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April 8, 2013

VIA HAND DELIVERY AND ELECTRONIC MAIL

Michael Judge
Program Manager
Massachusetts Department of Energy Resources
100 Cambridge Street, Suite 1020
Boston, MA 02114

RE: Comments of National Grid Regarding Potential Post-400 MW Solar Carve-out Program Options

Dear Mr. Judge:

On March 22, 2013, the Massachusetts Department of Energy Resources ("DOER") held a public stakeholder meeting at which several potential program options to continue subsidizing solar photovoltaic ("solar PV") development in the Commonwealth were described, once the current program's 400 MW goal is reached. DOER presented these concepts and sought written comment on them. Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid, ("National Grid" or the "Company") are pleased to provide the following comments in response.

As stated in earlier comments on proposed changes to the Commonwealth's Renewable Portfolio Standard ("RPS"), the Company supports Governor Deval Patrick's goal of developing 250 MW of solar installations in Massachusetts by 2017. Further, the existing Solar Carve-out program cap of 400 MW already goes beyond the Governor's goal. National Grid believes that the current Solar Carve-out program will rapidly achieve this "stretch goal" of 400 MW largely because the program generously compensates developers; in National Grid's view, both the schedule of Alternative Compliance Payments ("ACP") and the price support mechanism of the Clearinghouse Auction floor are set at very high levels relative to the revenues necessary to incentivize solar installations.

Our customers, and all citizens of the Commonwealth, should enjoy the benefits of solar electricity, but should do so at a cost that reflects a competitive market for solar development, a payment structure that reflects the benefits from solar PV, and a mechanism that is stable and transparent for parties on both sides of the transaction. National Grid believes DOER can develop such a program, and has laid out the possibility for such an approach in its program options. Indeed, developers often speak of wanting transparency and certainty of the price they will receive for their output, just as the Company, on behalf of our customers, seeks more stability and transparency in the cost of the Solar Carve-out program.

One option DOER is considering is an extension of the current program or the launch of a largely similar, but distinct program, denoted as "SREC-II." National Grid believes that either approach is bound to be hampered by the same issues as the current program. First, the program is complex and not easily understood by potential hosts – homeowners and business owners alike – outside of those actively involved in the energy markets. Second, this complexity, combined with the price risk of SRECs, and the need for

intermediaries to aggregate, manage and contract for SREC sales, leads to a market structure that is inefficient for both hosts and end-users of SRECs alike.

In addition, as DOER has clearly recognized, the structure of the SREC market has led to volatility in SREC pricing that may increase the expected returns on invested equity in solar projects due to the increase in perceived risk. Due to the high level of ACP pricing, this volatility is greater than if ACPs were set at a lower level, and encourages developers to take market risk. The Company would instead encourage DOER to embrace a program structure that will reduce risk if possible and contain customer cost with lower ACP levels.

Beyond the added risk of the SREC market structure, the current program design suffers from a problem common to policies with administratively set pricing – it is difficult to get the prices right when you are not the market participant. The results of this administrative pricing are inefficiencies in either direction. Set prices too high, and not only are customers paying more than they should, but the pressure on developers to reduce costs and operate more effectively are lessened, undermining the program’s goal of eventually reaching parity with other Class I resources. If prices are set too low, developers will not respond and deployment will slow.

Setting aside the level of price support, the current program has another issue in the design of the price support “floor” in the Clearinghouse Auction. As shown by recent market pricing, uncertainty about the Auction actually clearing has led to prices below the auction floor of \$285 (to sellers). One proposed solution to this uncertainty is a proposal to require utilities to purchase all unsold SRECs from the Auction to ensure it clears at a fixed price. National Grid respectfully disagrees, for multiple reasons. Applying such a requirement to the current SREC program would provide after-the-fact protection for developers who were responsible for assessing the risks of the market before investing their companies’ funds. Such risk is the nature of seeking an unregulated return in the competitive power market, and DOER should not attempt to de-risk the market after the fact.

Looking forward, applying such a requirement to a new program would have other issues. In addition to getting the price right, as discussed above, such a floor does not differentiate among market sectors or project sizes (essentially, different cost structures), and thus favors the largest, cheapest projects developed by firms with access to the cheapest capital. Furthermore, utilities would not recommend recognizing all such costs in the commodity portion of customer charges, as SRECs and other RECs are now. Because the requirement could result in substantially more SRECs to be purchased than are needed in a given year, recognizing such costs immediately in basic service rates would undermine the market neutrality of that rate, and result in basic service customers paying for more SRECs than customers served by competitive suppliers. The unneeded portion of purchases would need to be reflected in a component of distribution rates to preserve customer equity. As this would add complexity and reduce transparency of the components of customer bills, National Grid does not support the concept and would urge DOER to find solutions to the “floor price” problem through other means in the new program, such as potentially eliminating the Clearinghouse Auction altogether to make it more like the standard Class I REC market.

Similarly, the SREC Factor concept floated in the presentation would not likely improve matters. While leaving in place the underlying flaws in the program, the SREC Factor would add another level of complexity and additional potential for administrative error in setting the factors. Electric customers would be better served by adopting a simpler, more secure framework for supporting solar.

The other potential policy solutions presented at the meeting, involving contracting, are beset with their own issues. Developers dislike such solutions as they will lower price and provide a less fluid form of support for solar development. And on the contracting side, neither utilities or state agencies seem willing and able at present to implement such programs.

In the end, DOER will need to balance the desired outcomes from supporting solar PV and think anew on how best to achieve those ends. Ideally, such a new mechanism will help reduce the cost of solar PV support to near the marginal cost of the amount desired, reduce the risks and thus financing costs of such developments, and support multiple project sizes and market sectors. Perhaps other means of support, such as enhanced rebates, tax credits, location-based value-of-solar performance payments, or other tools, would be areas DOER should also consider.

National Grid respectfully submits these comments, which it believes reflect the interests of its customers, and the best interests of the Commonwealth as a whole.

Sincerely,

A handwritten signature in black ink, appearing to read "Ian Springsteel". The signature is fluid and cursive, with the first name "Ian" written in a larger, more prominent script than the last name "Springsteel".

Ian Springsteel