

STATE OF MASSACHUSETTS
BEFORE THE DEPARTMENT OF PUBLIC UTILITIES

**Petition of National Grid for approval)
of long-term contracts to purchase)
wind power and renewable energy)
certificates, pursuant to St. 2008, c.)
169, § 83 and 220 C.M.R. § 17.00 et seq**

Docket No. 10-54

SUPPLEMENTAL TESTIMONY OF
PAUL CHERNICK
ON BEHALF OF
THE NATURAL RESOURCES DEFENSE COUNCIL, CONSERVATION LAW
FOUNDATION, UNION OF CONCERNED SCIENTISTS AND CLEAN POWER NOW

Resource Insight, Inc.

AUGUST 20, 2010

1 **Q: Are you the same Paul Chernick who filed direct testimony in this**
2 **proceeding?**

3 A: Yes.

4 **Q: What is the purpose of this supplemental testimony?**

5 A: This supplemental testimony updates one statement in my direct testimony, to
6 reflect the reduction in the Base Price, as that term is defined in the
7 purchased-power agreements between Cape Wind and National Grid.

8 **Q: What is the reduction in the Base Price?**

9 A: In the original filing, the Base Price was set at 20.7¢/kWh in 2013, subject to
10 upward adjustments if the project does not qualify for the federal investment
11 tax credit and/or production tax credit. In the term sheet attached to the Joint
12 Notice of Settlement, the Base Price is reduced to 18.7¢/kWh, subject to

- 13 • the previous tax adjustment,
- 14 • upward adjustment if fewer than 130 turbines are constructed,
15 consisting of an increase of 0.3¢/kWh for each decremental turbine, up
16 to 19.3¢/kWh with 110 turbines or fewer,
- 17 • downward price adjustment if the project debt rate is less than 7.5%,
18 with 75% of the savings flowing to National Grid and its customers,
- 19 • downward price adjustment to flow 60% of any reduction in
20 construction costs (measured by the difference between projected return
21 at the actual cost and an 10.75% base return).

22 The revised purchased-power agreement also provides National Grid
23 with benefits in the form of an option to extend the contract for ten years at
24 cost-of-service-based rates, as well as an expanded most-favored-nation
25 provision.

1 These changes are confirmed by the First Amendment to the purchased-
2 power agreement.

3 **Q: How does the change in the pricing affect your direct testimony?**

4 A: The summary of my direct includes the statement:

5 I estimate that the annual market-price benefits to Massachusetts
6 electricity and gas consumers could be on the order of \$150 million
7 annually, at least in the early years of the project's operation. These
8 benefits could be twice the magnitude of the above-market cost of the
9 purchased-power agreement, as estimated by NGrid in Exhibit MNM-2.
10 (Chernick Direct, p. 3, lines 13–17)

11 The change in the contract pricing does not affect my estimate of the
12 magnitude of the annual market-price benefits to Massachusetts electricity
13 and gas consumers. But since the contract price is reduced, so are the above-
14 market costs of the purchased-power agreement. In Exhibit MNM-2, the
15 above-market costs in 2013–2016 ranged from \$65 million to \$85 million,
16 depending on the year, the forecaster, and the forecast methodology. Based
17 on the revised purchased-power agreement, National Grid witness Milhous
18 provides a supplemental version of Exhibit MNM-2, which estimates above-
19 market costs in 2013–2016 to be \$50 million to \$68 million. Based on this
20 update, I would revise the last sentence of the quote above to read:

21 These benefits could be two or three times as large as the above-market
22 cost of the purchased-power agreement, as estimated by NGrid in
23 Exhibit MNM-2 Supplemental.

24 **Q: Does this conclude your supplemental testimony?**

25 A: Yes.