

July 24, 2013

VIA HAND DELIVERY & ELECTRONIC MAIL

Mark D. Marini, Secretary
Department of Public Utilities
One South Station, 5th Floor
Boston, MA 02110

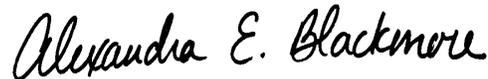
Re: Investigation into Modernization of the Electric Grid; D.P.U. 12-76

Dear Secretary Marini:

On behalf of Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid (“National Grid” or the “Company”), I am submitting the Company’s comments on the “Report to the Department of Public Utilities from the Steering Committee” filed in this docket on July 2, 2013.

Thank you very much for your time and attention to this matter.

Very truly yours,



Alexandra E. Blackmore

Enclosures

cc: Jesse Reyes, Office of the Attorney General

Department of Public Utilities

D.P.U. 12-76

Investigation into Modernization of the Electric Grid

Comments of National Grid on the Working Group Report

I. Introduction

National Grid¹ commends the Department of Public Utilities (“Department”) for opening its investigation into modernization of the electric grid and appreciates the opportunity to provide comments on the Working Group Report. The hard work and commitment of the facilitation team and participants in the Department’s collaborative working group process is evidenced by the depth of information and important recommendations for the Department’s consideration contained in the Working Group Report, as well as the significant consensus reached on a number of key issues articulated in the Department’s Notice of Investigation (“NOI”). National Grid believes that investments in grid modernization are necessary to better meet the changing energy needs of our customers both today and tomorrow.

The path toward a modern electric grid requires a new and different approach to utility regulation than has been taken in the past. To that end, National Grid urges the Department to act swiftly to adopt the comprehensive consensus regulatory framework, “Utility of the Future, Today” along with complementary regulatory policies for “Distribution Services Pricing With Transparency” endorsed by National Grid and the Clean Energy Caucus² and the, “Regulatory Approval for Time

¹ Massachusetts Electric Company and Nantucket Electric Company, each d/b/a National Grid are collectively referred to herein as “National Grid” or the “Company”.

² As explained in the Working Group Report, the “Clean Energy Caucus” is comprised of New England Clean Energy Council (NECEC), MA Clean Energy Center, ISO New England, Bloom Energy & ClearEdge Power, ChargePoint, Conservation Services Group, Electricity Storage Association and AMBRI, EnerNOC, Northeast Clean Heat & Power Initiative, Northeast Energy

Varying Rates and Direct Load Control” targeted proposal.³ Together, these models will promote efficient grid modernization through further alignment of government policies and customer expectations, and enable the development and approval of future utility investment and operation plans. In the alternative, if the Department wishes to take a more incremental approach to grid modernization, the four alternative regulatory models proposed by National Grid would each enable utilities to begin making meaningful investments in grid modernization at whatever pace the Department deems appropriate. National Grid expands on these recommendations below.

II. Regulatory Frameworks

Utility investments are driven by the obligation to provide safe and reliable service to customers. As a result, the current pace of grid modernization reflects the safety and reliability priorities of utility investment plans, available technologies, the current design of their systems, and concerns about costs to customers, without necessarily taking full advantage of opportunities to modernize the grid for the future. Under the traditional approach to utility ratemaking in Massachusetts, utilities recover the costs of infrastructure investments only after the investments are made and there is often a considerable lag between the time expenditures are made and costs are recovered from customers. Although some commenters have maintained that regulatory lag provides discipline for utilities in the management of their assets, when utilities make investments that are not supported by current revenues, they erode earnings and hinder the utility’s opportunity to earn its allowed rate of return. Because regulatory lag impacts the financial performance of utilities, it also places pressure on utilities to limit investments when the utility

Efficiency Partnerships, SEBANE/SEIA and ENE. It also includes Ambient and Bridge Energy Group, which represented NECEC on subcommittees.

³ This proposal is endorsed by National Grid, Unitil, General Electric, MA DOER, Bridge Energy Group, NECEC, ISO-NE, CSG, ENE, and SEIA/SEBANE.

must balance capital investment against earnings deflation. Accordingly, utilities will typically prioritize investments that maintain safe and reliable service over investments in innovation and grid modernization, because there is significant precedence that such investments will meet the standard of good utility practice, as compared to more innovative and novel grid modernization investments.

Although National Grid proposed several comprehensive regulatory frameworks for the Department's consideration in this proceeding that each represent meaningful options for moving forward, the Company's ultimate decision to endorse the Utility of the Future, Today framework as its first choice reflects the Company's belief that a dramatic change to the regulatory framework is necessary to bring about the kind of investment in grid modernization contemplated by the Department's NOI. Simply put, to enable the investments in innovation and modernization of the electric grid that are necessary to keep pace with the rapidly changing needs of customers, the Department must consider an approach to utility regulation that aligns the future safety and reliability goals of utilities with the future energy and environmental goals of the Commonwealth, stakeholder expectations and future customer expectations about the nature of electric delivery service. The adoption of forward-looking regulation would align these goals while improving the utility's ability to meet them by significantly reducing or eliminating regulatory lag, with appropriate financial incentives for utilities to improve performance. Similarly, both existing and new service quality metrics must be based on outputs that are controllable by the utilities. The Utility of the Future, Today framework achieves each of these objectives by allowing utilities to file a forecasted, multi-year rate case for the Department's review and approval, including proposed capital and operational expenditures for each year of the plan, and incorporating elements of

performance-based ratemaking to provide appropriate incentives to utilities while including safeguards to ensure customers continue to receive safe and reliable service.

In parallel with the need for changes to the regulatory framework to enable investments in grid modernization, it is equally important that the design of distribution pricing keep pace with the evolving role of utilities as integrators of load and generation for the benefit of distribution customers as well as customers with generation behind or at the meter. Unfortunately, the current distribution cost recovery and pricing framework assumes that all customers receive kWh deliveries and that one-way power flow is the sole reason for the distribution grid. As a result, the existing utility pricing structure is increasingly out of step with the rapid expansion in the development and integration of distributed resources to the distribution grid that has occurred to date and is unsustainable if the goals of grid modernization are to be realized. These integration services require new pricing structures to recover appropriate levels of costs caused by the provision of services to load and generating customers, and that provide appropriate economic signals so that customers can take maximum advantage of these technologies through forms of demand or generation response in order to lower costs of the distribution grid. Furthermore, incentives for the development of new customer-side technologies, such as net metering, should be transparent and decoupled from distribution delivery rates, to ensure that all customers pay their fair share of maintaining the distribution system they use.

National Grid's complementary Distribution Services Pricing With Transparency policy addresses these concerns by allowing utilities to make proposals with the Department, in the context of an adjudicatory proceeding, for new pricing structures designed to send economically efficient price signals to bring customer consumption and production decisions into alignment,

inform customer investment choices regarding energy use, storage or production, and to increase the productivity of the electric system. National Grid urges the Department to adopt this proposal either on a stand-alone basis, or in conjunction with the Utility of the Future, Today regulatory framework, or another comprehensive regulatory framework or complementary regulatory policy, to ensure that the existing distribution pricing barriers to full integration of load and generation to the distribution grid are removed as quickly as possible and that all customers are treated fairly and pay a fair and equitable share of the costs to build and operate a distribution grid that can manage the integration of load and generation on a continual basis.

In addition, National Grid submitted a complementary regulatory policy designed to provide an option for utilities to make rate design proposals for Time-Varying Rates and Direct Load Control for the Department's review and approval as a component of a base rate proceeding, a proposal for metering systems or independently. The rate options would be designed to be revenue neutral to approved Basic Service rates⁴ on a class basis and could include Time-of-Use ("TOU") rates such as fixed period TOU, fixed period critical peak pricing ("CPP"), variable period CPP, and hourly pricing of demand response credits for load control options, etc. The adoption of these types of pricing options would provide opportunities for customers to save money on their electric bills by using fewer kWh when the cost to generate electricity is most expensive, especially capacity costs, and the Company urges the Department to consider implementing one or more of these complementary regulatory policies either on a stand-alone basis, or in conjunction with the adoption of a comprehensive regulatory framework, as described above.

⁴ National Grid recommends that any time-varying element of Distribution Services pricing should be accomplished within that proceeding given the particular concerns for capacity use by customers and lower diversity of customer requirements on the distribution grid. These issues are distinct from generation capacity and energy on a time-of-use basis given the need for the distribution system to provide safe, reliable service at a very local level.

While National Grid believes that the most expeditious way forward to a modern grid requires the adoption of a comprehensive regulatory framework such as Utility of the Future, Today, should the Department want to undertake an incremental approach to investments in grid modernization, National Grid has presented several alternative proposals for the Department's consideration that further such investments. Specifically, National Grid's white paper entitled, "Expansion of Investment Caps and Move to Future Test Year" included in the appendix to the Working Group Report, provides the Department with four alternatives to the current regulatory framework that would each enable utilities to begin making meaningful investments in grid modernization. Two of these options are variations on capital investment recovery mechanisms currently in use by some Massachusetts utilities. For example, as a complement to the implementation of decoupling in National Grid's last electric rate case, the Department approved an annual recovery mechanism of up to \$170 million of in-service capital investments made by the Company in a preceding calendar year. The Company's actual investments are reviewed annually by the Department in a proceeding the year following the in-service year of the investment. The first option would allow a utility with such a mechanism to seek Department approval to exceed the annual investment cap for grid modernization spending, subject to an after the fact prudence review as with all capital investments. The second option is the same as the first, but would allow a utility to seek Department approval for a multi-year investment budget, to enable more long-term planning and investment. The third option is to move from a historic test year to a forecasted test year for ratemaking with on-going capital recovery mechanisms under decoupling, as historic spending levels are, by definition, not indicative of the costs of modernizing the grid. Lastly, the fourth option is the same as the third, but provides for a multi-year rate plan, under which the

Department would review a utility's plan for the following three years and set out the course for grid modernization over that period. Each of these options represents an incremental step-change in the regulatory framework that sets the stage for increased investment in grid modernization and allows the Department to move forward at whatever pace it deems appropriate.

These four models, much like Utility of the Future, Today, could be combined with the complementary regulatory models for Distribution Services Pricing With Transparency and Time-Varying Rates/Direct Load Control. Also, for each model a utility could propose performance metrics and reward mechanisms for accomplishing the goals of grid modernization within its request. Nonetheless, if the Department were reluctant to move directly to the Utility of the Future, Today model, these four models would be reasonable interim steps to provide the clarity, alignment and direction for utilities to begin making investments in grid modernization in the near-term.

III. Next Steps

As indicated in the Working Group Report, National Grid and the Clean Energy Caucus urge the Department to act quickly, but no later than October 1, 2013, to provide guidance to the utilities and encourage utilities, in the context of their next base rate proceedings, to include a grid modernization investment proposal consistent with the Department's directives. National Grid believes that the robust nature of the collaborative process and the broad coalition of support among the participants for the comprehensive Utility of the Future, Today regulatory framework

provide a solid basis for the Department to articulate a policy direction for future investments in grid modernization based on such framework without the need for further generic investigations.⁵

IV. Conclusion

National Grid appreciates the opportunity to provide comments to the Department on the Working Group Report, and looks forward to working with the Department and other interested stakeholders to implement the policies and directives resulting from this proceeding, and to participating in future grid modernization proceedings to enable customers to receive the benefits of grid modernization in a timely fashion.

Respectfully submitted,

National Grid
by its attorney,

Alexandra E. Blackmore

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⁵ For example, the Department could adopt the Utility of the Future, Today framework as a matter of policy similar to its adoption of decoupling following a generic investigation in Docket D.P.U. 07-50, and invite utilities to file grid modernization investment proposals consistent with that framework in the context of their next base rate proceeding. Nonetheless, as explained on page 93 of the Working Group Report, the Company supports a generic, stand-alone, investigation into Time-Varying Rates.