

July 12, 2011

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Review of Power Purchase Agreement With Orbit Energy Rhode Island, LLC
Pursuant to RI General Laws § 39-26.1 et seq.
Docket No. 4265**

Dear Ms. Massaro:

Enclosed please find ten (10) copies of National Grid's¹ responses to the Commission's First Set of Data Requests in the above-captioned proceeding.

Also enclosed is a joint response by National Grid and Orbit Energy Rhode Island, LLC ("Orbit Energy") to the Commission's Data Request to National Grid, identified as "Commission GRID 1-2" and the Commission's Data Request to Orbit Energy, identified as "Commission ORBIT 1-1".

Thank you for your attention to this filing. If you have any questions, please feel free to contact me at (401) 784-7288.

Very truly yours,



Jennifer Brooks Hutchinson

Enclosures

cc: Leo Wold, Esq.
Steve Scialabba, Division

¹ The Narragansett Electric Company d/b/a National Grid (hereinafter referred to as "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 has been electronically transmitted, sent via U.S. mail or hand-delivered to the individuals listed below.

Joanne M. Scanlon

July 12, 2011
Date

**Docket No. 4265 National Grid – PPA w/ Orbit Energy RI
Service List updated 7/8/11**

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Commission 1-1

Request:

Please provide pricing by year in terms of both total cost and cents per kWh. Be sure to include, but list separately, Grid's incentive. Include totals where appropriate. Include two scenarios: Scenario 1: starting price of 9.5 cents per kWh. Scenario 2: starting price 10 cents per kWh.

Response:

Please see Attachment COMM 1-1

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

ORBIT ENERGY PRICING OVER LIFE OF CONTRACT

SCENARIO 1	
Price (per kWh)	\$0.095
Price (per MWh)	\$95.00
Annual Escalator	2.00%
Annual Output (MWh)	23,160
Annual Remuneration	2.75%
Term (Years)	15

SCENARIO 2	
Price (per kWh)	\$0.100
Price (per MWh)	\$100.00
Annual Escalator	2.00%
Annual Output (MWh)	23,160
Annual Remuneration	2.75%
Term (Years)	15

Year	Output (MWh)	Bundled Rate (\$/MWh)	Contract Cost	Remuneration	Total
2013	7,720	\$95.00	\$733,400	\$20,169	\$753,569
2014	23,160	\$96.90	\$2,244,204	\$61,716	\$2,305,920
2015	23,160	\$98.84	\$2,289,088	\$62,950	\$2,352,038
2016	23,160	\$100.81	\$2,334,870	\$64,209	\$2,399,079
2017	23,160	\$102.83	\$2,381,567	\$65,493	\$2,447,060
2018	23,160	\$104.89	\$2,429,199	\$66,803	\$2,496,002
2019	23,160	\$106.99	\$2,477,783	\$68,139	\$2,545,922
2020	23,160	\$109.13	\$2,527,338	\$69,502	\$2,596,840
2021	23,160	\$111.31	\$2,577,885	\$70,892	\$2,648,777
2022	23,160	\$113.53	\$2,629,443	\$72,310	\$2,701,752
2023	23,160	\$115.80	\$2,682,032	\$73,756	\$2,755,787
2024	23,160	\$118.12	\$2,735,672	\$75,231	\$2,810,903
2025	23,160	\$120.48	\$2,790,386	\$76,736	\$2,867,121
2026	23,160	\$122.89	\$2,846,193	\$78,270	\$2,924,464
2027	23,160	\$125.35	\$2,903,117	\$79,836	\$2,982,953
2028	15,440	\$127.86	\$1,974,120	\$54,288	\$2,028,408
		TOTAL	\$38,556,296	\$1,060,298	\$39,616,594

Year	Output (MWh)	Bundled Rate (\$/MWh)	Contract Cost	Remuneration	Total
2013	7,720	\$100.00	\$772,000	\$21,230	\$793,230
2014	23,160	\$102.00	\$2,362,320	\$64,964	\$2,427,284
2015	23,160	\$104.04	\$2,409,566	\$66,263	\$2,475,829
2016	23,160	\$106.12	\$2,457,758	\$67,588	\$2,525,346
2017	23,160	\$108.24	\$2,506,913	\$68,940	\$2,575,853
2018	23,160	\$110.41	\$2,557,051	\$70,319	\$2,627,370
2019	23,160	\$112.62	\$2,608,192	\$71,725	\$2,679,917
2020	23,160	\$114.87	\$2,660,356	\$73,160	\$2,733,516
2021	23,160	\$117.17	\$2,713,563	\$74,623	\$2,788,186
2022	23,160	\$119.51	\$2,767,834	\$76,115	\$2,843,950
2023	23,160	\$121.90	\$2,823,191	\$77,638	\$2,900,829
2024	23,160	\$124.34	\$2,879,655	\$79,191	\$2,958,845
2025	23,160	\$126.82	\$2,937,248	\$80,774	\$3,018,022
2026	23,160	\$129.36	\$2,995,993	\$82,390	\$3,078,383
2027	23,160	\$131.95	\$3,055,913	\$84,038	\$3,139,950
2028	15,440	\$134.59	\$2,078,021	\$57,146	\$2,135,166
		TOTAL	\$40,585,574	\$1,116,103	\$41,701,678

Joint Response of
Orbit Energy Rhode Island, LLC and National Grid
To
Commission GRID 1-2
Commission ORBIT 1-1

Request:

What, if any, additional costs are associated with relocating the project from Woonsocket to Johnston? Please provide costs both as a total and as cents per kWh if possible.

Response:

Except for the interconnection cost adjustment as set forth in the PPA (which provides for incremental increases in the initial price with a cap of 10 cents per kWh in 2013) and explained in Mr. Milhous' testimony, there are no additional costs or price uncertainties associated with the relocation of the project from Woonsocket to Johnston.

Prepared by or under the supervision of:
Madison N. Milhous, Jr. (National Grid) and Anwar Shareef (Orbit Energy Rhode Island, LLC)

Commission 1-3

Request:

Please itemize and quantify the economic benefits identified on page 15 of Mr. Milhous' testimony.

Response:

The economic benefits referred to on page 15 of Mr. Milhous' testimony are relatively self-evident by locating the project in Rhode Island. Nonetheless, the attached "Estimates of Economic Impact Provided by Orbit Energy," identified as Attachment COMM 1-3, lists the estimated capital cost of the project, the estimated total jobs and the estimated annual property taxes that Orbit Energy has determined the project is likely to provide. (See also page 8 of Mr. Shareef's testimony.)

Prepared by or under the supervision of:
Madison N. Milhous, Jr.(National Grid) and Anwar Shareef (Orbit Energy Rhode Island, LLC)

Estimated Capital Cost (excluding interconnection cost) \$15 million
Total Jobs (Full-Time Equivalent)
During Construction (13 months) 20 Direct
During Plant Operation (15 to 21 years) 12 Direct 1 Plant Manager 1 Biologist/Bio-chemist 4 Machinery Operators 1 Mechanic/Maintenance Technician 4 Sorters/Laborers 1 Administrative Assistant 2 Mechanics (employed by others) 12 Indirect (hauling source-separated food waste and the compost product)
Estimated Annual Property Taxes \$250,000

Commission 1-4

Request:

Please provide a Gantt chart (or an equivalent measure) of the project timeline.

Response:

National Grid did not create a Gantt chart (or an equivalent measure). Please see Orbit Energy Rhode Island, LLC's Response to COMM 1-2.

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

Commission 1-5

Request:

Would you agree that the definition of Regulatory Approval contained in Section 1 of the National Grid-Orbit Energy Rhode Island, LLC. PPA (“PPA”) serves the following purposes 1) prohibits the Commission from directing the parties to revise the PPA on term and conditions that would violate R.I.G.L. §§ 39-26.1-3 through 39-26.1-5 and 2) allows the Buyer the right to reject modifications to the PPA imposed by the Commission.

Response:

The definition of “Regulatory Approval” in Section 1 of the PPA is consistent with the Commission’s role under Title 39 of the Rhode Island General Laws and the Commission’s Rules and Regulations Governing Long-Term Contracting Standards for Renewable Energy (the “Regulations”). As set forth in this definition and the related language in Section 8.1 of the PPA, the PPA is binding on the parties subject to the condition subsequent that the Commission approve the PPA (including recovery by National Grid of its costs incurred under the PPA and financial remuneration equal to 2.75% of National Grid’s actual annual payments under the PPA), as required by R.I.G.L. §§ 39-26.1-3 through 39-26.1-5 and the Regulations. If the Commission’s approval of the PPA (i) materially modifies the PPA, (ii) contains a material condition, and/or (iii) the Commission does not issue its approval within 18 months after the execution of the PPA, then the PPA will terminate (other than the provisions that expressly survive that termination). For the PPA to be effective, the approval must be final and not subject to appeal or rehearing. With respect to the approval, the order also must be acceptable to National Grid in its sole discretion. This means that if there are any conditions or requirements in the order approving the PPA that were not reasonably expected by National Grid (rendering the approval unacceptable in its own judgment), National Grid has the right to notify Orbit Energy Rhode Island, LLC that it has received an order of the Commission that is not acceptable to National Grid, as set forth in Section 8.1, in which event the PPA will not take effect. As long as there is a good faith basis for the exercise of this judgment, National Grid’s decision is not subject to challenge.

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

Commission 1-6

Request:

Does the PPA (in particular Section 1, the Definition of Extension Regulatory Approval and Section 2.2(e)) give the Buyer ultimate authority over 1) whether to extend the contract term of the PPA and 2) whether to seek Commission approval for such an extension of the contract term?

Response:

As between National Grid and Orbit Energy Rhode Island, LLC, the definition of Extension Regulatory Approval, together with Section 2.2(e) give National Grid the right, in its sole discretion, to extend the PPA for an additional six-year “Extended Term” and to determine, in its sole discretion, whether the approval of the Commission or any other applicable governmental entity is required or appropriate in connection with the extension of the PPA. Pursuant to R.I.G.L. § 39-26.1-3, National Grid would be required to seek the Commission’s approval of that extension of the PPA in order to recover the amounts paid under the PPA during the Extended Term in its retail rates. National Grid reserved the right under the PPA to determine whether Commission approval was required because it could not anticipate whether such approval will still be required or appropriate when National Grid’s right to extend the PPA is exercisable, which is more than fourteen years in the future.

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

Commission 1-7

Request:

Referring to Section 1, the Definition of Extension Regulatory Approval, under what circumstances would the Buyer in its sole discretion deem an approval by the Commission unacceptable?

Response:

Given that any exercise of National Grid's right to extend the term of the PPA would occur, if at all, more than fourteen years in the future, it is not possible for National Grid to anticipate the circumstances under which it would deem an approval of the extension of the PPA unacceptable. In general terms, however, if the Commission's approval and related order contained any conditions or requirements that were not reasonably expected by National Grid, such approval would likely be unacceptable to National Grid.

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

Commission 1-8

Request:

Please state whether the Commission has authority to approve the Extension Price.

Response:

If and when National Grid exercises its right to extend the PPA for the Extension Term, National Grid will seek the Commission's approval to extend the PPA. As part of its approval, the Commission will also be reviewing and approving the Extension Price. See also National Grid's Response to COMM 1-6.

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

Commission 1-9

Request:

In the event the PPA is extended, would you agree that the “Operating Costs” referred to in Exhibit E, Paragraph 5 would be passed on to ratepayers?

Response:

No. “Operating Costs” referred to in Exhibit E, Paragraph 5 contemplates that, if National Grid were to exercise its right to extend the PPA for the Extended Term, the Extension Price under the agreement during that Extended Term would be calculated based on the sum of the reasonably projected Operating Costs of the facility incurred by Orbit Energy each year during the Extended Term plus a rate of return equivalent to that of comparable investments. The underlying assumption of this pricing mechanism is that Orbit Energy will likely amortize most, if not all, of its costs in constructing the facility during the original 15-year term. The cost of the power generated by the facility after that initial 15-year term, on a cost-of-service basis that includes little if any unamortized construction costs, might therefore be less expensive for National Grid. However, National Grid’s cost-recovery mechanism (and ultimately the amount that is charged to customers) for the Extended Term would be no different than it would be for the initial 15-year term; that is, customers would be charged the difference between the contract price and the above-market price of the power during the Extended Term, which could result in either a credit or charge to customers.

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

Commission 1-10

Request:

Since the phrase “Operating Costs” does not appear in Section 1 (“Definitions”), does this term include property taxes paid by Seller during the Extended Term?

Response:

Yes. The term “Operating Costs” as defined in Exhibit E, Paragraph 5, is intended to encompass all of the reasonably projected operating costs of the facility, including property taxes. See National Grid’s Response to COMM 1-9.

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

Commission 1-11

Request:

If the answers to 9 and 10 are both yes, does Exhibit E, Paragraph 5 of the PPA offset one of the presumed benefits derived from the location of the Orbit Energy Rhode project in the state of Rhode Island, i.e. property tax revenues, bearing in mind Rule 5.2 of the Long-Term Contracting Standards For Renewable Energy requires that all projects provide direct economic benefits to the State of Rhode Island including “increased property tax revenues”?

Response:

No. Under the basic financial model used to finance the construction of most independent power projects, all of the costs expected to be incurred by the owner in constructing and operating the project should be recovered in the amounts paid under one or more “offtake contracts” for the purchase of the energy, renewable energy credits and/or capacity produced by the project, assuming the project performs as anticipated. National Grid understands that Orbit is following this model in the construction and operation of its biogas generating facility. Since National Grid is purchasing the currently usable output of the biogas generating facility, consistent with Title 39 of the Rhode Island General Laws and the Commission’s Rules and Regulations Governing Long-Term Contracting Standards (the “Regulations”) for Renewable Energy, the price of the bundled energy under the PPA must be adequate for Orbit to recover its projected costs incurred in building and operating the facility, plus a reasonable rate of return. This financial model under which the PPA pricing is based is separate and apart from the requirement in Rule 5.2 of the Regulations that the project provide other direct economic benefits to the State of Rhode Island, and increased property tax revenues are just one example of the types of economic benefits that the Commission must consider on a case-by-case basis. Even if the Commission were to determine that Rule 5.2 requires the Commission to apply a cost-benefit analysis, the Commission would still need to weigh all of the economic benefits provided by the project against any above-market costs of the price being paid under the PPA, and could not simply offset the price against a single benefit.

Moreover, it should be noted that Exhibit E, Paragraph 5 relating to the Extension Price is only applicable if National Grid exercises its right to extend the PPA after the original 15-year Services Term, subject to receipt of any required Extension Regulatory Approval.