

June 27, 2007

Mike Henderson  
Director of Regional Planning & Coordination  
ISO - New England  
Holyoke, MA

Dear Mike:

National Grid appreciates the efforts that ISO-New England is taking to produce the Scenario Analysis report. While it is the first time the ISO has done such an analysis, it is providing valuable insight into issues associated with how the region might meet demand in the future. However, National Grid raises the following comments, and suggested modifications and additions in an effort to create a more balanced report;

**Comment #1:** The report has indicated in a number of places (pages 19, 42 & 54) that demand side resources (DR) will reduce the need for transmission & distribution infrastructure.

- While overall there could be reductions in Distribution and Transmission, we can't lose the recognition that increased use of EE & DR will cause shifts in the generation and load balance, which will require transmission and distribution to provide transfer capability in the revised delivery system. For a theoretical exercise such as this, it is very difficult to quantify what, when and where such facilities will be needed, but ISO should recognize and acknowledge that there may be a need for some changes in transmission & distribution facilities to avoid potential congestion or shifting constraints.
- It should be acknowledged that achieving a high level of EE & DR on the system will require significant public policy initiatives, which will likely take time to develop, implement, and receive public acceptance and support. Therefore, it is possible that additional incremental transmission & distribution investments may be required on the system between now and when these public policies and initiatives make a noticeable and sustained impact.

Therefore, we ask the ISO to include the following two footnotes at the end of the first paragraph in each of pages 19 or 42, where the reports speaks of a reduction of distribution infrastructure in the case of EE/DR.

- *Fn1: While overall there could be reductions in distribution and transmission infrastructure, increased use of EE & DR are likely to cause shifts in the generation and load balance which could require transmission and distribution infrastructure to provide transfer capability in the revised delivery system. It is very difficult to quantify what, when*

*and where such facilities might be needed, but the ISO acknowledges that it is likely some Transmission & Distribution facilities will be needed. Without these facilities, the system could be subjected to congestion or new constraints.*

- *Fn2: Achieving a high level of EE & DR on the system will require significant public policy initiatives, which will likely take time to develop, implement, and receive public acceptance and support. Until the time that these public policies and initiatives make a noticeable and sustained impact, it is possible that additional incremental Transmission & Distribution investments may be required on the system.*

**Comment #2:** National Grid continues to highlight the importance of a new retail rate structure with the increased implementation of the DR programs.

- At the Restructuring Roundtable on Friday June 22, 2007 MA DPU Chairman Hibbard proposed doing all cost effective energy efficiency, an energy efficiency procurement standard, and dynamic pricing. He stated that the Department would be issuing a Notice of Inquiry soon regarding decoupling. That notice was issued late on June 22, 2007.
- Additionally, on May 14, 2007 the New Hampshire Public Utilities Commission (Commission) emphasized the same when it opened a docket to investigate the merits of instituting, for electric utilities, appropriate rate mechanisms, such as revenue decoupling, which would have the effect of removing obstacles to, and encouraging investment in, energy efficiency. NH PUC said in their filing that "This investigation is consistent with the National Action Plan on Energy Efficiency (Action Plan) developed by the U.S. Department of Energy and the U.S. Environmental Protection Agency. The Action Plan, among other things, sets forth the recommendation to: "Modify policies to align utility incentives with the delivery of cost-effective energy efficiency and modify ratemaking practices to promote energy efficiency investments."

National Grid proposes to add a footnote at the end of the following paragraph, of page 2 of the executive summary, as guidance to policymakers.

"...These options tend to involve different trade-offs of one form or another. For example, while some of the technologies may come about naturally as a result of market forces, others may require change in public policy to encourage their development."

- *Fn: While this report suggests elsewhere that such public policy change might take the form of additional tax incentives targeted to certain technologies, it is also important to understand that some changes to current utility rate-setting mechanisms (e.g., "decoupling," to some extent, a utility's cost recovery and profitability from sales volumes) may also be necessary and appropriate to encourage greater development of demand response and energy efficiency technologies.*

**Comment # 3:** The report has indicated in a number of places (last bullet on both pages 7 and 69), that the Import Scenario will require significant and substantial transmission investments to implement this scenario. While it is a fact that the system will require additional transmission investments to implement this Import case, it is important to note that regardless of this Import case, a large portion of transmission investment will continue to be needed in the future to maintain system reliability.

Therefore National Grid suggests the ISO add the following footnote after the last bullet on either pages 7 or 69.

- *Fn: While there are increased costs to the system today from these transmission investments, there is a potential that the upgrades provided to supply the various resource options may provide synergy savings by meeting future local and/or regional benefits. These synergy savings might offset some future needs that would otherwise be served through the RSP.*

**Comment # 4:** National Grid raises the same concern that Nstar raised in their response to ISO dated June 26, 2007 on the scenario analysis report. "..., a concern we have with the report is that it appears to draw conclusions about the inability of future resources to recover investments in future energy markets. These statements could lead policy makers to the conclusion that the wholesale electricity market has failed, or will fail in the future.....therefore, we believe the report should avoid specific conclusions on a topic that is as unpredictable as whether or not wholesale market revenues will provide investment recovery years in the future."

**Miscellaneous comments:**

- The next to last sentence in footnote 8 (page 3) indicates that "the demand-resources reduce demand during high peak hours, and that these resources can reduce demand during a greater number of hours." While it is true that DR reduces demand during high peak hours, it is the EE program that achieves reductions over longer periods of time. *Hence this sentence should be corrected to highlight that the EE programs (and not the DR) can reduce demand during a greater number of hours.*
- The report clarifies on page 23 note "c", that the cost of CHP is indicative only of the production of electricity and not the use of exhaust heat. A note should be put in the report to indicate that the combined costs would be much higher. We suggest replacing the last sentence in note "c" by the following: *The heat rates of these technologies reported here reflect only the production of electricity and not the use of the exhaust heat. However, installation of CHP requires favorable customer economics for the use of the thermal energy released by a CHP or a fuel cell. The costs of thermal energy production are incremental to electricity production costs and if included, overall costs would be significantly higher.*

Thanks for the opportunity to comment, please feel free to contact me should you have any comment.

Sincerely,

Henri Daher  
Principal Analyst  
National Grid  
Transmission Regulation and Commercial  
[Henri.daher@us.ngrid.com](mailto:Henri.daher@us.ngrid.com)  
(508) 389-2141