

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Competitive Transmission Development)	
Technical Conference)	Docket No. AD17-11-000
)	
)	

PLANNED TECHNICAL CONFERENCE REMARKS OF NATIONAL GRID

National Grid provides these planned remarks in advance of the technical conference convened by the Federal Energy Regulatory Commission (“FERC” or the “Commission”) in the above-captioned docket.

National Grid submits these planned remarks in advance of the Commission’s May 1-2, 2017 technical conference, which will discuss issues related to matters affecting wholesale energy and capacity markets operated by the Eastern Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs).

I. Communications

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II. Background

On March 3, 2017, the Commission announced that it would hold a technical conference to discuss matters affecting wholesale energy and capacity markets operated by the Eastern

RTOs and ISOs.¹ Commission staff seeks to discuss long-term expectations regarding the relative roles of wholesale markets and state policies in the Eastern RTOs/ISOs in shaping the quantity and composition of resources needed to cost-effectively meet future reliability and operational needs.

III. Planned Remarks

National Grid serves millions of electric customers across the New York Independent System Operator (NYISO) and ISO New England (ISO-NE) footprints. The Company owns contiguous transmission and distribution networks across New York and New England and owns approximately 4,000 megawatts of generation on Long Island in New York. We have deep experience in these markets and are directly affected by state policies to pursue policies that prioritize certain resources or resource attributes.

Various policies, regulations, and legislation seek to deliver environmental objectives for the power generation sector. For example, Massachusetts recently passed legislation requiring National Grid and others to enter into long term contracts for offshore wind and clean energy and the New York Public Service Commission has required all load-serving entities (LSEs) to procure zero emissions credits (ZECs) to support identified nuclear resources. The states in which National Grid operates also participate in the Regional Greenhouse Gas Initiative (RGGI), which is cap and trade based market mechanism designed to reduce greenhouse gas emissions from the generation fleet in participating states.

National Grid supports competitive wholesale energy markets and market-based solutions to resource procurement challenges. Rules governing Eastern RTO/ISO markets have evolved

¹ <https://www.ferc.gov/CalendarFiles/20170303172159-AD17-11-000TC.pdf>

significantly over the years and National Grid has helped to shape and support many of the changes via stakeholder processes. Today, the Eastern RTOs/ISOs face a new resource procurement challenge: many states would like to accelerate the integration of new, zero-emitting generation resources to satisfy public policy goals but these RTO/ISO markets do not recognize the value these types of resources provide in meeting the states' goals. As a result, merchant investors do not generally develop new zero-emitting generation without some form of assistance or subsidy.

If RTO/ISO markets are to properly incentivize the entry of new zero-emitting resources and retain existing generation with similar attributes, they will have to change considerably. There is a wide range of views on how best to do this and National Grid has been an active participant in stakeholder discussions examining some of the options. For example, in New England, the IMAPP (Integrating Markets and Public Policy) process is focused on finding a means to execute states' policy related requirements. Therein, National Grid proposed a Forward Clean Energy Market, in which states would identify the nature and quantities of "clean" energy required and that quantity would then be procured through a forward market. National Grid recognizes that market design, state policies, and stakeholder perspectives vary across markets and RTOs/ISOs may arrive at different solutions.

As any market participant knows, making significant changes to RTO/ISO markets is often a complicated, contentious, and lengthy process. For example, National Grid raised pricing specific generator attributes at the Commission's 2013 capacity market technical conference and we are still here discussing potential market design changes today. Nevertheless, states have begun to turn to out-of-market arrangements as an alternative. For some states, like New York, these out-of-market arrangements are designed to help meet aggressive decarbonization goals

(e.g., reducing greenhouse gas emissions 40% by 2030 and 80% by 2050, generating 50% of the State's energy with renewable sources by 2030), retain jobs, and create energy cost savings; for owners of generation, these arrangements support the preservation of existing at-risk generation. National Grid offers the following views on ways to structure of these alternatives.

a. Long-term contracts

Despite legislative requirements in some of the states where National Grid operates, National Grid prefers to avoid the use of mandatory long-term, power purchase agreements (PPAs) between generators and utilities. These kinds of contracts shift wholesale market risk from investors and developers to utilities and the customers they serve by guaranteeing payments for the period of the contract, which creates significant risk for the utilities and those customers. National Grid has specific experience with the adverse consequences that mandatory, long-term contracts can produce, which is instructive for today's conversation.

In 1981, the New York State Legislature enacted the "Six Cent Law," which required New York utilities to buy electricity from qualified independent power producers for at least six cents per kilowatt-hour, even though it could have been produced by the utilities at a much lower cost. The Six Cent Law attracted significant generation development in upstate New York and Niagara Mohawk eventually signed contracts for output in excess of its actual demand. In 1995 alone, Niagara Mohawk's total payments to independent power producers exceeded \$1 billion, which contributed to a 25% increase in Niagara Mohawk's average retail rates between 1990 and 1995. As Niagara Mohawk's supply costs continued to rise, industrial and commercial customers shifted to alternative sources of supply or moved operations and facilities to lower-

cost locations, which exacerbated the upward pressure on Niagara Mohawk's costs. Ultimately, Niagara Mohawk was required to absorb \$2 billion in stranded costs.

A structure where an entity serves as an intermediary between utilities and generators is an alternative to mandatory contracts between generators and utilities. National Grid believes that this is preferable to mandated contracts directly between utilities and generators and, from the perspective of the utility and, ultimately, its customers, serves an important risk reducing function. It also involves buying only the environmental attributes of resources, ensuring that energy market revenues still come from the market. For example, the NY Public Service Commission has directed each load-serving utility in the state to purchase zero-emissions credits (ZECs) from identified nuclear facilities. However, the LSEs will not contract directly with the owners of those facilities. Instead, the New York State Energy Research and Development Authority (NYSERDA) will offer the identified nuclear facilities multi-year contracts, which is intended to provide generation with a more durable and certain revenue stream over several years and preserve the zero-emissions attributes of the facilities. Each LSE is required to purchase the ZECs from NYSEDA on an annual basis and will recover costs from its customers. In this instance, NYSEDA acts as the middleman, which advances the state's policy goals and presents less risk for utilities than under a mandatory contracting model between the generator and the utility. NYSEDA's role as an intermediary is particularly important, given the estimated cost of the ZEC program: expected to exceed \$7 billion over the next twelve years.

b. Utility Ownership

With respect to the development of renewables to meet state policy goals, National Grid believes that, absent viable wholesale market mechanisms, utility ownership is appropriate.

Long-term bilateral PPAs with developers equate to “virtual ownership” with utilities and their customers absorbing project risks without the benefits of ownership. Development and ownership of renewable energy projects at “cost- of-service” regulation by utilities can be less expensive for customers than development underwritten by long-term agreements with the utility. National Grid, along with Con Edison, performed analysis that showed that utility ownership of large-scale renewable generation could produce substantial savings for customers when compared to utility-backed power purchase agreements. Generally speaking, the utilities, under supervision by the applicable regulatory authorities, could conduct competitive solicitations that would allow renewables developers to design, build, and potentially operate large-scale renewable generation facilities. Once completed, the project would be transferred to the utility under specific agreements with each developer with project costs to be recovered via cost of service rates from utility customers. This would allow both risk and return to be more appropriately allocated to utilities and customers, with the market benefits allowed to flow back to customers for the life of the asset.

National Grid recognizes that support for utility ownership is predicated on utilities’ ability to produce demonstrable customer savings and benefits. We further recognize that this position may seem inconsistent with our broader support for market-based solutions where circumstances permit. However, today’s RTO/ISO markets do not adequately incentivize new entry from zero-emitting resources and it is not clear how or when they will evolve to do so. The states in which National Grid operates have all set ambitious decarbonization goals. Policymakers in New York in particular, clearly do not believe that they can afford to wait to achieve those goals until RTO/ISO-based solutions are identified, negotiated, filed at FERC, and hopefully approved. Other market participants are not waiting either. National Grid’s view is

simple: where states (and other market participants) consider out-of-market arrangements to support zero-emitting resources and we believe that we can provide demonstrable customer savings and benefits via ownership of large scale renewables facilities, we have a responsibility to our customers to pursue that option.

Respectfully submitted:

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