Ridgewood Renewable Power

Stephen D. Galowitz
Managing Director

June 22, 2010

Ms. Luly Massaro
Division Clerk
Division of Public Utilities and Carriers
89 Jefferson Boulevard
Warwick, RI 02888

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

Dear Ms. Massaro:

This letter responds to the request of Jon Hagopian, Special Assistant Attorney General, Attorney to the RI Division of Public Utilities and Carriers dated June 14, 2010, a copy of which is attached hereto, in connection with the above matter.

1. ***Please provide a copy of all contractual agreements, past and present, between Ridgewood/Rhode Island LFG Genco ("LFG") and the Rhode Island Resource Recovery Corporation ("RIRRC").***

   Ridgewood's relationship with Rhode Island Resource Recovery Corporation ("RIRRC") dates back to approximately 1995 when Ridgewood first purchased its interest in the 12 MW power plant from the original developer. The relationship between RIRRC and Ridgewood (and its affiliates) is complex and there are many contracts and agreements between the parties that govern various aspects of this relationship. Please see Tabs 10 to 14 of the Document Index Summary dated June 15, 2010 ("Document Index") for the key agreements that would be most relevant to the above matter.

2. ***Please summarize the major differences between the new contractual agreements between the RIRRC and Ridgewood/LFG and the prior agreements. Include changes in revenue streams such as royalties or other payments that flow to the RIRRC under the contractual arrangements, as well as changes in costs and obligations of the parties to the agreements.***

   Please see the Affidavit of Kernan King and minutes from RIRRC Meeting with Governor Carcieri located at Tab 10 of the Document Index.

3. ***Prior to entering into discussions with National Grid to purchase the output of the new generating facility, did Ridgewood/LFG engage in contract negotiations or discussions***

with other parties to purchase the output of the generating facility? If so, when did those discussions occur and why did they not result in a power purchase agreement.

Initial informal discussions about a long-term contract with National Grid date back to July 2008. Ridgewood is not aware of contract negotiations or discussions with other parties to purchase the output of the generating facility prior to this date. There were discussions with other parties that occurred after July 2008 and before the date that the contract with National Grid was signed. None of these discussions produced offers to purchase the output of the facility at a price that would support the financing of the development.

4. ***What is the expected commercial operation date of the new generating facility?***

   The expected commercial operation date of the new generating facility is third quarter 2012.

5. ***What is the total expected project cost associated with the construction of the planned generating facility?*** The total expected project cost associated with the construction of and equipment for the Project is slightly in excess of $120 Million. This includes an engineering, procurement and construction contract of more than $100 Million.

6. ***The legislation authorizing the PPA, S 2842 Substitute A As Amended, makes a finding that "The financing plan for the construction of a new landfill gas fueled electric generating facility is supported by more than fifty million dollars ($50,000,000) of federal government grants,..." Does LFG agree with the accuracy of this legislative finding? Please describe the nature of the federal government grants.***

   The development is expected to take advantage of two distinct federal grant programs. The first grant is a highly competitive and discretionary DOE job stimulus grant in the amount of $15 Million secured with the support of the Rhode Island delegation in Washington DC. This grant program is structured as a reimbursement program that offsets a pro rata portion of the qualified expenditures for the project. For details about the grant and a copy of the grant application please see Tabs 24 to 33 of the Document Index. The second grant is an as-of-right program that permits certain qualified renewable energy projects that start construction prior to the end of calendar year 2010 to elect to receive a grant equal to 30% of the tax basis in the project in lieu of receiving production tax credits or investment tax credits. This grant is anticipated to be slightly less than $40 Million. This program was established by Congress in recognition of the fact that, as a result of the financial meltdown, the market for tax credits had become thin or non-existent. Without this grant program it would be very difficult to find a third party who was capable and interested in monetizing the tax credits. The grant money is payable after commercial operation of the facility.

7. ***Please review the analysis attached to this data request (Labeled Landfill Project Cost Rate Analysis). While this is a broad-stroke calculation and includes certain assumptions, does LFG agree that this is generally representative of the economics of the project? If not, please provide corrections to the assumptions and detail how those changes affect the analysis.***

   The analysis bears no relationship whatsoever to the economics of the project. While that form of generic financial analysis (with appropriate assumptions) could possibly be used to approximate the economics of a greenfield project, this analysis is neither appropriate nor possible in the context of a project redevelopment like the proposed power plant at the Central Landfill. As discussed in response 1 above, Ridgewood's relationship with RIRRC dates back to approximately 1995 when Ridgewood first purchased its interest in the 12 MW power plant from the original developer. Accordingly there are innumerable vested rights, obligations and existing valuable assets that would need to be considered in any attempt to analyze the project economics. By way of example, as part of the proposed redevelopment and in order to provide for the Phase VI landfill expansion, Ridgewood will surrender to RIRRC a 12 MW power plant for zero cash consideration. This plant operates exceedingly well, is fully paid for, and has an historical capacity factor of close to 100%. The surrender of the plant (along with the associated landfill void space with a tipping value to RIRRC of more than $200 Million) is a critical element in the economics of the project. Another example is Ridgewood's existing right to the gas generated by the Central Landfill, which it purchased in the mid-1990's and which is also a pre-existing and valuable asset that contributes to the project economics. Similarly, the cash flow from the 12 MW plant, and from another 6 MW plant owned by Ridgewood at the Central Landfill and additional funds from other Ridgewood affiliated entities, provides yet another source of funding for the capital project in particular many of the preconstruction development costs which total in excess of $8 million. Any economic analysis would require a comprehensive identification and valuation of each of these factors, along with myriad others, which is not possible to do with any reasonable level of accuracy.

8. ***Does the new contractual agreement between Ridgewood/LFG require RIRRC to pay any of the annual operating costs associated with the generating facility?***

   The new contractual agreement between Ridgewood/LFG does not require RIRRC to pay any of the annual operating costs associated with the new generating facility itself. It should be noted, however, that RIRRC will pay 50% of the annual operating costs associated with the sulfur removal system. Similarly, condensate that is removed from the gas is disposed of in the RIRRC leachate control system and, as a result, RIRRC could be construed as bearing some operating cost associated with treatment and disposal.

9. ***Please provide the rationale for the annual 2.5% price escalator included in the PPA.***

The price escalator was the result of vigorous and protracted negotiation between the parties and reflects just one integrated aspect of the financial terms. Money is fungible and the initial price and annual escalator are interchangeable. Nevertheless, in some sense, the rationale could be said to reflect the effects of inflation and, indeed, during the negotiations some consideration was given to using an escalator indexed to the consumer price index. In this regard, it should be noted that the 2.5% rate is significantly below the historical inflation rate, which has averaged 4.5% since 1970 and 3.5% since 1980.

10. ***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)?***

    Because the expected commercial operation date of the new generating facility is not until third quarter 2012, a portion of the annual production during each contract year will span multiple calendar years. Other than this clarification, the spreadsheet appears to reflect the expected payments.

11. ***What is the planned facility's nameplate capacity, availability factor, and projected annual energy output that LFG is expecting to sell to National Grid?***

    The planned facility is expected to have a gross (nameplate) capacity of approximately 33 megawatts and a net exportable capacity of approximately 32 megawatts. With an availability factor of approximately 85% this would produce approximately 239,000 megawatt-hours per year.

12. ***Please describe and explain the nature of the relationship between Ridgewood Power and the contracting entity, Rhode Island LFG Genco?***

    Ridgewood Renewable Power is the manager of a series of trusts (a role similar to a general partner in a limited partnership) that invest in renewable energy generating assets. Ridgewood Renewable Power provides each trust with management personnel that supervise the trusts' activities. Each trust operates as a separate business and the equity ownership of each trust is held by separate groups of shareholders. None of the trusts is a "subsidiary" of Ridgewood. Four separate trusts together own 100% of the membership interests in Rhode Island LFG Genco LLC.

13. ***Please explain what occurs at the end of the fifteen year contract term in terms of the status of the generating facility. Does the generating facility still have an expected useful life? Does the facility need to be decommissioned and removed? If so, what entity is responsible for any associated costs?***

The plant is expected to have a useful life in excess of fifteen years. After the end of the contract term, it is anticipated that the parties will either negotiate an extension of the contract pursuant to section 2.2(d) of the power purchase agreement or the output of the plant will be sold to another third party. Pursuant to the Amended and Restated Site Lease and Landfill Gas Delivery Agreement, to the extent that the facilities are not decommissioned and removed at the termination of the lease term, title reverts to RIRRC.

14. ***Is the new generating facility built on land owned by the RIRRC? If so, is there a lease between the two entities, with associated lease payments? Please provide a copy of any lease agreement between the RIRRC and the generating facility.***

The new generating facility will be built on land owned by RIRRC. Please see Tab 11 of the Document Index for the lease provisions.

Please do not hesitate to contact me or Richard Licht if you have any questions or if we can be of further assistance as you complete your review.

Sincerely,

Stephen Galowitz
Managing Director, Ridgewood Renewable Power
On Behalf of Rhode Island LFG Genco, LLC

CC: Jon Hagopian, Esq.
Service List

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