



August 26, 2024

Via email to: DOER.CPS@mass.gov

Mr. Thomas Ferguson
Massachusetts Department of Energy Resources
100 Cambridge Street, Suite 1020
Boston, MA 02114

Re: National Grid Comments on DOER's Proposed Clean Peak Energy Standard Emergency Regulations

On July 12th and July 19th, 2024 the Department of Energy Resources (DOER) filed emergency rulemakings with the Secretary of State that make changes to 225 CMR 21.00 Clean Peak Energy Standard (CPS).

The emergency regulations contain three major elements.

- 1) A decrease in the Minimum Standard obligation for electricity suppliers to procure Clean Peak Energy Certificates (CPECs) between the years 2024 and 2028.
- 2) An increase in the Minimum Standard obligation between the years 2029 and 2050.
- 3) A Near-Term Resource Multiplier, which increases the quantity of CPECs provided to standalone storage facilities meeting certain criteria and connecting to the distribution system prior to January 1, 2027.

National Grid's comments address each of these elements.

First, National Grid supports DOER's efforts to reduce customer costs by lowering the Minimum Standard in the near-term. However, the Company has significant concerns that, without further changes to regulations, much of the reduction in cost will fail to reach customers as savings, and instead will be captured as windfall profit for competitive suppliers with existing long-term contracts.

Second, National Grid notes that the long-term increases in the Minimum Standard (in the years 2029-2050) will impose significant costs on ratepayers on top of the existing program—up to \$2.7 billion in added costs over the life of the program. Costs of this magnitude must be linked to clear ratepayer value, and the Company urges the DOER to take further steps to ensure that the incentivized resources are delivering value commensurate with their costs.

Finally, the Company does not object to the Near-Term Resource Multiplier, as it would not increase customer costs nor negatively affect the Company's queues.

Lower Compliance Costs from the Reduced Minimum Standard through 2028

The Company supports DOER's effort to reduce near-term costs to comply with the CPS by reducing the Minimum Standard through 2028. This reduction will lower the CPS compliance costs by approximately \$273 million through 2028 via reduced Alternative Compliance Payments (ACP) to the Massachusetts Clean Energy Center.

Changes to the Near-Term Minimum Standard and Competitive Supply Costs

The Company recognizes that the intent of the Emergency Rulemaking is to lower customers' costs until the market for CPECs develops. Unfortunately, without certain modifications to the Emergency Rulemaking proposals, much of these lower costs will not provide rate relief to customers but instead will result in excess profit to competitive suppliers. Notably, these excess profits are not the result of the competitive suppliers' business practices but are simply the result of changes to the CPS regulations. If modifications are not made, just in 2024 the DOER's reduction to the Minimum Standard will result in \$57 million in excess profits to competitive suppliers. Further excess profits will occur through 2028.

The issue arises from the fact that customers are already locked into contracts for supply service, and that competitive suppliers, unlike electric distribution companies (EDCs), would not be obligated to return savings from a reduced Minimum Standard back to their customers. The EDCs' Basic Service rates for 2024 were filed prior to the reduction in the Minimum Standards and are set at the original 7.5% Minimum Standard for 2024. EDCs' compliance costs for 2024 will be calculated with the new Minimum Standard, however they have over-recovered from customers because they collected compliance payments based on the 7.5% Minimum Standard that were included in Basic Service rates. EDCs are required to refund to all customers any over-collections and would therefore refund any excess collected from previously established Basic Service rates arising from a reduced Minimum Standard. However, this same requirement does not apply to competitive suppliers, who would not be obligated to return excess revenues collected from existing supply rates following the reduction of the Minimum Standard and therefore can retain them as profit.

The following estimated calculations illustrate the potential value of refunds from EDCs and windfall profits for competitive suppliers associated with this change in Minimum Standard for 2024.

Through June 2024, approximately 20% of the EDC load is currently on Basic Service.¹ Assuming EDC load of 45 million MWh, approximately 9 million MWh is on Basic Service. Based on the assumptions shown below, we estimate \$30.4 million in CPS costs collected for 2024 compliance through EDC Basic Service rates. Reducing the Minimum Standard reduces these costs to approximately \$16.2 million, and as a result the EDCs would later refund the over-collection of \$14.2 million to all customers.

¹ <https://www.mass.gov/doc/2024-monthly-electric-customer-migration-data-q1/download>

2024 EDC Basic Service – Estimated Costs and Refund Under New Minimum Standard

CPS Customer Payments		CPS Costs		
Rates CPS %	CPS Payments \$	New CPS %	CPS Cost \$	Refund
7.5%	\$30,375,000	4.0%	\$16,200,000	\$14,175,000

However, the majority of customers receive supply service from competitive suppliers, amounting to approximately 80% of total Commonwealth load of 45 million MWh, or approximately 36 million MWh. Reducing the CPS obligation to from 7.5% to 4% reduces compliance costs of competitive suppliers from \$121.5 million to \$64.8 million. Because customers are already locked into their retail rates, the competitive suppliers will still collect the \$121.5 million from customers, without an obligation to return the excess \$56.7 million to customers.

2024 Competitive Supply – Estimated Costs and Additional Profits under New Minimum Standard

CPS Customer Payments		CPS Costs		
Rates CPS %	CPS Payments \$	New CPS %	CPS Cost \$	Added Profit
7.5%	\$121,500,000	4.0%	\$64,800,000	\$56,700,000

In the illustrations above, the DOER's efforts to reduce customers costs in 2024 resulted in a reduction to customers of \$14.2 million through the Basic Service reconciliation, but also resulted in \$56.7 million in unwarranted competitive supplier profits. If the DOER modifies the regulations, total customer savings for 2024 alone could be upwards of \$71 million (i.e., counting the EDC Basic Service cost savings that will occur regardless, and the additional savings for competitive supply customers).

In order to reduce customer costs and to ensure effective spending of ratepayer funds, the Company recommends that DOER adjust the regulations such that the revised Minimum Standards should only be applicable to contracts executed after a specific date. All contracts executed before that specific date should be subject to the original Minimum Standard included in 225 C.M.R. 21.07.² If the Minimum Standard is reduced, the customers continue to pay their original rate that was calculated with the original CPS Minimum Standard. DOER could also stipulate that, where existing contracts are in place, the competitive suppliers should only be subject to the lower Minimum Standard if they provide proof that customer supply rates will be reduced accordingly. This issue and recommendation are detailed in the Joint EDC Comments on

² Typically, changes to Minimum Standards have been accompanied by exemptions for load that was already under contract. For example, when the CPS was first implemented, any contracts executed or extended before January 1, 2020 were exempt from the CPS. In comments on the CPS Program Review due May 3, 2024, both Constellation NewEnergy, Inc. and the Retail Energy Supply Association (a competitive supplier trade association) requested exemption of existing contracts from program changes, as a protection from cost increases. The principle applies in both directions.

DOER's Proposed Clean Peak Energy Standard Regulations submitted on May 3, 2024.

Unfortunately, this issue is not limited to the 2024 Minimum Standard because competitive suppliers have executed contracts with retail rates for future years that include the original Minimum Standards. For example, National Grid has 55 municipal aggregations in its territory that had contracts executed prior to the Emergency Regulations and have retail rates set until October 2025 through January 2026 with the original Minimum Standards, and another 22 municipal aggregations with retail rates set through September 2026 and January 2028. The customers within these municipal aggregations will not see any savings from the reduced Minimum Standards if the DOER does not modify the regulations, as competitive suppliers are under no obligation to return those savings to customers.

Post-2028 Increases to Minimum Standard and Ratepayer Costs

National Grid notes that the increases to the Minimum Standard after 2028 are likely to represent substantial added costs to ratepayers. The Company conservatively estimates that the proposed Minimum Standards from 2029 through 2050 will increase EDC customers' costs by as much as \$2.7 billion, with as much as \$1.7 billion in higher costs for the period 2030 through 2039.³

National Grid understands that the increased Minimum Standard is based on a perceived need for greater incentive support for energy storage and other peak-reducing resources. The Company supports the role of these resources in the future state of the electric system and recognizes the need for subsidies to support the growth of this new industry.

However, the Company reiterates its concerns raised in the May 2024 Joint EDC comments that energy storage and other peak-reducing resources are only of value if they are sited and operated in a manner that is of value to the distribution system, transmission system, and/or wholesale power markets—each of which has unique requirements. Potential value specific to the distribution system includes deferred or reduced distribution system investment in select locations through appropriately sized and located ESS, or other peak-reducing resources. This value can only be captured for dispatchable resources if such resources can be reliably controlled and dispatched by distribution companies based on distribution system needs. This potential value could be significant, but its magnitude remains unproven and the path to capturing it will involve significant learnings from ongoing implementation as the Commonwealth advances the clean energy transition. The Company's 2024 Electric Sector Modernization Plan includes proposals to pursue Non-Wires Alternatives and to advance programs enabling the utilization of customer-owned energy storage as a distribution system resource.

Furthermore, because market-driven incentives for energy storage are not yet mature, setting a high CPS Minimum Standard alone does not provide a sufficient roadmap for the type of ESS development that will be most valuable for the Commonwealth. At present, CPS incentives are agnostic to the size and location of storage interconnections. In contrast, New York's energy storage roadmap calls for 50% of the state's 2030 target storage capacity to connect at the

³ Estimate assumes EDC load growth based on ISO-NE forecast percentages through 2033, and uses 2033 load as a proxy through 2050 (making this a conservative estimate). The estimate is based on the ACP price as an assumed price ceiling.

transmission level, and also includes specific requirements for the allocation of storage capacity across New York's different load zones.⁴ The Commonwealth's energy storage policy requires at least this level of guidance to ensure appropriate values are delivered, and DOER should incorporate development of a fuller roadmap and value analysis for energy storage into its storage policy development.

Given the scale of support proposed for ESS through the revised Clean Peak Standard, the Company recommends that DOER commit to continuing to evolve the requirements of the CPS and the Commonwealth's broader energy storage policy to align with maximizing value over time, both through the upcoming program review and subsequent program reviews. Facilities entering the program earlier could be grandfathered for purposes of revenue certainty, but entrants to subsequent iterations of the CPS should be subject to increasingly stringent requirements that maximize customer value in order to be eligible for incentives.

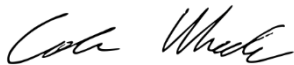
Near-Term Resource Multiplier

National Grid interprets the justification for the Near-Term Resource Multiplier as a method to shore up financing certainty for a subset of stand-alone ESS projects that are already in EDC interconnection queues and have progressed in the project development process. DOER indicates that these in-flight projects face significant uncertainties related to emerging tariff paradigms for energy storage, and therefore require additional revenue certainty. The Company does not object to the parameters of the multiplier as currently proposed, particularly given the constraint that it would apply to projects with Commercial Operation Dates prior to January 1, 2027. The Company also wishes to confirm the interpretation that the 50MW eligibility cap for the multiplier applies across all EDCs on a first-come, first-served basis.

The Company notes that it will be unable to modify interconnection study procedures and tariff-defined timelines for the interconnection process to accommodate qualification deadlines for this multiplier.

National Grid appreciates the opportunity to submit comments on this matter and looks forward to further collaboration with the DOER on the CPS Program.

Very truly yours,



Cole Wheeler
Manager, Policy and Regulatory Strategy
National Grid

⁴ <https://www.nyserda.ny.gov/-/media/Project/Nyserda/Files/Programs/Energy-Storage/2024-Energy-Storage-Order-Overview.pdf>