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DAVID S. ROSENZWEIG
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August 4, 2010

Mark D. Marini, Secretary
Department of Public Utilities
One South Station, 2nd Floor
Boston, MA 02110

Re: National Grid, D.P.U. 10-54

Dear Secretary Marini:

On behalf of Martha Coakley, the Attorney General of Massachusetts (“Attorney General”), the Massachusetts Department of Energy Resources (“DOER”), Cape Wind Associates, LLC (“Cape Wind”) and Massachusetts Electric Company and Nantucket Electric Company, each d/b/a National Grid (“National Grid”) (together the “Settling Parties”), I am enclosing the following:

1. Joint Motion for Approval of Settlement Agreement;
2. Settlement Agreement; and
3. Explanatory Statement regarding Settlement Agreement.

These materials are submitted by the Settling Parties in furtherance of the Joint Notice of Settlement and Term Sheet (Exhibit A, thereto) that was filed with the Department of Public Utilities (the “Department”) on July 30, 2010. As set forth in the Explanatory Statement, the Settling Parties have also indicated the dates by which further materials in support of the Settlement Agreement will be filed in this proceeding. Specifically, the following information will be filed with the Department on August 9, 2010 in support of the Settlement Agreement:

1. Amendments to PPA 1 and PPA 2;
2. Supplemental Testimony explaining the amendments to PPA 1 and PPA 2;
3. Updated bill impact analysis, similar in form to the bill impact analysis submitted with the PPAs on May 10, 2010;
4. Updated calculations as to above-market costs, similar in form to the calculations supplied by National Grid with its direct case on June 4, 2010; and
5. A recommendation letter from the Attorney General pursuant to the

Letter to Secretary Marini
August 4, 2010
Page 2

provisions of Section 83 of the Green Communities Act, St. 2008, c. 169,
§ 83.

The Settling Parties are available to discuss any of these materials or scheduling matters at the prehearing conference on August 12, 2010 or sooner, at the Department's direction.

I have enclosed a Certificate of Service. Thank you for your attention to this filing.

Very truly yours,

A handwritten signature in cursive script that reads "David S. Rosenzweig".

David S. Rosenzweig

Enclosures

cc: Laura Bickel, Hearing Officer (10 copies)
Service List

**COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF PUBLIC UTILITIES**

_____)	
Petition of Massachusetts Electric Company and)	
Nantucket Electric Company each d/b/a)	D.P.U. 10-54
National Grid for Approval of Proposed)	
Long-Term Contracts for Renewable Energy with)	
Cape Wind Associates, LLC Pursuant to)	
St.2008, c. 169, § 83)	
_____)	

CERTIFICATE OF SERVICE

I certify that I have this day served the foregoing upon the Department of Public Utilities and the Service List in the above-docketed proceeding in accordance with the requirements of 220 C.M.R. 1.05 (the Department's rules of Practice and Procedure).



Erika J. Hafner, Esq.
Keegan Werlin LLP
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Dated: August 4, 2010

**COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF PUBLIC UTILITIES**

**Petition of Massachusetts Electric Company and
Nantucket Electric Company d/b/a National Grid for
approval by the Department of Public Utilities of two
power purchase agreements between National Grid and
Cape Wind Associates, LLC.**

D.P.U. 10-54

JOINT MOTION FOR APPROVAL OF SETTLEMENT AGREEMENT

Martha Coakley, the Attorney General of Massachusetts (the "Attorney General"), Cape Wind Associates, LLC ("Cape Wind"), Massachusetts Electric Company and Nantucket Electric Company, each d/b/a National Grid ("National Grid"), and the Department of Energy Resources (together the "Settling Parties") jointly move, pursuant to 220 C.M.R. § 1.04(5), for Department of Public Utilities (the "Department") approval of the Settlement Agreement (the "Settlement Agreement") filed herewith. This Settlement Agreement is offered with the intent of resolving among the Settling Parties the issues specified in the Settlement Agreement, thus avoiding unnecessary, time consuming and costly litigation in this proceeding among the Settling Parties.

The Settlement Agreement is conditioned on approval in its entirety by the Department and on the further condition that, if the Department does not approve the Settlement Agreement in its entirety by November 30, 2010, it shall be deemed withdrawn.

WHEREFORE, the Settling Parties request that the Department grant this Joint Motion for Approval of the Settlement Agreement on or before November 30, 2010, and determine that the terms of the Settlement Agreement are reasonable and in the public

interest, and that the power-purchase agreements amended thereby be approved by the Department under St. 2008, c. 169, § 83.

Respectfully Submitted,

CAPE WIND ASSOCIATES, LLC

**MARTHA COAKLEY
ATTORNEY GENERAL**

By its attorneys,

By her attorneys,



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**MASSACHUSETTS DEPARTMENT
OF ENERGY RESOURCES**

**MASSACHUSETTS ELECTRIC
COMPANY,
NANTUCKET ELECTRIC COMPANY
EACH D/B/A NATIONAL GRID**

By its Attorneys,

By their Attorneys,



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Dated: August 4, 2010

**COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF PUBLIC UTILITIES**

**Petition of Massachusetts Electric Company and
Nantucket Electric Company d/b/a National Grid for
approval by the Department of Public Utilities of two
power purchase agreements between National Grid and
Cape Wind Associates, LLC.**

D.P.U. 10-54

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into by and among Martha Coakley, the Attorney General of Massachusetts (the "Attorney General"), Cape Wind Associates, LLC ("Cape Wind"), Massachusetts Electric Company and Nantucket Electric Company, each d/b/a National Grid ("National Grid"), and the Massachusetts Department of Energy Resources ("DOER") (each individually, a "Settling Party," and collectively, the "Settling Parties") with respect to the proceedings docketed at the Department of Public Utilities (the "Department") as D.P.U. 10-54.

WHEREAS, Cape Wind and National Grid executed two power purchase agreements on May 7, 2010 (individually "PPA 1" and "PPA 2", together, the "PPAs") concerning Cape Wind's proposed 468 megawatt ("MW"), renewable energy wind-powered generating facility to be constructed offshore of the Commonwealth of Massachusetts in the adjacent waters of Nantucket Sound (the "Project"), pursuant to St. 2008, c. 169, § 83, otherwise referred to as Section 83 of the Green Communities Act (the "GCA"), and the Department's December 29, 2009 approval of a Memorandum of Understanding executed between National Grid and Cape Wind in docket D.P.U. 09-138;

WHEREAS, the Settling Parties have engaged in discovery and negotiations with regard to the matters specified in the articles of this Settlement Agreement;

WHEREAS, the Settling Parties have raised competing and disputed claims with regard to the various terms contained in the proposed PPAs, including, but not limited to, the price terms of the PPAs as well as their relationship to projected construction and operations and maintenance costs associated with the Project, but wish to resolve those matters on mutually agreeable terms, and without establishing any new precedent or principle applicable to proceedings relating to any issue other than the PPAs;

WHEREAS, the Settling Parties intend that customers receive the full value of the settled issues, and agree that no terms of this Settlement Agreement or supporting schedules and calculations will be used or interpreted to diminish, in any way, the intended customer benefit related to this Settlement Agreement;

WHEREAS, this Settlement Agreement is offered with the intent of resolving issues raised by and between any Settling Party regarding discovery disputes, the terms of the proposed PPAs that were filed by National Grid on May 10, 2010, and approval of the PPAs as amended, and thus to avoid unnecessary, time consuming and costly litigation in this proceeding between the Settling Parties; and

WHEREAS, the Settling Parties recognize that time is of the essence given pending deadlines for federal incentive programs applicable to renewable energy facilities and wish to complete the D.P.U. 10-54 proceeding expeditiously.

NOW, THEREFORE, in consideration of the exchange of promises and covenants contained herein, the legal sufficiency of which is hereby acknowledged, the Settling Parties agree, subject to approval by the Department, as follows:

ARTICLE 1: APPLICABILITY

- 1.1 The provisions of this Settlement Agreement shall apply to the Settling Parties and their successors and assigns, subsidiaries, affiliates, directors and officers.
- 1.2 This Settlement Agreement resolves all pending issues raised by and between any Settling Party regarding discovery disputes, the terms of the proposed PPAs that were filed by National Grid on May 10, 2010 and are to be amended pursuant to this Settlement Agreement, and approval of the amended PPAs in docket D.P.U. 10-54.

ARTICLE 2: TERMS OF AGREEMENT

- 2.1 The terms of the PPAs before the Department in D.P.U. 10-54 shall be amended consistent with the following:
 - A. PPA Price: The Bundled Price currently set forth in PPA 1 and PPA 2 will be reduced to \$187/MWh in 2013 dollars, with a 3.5% escalator over the 15-year term of the PPAs. In the event that the size of the Project is reduced from a 130-turbine project on a per-turbine basis, the starting price would be adjusted linearly up to \$193/MWh for a 110-turbine project, with linear price adjustments between each interval of project size on a per-turbine basis. (Note: if a project of less than 110 turbines is ultimately constructed, the 110-turbine price set forth above would apply.) Consistent with the existing PPAs, if either the Investment Tax Credit ("ITC") and/or the Production Tax Credit ("PTC") is not realized by Cape Wind, the Bundled Price would be adjusted in the same proportion as the

current pricing under Section 2 of Appendix X to Exhibit E of the PPAs. Cape Wind will use commercially reasonable efforts to obtain the ITC and/or PTC.

- B. PPA 1 & PPA 2 downward price adjustment for a reduction in debt cost rate (e.g.: due to obtaining the Department of Energy (“DOE”) Federal Loan Guarantee): To the extent that the debt financing costs for the Project are below 7.5% (pre-tax), Cape Wind would share a stated percentage of the benefit with ratepayers by decreasing the price in the PPAs. For example, receipt of the DOE Federal loan guarantee will reduce the Project’s after-tax debt cost. The sharing would be 75/25, with 75 percent of the after-tax benefits flowed back to ratepayers with a price adjustment and shall be determined by an independent verification agent in accordance with paragraph 2.1C below.
- C. PPA 1 & PPA 2 downward price adjustment based on actual project costs: Consistent with the recently-filed Deepwater-National Grid Rhode Island PPA, PPA 1 and PPA 2 would have a downward adjustment in the PPAs’ price if the actual costs to finance and construct the Project are less than originally projected as set forth below. There would be a one-time reduction to the otherwise applicable initial pricing in the PPAs in order to effect a 60/40 sharing of the decrease in Project cost (with 60 percent of the benefits returned to ratepayers through a price adjustment) of such projected returns in excess of a 10.75% unlevered Project return (inclusive of both debt and equity):

The calculation of such projected and unlevered return would be based upon: (i) the actual and verified cost of the Project; and (ii) the forecasted net revenue stream resulting from the otherwise applicable PPA pricing. For example, if Cape Wind could control actual Project costs so as to result in a projected unlevered return of 11.75%, the otherwise applicable PPA price would be adjusted downward so that the calculated unlevered return would be 11.15% (i.e., to reflect a 60/40 sharing of the 1% increment). There would be no price adjustment (either up or down) in the event that the actual Project cost results in an unlevered return below the stipulated 10.75% return. Definition and verification of total Project cost would be the same as stated in Appendix X to Exhibit E to National Grid-Rhode Island's June 30, 2010 PPA as now on file with the Rhode Island Public Utilities Commission. An independent verification agent appointed by the Attorney General would conduct a one-time review of the final cost report and reasonably forecasted O&M supplied by Cape Wind 90 days after the completion of Project construction. The Attorney General and Cape Wind will have the right to participate in the review to the extent practicable and to be fully informed at all times in the course of the review process. The basis for the verification agent to challenge cost is limited to: (a) Cape Wind did not incur cost; (b) the cost is not supported with documentation; and (c) arithmetic errors in computing costs. Any dispute would be subject to Department review.

D. PPA 2 limitations. National Grid has stated that it would endeavor to

assign PPA 2 to a third party in the future. PPA 2 shall be revised to be in accordance with PPA 1, based upon the terms specified herein. The Parties shall seek Department approval of the terms of PPA 2 in this proceeding; however, National Grid would not purchase any additional output from Cape Wind under PPA 2 as a result of the Department's approval of PPA 2 in this proceeding. To the extent that a Massachusetts electric distribution company elects to make a purchase from Cape Wind under PPA 2, PPA 2 would not be effective without a separate Department approval of PPA 2 applicable to the respective distribution company pursuant to Section 83 in a separate proceeding for review of the cost-effectiveness for ratepayers. However, price and other contract terms would not be subject to such review.

- E. Option to extend PPA 1 & 2 at cost-plus pricing: The rationale for entering a PPA over 15 years is to allow Cape Wind to obtain financing to build the Project and deliver renewable power (and capacity) to New England for the life of the Project, which is assumed to be 25 years. The PPAs would be revised to include a one-time option, exercisable at the beginning of year 15 by National Grid or its successors or assigns to extend the term of the respective PPA for years 16-25 (*i.e.*, for 10 years), with an entitlement equal to the percentage of Project output purchased by National Grid, at a price allowing Cape Wind to recoup all reasonable Project costs plus the required rate of return, defined as the Project's weighted average cost of capital (*i.e.*, the rate of return required to operate

the Project and compensate investors at the rate of return available to them in competitive capital markets on alternative investments of equivalent risk). The Project must be maintained in a manner consistent with Good Utility Practice as that term is defined in the PPAs. Twelve months before the expiration of the PPAs, National Grid must make, in consultation with the Attorney General, a filing that consists of either: (i) a petition for Department approval to extend the PPAs under this provision, or (ii) a fully-supported explanation of National Grid's decision to forego exercising the option under this provision.

F. Expanded "Most favored nation" clause: If Cape Wind or any affiliate of Cape Wind enters into an agreement with another purchaser for the sale of any energy, capacity, or renewable energy certificates from this Project or from any other offshore wind energy project within fifty (50) miles from the geographic center of the Project, National Grid will have an option to revise the terms of the PPAs to match the terms of the more-favorable contract(s).

2.2 The Attorney General agrees to withdraw her motion to compel and conduct further inquiry into Cape Wind's internal financials, costs, pro forma data, and profitability or losses filed in D.P.U. 10-54 and will recommend approval of the pending PPAs as amended in accordance with this agreement.

ARTICLE 3: CONDITIONS

3.1 This Settlement Agreement shall not be deemed in any respect to constitute an admission by any of the Settling Parties or their agents that any allegation or

contention in this proceeding is true or false. Except as specified in this Settlement Agreement, the entry of an order by the Department approving the Settlement Agreement shall not in any respect constitute a determination by the Department as to the merits of any other issue raised in this proceeding.

3.2 This Settlement Agreement establishes no principles and shall not be deemed to foreclose any party from making any contention in any future proceeding or investigation, except as to those issues and proceedings that are stated in this Settlement Agreement as being specifically resolved and terminated by approval of this Settlement Agreement.

3.3 This Settlement Agreement is the product of settlement negotiations. The Settling Parties agree that the content of those negotiations and information relied upon in connection with those negotiations (including, but not limited to, any workpapers or documents produced in connection with the negotiations) are confidential and protected from disclosure to the greatest extent allowable by law, that all offers of settlement are without prejudice to the position of any party or participant presenting such offer or participating in such discussion, and, except to enforce rights related to this Settlement Agreement or defend against claims made under this Settlement Agreement, that they will not use the content of those negotiations in any manner in these or other proceedings involving one or more of the parties to this Settlement Agreement, or otherwise.

3.4 The provisions of this Settlement Agreement are not severable. This Settlement Agreement is conditioned on its approval in full by the Department. This

Settlement Agreement is also contingent upon the provision of accurate and truthful information by Settling Parties during the settlement negotiation process.

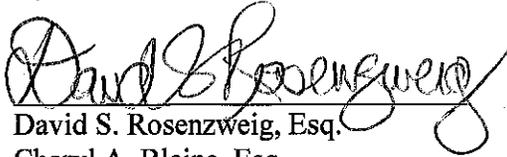
- 3.5 If the Department does not approve the Settlement Agreement in its entirety by November 30, 2010, this filing shall be deemed to be withdrawn and shall not constitute a part of the record in any proceeding or used for any other purpose.
- 3.6 To the extent permitted by law, the Department shall have its usual jurisdiction to implement the terms of this Settlement Agreement. Nothing in this Settlement Agreement, however, shall be construed to prevent or delay any Settling Party from pursuing any cause of action related to the terms of this Settlement Agreement in court under G.L. c. 93A or otherwise.
- 3.7 The Settling Parties agree to work in earnest and good faith to expeditiously incorporate the terms of this Agreement into any and all further related agreements reasonably deemed necessary and appropriate in order to achieve the purposes of this Agreement, including, but not limited to, formal amendments to PPA 1 and PPA 2 and supporting testimony and exhibits to be made by National Grid and Cape Wind, so as to implement the terms hereof for purposes of the Department's review and approval of the forthcoming amended PPAs.
- 3.8 National Grid and/or Cape Wind shall notify the Attorney General and DOER in writing at least (30) thirty days prior to (or as soon thereafter as practicable after obtaining knowledge of) (i) any material change in the Project or Cape Wind that may affect their compliance obligations under this Settlement Agreement or (ii) any events that have occurred or actions that are taken that likely will result in the dissolution of Cape Wind, assignment of either PPA by Cape Wind, sale of Cape

Wind or the Project resulting in emergence of a successor entity, or the creation or dissolution of subsidiaries of Cape Wind. A copy of this Settlement Agreement and the PPAs as amended by this agreement shall be given to any successor entity to Cape Wind.

- 3.9 The Attorney General and DOER shall be entitled to receive a copy of the notices and communications that National Grid is entitled to, and in the same manner provided under, Section 17 of the PPAs. In addition, to the extent that the PPAs do not otherwise provide for such notice, Cape Wind shall timely apprise the Attorney General and DOER as to decisions to limit the project to 110 turbines or (without disclosing any information that Cape Wind reasonably believes is confidential) the achievement of pertinent milestones in furtherance of obtaining a federal loan guarantee, ITC, or PTC.
- 3.10 This Settlement Agreement may be executed in any number of counterparts, each having the same force and effect as the original.
- 3.11 This Settlement Agreement constitutes the entire agreement between the Settling Parties. All prior written and oral understandings, offers or other communications of every kind pertaining to the subject matter of this Settlement Agreement are hereby superseded and null and void.

CAPE WIND ASSOCIATES, LLC

By its attorneys,



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Cheryl A. Blaine, Esq.
Erika J. Hafner, Esq.
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**MARTHA COAKLEY
ATTORNEY GENERAL**

By her attorneys,

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**MASSACHUSETTS DEPARTMENT
OF ENERGY RESOURCES**

By its Attorneys,

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**MASSACHUSETTS ELECTRIC
COMPANY,
NANTUCKET ELECTRIC COMPANY
EACH D/B/A NATIONAL GRID**

By their Attorneys,

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Brooke E. Skulley, Esq.
National Grid USA Service Company, Inc.
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(781) 907-1820

Dated: August 4, 2010

CAPE WIND ASSOCIATES, LLC

By its attorneys,

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Erika J. Hafner, Esq.
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By their Attorneys,

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Brooke E. Skulley, Esq.
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Dated: August 4, 2010

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By its Attorneys,



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Dated: August 4, 2010

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By her attorneys,

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**MASSACHUSETTS ELECTRIC
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EACH D/B/A NATIONAL GRID**

By their Attorneys,


Ronald T. Gerwatowski, Esq.
Brooke E. Skulley, Esq.
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AGREEMENT OF THE ATTORNEY GENERAL OF THE COMMONWEALTH OF MASSACHUSETTS, THE MASSACHUSETTS DEPARTMENT OF ENERGY RESOURCES, CAPE WIND ASSOCIATES, LLC AND MASSACHUSETTS ELECTRIC COMPANY AND NANTUCKET ELECTRIC COMPANY, EACH D/B/A NATIONAL GRID

EXPLANATORY STATEMENT

This Explanatory Statement is intended to provide additional background regarding the terms and provisions in the Settlement Agreement (the “Agreement”) that was entered into on this date by and among the Attorney General of the Commonwealth of Massachusetts (the “Attorney General”), the Massachusetts Department of Energy Resources (“DOER”), Cape Wind Associates, LLC (“Cape Wind”) and Massachusetts Electric Company and Nantucket Electric Company, each d/b/a National Grid (“National Grid”) (together, the “Parties”) with respect to the proceedings docketed at the Department of Public Utilities (the “Department”) as D.P.U. 10-54. The Agreement is designed to resolve among the Parties to this Agreement the terms of the two power-purchase agreements executed by and between National Grid and Cape Wind on May 7, 2010 (individually “PPA 1” and “PPA 2”, together, the “PPAs”), as amended consistent with the Agreement, and pending issues raised by and between any of the Parties regarding discovery disputes. The PPAs concern Cape Wind’s proposed 468 megawatt (“MW”), renewable energy wind-powered generating facility that is to be constructed offshore of the Commonwealth of Massachusetts in the adjacent waters of Nantucket Sound (the “Project”). The PPAs were entered into by National Grid and Cape Wind pursuant to St. 2008, c. 169, § 83, otherwise referred to as Section 83 of the Green Communities Act (the “GCA”), and the Department’s December 29, 2009 approval of a Memorandum of Understanding executed between National Grid and Cape Wind in docket D.P.U. 09-138.

The principal provisions of the Agreement are explained in more detail below:¹

Article 2.1A, Adjustment to Bundled Price in the PPAs. This section of the Agreement will reduce the Bundled Price in the PPAs to \$187/MWh in 2013 dollars, with a 3.5% escalator over the 15-year term of the PPAs. Recognizing that Cape Wind may ultimately build a Project with fewer than 130 turbines and that there are diseconomies of scale that are associated with building a smaller project (i.e., fixed capital and O&M costs that would need to be allocated over a smaller facility), the starting Bundled Price would be adjusted linearly up to a maximum of \$193/MWh for a 110-turbine Project, with linear price adjustments to be implemented on a per-turbine basis between a 110-turbine and a 130-turbine Project size. If a Project of less than 110 turbines is ultimately constructed, the 110-turbine price set forth above would apply. Further, consistent with the existing PPAs, if either the Investment Tax Credit (“ITC”) and/or the Production Tax Credit (“PTC”) is not realized by Cape Wind, the Bundled Price would be adjusted in the same proportion as the current pricing under Section 2 of Appendix X to Exhibit E of the PPAs. To maximize the opportunity to realize the ITC and/or PTC, Cape Wind has committed to use commercially reasonable efforts to obtain the ITC and/or PTC.

Article 2.1B, PPA Price Adjustment for Reduction in the Debt Cost Rate. To the extent that Cape Wind’s debt financing costs for the Project turn out to be below 7.5% on a pre-tax basis, Cape Wind would share a stated percentage of the benefit of the reduced debt costs with ratepayers by decreasing the starting Bundled Price in the PPAs. For example, receipt of the Department of Energy Federal Loan Guarantee would reduce the Project’s after-tax debt cost. Under this section, the sharing of the reduced debt financing costs would be shared on a 75/25 basis, with 75 percent of the after-tax benefits flowed back to ratepayers with a price adjustment.

¹ As is typically the case with all like settlement agreements, the Agreement includes standard language in Article 3 regarding the overall interpretation and implementation of the Agreement.

The implementation of this potential adjustment mechanism would follow the same process that would be overseen by an independent verification agent in accordance with Article 2.1C of the Agreement, as described below.

Article 2.1C, PPA Price Adjustment Based upon Actual Project Costs. Consistent with the June 30, 2010 amended Deepwater-National Grid Rhode Island PPA, the Cape Wind PPAs would have a downward adjustment in the PPA Bundled Price if the actual costs to finance and construct the Project enable Cape Wind to earn above a threshold unlevered return on an after-tax basis of 10.75%. There would be a one-time reduction to the otherwise applicable initial pricing in the PPAs in order to effect a 60/40 sharing of the decrease in Project cost (with 60 percent of the benefits realized by ratepayers through a price adjustment). As stated above, the threshold for the application of this potential adjustment is triggered off of a 10.75% unlevered Project return, i.e., in order for a price adjustment under this section to occur, Cape Wind's return on an after-tax basis, reflecting both debt and equity, must be a minimum of 10.75%, as determined post financing and post construction.

The calculation of the unlevered return would be based upon: (i) the actual and verified cost of the Project; and (ii) the forecasted net revenue stream² resulting from the otherwise applicable PPA pricing. As an example, if Cape Wind could manage the actual Project costs so as to result in a projected unlevered return of 11.75%, the otherwise applicable PPA price would be adjusted downward so that the calculated unlevered return would be 11.15% (i.e., to reflect a 60/40 sharing of the 1% increment). There would be no price adjustment (either up or down) in the event that the actual Project cost results in an unlevered return below the stipulated 10.75%

² In order to determine the net revenue stream applicable to the Project, an amount for anticipated operations and maintenance ("O&M") costs would need to be specified. This amount would be forecasted based upon the Project's O&M contracts with its vendors and other definable related expenses, as fixed at the time of the financing of the Project.

return. An independent verification agent appointed by the Attorney General would conduct a one-time review of the final cost report and the reasonably forecasted O&M supplied by Cape Wind 90 days after the completion of Project construction. The Attorney General and Cape Wind would have the right to participate in the review to the extent practicable and to be fully informed at all times in the course of the review process. The basis for the verification agent to challenge any cost is limited to: (a) Cape Wind did not incur cost; (b) the cost is not supported with documentation; and (c) arithmetic errors in computing costs. Any dispute regarding the determination of the verification agent would be subject to Department review.

Article 2.1D, Disposition of PPA 2. From the outset of this proceeding, National Grid has stated that it would endeavor to assign PPA 2 to a third party in the future and that National Grid would not incur any costs under PPA 2. In order to maintain consistency between PPA 1 and PPA 2, PPA 2 will be revised to be in accordance with PPA 1 (to the extent applicable), based upon the Agreement described herein. The Parties will seek Department approval of the terms of both PPA 1 and PPA 2 in this proceeding; however, National Grid would not purchase any additional output from Cape Wind under PPA 2 as a result of the Department's approval in this proceeding. To the extent that a Massachusetts electric distribution company (including National Grid) later elects to make a purchase from Cape Wind under PPA 2, PPA 2 would not be effective without a separate Department approval of PPA 2 applicable to the respective distribution company pursuant to Section 83 in a separate proceeding for review of the cost-effectiveness of the purchase for ratepayers. However, because the Department would already have conducted a full proceeding concerning PPA 2, the pricing provisions and other contract terms would not be subject to challenge or Department review in that later proceeding.

Article 2.1E, National Grid Option Post PPA Term. Consistent with Section 83 of the

GCA, both PPA 1 and PPA 2 have 15-year terms. Cape Wind intends to finance the Project in accordance with the 15-year term in PPA 1 and PPA 2. However, the Project is expected to have a useful life of at least 25 years. The Project will likely have economic value after year 15 and will be largely depreciated at the end of 15 years and well positioned to supply clean, low-cost power compared to market conditions for its substantial remaining life. The PPAs would be revised to include a one-time option, exercisable at the beginning of year 15 by National Grid or its successors or assigns, to extend the term of the respective PPA for years 16-25 (i.e., for 10 years), with an entitlement equal to the percentage of Project output purchased by National Grid, at a price allowing Cape Wind to recoup all reasonable Project costs plus the required rate of return, defined as the Project's weighted average cost of capital (i.e., the rate of return then required to operate the Project and fairly compensate investors in competitive capital markets on alternative investments of equivalent risk). In order to promote the potential economic value of the Project after the initial PPA term, Cape Wind will be required to operate and maintain the Project in a manner consistent with Good Utility Practice as that term is defined in the PPAs. Twelve months before the expiration of the PPAs, National Grid must make, in consultation with the Attorney General, a filing that consists of either: (i) a petition for Department approval to extend the PPAs under this provision, or (ii) a fully-supported explanation of National Grid's decision to forego exercising the option under this provision.

Article 2.1F, Expanded "Most Favored Nation" clause: PPA 1 includes a Most Favored Nation provision. See Section 4.1(e) of PPA 1. As part of the PPA amendments that will be executed to implement the terms of the Agreement, an expansion of the provision will be included. Under this provision, if Cape Wind or any affiliate of Cape Wind enters into an agreement with another purchaser for the sale of any energy, capacity, or renewable energy

credits from the Project or from any other offshore wind energy project within fifty (50) miles from the geographic center of the Project, National Grid will have an option to revise the terms of the PPAs to match the terms of the more-favorable contract(s).

Support for the Agreement. The Attorney General, DOER, Cape Wind and National Grid seek the Department's approval of the Agreement through the accompanying Joint Motion, and approval of both PPA 1 and PPA 2, as amended, incorporating the terms of the Agreement. The Attorney General agrees to withdraw her pending motion to compel discovery responses from Cape Wind in order to conduct inquiry into Cape Wind's internal financials, costs, pro forma data, and profitability or losses in D.P.U. 10-54 and, by separate letter on this date. In addition, the Attorney General will recommend approval of the PPAs by the Department, subject to and in accordance with the terms hereof.

PPA Amendments and Whereas clause #6. The Parties agree to work in earnest to expeditiously incorporate the terms of this Agreement into formal amendments to PPA 1 and PPA 2.

Next Steps. The Parties contemplate that the following information will be filed with the Department on August 9, 2010 in support of the Agreement:

1. Amendments to PPA 1 and PPA 2 that have been agreed upon by National Grid and Cape Wind;
2. Supplemental Testimony explaining the amendments to PPA 1 and PPA 2;
3. Updated bill impact analysis from National Grid, similar in form to the bill impact analysis submitted by National Grid with its direct case on June 4, 2010;
4. Updated calculations as to above-market costs, similar in form to the calculations supplied by National Grid with its direct case on June 4, 2010; and

5. A recommendation letter from the Attorney General pursuant to the provisions of Section 83 of the GCA.

Dated: August 4, 2010