



**Northeast
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Lisa J. Thibdaue
Vice President – Rates & Regulatory

Heather Hunt
Executive Director
New England States Committee on Electricity
coomunications@nescoe.com

Re: Report to the New England Governors on Coordinated Renewable Procurement

Dear Ms. Hunt,

The electric distribution companies (“EDCs”) of Northeast Utilities (The Connecticut Light and Power Company (“CL&P”), Western Massachusetts Electric Company (“WMECO”), and Public Service Company of New Hampshire (“PSNH”), collectively, “the Companies”) are pleased to submit comments on the New England States Committee on Electricity’s (“NESCOE”), *Report to the New England Governors on Coordinated Renewable Procurement* (“Report”) dated July 12, 2010.

The Companies agree with NESCOE regarding the numerous challenges of regional procurement, and in particular, commend NESCOE for identifying as a “prerequisite”, the cooperation of the region’s EDCs.¹ The Companies experience and responsibilities in procuring renewable energy throughout New England make them uniquely positioned to assist in consideration of regional renewable procurement.

We believe that the benefits of a “coordinated or joint renewable power procurement” outlined in the Report may be an option to “stimulate the market for renewable resources in New England; and, provide value to renewable power developers by creating larger revenue streams than might be possible through single-state procurement”². However, the Companies share the region’s concern regarding costs for renewable power. The Companies also believe that a regional RFP should not be pursued above all other procurement possibilities.

¹ Slide 14, NESCOE July 12, 2010 presentation, *Coordinated Renewable Procurement*, New England Governors & Eastern Canadian Premiers 34th Conference.

² Page 8, Report to the New England Governors on Coordinated Renewable Procurement

Regarding the Report's recommendations:

Recommendation 1: Develop a model regional request for proposal ("RFP") for renewable resources

The Companies would be interested in exploring the concept of a "common solicitation instrument that requests consistent information from bidders and under materially similar terms and conditions should result in uniform baseline information from bidders to enable a coordinated bid evaluation process."³ The Companies acknowledge the challenge of creating terms and conditions agreeable to every state while simultaneously accommodating for requirements unique to particular states. For example, one challenge with entering into long-term contracts for renewable energy arises from regulatory and legislative uncertainty, as well as state statutory differences, surrounding renewable power requirements and even the definition of what qualifies as renewable. As noted in the Report, currently each state has developed its own standards for what is classified as renewable energy. The markets for renewable energy credits ("RECs") also vary from state to state. We believe the first order of business is the development of a consistent definition of renewable energy, as opposed to the Report's recommendation to begin defining contracting requirements. Furthermore, long-term contracts with EDCs need to include consideration for future changes in renewable standards due to the adoption of a federal renewable standard, or from similar state actions. For example, Massachusetts is currently in the process of modifying its definition of Class I renewable portfolio standard ("RPS") for biomass facilities, and the Connecticut Energy Advisory Board just issued an RFP for a consultant to investigate that state's RPS.

Solicitations are complex and time consuming. The Companies urge NESCOE not to jump in too far or too fast. The Companies believe that bidders will need to understand the entire process from solicitation to regulatory approval before they undertake responding to a solicitation.

Recommendation 2 & 3: Coordinate regional RFP and bid evaluation processes through a New England Renewable Procurement Team

The Report describes a Procurement Team consisting of the EDCs that procure power and those state entities that administer RFPs directly. While the Companies would need to conduct a legal analysis on whether or not there are any potential antitrust issues prior to a regional procurement, the Companies are receptive to participating in a Procurement Team and contribute their experience in power procurement.

Recommendation 4: Form State RFP Coordinating Liaison Council

The Companies understand the proposed State RFP Coordinating Council ("Council") would consist of state entities "other than the regulatory authorities that review and approve proposed contracts", and would provide state perspective to the Procurement Team and to bidders in the early phases of the RFP process. The Companies are concerned that such a Council could unduly hinder the Procurement

³ Page 16, Report to the New England Governors on Coordinated Renewable Procurement

Team's activities. Only one group should be empowered to make decisions about procurement, to avoid adding confusion and unnecessary duplication of efforts in the process..

NU EDC's Experiences in Other Long-term Contracting Programs:

The Companies caution that any regional procurement should be made on a voluntary rather than mandatory basis. Mandatory contracting tends to raise prices because sellers know that the buyer does not have the option of rejecting all offers, even if they are uneconomic.

The Companies have had experiences with various long-term contracting processes in Connecticut, Massachusetts and New Hampshire. In New Hampshire, PSNH has had a positive experience with long-term contracting where it voluntarily entered into two long-term contracts that provide mutual benefits to the buyer, seller, and customers. This has proved to be efficient and productive for both PSNH and the renewable providers.

CL&P has worked with the Connecticut long-term renewable contract program, known as "Project 150", which is a legislatively mandated program to build and operate one-hundred and fifty megawatts of renewable generating capacity in Connecticut. To date, thirteen projects have been approved, even though every project is projected to result in over-market costs to customers, and despite long-term contracts with CL&P, no projects have moved forward, primarily due to financing difficulties.

In Massachusetts, Section 83 of Chapter 169 of the Acts of 2008 requires investor-owned EDCs to solicit proposals from renewable energy developers for the purpose of entering into cost-effective long-term contracts. The EDCs, including WMECO, are currently in the process of soliciting bids to comply with this requirement. Two substantial legal challenges have surfaced around Massachusetts' process regarding utility interactions in bid awards and the requirement for projects to be located in-state.

Financial Implications of Long-Term Contracts for EDCs

In addition, the EDCs are concerned with the potential adverse financial impacts on the buyer under long-term contracts. Accounting rules governing long-term contractual commitments include: (i) the need to disclose projected payments under these contracts, (ii) under certain circumstances, the need to record a capital lease or a derivative or to consolidate the supplier on the EDC's balance sheets. Absent legislative and regulatory protections, requiring EDCs to procure long-term power under contracts could require on-balance-sheet accounting treatment or create a risk that rating agencies would impute the present value of these purchases as debt during their next credit review of the EDCs. The presence of additional debt at the EDC through accounting guidance or rating agency imputation would likely place downward pressure on the EDCs' financial ratios and credit ratings that would potentially affect the EDCs' ability to meet bond covenants and raise new capital for

infrastructure improvements, and which as a result could raise customer rates over the long-run.

The Companies note that any solicitation should also consider deliverability issues and whether or not there is transmission available to move the renewable energy to load.

In conclusion, with the above-mentioned concerns, the Companies stand ready to participate with NESCOE in its investigation of the merits of regional renewable energy procurement.

Cordially,



Lisa J. Thibdaue
As Agent for CL&P, WMECO, and PSNH