Northeast Utilities System

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VIA ELECTRONIC POSTING

Philip Guidice, Commissioner
Department of Energy Resources
100 Cambridge Street, Suite 1020
Boston, MA 02114

Re: Western Massachusetts Electric Company Comments to the Department of Energy Resources Pertaining to RPS Class I, RPS Class II, and Alternative Energy Portfolio Standard Regulations

Dear Commissioner Guidice:

Western Massachusetts Electric Company ("WMECO") appreciates the opportunity to comment to the Department of Energy Resources ("DOER" or "Department") on Renewable Portfolio Standard for Class I ("Class I), Renewable Portfolio Standard for Class II ("Class II"), and the Alternative Energy Portfolio Standard ("APS"), pursuant to provisions of the Green Communities Act (Chapter 169 of the Acts of 2008) (hereinafter referred to as the "Act").[1] These comments pertain to all three standards.

I. INTRODUCTION

The relevant portion of the Act pertaining to Renewable Portfolio Standard and Alternative Portfolio Standard is Section 32. Section 32, codified in G.L. c. 164, §§11F and 11F1/2 provide for changes in the existing Class I and establishes Renewable Class II and the APS. The Class I standard is changed from the previous statutory provision because each retail supplier is required to provide an unspecified portion of the required minimum percentage of kilowatt hours from new on-site renewable energy generating sources located in-state of no more than two megawatts (G.L. c. 164, § 11F(g)).[2]

Class II is established for defined renewable energy generating sources that began operation before December 31, 1997.[3] Every retail supplier is to provide generation attributes from Class II generation facilities in an amount approved by the DOER. G.L. c. 164, § 11F(e)).

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[1] WMECO is the Massachusetts operating company of Northeast Utilities, the largest provider of electric distribution services in New England. Northeast Utilities' other operating companies include The Connecticut Light & Power Company and Public Service Company of New Hampshire.

[2] The statute also reiterates DOER's authority to set alternative compliance payments ("ACP") for Class I, Class II and APS. G.L. c. 164, §11F(c) and (d)).

[3] Apart from technologies specifically excluded, the DOER may add technologies or technology categories pursuant to administrative proceedings. G.L. c. 164, §11F(f).

In addition, a further portfolio standard is established for 'alternative energy' in a minimum percentage to be established by the DOER. G.L. c. 164, §11F1/2.

II. SUMMARY

WMECO supports the Commonwealth's efforts to spur the development of renewable and alternative energy sources. In implementing the Class I, Class II and Alternative Energy portfolios intended to assist in accomplishing this end, the DOER should be cognizant of the effect that too-ambitious short-term portfolio levels may have on already-high customers' bills.

DISCUSSION

A. Overview

As DOER is well aware, WMECO procures Basic Service (also referred to as Default Service) for its customers that do not take competitive service through a competitive solicitation. As part of this solicitation, WMECO obligates its Default Service suppliers to comply with all requirements pertaining to Class I. Most recently, the pertinent contractual language with suppliers has been as follows:

> Pursuant to M.G.L. c. 25A, §11F, as may be amended from time to time (the "RPS Statutes"), the Massachusetts Division of Energy Resources ("DOER") has promulgated a Renewable Energy Portfolio Standard (225 CMR 13.00 et seq., as may be amended from time to time) (the "RPS Regulations") requiring all retail electricity suppliers, including Buyer, to obtain a minimum percentage of kilowatt-hour sales to end-use customers of a type and quantity consistent with said regulations. In providing Default Service Requirements, the Parties hereby agree that Seller shall be responsible for meeting the Renewable Portfolio Standard for the Contract Load Quantity, and all costs, charges and responsibilities related to meeting such standard, including but not limited to (i) fulfilling the requirements of the RPS Statutes and RPS Regulations, (ii) supplying NEPOOL Generation Information System ("GIS") certificates to WMECO commensurate with Seller's obligations under this Section 3.6, and (iii) all costs and charges required to comply with the RPS Statutes and RPS Regulations….

While WMECO is constantly evaluating the method that makes the most sense for its customers, it is WMECO's expectation that it will continue its current policy to place the responsibility for Class I, Class II and APS compliance on its Default Service suppliers.

B. WMECO'S POSITION

WMECO recognizes that DOER has asked a number of specific questions relating to Class I, Class II and APS. Rather than provide detail on those specific questions, however, WMECO believes it can be of most assistance to DOER by providing a general framework to DOER as DOER considers what regulations to promulgate. Thus, WMECO believes that the DOER should keep in mind two main goals. These are:

1. Simplicity.

The expansion into three different standards, each with its own RPS percentage requirement and ACP, will increase the complexity of the Massachusetts REC markets. However, expanding beyond these three basic standards will introduce the real possibility that the portfolio system could get so complex that suppliers, many of which trade in many different markets, will get overwhelmed by the difficulty in determining what has to be obtained from what sources. This complexity could be introduced, for example, should DOER make provision for 'carve-outs' for particular technology categories beyond that mandated by statute. This would result in a large number of separate REC submarkets (one for each carved-out technology), with a relatively small number of transactions in each submarket. This would make it difficult for a supplier to have reasonable assurance that there will be sufficient RECs available in any particular submarket to meet each carved-out RPS requirement. A suppliers' response to this complexity may be to simply base their Default Service (or retail supply) pricing on the assumption that they will need to pay the ACP set by DOER rather than assume that RECs from each submarket will be available. If suppliers are ultimately able to purchase some or all of the RECs necessary to meet one or more of the carved-out RPS requirements, then the supplier will retain the difference between the actual sale price and the ACP price embedded in its Default Service (or retail supply) pricing. In this way, customers may make payments based on the ACP price (thereby increasing customer costs) with only a portion of these increased payments flowing through to the developers of renewable facilities.

2. Customer Impact

Apart from the effect that complexity may play on customers' bills, there is the more direct effect on customers should regulations set (a) a too-high percentage for Class I, Class II or APS percentage levels, including any carve out technologies within these classes, and/or (b) a too-high level for the ACP. DOER should not lose sight of the fact that electric charges are already high in the state, and that higher charges as a result of significantly higher payments to renewable or alternative generation projects, or ACP payments, can lead to a number of short-term adverse results, such as a disincentive to economic development and customer dissatisfaction. Any regulatory decision by DOER on standard percentages and ACP should be informed by a quantitative analysis showing what the impact of the changes will be on the bill-paying public.

In addition to comments on these two main goals, WMECO would like to make one additional comment regarding timing. WMECO suggests that the Department clarify its intentions with respect to the annual determination of the minimum requirement for alternative energy generation sources under Section 11F1/2. Section 11F1/2 states that ". . . the Department shall annually thereafter determine the minimum percentage of kilowatt-hour sales . . . which shall be derived from alternative energy generating sources." If the Department intends to reset this percentage requirement every year, then it is important that it be reset well in advance of the time period when utilities issue Request for Proposal for Default Service which include this RPS percentage. In fact, because WMECO enters into standard form contracts well in advance of any solicitation, WMECO suggests that any RPS percentage changes be made at least one year prior to their implementation date. This will assure the smooth functioning of the Default Service contractual process and subsequent procurement, and avoid any additional costs that may be incurred resulting from uncertainties as to the RPS percentage.

III. CONCLUSION

WMECO appreciates the difficulty of the task faced by DOER in implementing the requirements of the Act. Setting the ACP level, specifying eligible technologies, specifying the carve-out level for the on-site generation for Class I, and determining the percentage standard for Class II and APS, are all issues, among others, that warrant a good deal of consideration. In these comments, however, WMECO has sought only to urge DOER to keep in mind two overarching points as it works to implement Section 32 of the Act. Those two points are that whatever framework is adopted should be simple and unambiguous, and whatever framework is adopted should be highly cognizant of the high electric rates consumers in this state already pay.

If you have any questions regarding the above, please feel free to contact me or Steve Klionsky at 617-345-1066.

Very truly yours,

/s/

Donald M. Bishop
Manager, Regulatory Policy - Massachusetts