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Subject: Coordinated Competitive Renewable Power Procurement Draft Work Plan

RENEW[1] appreciates the opportunity to submit these comments on the Draft Work Plan. Regional coordinated procurement provides an opportunity for the New England states to obtain cost-effective renewable energy resources to meet their renewable energy goals.

Renewable portfolio standards and goals adopted by the New England states and federal tax incentives have facilitated the widespread deployment of utility-scale renewable energy generation in our region. This success will continue only if policies of the states continue to keep up with the challenges in today's financial and energy markets and the uncertainties around federal tax policy. For years federal tax laws supporting renewable energy have repeatedly been on the brink of expiration and then extended only for short periods. It has hindered the smooth, planned growth for the renewable energy industry.

[1] RENEW is a non-profit association uniting the renewable energy industry and environmental interest groups whose mission involves coordinating the ideas and resources of its members with the goal of increasing environmentally sustainable energy generation in New England from the region's abundant renewable energy resources. RENEW's membership is comprised of the American Wind Energy Association, Anbaric Transmission, Conservation Law Foundation, Deepwater Wind, First Wind Energy, EDP Renewables, Iberdrola Renewables, Pattern Energy, Union of Concerned Scientists and Vestas American Wind Technology. The comments expressed herein represent the views of RENEW and not necessarily those of any particular member of RENEW.

With federal policy unlikely to provide long term support for renewable resource deployment, the renewable energy policies of the states become even more critical. Addressing our energy and environmental challenges cost effectively requires predictable policies, a long-term perspective, and recognition that additional support for large projects can lower development costs because of the more efficient production associated with larger wind turbines and a higher number of turbines per project. Establishing a program of state directed regional coordinated procurement that spurs large scale resource development will enable the industry to make long term investments and reduce the cost of RPS compliance for consumers.

According to the Draft Work Plan one of the primary benefits for the region under coordinated procurement is the assurance the states' collective renewable energy goals will be met using cost effective renewable resources developed within the region. The Draft Work Plan recognizes how land-based and offshore wind resources will be largely responsible for meeting the region's renewable energy goals and how transmission upgrades are needed to make larger quantities of wind energy deliverable in the years ahead.

RENEW submits the benefits from regional coordination will arise by fostering the development of larger scale renewable energy projects through long term contracts and strategically selecting those projects so as to facilitate additional intraregional transmission capacity. To procure scores of smaller projects even if done simultaneously merely continues the existing state-by-state approach to procurement favoring smaller, less efficient resources. Although a focus on small projects would encourage more competition and likely result in lower prices for the segment of small renewable resources, the more significant cost advantage will come by coordinating procurement with larger and more efficient wind resources available in New England.

RENEW understands the challenges each state faces in harmonizing regional renewable energy and economic development goals. Nevertheless, the appropriate standard for evaluating projects, while giving consideration to each participating state's economic development opportunities, should be a measurement of overall benefits for the region. The states should consider a comprehensive set of potential benefits including lower energy and REC prices, reliability, energy market price suppression, deliverability of the energy, economic development and a cleaner environment. New England is a regional energy market and economy. We must plan for the long term needs of the region. RENEW hopes the Governor's Resolution supporting regional coordinated procurement signals an end to the "beggar-thy-neighbor" viewpoints that often arise on matters of

energy policy. RENEW makes the following observations on the Draft Work Plan and its regional approach to energy policy.

1. Regional coordinated procurement will support the development of renewable resources that will maximize benefits to the region including regional economic development.

A look at the supply chain (construction, engineering, finance, insurance, etc.) for the development of renewable energy and transmission projects reveals all states will benefit economically even if projects are less likely to be sited in a particular state. The states should not cause their ratepayers to incur high costs for programs disproportionately favoring in-state siting of renewable energy projects when the all-in cost of larger, possibly out-of-state, renewable resources can enable the states to meet their collective renewable energy goals at a lower cost and realize other benefits. RENEW recognizes the positive attributes of small-scale resources sited locally across the region including increased reliability and demand response participation. Coordinated procurement of large scale resources could include and be undertaken in parallel with other programs that encourage development of smaller resources provided the procurement of small resources does not prevent the states from capturing the cost savings from more efficient large scale wind projects. In addition to the Procurement Team's ("PT") duty to ensure the procurement process is appropriately transparent and fair, it should also design project selection criteria to comport with federal constitutional restrictions on barriers to interstate commerce arising from any preferences for in-state resources.

2. Regional coordinated procurement will facilitate the construction of cost-effective transmission solutions with multiple benefits.

RENEW recognizes that allocating costs among the states for new transmission to support the deliverability of renewable energy has been controversial. States often perceive that another state benefits more than its share of its costs in matters of regional transmission upgrades. Regional coordinated procurement has the potential to bring the states together on transmission by selecting renewable energy projects and the necessary transmission that is cost-effective and beneficial for the region.

Large scale wind and transmission projects are capital intensive. Due to economies of scale it may be much more cost-effective to build a higher-voltage, higher

capacity transmission line to deliver large volumes of wind power than undertake small scale expansions here and there. Without long term contracts, wind developers are not usually in a position to accept the risks and costs of being anchor tenants to a large transmission line. In fact, it is highly unlikely that any form of merchant generator could serve as a viable anchor tenant for a large transmission line without long-term power purchase agreements with creditworthy counterparties (e.g., the EDCs). If the NESCOE process concluded with long-term power purchase agreements between wind energy (and possibly other qualified renewable energy developers) and creditworthy counterparties and those power purchase agreements included the cost of transmission, then it is conceivable the anchor-tenant approach to transmission investment could be viable. However, such an approach would ideally be complemented by a broader analysis of beneficiaries that ascribes costs to various beneficiaries based on additional reliability and economic benefits. The region has seen several project proposals to increase the north to south transfer capacity for wind power, but without a cost recovery mechanism, none of these projects have moved to construction. The states' regional procurement initiative and Order 1000-related policies can change that. They are poised to upend the traditional way of addressing transmission needs and cost-allocation in order to integrate a high level of wind power.

In response to FERC Order 1000, tariffs changes currently being considered by ISO-NE stakeholders will vest NESCOE with the authority to direct ISO New England to evaluate transmission project proposals to address public policy needs. NESCOE could select transmission projects submitted under the RFP, associated with identified "wind zones" from the NESCOE RFI, or from the ISO-NE interconnection queue. ISO New England, in turn, can provide NESCOE and stakeholders with transmission options identified through ISO-initiated studies. The contemplated tariff language requires ISO New England to determine whether any of the projects may also satisfy the identified reliability needs of the system. RENEW believes transmission upgrades constructed to meet public policy objectives may also provide reliability, market efficiency and economic development benefits for the region. Transmission studies and upgrade cost estimates can then be used by the states to evaluate project proposals with all costs and benefits considered in order to select the best transmission project for development. RENEW supports a regional coordinated procurement process that evaluates projects on an all-in delivered price. Bundling the cost of energy, RECs, capacity, and transmission will ensure the winners provided the lowest region-wide price and maximize non-price benefits. Planning transmission to serve multiple large scale wind projects will lower the all-in delivered cost of wind relative to the alternative where each wind project pays for its own transmission upgrades to deliver its megawatts to the grid. This is particularly true for the typical on-shore project far from load.

The region will benefit when all six states cooperate on contracting for renewable resource development and supporting transmission upgrades to support those resources. If even one state refuses to participate it seems likely other states interested in regional cooperation will sit out refusing to pay for another state's share of the benefits. If that should happen the states will continue to implement their policies in silos. The entire region will face higher costs to meet its renewable energy and environmental goals and miss economic development opportunities.

3. Long term contracts for projects are essential to achieve the goals of regional coordinated procurement.

Short term or REC-only contracts will not provide developers with sufficient revenue commitments to secure financing for projects. The key ingredient for the success of regional coordinated procurements is providing developers with the long term commitment from a creditworthy counterparty, such as an EDC, for their products including energy, RECs and capacity. Today, renewable energy and even most traditional new generation are very difficult to finance without a long term contract due to the risks of relying on short term energy markets to recover a project's long term capital investment. Long-term contracts also help lower the development cost of renewable energy by giving developers and their investors the confidence to commit their capital. Otherwise, developers and investors must make a higher risk investment and correspondingly demand a higher rate of return reflected in higher financing charges and other risk-related considerations. Long term contracts will also lower the cost of capital since most companies will use a risk-rated return. With less risk from long term contracts, developers will accept a lower return. The arising lower cost will ultimately be passed onto consumers.

In addition to lowering the cost of capital, the longer the amortization period for fixed costs the lower the price in terms of cents per kWh. A 20 year contract will place renewable resources like wind on more equal footing relative to large Canadian hydro whose government owners plan for cost recovery over a 40 year period or longer. It also makes sense that contracts for wind should reflect the expected 20-plus year lifespan of these plants with a corresponding cost recovery period.

4. Uniform contract language and other issues involving the EDCs.

Section V.B.4. of the Draft Work Plan notes how an EDC may need to make "non-material modifications to the draft contract(s) that are ultimately filed with state regulatory authorities so that the contract conforms to any nuances of state law." RENEW recommends standardizing the contracts and EDC cost recovery methodology to the greatest extent possible to minimize contractual conflicts and possible risks that can interfere with developers meeting project finance requirements.

On page 4 of the Draft Work Plan it states the EDCs can decide whether to enter into contracts with developers. RENEW sees two potential problems with this discretionary power held by the EDCs that need further consideration by the states. For one, if a developer submits bids based on its project being fully subscribed, what happens to the project's viability if a participating state's EDC decides not to purchase a sufficient share? Second, could a state or EDC hold out on contracting for the remaining portion in order to try to lower bids?

Some distribution companies "claim that having long-term contracts on their balance sheet may lead to additional financial implications." (Draft Work Plan, Section III.A.3.). The New England states have found innovative ways to address these accounting concerns, including providing monetary incentives to utilities to enter into long term contracts, and permitting rate recovery through non-bypassable charges on utility bills. RENEW believes these issues can continue to be resolved and therefore opposes giving the EDCs any opportunity to opt out of entering into long term contracts. (Draft Work Plan, page 4, ¶ 2.)

5. The process for developing the RFP and project criteria should give additional opportunity for involvement by developers and environmental organizations.

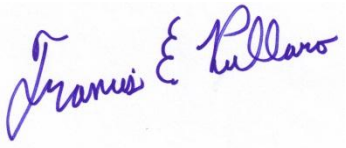
The Draft Work Plan's Activity Matrix provides for public comment on the various criteria and RFP documents once drafts have been completed by the PT. RENEW requests that environmental organizations and renewable resource developers be afforded an opportunity to provide input to the PT before it commences work on the documents.

The Draft Work Plan remarks how the EDCs have "extensive power procurement experience" necessitating "their direct and early participation" on the PT. RENEW acknowledges the various roles the EDCs across region have had in procurement for default customers and with soliciting bids from renewable energy developers for long

term contracts. However, the EDC's experiences are not entirely unique. Developers also have deep experiences with competitive solicitations not only in New England but across the country that they can share with the PT. RENEW urges the states to provide more opportunities for dialogue between the renewable energy industry and the PT.

In conclusion, New England's energy and environmental policies are helping to lead the nation particularly in the absence of a long term federal policy. Long term contracts with large wind resources developed within the region will be the most beneficial and help facilitate the best transmission solutions. RENEW pledges its commitment to working with NESCOE and the states to ensure coordinated competitive renewable power procurement is a success.

Sincerely,



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