

July 27, 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 response to the Commission's Third Set of Data Requests, which contained one data request within this set.

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 27, 2011
Date

**Docket No. 4265 National Grid – PPA w/ Orbit Energy RI
Service List updated 7/26/11**

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Commission 3-1

Request:

Please provide an illustrative example of the calculation of the extension price as defined in Exhibit 1, pg 69 of 72 attached to Mr. Milhous' direct testimony in this docket.

Response:

It is not possible to construct an illustrative example of the calculation of the extension price without the details of a financial model for the Orbit Energy project, which would be considered proprietary to Orbit Energy. Even with such details in hand, a number of assumptions would be required. Nonetheless, the following explanation generally illustrates how the calculation of the extension price would be performed:

$$\text{PPA Extension Price} = \frac{(\text{Operating Costs} - \text{Revenues}) + (\text{Rate of Return}) \times (\text{Book Assets})}{\text{Production Rate}}$$

Using the above illustrative formula, the calculation would be performed over the length of the extended term (year by year) and would include the benefit of other revenues anticipated by the project, e.g. revenues from tipping fees and compost sales. The calculation would likely be done by calculating the net present value of the numerator from year-by-year projections, and solving for a fixed or escalating price that at the historical production rate would yield the required revenue.

The components of the above illustration are generally defined in the PPA as follows:

PPA Extension Price (\$/MWh): a fixed or escalating price that would recover the operating costs, less other revenues such as tipping fees and compost sales, plus the return, over the extended term.

Operating Costs: operating and maintenance costs, taxes, uncovered reserves for decommissioning, and other reasonably projected expenses.

Revenues: revenues from tipping fees and compost sales

Rate of Return: return as certified by a qualified independent expert mutually agreed upon by Buyer and Seller, as equal to the return that is generally available to investors in alternative investments of comparable risk

Commission 3-1 (continued)

Book Assets: total assets reflected on the financial statements of the Seller at the determination date, calculated in accordance with US GAAP.

Production Rate: historical average production rate, beginning one year after commercial operation.

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