

July 26, 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 for filing with the Commission, please find ten (10) copies of the rebuttal testimony of Madison N. Milhous, Jr., concerning the above-captioned proceeding.

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

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 26, 2011  
Date

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

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**THE NARRAGANSETT ELECTRIC COMPANY  
D/B/A NATIONAL GRID  
DOCKET NO. 4265  
REVIEW OF POWER PURCHASE AGREEMENT  
ORBIT ENERGY RHODE ISLAND, LLC  
PURSUANT TO R.I.G.L. § 39-26.1  
WITNESS: REBUTTAL MADISON N. MILHOUS, JR.**

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**REBUTTAL TESTIMONY**

**OF**

**MADISON N. MILHOUS, JR.**

**July 26, 2011**

1 **Q. Please state your name and business address.**

2 **A.** My name is Madison N. Milhous, Jr., and my business address is 100 East Old Country  
3 Road, Hicksville, New York 11801.

4 **Q. Did you previously submit pre-filed testimony in this proceeding?**

5 **A.** Yes. I submitted pre-filed direct testimony on June 22, 2011 on behalf of The  
6 Narragansett Electric Company d/b/a National Grid (the “Company”).

7 **Q. What is the purpose of your rebuttal testimony?**

8 **A.** My rebuttal testimony addresses two issues raised by Richard Hahn, who provided  
9 testimony on behalf of the Division of Public Utilities and Carriers. These issues relate to  
10 two provisions in the PPA, specifically, the definition of the Test REC Price and the  
11 definition of the Extension Price.

12 **Q. On page 13 of his direct testimony, Mr. Hahn recommended that the definition of**  
13 **the Test REC Price in the PPA be modified such that the Company should use**  
14 **prices for RECs that are available from published subscription data sources in place**  
15 **of broker quotes for RECs delivered to the Company during the Test Period, that is,**  
16 **prior to the commercial operation of Orbit Energy Rhode Island, LLC’s (“Orbit**  
17 **Energy”) facility. Do you agree that the PPA should be modified to conform to Mr.**  
18 **Hahn’s definition of the Test REC Price?**

19 **A.** No.

20 **Q. Please explain.**

1    **A.**    The PPA requires that the Test REC Price will be set based on the average of two broker  
2           quotes obtained by Orbit Energy, not the Company. Nonetheless, the Company believes  
3           that this approach is most likely to reflect actual market conditions as of the time when  
4           that price is set. In his testimony, Mr. Hahn suggests that the Company use prices for  
5           RECs that are available from a published index. However, unlike power prices, there are  
6           not many data sources available to establish a “market” price for RECs eligible to satisfy  
7           the Rhode Island Renewable Energy Standard. Generally, the Company obtains Rhode  
8           Island REC price data directly from brokers and from the financial information firm, SNL  
9           Financial LC (“SNL”). SNL publishes an index on a weekly basis, which is based on  
10          quotes provided to SNL from a small group of brokers. The Company believes that using  
11          an average of two broker quotes to set the Test REC Price is a reliable approach, and is  
12          generally consistent with the approach the Company has taken in other REC  
13          procurements, and the Company’s Power Purchase Agreements with Deepwater Wind  
14          Block Island, LLC and with Rhode Island LFG Genco. Of course, when provided the  
15          Test REC Price by Orbit Energy, or any other seller, the Company would compare this  
16          price to currently available broker quotes and/or the SNL index.

1 **Q. On page 13-14 of his direct testimony, Mr. Hahn also recommended that the**  
2 **definition of the Extension Price in the PPA be changed such that it is a rate of**  
3 **return multiplied by the net book value of the property, plant, and equipment that**  
4 **is needed to generate electricity. Do you agree that the PPA should be modified to**  
5 **conform to Mr. Hahn's definition of the Extension Price?**

6 **A.** No.

7 **Q. Please explain.**

8 **A.** First, the provisions of the PPA relating to the Extended Term and the Extension Price  
9 are designed to ensure that the Company can elect, at its option, to continue to purchase  
10 the energy, capacity and RECs under the PPA from Orbit Energy at a price that reflects  
11 the projected costs for Orbit Energy to operate its facility, plus a return for Orbit Energy's  
12 investors during the Extended Term that is equal to the return for a comparable  
13 investment. If the Company were to adopt Mr. Hahn's recommendation on this point, the  
14 PPA would create a risk to Orbit Energy's investors that they would not receive a market  
15 return on their investment once the initial fifteen-year term expires, because the return  
16 would be calculated on less than the full value of the special purpose entity in which they  
17 invested. Such a provision could have a chilling effect on Orbit Energy's ability to attract  
18 investors, who might otherwise choose to pursue investments without such an artificial  
19 cap on their returns.

1 Second, Orbit Energy must certify the Extension Price by providing sufficient detail and  
2 supporting documentation to permit the Company to verify all components of the  
3 Extension Price, and must respond to any questions or information requests to permit the  
4 Company to evaluate the proposed price. This process ensures that the Extension Price is  
5 reasonably tied to the book assets on Orbit Energy's financial statements.

6  
7 Finally, the Company has the option under the PPA, and after comparison to projections  
8 of market prices, to decide whether to continue to purchase the energy, capacity and  
9 RECs during the Extended Term at the Extension Price. Therefore, the calculation of the  
10 Extension Price would not come into play, if at all, until more than fourteen years in the  
11 future. If the Company elected to exercise its option to continue to purchase the  
12 aforementioned products under the PPA, the Company would seek Commission approval  
13 of such extension, at which time the Commission would have an opportunity to review  
14 and approve the Extension Price. Therefore, the Company believes that the calculation of  
15 the Extension Price is subject to sufficient oversight and does not warrant any  
16 amendments at this time.

17 **Q. Does this conclude your rebuttal testimony?**

18 **A.** Yes.