

September 9, 2009

Susan Leavitt, Executive Assistant
Department of Energy Resources
100 Cambridge Street, Suite 1020
Boston, MA 02114

Re: Comments on Solar RPS Carve-Out Proposal

Dear Ms. Leavitt:

These comments are provided on behalf of Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid (“National Grid”) at the invitation of the Massachusetts Department of Energy Resources (“DOER”) to comment on the proposed Solar RPS Carve-Out Straw Proposal presented by DOER at a public stakeholder meeting held on August 26, 2009. This carve-out is proposed as a part of the MA Renewable Portfolio Standard (RPS), as provided for in Section 32 of Chapter 169 of the Acts of 2008, Act Relative to Green Communities (the “Green Communities Act” or the “Act”). We appreciate the opportunity to provide these written comments.

As will be explained below, National Grid supports the concept of developing RECs for solar; however, we are deeply concerned about aspects of the proposal, as described in the Straw Proposal. National Grid is concerned that the Straw Proposal may have been designed to constitute the primary mechanism to achieve the Administration’s goal of reaching 250 MW by 2017. While National Grid believes that the Straw Proposal should be one component designed to work in conjunction with other mechanisms, including utility participation in on-site generation, net metering, and long term contracting under Section 83 of the Act, as part of an overall plan intended to cultivate solar development and develop a sustainable solar market in the Commonwealth, we are concerned that it is not the most efficient mechanism to accomplish the goal.

Solar ACP

National Grid supports the concept of establishing an Alternative Compliance Payment (“ACP”). The Company, however, is very concerned about the proposed level set forth in the Straw Proposal and the extremely long length of the program, which could result in unintended negative impacts on our customers. As proposed, the schedule starts at \$700 in 2010, and then slowly drops to \$311 in 2020. The estimated maximum cost to all customers in Massachusetts starts at \$2.4 million per year in 2010, and ramps up to \$98.6 million per year in 2017, and to

\$185.4 million in 2020. After 2020, the S-ACP may continue, as set by DOER, or expire and join the RPS Class I ACP.

While National Grid believes that an appropriately set ACP rate for solar will help expand the market growth beyond existing solar programs in order to meet the Administration's goal of 250 MW by 2017, National Grid believes that the ACP of \$700 in 2010 as proposed is too high and is concerned about the impact this will have on our customers. As a comparison to other states, specifically Maryland and Pennsylvania, and taking into account that these projects will also be eligible for net-metering with a value of \$100 to \$150 per MWh, we recommend an ACP starting at \$400. The ACP could then be designed to decrease to an appropriate number, which can be based upon the experience gained under a shorter term program, taking into account the expected decline in installation costs of solar projects of this type, potential participation in the Forward Capacity Market, and the fact that the developers can take advantage of the 30% investment tax credit.

Rather than try to meet the Administration's goals with a long mandatory payment schedule established today, National Grid suggests that DOER start with a shorter term program that is designed to allow DOER and interested stakeholders to evaluate the results, and then utilize those results to develop a more robust program. National Grid is concerned that, while the first year of the proposed schedule is modest, the ramp up of the purchase obligation is quite rapid and needlessly puts pressure on customers through distribution rates. Starting with a shorter term program will provide real information that can be utilized to set the longer term schedule.

Securitizing Long-Term S-REC Revenues

DOER proposes to "securitize" long-term S-REC revenues to enable project financing and mitigate the risks of S-REC revenues. The proposal suggests that this be accomplished by requiring each distribution company to procure 75% of its projected S-REC compliance obligation through long-term contracts.

National Grid notes that the term "securitization" is one that is capable of different interpretations depending upon one's perspective; however, it is apparent from DOER's presentation of its Solar RPS S-REC Carve-Out Straw Proposal that long-term contracts are the vehicle that DOER is contemplating when it uses the term "securitization". National Grid believes that this additional requirement for the distribution companies to enter into long-term contracts is not consistent with the language and intent of the Green Communities Act. Section 83 is the sole provision contained in the Green Communities Act that requires the distribution companies to enter into long-term contracts with renewable energy developers to facilitate the financing of renewable energy generation within the Commonwealth. Section 83 further provides that distribution companies are not obligated to enter into cost-effective long-term contracts that would, in the aggregate, exceed three percent of the total energy demand from all distribution customers in its service territory.

Long-term contracting for the purchase of RECs is a very troubling concept from National Grid's perspective. In fact, it was the core issue that was at the heart of controversy prior to the passage of the Green Communities Act. Specifically, when a utility is required to enter into long-term contracts to meet any of its basic service requirements, whether they be for ordinary supply or RECs of any kind, it presents a serious risk of stranded costs. This is due to the incompatibility between retail choice and long-term contracting. Customers can leave basic service at any time; however, once long-term commitments are made by the utility, these commitments become inescapable. The customers who leave the utility can avoid the obligation, while the customers who remain on basic service retain the rising cost responsibility. As more customers leave, the unit cost for basic service increases, and the problem is exacerbated. This problem was carefully considered and resolved in the long-term contracting section of the Green Communities Act. It resolved this issue by allowing the utility to pass the costs of the long-term contracts onto all distribution customers, regardless of the commodity service that each customer is taking. By establishing a long-term contracting requirement for S-RECs, the compromise of the Green Communities Act is undermined and basic service customers are put at risk. It is for this reason that National Grid is very concerned about this aspect of DOER's proposal.

National Grid supports a market-based approach to long-term contracting for renewable energy generation within the standards set forth in Section 83 of the Act; however, National Grid also supports the idea of long-term contracting with a diverse range of renewable generation sources, including solar. To the extent DOER believes that long-term contracts for solar are important, we suggest that some portion of the long-term contracts be set aside for small solar installations, under the provisions of Section 83. This might require the addition of some non-price factors to consider during the bid evaluation process. If long term contracting for solar takes place through Section 83, the stranded cost issue identified above is avoided. National Grid strongly believes that establishing a new long-term contracting requirement outside of Section 83 is inconsistent with the Act and creates other unintended problems.

Project Eligibility for S-RECs

DOER's Straw Proposal does not include utility solar projects among those that qualify for S-RECs. National Grid is puzzled by this feature. All solar generation, regardless of owner should be made eligible. Otherwise, the S-REC program will undermine the intention of the Green Communities Act to have utilities build solar resources that can be used to satisfy REC requirements. One of the requirements of the Green Communities Act for distribution company ownership of solar is that the Department of Public Utilities finds that the generation can be used to satisfy REC requirements as set forth in Section 58 of the Act. If the DOER eligibility criteria are adopted as proposed in the Straw Proposal, it will not be possible to utilize the solar generation to serve that purpose. Thus, the purpose of the Act is undermined. As such, it is imperative that DOER broaden the scope of eligible projects to include those owned by the distribution companies such that all solar projects that satisfy the criteria set forth in the Act would qualify for S-RECs.

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National Grid supports DOER's intention to cultivate solar development and develop a sustainable solar market in the Commonwealth and, to that end, hopes that its comments will benefit DOER in its efforts. However, we do not believe the Straw Proposal is an appropriate means to that end.

Thank you very much for the opportunity to provide these comments. National Grid looks forward to continuing to participate in this matter.

Very truly yours,

A handwritten signature in black ink, appearing to read "Stacey M. Donnelly". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Stacey M. Donnelly