

April 19, 2011

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4227 – National Grid Response to Commission Data Request issued on March 29, 2011

Dear Ms. Massaro:

Enclosed please find ten (10) copies of National Grid's¹ response to the Commission's Data Request issued on March 29, 2011, in the above-referenced docket.

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,



Thomas R. Teehan

Enclosure

cc: Docket 4227 Service List
Leo Wold, Esq.
Steve Scialabba, Division

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

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Request:

Please refer to Docket 4111, Direct Testimony of Matt Milhous, filed with the Commission in December 2009, page 14 of 20. Beginning on line 13, Mr. Milhous explains that in order to calculate above market cost of the proposed project, Grid utilized long term energy price forecasts made by Energy Security Analysis, Inc. (ESAI) and Synapse Energy Economics, Inc. (Synapse).

- a. Have the long term energy price forecasts utilized by Grid to calculate above market cost been updated?
- b. If the answer to the above is yes, please update Exhibit 9, Milhous Testimony, Docket No. 4111, December 9, 2009, Page 1 of 1 to reflect the updated forecasts.

Response:

- a. We do not have a current forecast that would match the forecast that was used in Docket No. 4111. The last forecast that ESAI performed was conducted in August 2010. In January 2010, ESAI produced a forecast for capacity, energy and RECs for the Cape Wind proceeding. This included a forecast for the SEMA zone, which was used as an estimate of prices in the RI zone to provide a summary update to the Exhibit 9, Milhous Testimony, Docket No. 4111 during the cross examination of Mr. Milhous in Docket No. 4185. In August 2010, ESAI developed another energy forecast, for all ISO-NE zones. This forecast, together with the earlier REC forecast, was used for evaluation of bids in the initial Rhode Island Renewable Energy Solicitation.
- b. While we do not have a current forecast, we have performed an analysis using the same forecast that was used to evaluate the bids as referenced above. Attached is a schedule in the form of Exhibit 9, Milhous Testimony, from Docket No. 4111 using this August 2010 forecast. Thus, the estimates of above market cost were produced using the ESAI capacity and REC forecast of January 2010, and the RI energy forecast of August 2010. This forecast extended through the year 2031; year 2032 was estimated by extrapolation of the annual 7 X 24 load weighted energy price, holding the capacity and REC prices constant. An estimate was also based on the monthly peak/off-peak energy price forecast. In this case, the final year was estimated by applying a reduction of 1.4 percent to the result based on the annual energy price. This difference was observed consistently in the analysis. The unit pricing and the contract cost were also changed slightly from the first PPA, reflecting

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the 2013 price of \$243.95 in the amended PPA. While there is a difference in the above market costs using the August 2010 forecast, it does not materially change the bill impacts to customers in the first year as used in Docket No. 4111.

It is worth noting that a forecast is a snapshot in time, and we would expect a long-term forecast would fluctuate each time the forecast is performed over the course of six months to a year, and that the above-market cost as shown in the table below would fluctuate accordingly.

It is important to establish an appropriate context for these differences, which in this case, can be attributed almost entirely to changes in the energy price forecast. Energy price forecasts developed by ESAI are developed using a proprietary model, which includes the projected generation mix, transmission system representations, fuel prices, and forecasts of electric energy demand. In this case, the differences are driven primarily by changes in the natural gas price forecast. The natural gas price forecast is based on two indices, the New York Mercantile Exchange (NYMEX) for commodity and the Intercontinental Exchange (ICE) for the transportation or basis. The gas commodity forecast, in particular, varies with timing of the projections.

The table below summarizes the projected above market cost for the year 2013, and the net present value (NPV) over the contract term for the three different ESAI forecasts.

**Estimates of Above Market Cost for 20-year PPA (\$Million)
Deepwater Wind Block Island**

ESAI Forecast Date	Aug-2009	Jan-2010		Aug-2010	
Docket	4111	4185			
Forecast Format	Annual (7x24)	Annual (7x24)	Monthly Peak/Off- peak	Annual (7x24)	Monthly Peak/Off- peak
Annual 2013	12.4	12.5	12.3	13.9	13.7
NPV @ 7% over contract term	173.9	169.9	165.7	187.1	184.0

Prepared by or under the supervision of: Madison N. Milhous, Jr.

Estimated Above Market Cost for 20-year PPA Hypothetical Comparison with Competitive Solicitation

8 WTG 28.8 MW 06/30/2010 PPA					
Statutory Capacity 11.5 MW					
Annual Output 100915 MWh					
		Above Market Cost			
Unit Pricing	Contract Cost	ESAI 7x24 Pricing	ESAI Monthly Pricing		
2009					
2010					
2011					
2012	\$ 235.70	\$ 4,162,462	\$ 2,093,886	\$ 1,529,707	
2013	\$ 243.95	\$ 24,618,164	\$ 13,942,160	\$ 13,743,575	
2014	\$ 252.49	\$ 25,479,800	\$ 15,341,218	\$ 15,136,735	
2015	\$ 261.32	\$ 26,371,593	\$ 15,296,030	\$ 15,090,606	
2016	\$ 270.47	\$ 27,294,598	\$ 15,010,270	\$ 14,775,006	
2017	\$ 279.94	\$ 28,249,909	\$ 15,083,071	\$ 14,867,102	
2018	\$ 289.74	\$ 29,238,656	\$ 15,375,002	\$ 15,170,396	
2019	\$ 299.88	\$ 30,262,009	\$ 15,719,457	\$ 15,505,405	
2020	\$ 310.37	\$ 31,321,179	\$ 16,162,939	\$ 15,984,466	
2021	\$ 321.23	\$ 32,417,421	\$ 17,321,513	\$ 17,073,555	
2022	\$ 332.48	\$ 33,552,030	\$ 18,345,789	\$ 18,078,210	
2023	\$ 344.11	\$ 34,726,351	\$ 19,540,502	\$ 19,251,217	
2024	\$ 356.16	\$ 35,941,774	\$ 21,110,833	\$ 20,830,668	
2025	\$ 368.62	\$ 37,199,736	\$ 22,769,638	\$ 22,453,646	
2026	\$ 381.53	\$ 38,501,726	\$ 24,245,180	\$ 23,892,600	
2027	\$ 394.88	\$ 39,849,287	\$ 25,234,690	\$ 24,876,149	
2028	\$ 408.70	\$ 41,244,012	\$ 26,274,283	\$ 25,884,929	
2029	\$ 423.01	\$ 42,687,552	\$ 27,320,679	\$ 26,947,884	
2030	\$ 437.81	\$ 44,181,617	\$ 28,441,504	\$ 28,063,782	
2031	\$ 453.13	\$ 45,727,973	\$ 29,611,609	\$ 29,224,331	
2032	\$ 468.99	\$ 47,328,452	\$ 30,813,060	\$ 30,393,479	
Sum		\$ 700,356,301	\$ 415,053,311	\$ 408,773,448	
NPV @ 7%		\$ 323,236,542	\$ 187,077,535	\$ 183,983,372	

Certificate of Service

I hereby certify that a copy of the cover letter and / or any materials accompanying this certificate has been electronically transmitted, sent via U.S. mail or hand-delivered to the individuals listed below.



Joanne M. Scanlon

April 19, 2011
Date

**Docket No. 4227 National Grid – 2012 SOS and RES Procurement Plans
Service List updated 4/1/11**

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