



September 15, 2010

Delivered via e-mail to: [communications@nescoe.com](mailto:communications@nescoe.com)

Heather Hunt  
Executive Director  
New England States Committee on Electricity

Dear Ms. Hunt:

In response to the recent release of the “Report to the New England Governors on Coordinated Renewable Procurement” by NESCOE (“the Report”) and a working group representing the interests of the six New England states, National Grid is pleased to offer the following comments.

The Company applauds the effort of NESCOE and its working group participants from the region’s utility regulatory agencies in developing this substantial review of regional energy procurement activities, and the recommendations on the potential for regional coordination of renewable electricity procurement going forward. Regional coordination of renewable procurement may be valuable in providing the states guidance on the overall amount of energy procurement that should be required through long term contracts, providing a forum for developing common RFPs and standard contracts, and helping state policy makers to consider alternative regional planning and procurement ideas.

As the Report and the “New England Governors’ Renewable Energy Blueprint” both recognize, the demand for new renewable generation set out in the RPS programs in the region is substantial and set to grow steadily over the next decade. Recent financial and energy market conditions have not been supportive enough for many developers of new renewable generation facilities to move their projects ahead. In order to bridge these recent conditions, policy makers and regulators in several states have recently turned to long-term contract requirements for energy and/or RECs between Electric Distribution Companies (EDCs) and such developers.

With these requirements in mind, National Grid affiliates have entered into long-term contracts for energy, capacity and RECs with three separate developers of renewable energy projects<sup>1</sup>, one of which is pending regulatory approval, and has engaged in solicitations for renewable energy contracts in Massachusetts and in Rhode Island.<sup>2</sup> As the Company has detailed in recent proceedings related to contracts for renewable energy, there is a near-term expectation that supply of renewable energy will not keep up with the policy-driven demand without significant additional development (See in particular, *Testimony of Susan F.*

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<sup>1</sup> Rhode Island LFG Genco, Rhode Island Division of Public Utilities and Carriers Docket D-10-36; Deepwater Wind Block Island; Rhode Island Public Utilities Commission, Docket 4185; Cape Wind Associates, LLC, Massachusetts DPU Docket No. D.P.U. 10-54.

<sup>2</sup> Solicitations approved by Massachusetts DPU in Dockets No. DPU 9-77 and D.P.U. 10-76, and by Rhode Island PUC in Docket 4150.

*Tierney, Ph.D.*, in the Cape Wind Proceeding, Massachusetts DPU Docket No. D.P.U. 10-54). National Grid is thus firmly committed to facilitating the financing and development of new renewable generation projects that will best fulfill state policy objectives through the execution of long term power purchase agreements. The Company is also proposing and investigating the development of new transmission capacity to deliver additional new renewable generation to load centers, such as the Northeast Energy Link<sup>3</sup> and a separate development by a group of New England of transmission owners, which has also commented on this report<sup>4</sup>.

The Report, however, is silent on an important element of these long-term arrangements: how these contracts interplay with core energy procurement regulation, and how customers will pay for these commitments over the contract terms. The laws in both Massachusetts and Rhode Island that direct EDCs to pursue long-term contracts for new renewable resources allow these contracts to be supported via a component of distribution rates of the applicable affiliate that is not by-passable by those customers who choose to purchase their electricity from a competitive supplier. In this way, the price of basic service in any period will still reflect the short-term market price, while the net costs or benefits of the long-term contracts will be shared across all of the Company's customers.

As the contributors to the NESCOE report understand, for EDCs operating in states that restructured their electricity industries to allow retail choice of energy supply, the financial risks of long term contracts are much different than for vertically integrated utilities. Transmission-and-distribution-only (T&D) EDCs have the responsibility to provide basic or default service to their customers as a provider of last resort, but those customers can migrate to retail providers of electricity at any time. Many customers, particularly larger commercial and industrial customers, have in fact done so and buy their electric supply from a competitive retail supplier. Approximately 45% of the Company's distribution load in Massachusetts, 31% in New Hampshire, and 29% in Rhode Island is served by competitive supply at present. To best protect the remaining basic service customers, energy is procured for them on short terms. To the extent that energy is procured for basic service customers through long-term contracts, customers are motivated to migrate to the competitive markets at any point that the short term market prices go below locked in price potentially leading to stranded costs.

National Grid would also like to emphasize the critical role of transmission as a key enabler of the development of renewable generation, and the need for a regional approach to transmission planning and cost allocation to enable investment in such transmission. National Grid supports a bottom-up approach to transmission planning with the objective of delivering regional plans that reflect states' energy objectives, namely reliability, economic benefits and clean energy policy. Similarly, a clear and transparent approach to cost allocation and recovery could eliminate the uncertainty which inhibits consensus and thus investment. Such an approach should be based on the establishment of cost allocation principles under which specific mechanisms can be developed and applied. The Company has suggested that these

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<sup>3</sup> Northeast Energy Link is a collaboration between National Grid and Bangor Hydro: <http://www.northeastenergylink.com>

<sup>4</sup> The group of transmission owners is currently made up of four participating companies: National Grid, Northeast Utilities, NStar and The United Illuminating Company. The group 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). Reference: Letter to H. Hunt, Executive Director, New England States Commission on Electricity September 10, 2010.

principles include the following: 1) cost allocation should be premised on a “beneficiaries pay” principle; 2) neither direct assignment nor broad-based cost recovery should be the default methodology for all facilities; 3) a cost allocation methodology should include a pragmatic way to allocate the costs of a new facility based on function and a reasonable approximation of the beneficiaries of such a facility; and 4) case by case quantitative cost allocation analysis of each project and the potential for re-evaluation of cost allocation over the life of a project should be avoided.

With that as background, National Grid would like to offer the following observations and comments directly related to the Report:

1. Additional contracting for new renewable resources would help to accelerate the development of renewable resource projects. However, close examination of what can be built without EDC PPAs, and the costs and benefits of contracted vs. uncontracted facilities should be undertaken before additional contracting requirements are recommended or determined.
2. Any additional long-term contracting by EDCs for renewable resources required by law should be enforced on EDCs uniformly within and, ideally, between states. For any one company or state to support a disproportional share of such commitments, customers in that territory or state could be burdened by higher long-term costs than in neighboring areas, while those neighboring areas still receive many of the same environmental and energy system benefits from those investments, including the beneficial effect of additional renewable energy supplies on REC prices.
3. Any such contracts required of T&D EDCs would best serve customers in competitive retail markets by allowing the long-term costs or benefits of such contracts to be shared by all customers, as explained above, through a component of distribution rates, as allowed in Massachusetts and Rhode Island laws. This treatment is also important to spread the costs of such socially beneficial developments, like substantial new wind generation developments, to as wide a number of beneficiaries as possible.
4. Additional long-term contracting requirements on EDCs in the region should also address the potential burdens such agreements may place on any EDC’s balance sheet, as well as other accounting and credit rating impacts that may occur. The cumulative impact of multiple long term contracts may cause negative repercussions for EDCs, which in turn could raise the cost of serving customers. In addition, it is critical for EDCs to be allowed to fully recover the costs associated with the incremental expenses and risks that result from executing and managing these long term contracts.
5. Alternatives to direct contracts between developers and EDCs should be explored as a means to facilitate the policy goals of the various states. One option may be to develop a mandate for ISO-NE to operate a central forward capacity market for renewable resources as driven by environmental and other policies. Such a market for renewable capacity might be accomplished within the existing Forward Capacity Market (*e.g.*, by adding additional renewable resource capacity constraints/requirements to be satisfied in the clearing processes of the existing forward auctions) or, if necessary or more appropriate, as part of a new separate Forward Renewable

Capacity Market. Policy makers in the region would need to coordinate and agree on the policies and renewable capacity requirements (*e.g.*, quantity, type, location) to be used as the constraints governing the auction clearing processes. As is the case with the existing Forward Capacity Market, resources would clear based on competitive offers indicating their required capacity revenues, and all associated administration and settlement functions could be assured under ISO-NE tariffs, without the need for RFPs, negotiations and multi-year contracts between individual entities for renewable energy.

6. Recognizing that this report is focused on procurement activities, any procurement of significant new supply should occur in tandem with a regional approach to transmission planning, siting and cost allocation, particularly when such an effort takes into consideration policy objectives, and not just reliability and economic considerations. Such a proposal is currently under consideration by the Federal Energy Regulatory Commission in its Notice of Proposed Rulemaking, Docket No. RM10-23-000, Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities. National Grid supports such an approach.
7. Related to transmission planning, in addition to those resources most easily accessible within each state, and those identified via statutory evaluation criteria, we believe there is a pool of potentially beneficial renewable resources that are currently undeliverable. The application of a "deliverability test" (p. 17) should take into account potential development of additional transmission capabilities that would access such resources.
8. Any coordination of procurement that will directly involve commitments from EDCs should also be sensitive to anti-competitive issues created by collective consideration of bids from generators. Recent coordination between EDCs in Massachusetts in relation to the Joint RFP initiated by the Green Communities Act developed so that each EDC received its own responses to the Joint RFP and proceeded independently of the others in considering the responses.

Again, National Grid thanks NESCOE and the Report working group on a timely and thought provoking report. We look forward to working with NESCOE and others in considering this report, and related issues, as action on them proceeds.

Sincerely,



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