers?

Response:

As explained in the response to Division Data Request 1-2, the “Base Amount” of \$205,403,512 has been represented by Deepwater Wind as consistent with the capital cost provided in Docket No. 4111, net of contingencies, and with higher financing costs, since Deepwater will not receive a Department of Energy loan guarantee. The Base Amount has also been represented by Deepwater Wind as consistent with the total facility cost provided to National Grid on a confidential basis during the negotiations leading to the PPA executed on December 9, 2009. An increase of approximately \$1.6 million is attributed to the difference in construction financing costs (interest during construction and closing costs) associated with the rejection of Deepwater Wind’s application for a Department of Energy loan guarantee.

While National Grid does not have Deepwater Wind’s current financial model, National Grid has reviewed that model with a representative of Deepwater Wind. This review included the cost estimates provided by Deepwater Wind, the projected returns for the project, and the bundled energy price (\$/MWh) included in the Amended PPA, to determine that the calculations, including the table in Appendix X, are correct. In that table, the bundled energy price in the December 9, 2009 PPA corresponds to the price if the Total Facility Cost is greater than or equal to the Base Amount; additional costs above the Base Amount do not increase the bundled price; and incremental savings below the Base Amount reduce the bundled price.

National Grid is not in a position to review and confirm the elements of cost that are contained in the financial model.

Division Data Request 1-4

Request:

What degree of confidence does National Grid have that the total of the "Costs" as defined in the PPA will be less than the threshold benchmark of \$205,403,512?

Response:

National Grid has not determined any degree of confidence. The new pricing provisions were incorporated to comply with the requirements of the new section 39-26.1-7(e).

Division Data Request 1-5

Request:

In Exhibit E, Appendix X.2. Verification and Reconciliation, limitations are placed on the potential areas of dispute between the Verification Agent and Deepwater. The limited areas of potential dispute are listed as:

- a) Seller did not incur the Cost;
- b) The Cost is not supported by documentation, and
- c) Arithmetic or summation errors.

Please provide the specific basis in the statute that places these restrictions on the "independent third party" (Verification agent).

Response:

There are no specific provisions in the statute beyond what is contained in R.I.G.L. Section 39-26.1-7(e). National Grid believed that these three limited areas were consistent with the intent of the statute.

Division Data Request 1-6

Request:

What type of skills set and areas of expertise does National Grid believe a "Verification Agent" should possess in order to be able to "confirm the Seller's certification" "within thirty (30) days" of Deepwater's certification? (quotations from PPA).

Response:

National Grid believes at a minimum that the verification agent should have experience in reviewing construction costs of large projects. While not necessary, it would be helpful if the verification agent had past experience with generation projects that are project financed.

Division Data Request 1-7

Request:

Does National Grid believe the Verification Agent would, in essence, be required to perform an audit of the final construction costs within the 30 day period in order to ensure that the ratepayer protections contemplated by the statute be achieved?

Response:

Yes.

Division Data Request 1-8

Request:

Is it National Grid's understanding of the PPA that only costs determined to be reasonable and prudent can be included in the "Total Facility Cost"?

Response:

No. There is no prudence standard in either Section 39-26.1-7 or in the PPA.

Division Data Request 1-9

Request:

Does National Grid believe it would be a difficult endeavor to complete the review of the Project's costs within the 30 day period of the review does not commence until after the project is completed?

Response:

National Grid has no opinion regarding whether it would be an easy, moderately challenging, or a difficult endeavor.

Division Data Request 1-10

Request:

At the March 10, 2010 hearing in Docket 4111, Mr. Moore described an "open book" procedure as a "well-established procedure that's used in the construction business. What you do is sit down with the buyer of the facility and go through your projected costs, you take-you solicit budgetary quotes from a variety of suppliers, from third parties who will provide the equipment and provide the construction services, go through that process with the buyer, the utility in this case, and basically, pencil in a target price and a target rate of return..."

Does this describe the process that Deepwater and National Grid went through to arrive at the "Base amount" of \$205,403,512? (Transcript 3/10/10, page19, lines 20-24 to page 20 line 1-15)

Response:

No. Mr. Milhous only reviewed the cost estimates provided by Deepwater, including the projected returns for the project, largely to understand the cost assumptions and confirm calculations. A more complicated process such as the one described in the testimony in Docket 4111 likely would have taken months to complete and was not something that National Grid would, in any event, have been willing to undertake as a purchaser of power.

Division Data Request 1-11

Request:

National Grid's June 30, 2010 letter accompanying the revised PPA states that the new law "requires the price to be reduced to the extent that the project costs are lower than originally estimated." The letter confirms that the starting price remains the same as in the originally filed PPA in Docket 4111 that is 23.57 cents in 2012 and 24.4 cents in 2013. What is the basis of National Grid's understanding that the originally estimated project cost, which provided the foundation for the 24.4 cent price (2013) in Docket 4111 was the Base Amount of \$205,403,512?

Response:

Please see response to Division 1-2.