



Northeast
Utilities System



September 10, 2010

Via e-mail to: communications@nescoe.com

Ms. Heather Hunt
Executive Director
New England States Committee on Electricity

Re: Report to the New England Governors on Coordinated Procurement

Dear Ms. Hunt,

Thank you for the opportunity to provide comments on NESCOE's Coordinated Procurement initiative.

We appreciate you acknowledging the New England Renewables project (the "project") in your Report to the New England Governors (Report) of July 12, 2010. As you correctly pointed out, a group of New England transmission owners (the TOs) is looking at the feasibility of a large-scale, multi-state project that could cost-effectively help meet state targets for Renewable Portfolio Standards (RPS). The group currently is made up of four participating companies: National Grid, Northeast Utilities, NSTAR and The United Illuminating Company.

The TOs have had preliminary briefing meetings with state regulators and have reached out to various renewable generators regarding project viability and availability of onshore wind resources. Our work is currently nearing the conclusion of phase-one concept development and assessment. In general, the TOs have verified and are now pursuing significant potential onshore wind resources in northern New England that could be developed and connected to the region's customer load centers.

Our project concept, supported by several months of study and analysis, is a viable solution that will integrate transmission and renewable generation through long-term arrangements with Load Serving Entities (LSEs) and other market participants.

Given your regional procurement perspective, there are a number of issues to be considered in the dialogue between the states and stakeholders with common interests. These are itemized below with brief descriptions.

1. Customers: The top priority here is customer benefits, specifically the availability of low-cost, renewable energy choices that do not create cost burdens for ratepayers. To attain the goal of lowest all-in pricing for customers, our project concept is based on accessing high load-factor wind sites and providing a long-term offer for LSEs. Economies of scale and other project efficiencies further support a combined transmission and generation solution.

2. Siting: State policy leaders will have a major role in setting priorities for the region's clean energy future, as they strive for a balanced approach to meet RPS targets. For example, specific to our project concept, the states' leadership is key to expeditious siting review and approvals.

3. Long-term Power Purchase Agreements (PPA): PPAs with Electric Distribution Companies (EDCs) are frequently cited in the Report as an effective tool for developing renewable generation. Several factors must be addressed in order to achieve mutually beneficial arrangements:

- a. Focus on the development of transmission. The TOs support a new, coordinated approach to the development and funding of transmission for renewable energy. Timing of projects must be coordinated to accommodate the development of transmission that is critical to accessing cost-effective wind resources and creating combined pricing opportunities.
- b. Standardized terms. A basic structure can be implemented to reduce the complexities of PPAs between multiple states, EDCs and developers. Project-specific negotiations could begin with a preliminary set of standardized terms and include modifications by the EDCs and developers.
- c. Impact on utilities' balance sheets. Ratings agencies have evolved how they view PPAs when formulating credit ratings. Treatment of purchased power under certain accounting standards could trigger unexpected consequences. Appropriately structured PPAs will serve to balance risks and rewards between developers, customers and shareholders. Devising solutions through stakeholder collaboration will increase the likelihood of project success, recognizing that states and EDCs will have different perspectives.
- d. FERC involvement. FERC policies are taking shape regarding the development of transmission and regional solutions. The TOs' project concept supports a multi-state approach to meeting New England's renewable energy needs.
- e. Impact of Retail Choice. Long term contracts and retail choice create significant risks for utility LSEs, where customers can avoid their share of the cost by taking service from competitive retail suppliers, thus stranding the PPA costs. Changes in state law are necessary to afford EDCs legal assurance that all PPA costs will be recovered through non-bypassable charges from all distribution customers.

4. Risk assessment and mitigation: As noted above, a balanced approach is in the best interests of all parties if New England stakeholders are serious about expanding the region's renewable energy resources. The starting point for an initial list of items in need of collaborative problem-solving would include:

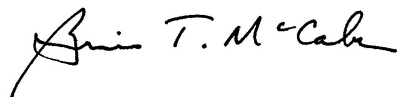
- a. Impacts on the distribution companies' balance sheets;
- b. Coinciding in-service dates of the wind generating units with the transmission infrastructure;
- c. Development risks, performance risks and various other scenarios before and after wind energy is flowing to customers.

5. Public policy goals: State regulators and other policy leaders will benefit from innovative, flexible, collaborative and transparent initiatives to advance New England's portfolio of energy and environmental solutions. Social incentives may be an important component of such efforts. Sharing of information as our respective approaches progress will maximize opportunities.

The TOs support the need for state and regional cooperation to achieve environmental goals through increased renewable generation and the need to coordinate these activities with national developments in the areas of transmission policy. The Report correctly points out the complexity of such an undertaking involving multi-state procurements. The TOs nonetheless think it's worthwhile to engage stakeholders in identifying possible solutions. We appreciate the Report identifying the important role EDCs can play in achieving those goals.

We look forward to working with NESCOE to promote the development of renewable generation that will help satisfy the region's combined state RPS targets and contribute to a cleaner energy future.

Sincerely,



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