State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL
150 South Main Street • Providence, RI 02903
(401) 274-4400
TDD (401) 453-0410

Patrick C. Lynch, Attorney General

June 14, 2010

Thomas R. Teehan, Esq.
National Grid
280 Melrose Street
Providence, RI 02907

Re: Purchase Power Agreement Between Narragansett Electric Company, D/B/A National Grid and Rhode Island Genco, LLC, Filed June 7, 2010. DPUC Docket D-10-36.

Dear Attorney Teehan:

Attached is the Division of Public Utilities and Carriers' First Data Request to National Grid regarding its filed Purchase Power Agreement with Rhode Island LFG Genco, LLC. Due to the extremely tight statutory deadline for the certifying agencies to complete their review, please respond within 7 calendar days. If some responses are available sooner, please provide them as soon as they are available. Thank you for your prompt attention to this.

Sincerely,

Jon G. Hagopian
Special Assistant Attorney General
Attorney to the RI Division of
Public Utilities and Carriers

cc: via email to service list of Docket D-10-36

Attachment

STATE OF RHODE ISLAND
DIVISION OF PUBLIC UTILITIES AND CARRIERS
PURCHASE POWER AGREEMENT
RHODE ISLAND LFG GENCO ("LFG") AND NATIONAL GRID
D-10-36

Division's First Data Request to National Grid

1. Please provide the basis for Mr. Milhous' certification included in the June 7 PPA filing that the PPA is" a commercially reasonable long-term contract for new developed renewable energy resource fueled by landfill gas" as the term commercially reasonable is defined in RIGL 39-26.1-2(1).

Please provide any and all studies, analyses, and relevant data used and relied on by Mr. Milhous in reaching his conclusion.

2. Please review the spreadsheet attached to this data request (Labeled LFG PPA Rates). Does this accurately portray the PPA rates, including the annual escalator, embodied in the filed PPA? This spreadsheet indicates rates starting at $0.1198/kwh in year 1, and escalating to $.1693/kwh in year 15. Is this accurate? Does this spreadsheet accurately portray the annual expected payments under the PPA from National Grid to LFG (totaling to $513,434,807)? Does it accurately portray the total expected Grid incentive of $14,120,772?

3. What is the planned facility's nameplate capacity, availability factor, and projected annual energy output that National Grid is expected to purchase from LFG? What is NGRID's basis for its understanding of the facility's nameplate capacity rating?

4a. On November 18, 2009, National Grid reported to the Public Utilities Commission relative to its negotiations with Deepwater Wind that it had not entered into a purchase power agreement due a number of outstanding issues and concerns on the part of National Grid. One such concern was described in the 11/18/09 letter as follows:

" *National Grid understands, however, that the Deepwater project could achieve some cost-savings benefits if the project obtains a loan guarantee from the U.S. Department of Energy ("DOE"). As part of the American Recovery and Reinvestment Act (the so-called "Stimulus Act"), the DOE loan guaranty program was revised to provide loan guaranties for certain commercial and innovative renewable energy projects. It is National Grid's understanding that Deepwater has applied for a loan guaranty under this program. National Grid has not performed a formal analysis of the cost impact and, for that reason, is not able to quantify how much of a price reduction can be achieved. Nevertheless, there would be a project cost reduction in such event because any loan guarantee, if obtained, would likely facilitate Deepwater obtaining a significantly lower debt cost for the project. While this issue was identified last week, Deepwater had not made a proposal for a price reduction associated with this potential benefit as of the time of preparing this filing this afternoon."*

The legislation authorizing National Grid to enter into a commercially reasonable contract with LFG includes a legislative finding that in fact, (unlike Deepwater's application for a loan guarantee), LFGs' financing plan actually is "supported by more than fifty million dollars ($50,000,000) of federal government grants, which are only available if construction of the facility is actually commenced before the end of calendar year 2010."

Did National Grid have the same concern relative to LFG's PPA; that the price should reflect the developer's lower project cost resulting from the financial support of the federal government, i.e. taxpayers, in financing the project? If not, why not? If so, how is that federal financial support reflected in the PPA pricing structure?

4b. Another concern raised by National Grid in its November 18, 2009 letter to the PUC referenced in 4a above was that if the project was able to produce more energy that is assumed in the pricing proposal, then the developer should include a provision to reduce the price to reflect the better than anticipated capacity factor. Does the LFG PPA contain such a provision to lower the price if the project produces more energy than is assumed by the parties in the PPA? If not, why not. If so, please identify where in the PPA the provision exists.

5. What is the basis for the 2.5% annual price escalator included in the PPA pricing provision?

6. Referring to Section 5.1(b) Escalation of Price , please explain why there is a possibility of 17 escalation dates during the 15 year term of the contract.

7. This question seeks clarification regarding the financial settlement of capacity, as opposed to National Grid taking title to the capacity and receiving FCM revenues from ISO-NE. Section 4.1 states that NGRID shall buy the Products, which are defined as Capacity, Energy, and REC's. Section 4.8 states that Capacity is settled financially, and Seller retains title to it (implying the capacity is not delivered to NGRID). Section 5.1 states that the 11.98 cents per kwh rate in exhibit E applies to Products delivered to NGRID, which could be construed to exclude capacity.

Assuming our reading of the PPA is accurate, how does the PPA ensure that NGRID's customers will get the value of the capacity that it appears they are paying for? Should the PPA be clarified on this point?

LFG PPA Rates, Plus Grid Incentive				Reference to Nat Grid Data Request 2				
								Annual Cost
Year	Rate	Notes		Grid Incentive	Total Per Kwh Cost	Contract Year	Annual Cost	w/ Incentive
2012	$ 0.11980	This is the rate		$ 0.00329	$ 0.1231	1	$28,632,440	$29,421,146
		for 2012. Yr. 1						
	Annual Increase			National Grid Incentives	Effective Per Kwh			
Year	2.50%	PPA Rate w/Annual Increase		2.75%	Cost to Ratepayers	Contract Year		
2013	$ 0.00300	**$0.1228**		$ 0.00338	**$0.1262**	2	$29,348,251	$30,155,327
2014	$ 0.00307	**$0.1259**		$ 0.00346	**$0.1293**	3	$30,081,957	$30,909,211
2015	$ 0.00315	**$0.1290**		$ 0.00355	**$0.1326**	4	$30,834,006	$31,681,941
2016	$ 0.00323	**$0.1322**		$ 0.00364	**$0.1359**	5	$31,604,856	$32,473,989
2017	$ 0.00331	**$0.1355**		$ 0.00373	**$0.1393**	6	$32,394,977	$33,285,839
2018	$ 0.00339	**$0.1389**		$ 0.00382	**$0.1428**	7	$33,204,852	$34,117,985
2019	$ 0.00347	**$0.1424**		$ 0.00392	**$0.1463**	8	$34,034,973	$34,970,935
2020	$ 0.00356	**$0.1460**		$ 0.00401	**$0.1500**	9	$34,885,847	$35,845,208
2021	$ 0.00365	**$0.1496**		$ 0.00411	**$0.1537**	10	$35,757,994	$36,741,338
2022	$ 0.00374	**$0.1534**		$ 0.00422	**$0.1576**	11	$36,651,943	$37,659,872
2023	$ 0.00383	**$0.1572**		$ 0.00432	**$0.1615**	12	$37,568,242	$38,601,369
2024	$ 0.00393	**$0.1611**		$ 0.00443	**$0.1655**	13	$38,507,448	$39,566,403
2025	$ 0.00403	**$0.1651**		$ 0.00454	**$0.1697**	14	$39,470,134	$40,555,563
2026	$ 0.00413	**$0.1693**		$ 0.00466	**$0.1739**	15	$40,456,888	$41,569,452
					Total 15 year Cost		**$513,434,807**	**$527,555,579**
						Grid Incentive		**$14,120,772**