



THE COMMONWEALTH OF MASSACHUSETTS  
OFFICE OF THE ATTORNEY GENERAL  
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July 30, 2010


Mark Marini, Secretary  
Department of Public Utilities  
One South Station, 2<sup>nd</sup> Floor  
Boston, MA 02110

RE: **Massachusetts Electric Company and Nantucket Electric Company, each d/b/a  
National Grid, D.P.U. 10-54**

Dear Secretary Marini:

Enclosed for filing in the above-referenced matter, please find the Joint Notice of Settlement with attached Exhibit A. Thank you for your attention to this matter.

Sincerely,

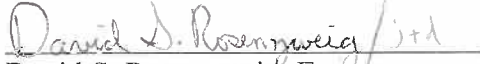
  
Jamie Tosches DeMello  
Assistant Attorney General

cc: Laura Bickel, Hearing Officer  
D.P.U. 10-54 service list



**CAPE WIND ASSOCIATES, LLC**

By its attorneys,



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

By their Attorneys,



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Dated: July 30, 2010

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF PUBLIC UTILITIES

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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.


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D.P.U. 10-54

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all parties of record in this proceeding in accordance with the requirements of 220 C.M.R. 1.05(1) (Department's Rules of Practice and Procedure).

Dated at Boston this 30th day of July, 2010.

  
Jamie Tosches DeMello  
Assistant Attorney General  
Attorney General Martha Coakley  
Office of Ratepayer Advocacy  
One Ashburton Place  
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**EXHIBIT A: D.P.U. 10-54 TERM SHEET 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**

1. 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 A of the PPAs. Cape Wind will use commercially reasonable efforts to obtain the ITC and/or PTC.
  
2. 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 3 below.
  
3. PPA 1 & PPA 2 downward price adjustment based on actual project costs: Consistent with the recently-filed Deepwater-National Grid Rhode Island PPA, the Cape Wind PPAs would have a downward adjustment in the PPA 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 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.

4. 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.
5. 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 in interest 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.
6. 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).

7. AG would agree to withdraw motion to compel and further inquiry into Cape Wind's internal financials, costs, pro forma data, and profitability or losses in D.P.U. 10-54; AG would recommend approval of pending PPAs by the DPU.
8. All settlement parties agree that this settlement in its entirety or any of its individual terms will have no precedential value.