

Oct. 2, 2012

Comments of National Grid to the New England States Committee on Electricity on the Coordinated Competitive Renewable Power Procurement Process

National Grid¹ is pleased to offer these comments in response to the recent Comment Opportunity issued by NESCOE on August 10, 2012. National Grid is the electric distribution company (“EDC”) for approximately 3 million customers in Massachusetts, Rhode Island and New York states, and procures approximately 60,000 GWhs of electricity each year to serve their needs. National Grid is also a transmission owner in New England. New England Power (“NEP”) is National Grid’s wholly-transmission operating subsidiary, which delivers electricity at wholesale to electric utilities and municipalities across New England.

National Grid has extensive experience with the procurement of renewable energy across its service territories. In New England, National Grid purchased more than 150,000 renewable energy certificates (RECs) to meet its requirements under the Renewable Portfolio Standards of Massachusetts and Rhode Island in 2011 alone. In addition, the Company has entered into multiple long-term renewable energy contracts with renewable developers to fulfill statutory procurement requirements in these two states. Specifically, the Company has long-term contracts with renewable developers for more than 300 MW nameplate capacity of on-shore and off-shore wind,

¹ The National Grid legal entities submitting these comments are Massachusetts Electric Company, Nantucket Electric Company, The Narragansett Electric Company and New England Power Company each d/b/a National Grid (collectively referred to as “National Grid” or “Company”). Massachusetts Electric Company, Nantucket Electric Company and The Narragansett Electric Company are electric distribution companies and New England Power Company is the wholly-owned transmission operating subsidiary of National Grid.

landfill gas, anaerobic digester gas, hydroelectric and solar PV powered generation across the region.

National Grid commends NESCOE for offering a robust draft work plan for the development of a regional procurement process. The process plan specific to the issuance of an RFP and contract negotiations appears well-scheduled and complete. Moreover, the discussion of the formation of the Procurement Team (“PT”), and the Legal Subteam, with opportunity for direct involvement of EDCs in the process, appears to be workable and sufficiently representative and respectful of the differences between states in their approach to renewable procurement.

Nevertheless, the challenge of regional procurement lies less with a well-planned RFP process, and more with the coordination of both new and existing laws that have been enacted to effect such procurement on a state level. That is, while this proposal lays out a process for joint procurement, the requirement or obligation on each EDC or state procurement authority is determined at the state level. Without a direct link between such requirements -- with the clear cost recovery and balance sheet mitigation provisions such requirements allow -- and the NESCOE process, National Grid believes there will be little motivation for it or other EDCs to participate in the multistate process, despite the potential price and transmission planning benefits a regional procurement approach is likely to create.

Many states are moving forward with their renewable energy policies in ways that could integrate with the proposed NESCOE process, but at present do not. National Grid notes that Massachusetts recently passed an “Act Relative to Competitively Priced Electricity in the Commonwealth”² which requires a new round of joint procurement by the Commonwealth’s EDCs, beginning on January 1, 2013. The EDCs must issue two joint solicitations for long-term renewable energy contracts up to 4% of distribution load by December 31, 2016, which will be

shared proportionally among them based on load. In Rhode Island, the Company recently conducted a third round of four required solicitations for long-term renewable electricity contracts, under the Long Term Contracting Act,³ which will likely result in approximately 75% of the 90 MW capacity requirement (counted at a 100% capacity factor) being under contract by summer of 2013, and the entire amount contracted by 2014.

We would encourage NESCOE to work closely with the states to better detail and plan how the existing and new requirements in all the New England states might be integrated into the seemingly longer length process proposed in the work plan if the intent is indeed to integrate the two. This could initially take the form of a joint policy statement from NESCOE and various state energy offices and secretariats that would be responsible for representing their state in a joint procurement. Within such planning, it may be beneficial to identify procurement blocks that align with specific state policy mandates as they come to apply to the region's EDCs, and design the procurement to meet those specific needs. Doing so would also help define the preferred volumes, resources and products to be sought in the solicitation.

In terms of the mechanics within any procurement that moves forward, some additional consideration of the timing of each state's or EDC's commitment within the process to participate in the process and enter into contracts may be warranted. In the case of a state or EDC that decides to pull out once final selections have been made, or faces a change in policy prior to a contract being fully approved, a protocol or set of procedures for renegotiating and potentially redistributing some contracts would ideally be established prior to the launch of any solicitation.

A further challenge will be to coordinate such a procurement so that more complex transmission-dependent new renewables that require substantial lead time can benefit from such a

² Chapter 209 of the Acts of 2012, An Act Relative to Competitively Priced Electricity in the Commonwealth.

³ R.I. Gen. Laws § 39-26.1-1 et. seq.

central procurement approach. Transmission-dependent renewable supply will in some cases be the most cost-effective – due to lower siting costs, better wind and economies of scale - but these projects take more time to plan and build than those that can access existing transmission capacity. The planning and construction of transmission infrastructure upgrades is a critical element to allowing many potential new generation sources to supply power to customers unimpeded and without threat of curtailment.

To allow for the best transmission approach to be selected, National Grid believes it is important to seek bids from generation with transmission solutions, as well as determining costs through other regional planning processes, with clear visibility and unbundling of the prices for each scenario. The desire to receive and compare individual proposals inclusive of all generation and transmission investment costs expected by the potential developers is certainly understandable, and such an approach could provide valuable information. However, such an approach would not necessarily lead to the selection of the most cost-effective or reliable solutions for consumers. For example, under such an ‘all-in costs’ solicitation, several individual proposals might be submitted for generation to be located in same geographical area of the system, with each proposal also including significant transmission infrastructure costs expected by each developer in order to satisfy only their individual project’s particular needs. Assuming more than one of these resources might be needed, it would be worthwhile to explore through a more centralized and coordinated regional planning process that could determine whether some of these individual transmission needs could be eliminated, reduced, or more efficiently and reliably resolved. Rather than paying for several long radial lines to each particular resource, perhaps a system upgrade consisting of a single new transmission loop through that geographical location would be a better solution.

Thus, a procurement process which also allows renewable generation developers to focus and compete on their expected costs for the generation investment, and allows the associated transmission costs to be explored and analyzed through a more comprehensive and coordinated transmission planning process informed by the generation proposals, would produce the best outcome for the region and electric customers. Such determinations will likely require the participation of ISO-NE, and/or the transmission owner whose system is impacted. We would suggest that such participation from ISO-NE and the incumbent transmission owners be sought on the Procurement Team (“PT”), or in a dedicated advisory role to the PT.

To that end, the selection of the most beneficial and cost-effective transmission solution consistent with submissions received from project developers and State requirements may be best addressed by requesting that ISO-NE undertake a more comprehensive study, (e.g., a Public Policy Transmission study). Of course, undertaking such a study may affect the timeframe for the overall process, and how it will link to specific state procurement requirements.

To summarize, National Grid looks forward to additional information on the proposed procurement effort, and would welcome formal participation in any working groups that are established to craft this process. Further, National Grid encourages NESCOE to work with the states to more directly link the process to their renewable energy policy objectives and procurement requirements. Finally, the Company recommends a deliberate, planning-focused approach to identifying transmission solutions to support desired new generation, and close involvement of ISO-NE, EDCs and transmission owners in the development of the procurement plan.