

October 19, 2009

Mr. Thomas Congdon
Deputy Secretary for Energy
Chairman, Energy Planning Board
SEP Comments
c/o NYSERDA
17 Columbia Circle
Albany, NY 12203-6399

Dear Mr. Congdon,

National Grid appreciates this opportunity to offer comments on the New York State Energy Planning Board's Draft of the 2009 New York State Energy Plan. As you know, National Grid has been an active participant in the New York State Energy Planning process since its inception in April 2008. We submitted initial comments on the Draft Scope in July 2008, and more detailed policy comments on March 10 and May 18, 2009. National Grid representatives also participated in the public hearings on the Draft Energy Plan held throughout the State in August and September 2009.

National Grid applauds the Energy Planning Board for its leadership on climate change, and for its focus on the three key strategies of producing, delivering and using energy more efficiently, developing renewable energy resources, and investing in the State's energy infrastructure. We also share the Draft Plan's objectives of maintaining reliability, reducing greenhouse gas emissions, stabilizing energy costs and improving economic competitiveness.

- National Grid agrees that investment in energy efficiency should be the State's priority strategy for meeting its energy and environmental objectives. Energy efficiency is the most effective way to help customers manage their energy costs and reduce their carbon footprint. It is a win-win solution for customers, the environment, and the state of New York.
- The increased use of renewable resources is another key strategy for reducing greenhouse gas emissions and enhancing energy security. Access to remote sources of renewable generation, in New York and in neighboring regions, will be essential to achieving these goals. New York's transmission infrastructure is the critical link needed to deliver the benefits of clean, low-cost renewable generation to New York's customers.
- Investment in New York's transmission and distribution infrastructure is essential to create a platform for energy efficiency, local renewable generation, and "smart" tools that allow our customers to manage and reduce their energy use. It also continues to be fundamental to replace aging infrastructure, maintain reliability, and support economic growth.

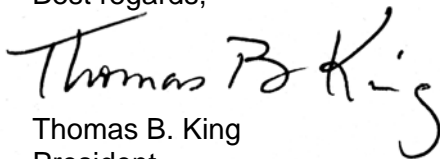
New York will not be able to achieve its ambitious energy and environmental goals without utility leadership. Utility action and investment in the areas of energy efficiency, renewable energy, and transmission and distribution infrastructure will be needed to successfully deliver on the Draft Plan's objectives. To enable this investment, it will be essential to create an environment that fosters the economic vitality of the energy industry and ensures that New York is an attractive place to invest and do business. Only in such an environment will New York be able to elicit the investment needed to support energy efficiency, renewable energy, and the development of the Smart Grid. This environment will also allow utilities to more effectively finance the infrastructure that serves as a backbone for the delivery of clean, low-cost energy.

As the Energy Planning Board moves to develop a Final State Energy Plan and as it moves toward the implementation of the Plan's objectives, National Grid urges it to recognize the need for partnership, flexibility, alignment, and immediate action.

- Partnership is critical. We need "all hands on deck" to achieve the Draft Plan's extremely challenging goals. It will be necessary to rethink traditional roles and to call on each stakeholder to bring its full expertise and experience to the table.
- Flexibility in implementation is required to allow utilities and other stakeholders to respond dynamically to the unknown and the unexpected.
- The regulatory and policy framework should align utility interests with the interests of their customers, and with New York's energy and environmental goals.
- Finally, if we are to meet the economic and carbon reduction goals set forth in the Draft Plan, the State must act now to put new initiatives and programs into the field.

National Grid, with support from policymakers and regulators, is committed to investing in New York's energy and environmental future. We share the State Energy Planning Board's vision of a future with reliable energy supplies, low greenhouse gas emissions, stable energy costs, a safe and healthy environment, and improved energy security. We look forward to working in partnership with the Board, the State, other utilities, stakeholders and, most importantly, our customers to implement this vision of New York's energy and environmental future.

Best regards,



Thomas B. King
President

cc. Gary Brown, Chairman, New York Public Service Commission
Sarah Osgood, Energy Coordinating Working Group

INTRODUCTION

National Grid appreciates this opportunity to offer comments on the Draft New York State Energy Plan (Draft Plan), issued by the New York State Energy Planning Board (Board) on August 10, 2009. The Draft Plan establishes key planning objectives to guide the development of New York energy policy in the upcoming decade, and sets forth five strategies to help the State achieve these objectives.

National Grid shares the Draft Plan's objectives: maintaining reliability, reducing greenhouse gas emissions, stabilizing energy costs and improving economic competitiveness, reducing public health and environmental risks, and improving energy independence. In particular, National Grid applauds the State Energy Planning Board for its leadership on climate change issues. We concur with the Planning Board's conclusion that world-wide greenhouse gas (GHG) emissions can and should be reduced 80% by 2050 in order to stabilize atmospheric GHG concentrations and curb further global temperature rise. Indeed, to help achieve this objective, our company has established its own aggressive target of reducing GHG emissions 80% by 2050. Our company executives are being challenged to meet annually decreasing GHG budget targets each year to achieve the corporate goal.

More specifically, National Grid supports Governor Paterson's goals of (1) reducing 2015 electricity use to 15% below forecast levels through energy efficiency, and (2) meeting 30% of New York's energy needs through renewable energy by 2015. Utilities like National Grid will be crucial to this effort, both in their traditional role of delivering energy to customers, and in newer and renewed roles, including delivering energy efficiency programs, supporting the development of renewable resources, and assisting in the roll-out of innovative clean energy technologies. These activities will support economic development and create new green jobs throughout the State.

As the Board moves to develop an implementation plan for the strategies and recommendations set forth in the Draft Plan, National Grid urges it to consider the following overarching principles:

Partnership: The Draft Plan sets forth some extremely challenging goals. To achieve these goals, the State will need "all hands on deck." Utilities have a critical leadership role to play, providing new energy efficiency services to customers, advancing renewable and clean energy, and investing in the infrastructure to continue to serve customers reliably even as they build the network that will make the State's vision of New York's energy future possible. National Grid is already taking action; however, no one entity can do it alone. New York will need to forge partnerships between policymakers and regulators, on the one hand, and utilities on the other, along with universities, the private sector and State energy agencies. It will be necessary to rethink traditional roles and to call on each stakeholder to bring its full expertise and experience to the table.

Flexibility: The Draft Plan calls for innovation in many areas, from the delivery of energy efficiency programs by electric and natural gas utilities to the development of carbon sequestration technology. Regulatory oversight and approval will be a necessary part of many new programs. However, regulators will need to allow utilities and other parties the flexibility to respond to the unknown and the unexpected. For example,

energy efficiency programs will need to evolve dynamically and quickly to reflect actual customer preferences and documented savings in different parts of the State.

Incentives: The Draft Plan calls for aggressive action on the part of electric and natural gas utilities, State agencies, private sector companies, and individual New York citizens. The final Energy Plan should consider the incentives needed to make these actions possible. In particular, a favorable investment climate is necessary to allow utilities to make the substantial investments in energy efficiency, renewable energy and energy infrastructure envisioned in the Draft Plan.

Immediate Action: In order to meet the economic and carbon reduction goals set forth in the Draft Plan, the State must act now to put new initiatives and programs into the field. It is perhaps less important to perfect the design of an energy efficiency program, or identify exactly which customers will benefit from a new transmission line and how, than it is to recognize and capture the broad economic and environmental benefits that could be available in the short term from these initiatives.

National Grid stands ready to take the action needed to achieve the State's energy and environmental goals, and offers the following detailed comments on the Draft Plan.

STRATEGY 1: PRODUCE, USE AND DELIVER ENERGY MORE EFFICIENTLY

The Draft Plan identifies energy efficiency as the priority resource for meeting its objectives. National Grid agrees that energy efficiency is the most effective way to help customers manage their energy costs and reduce their carbon footprint. It is a win-win solution for customers, the environment, and the state of New York.

Utility Energy Efficiency Programs

The Draft Plan endorses a "15 by 15" goal of reducing electricity use to 15 percent below forecast levels by 2015. Achieving this ambitious energy savings goal will require "all hands on deck" -- a partnership of customers, policymakers and regulators, the state's utilities, NYSERDA, energy service companies and environmental organizations.

In support of this goal, National Grid has designed a comprehensive set of energy efficiency programs for its customers and has submitted these programs for approval in the New York Public Service Commission's (PSC) Energy Efficiency Portfolio Standard (EEPS) proceedings. Our customers are eager to take advantage of these programs. However, progress towards final PSC approval of the programs initially has been slow; to date, only 17 of the 44 long-term electric and gas energy efficiency programs proposed by National Grid have been approved for implementation. We understand that the PSC recognizes the importance of delivering energy efficiency programs and related savings to customers as soon as possible, and we are pleased that it recently has committed to acting on all utility energy efficiency proposals by the end of the year. If the State is to meet its ambitious end-use energy efficiency goals, it will need to maintain its focus on the program approval timeline to enable all energy efficiency providers to bring energy savings to their customers as quickly as possible.

Further, specific regulatory policies, designed to promote consistency and perhaps reduce costs, have had unintended consequences on program acceptance and comprehensiveness. For example, the low dollars per MWH goal set for the Small Business Services Energy Efficiency Program has both limited the range of energy

efficiency measures that can be installed under this program, and reduced the number of customers interested in participating in the program. A higher dollar per MWH goal would allow National Grid's customers to pursue a broader range of cost-effective energy efficiency measures, and move the State closer to achieving its energy efficiency goals. National Grid recommends that the State allow for increased flexibility in the design and implementation of new energy efficiency programs, so that utilities and other providers can work effectively with their customers to achieve the "15 by 15" goal. National Grid has developed significant experience over the past two decades on similar programs in neighboring states with similar customer demographics. We are eager to assist New York in leveraging that learning in order to implement program designs with proven track records.

On-Bill Financing

The Draft Plan calls for additional on-bill financing for end-user energy efficiency improvements. National Grid currently offers on-bill financing to all its Electric Small Business Services Energy Efficiency Program participants, and plans to offer it to cities and towns participating in our proposed Electric Energy Initiative Program. National Grid has proposed other on-bill financing pilots, including residential and small commercial efficiency programs for our natural gas customers. We encourage the State to ensure that the proper protections are put in place to avoid negative consequences to utilities and their customers (e.g., increased default rates). In order to expand on-bill financing, National Grid believes that the State should evaluate the costs and benefits thoroughly and encourage identification of funding sources beyond the utilities. RGGI proceeds may be an appropriate source of funds for this effort.

Decoupling

The Draft Plan recognizes the importance of decoupling utility revenues from consumption in order to remove obstacles to aggressive utility pursuit of all cost-effective energy efficiency and distributed generation. National Grid applauds the State's decision to pursue revenue decoupling mechanisms for all the State's major energy utilities in future rate applications, and to provide incentives for the achievement of targeted levels of energy efficiency. To provide maximum benefit to customers, these incentives should be based on goals that are challenging, but achievable. In the interim, it will be important to implement lost base revenue measures quickly, where needed, to ensure there are no barriers to utilities' rapid implementation of cost-effective energy efficiency and distributed generation measures.

Key Recommendations

In summary, National Grid recommends that the final State Energy Plan call on the State to undertake the following actions in implementing its strategy to produce, use and deliver energy more efficiently (Strategy 1):

- Streamline the review process for PSC-approved energy efficiency programs to allow utilities to place quality programs in the field as quickly as possible.
- Provide utilities with the flexibility to adjust energy efficiency programs in response to customer preferences and to capture a greater percentage of the available cost-effective energy savings.
- Aggressively pursue revenue decoupling mechanisms for the State's major energy utilities, implement incentive mechanisms based on goals that are challenging but achievable, and make provision for the interim recovery of lost base revenues.

STRATEGY 2: SUPPORT DEVELOPMENT OF IN-STATE ENERGY SUPPLIES

The Draft Plan calls for the production and use of in-state energy resources, including renewable resources and natural gas, in order to increase the reliability and security of the State's energy systems, reduce energy costs, and contribute to meeting climate change, public health and environmental objectives. Realizing the full benefits of these resources will require a coordinated effort by State policymakers and regulators, project developers, and New York utilities. New York should not overlook, however, opportunities to bring the substantial benefits of economic and clean out-of-state energy resources to its citizens, businesses and industry even as it seeks to develop in-state resources.

Renewable Resources

National Grid strongly supports the Governor's goal of meeting 30% of the state's energy needs with renewable energy by 2015, with a specific focus on new sources of renewable energy. We believe that large and small scale renewable energy projects, coupled with robust energy efficiency programs, will be critical to building a lower carbon future. To achieve this goal, New York will need to assemble a diverse portfolio of renewable energy suppliers representing different sources and markets, including sources and markets located outside the State's boundaries. The Draft Plan's objective of developing in-state renewable resources is laudable, and National Grid enthusiastically supports it. However, New York consumers also should be able to reap the economic and environmental benefits associated with out-of-state renewable energy projects that may be more abundant and less costly than in-state renewable resources. Utilities are uniquely able both to connect their customers to remote renewable resources and to assist them with investments in local renewable generation.

Transmission for Renewables

New York's electric utilities will play a critical role in achieving the State's renewable energy goals and delivering the benefits of renewable resources to the people of New York. First and foremost, if customers are to realize the benefits of renewable energy, utilities will need to provide the transmission infrastructure to deliver renewable energy from the point of generation (frequently remote) to load centers. Cost allocation for such transmission infrastructure urgently needs to be addressed. Under traditional cost allocation principles, the incremental costs of transmission and distribution system reinforcements required for a new generation project have been borne by the project that caused them, rather than by the load that benefits from them. This traditional formula creates barriers to the development of in-state renewable resources, particularly remote wind resources. Cost allocation approaches that assign transmission costs locally do not recognize the wide-spread benefits of new transmission projects or the need to access distant sources of supply in order to meet state renewable energy goals. Localized approaches to cost allocation will result in a transmission network that is inadequate to support the State's policy objectives and will unduly limit customer supply options. It is therefore critical that the State develop appropriate cost allocation mechanisms for these types of projects, with clear rules and mechanisms that allow New York energy consumers to benefit from renewable energy projects located throughout New York State and beyond the State's borders. The benefit to customers and the creation of economic development opportunities will create an environment where multiple and diverse sources of renewable generation are employed.

Utility Ownership of Renewables

In order to develop fully its renewable energy resources, New York should consider allowing electric utilities to construct, own and operate a certain level of renewable generation connected directly to their transmission and distribution systems. Utilities such as National Grid are able to finance and build renewable energy projects on a larger scale than their customers. Utility-scale investment in these projects at an early state of development will help lower the cost to consumers of deploying solar and other advanced renewable technologies. To encourage this investment, we recommend that the PSC establish a specific amount of small-scale renewable generation that could be owned by utilities, perhaps in the range of 50 to 75 MW per utility. In addition, New York may wish to consider creating a mechanism that would allow residential customers to sell Renewable Energy Credits (RECs) into the RPS fund administered by NYSERDA, and to encourage wider commercialization of renewable development by creating a corporate investment tax credit for renewable energy installations analogous to the existing 25% personal tax credit for residential renewable installations. The PSC's October 15 announcement that it intends to review the RPS at this time provides an exciting opportunity to consider the role of utility ownership of small-scale renewables in advancing the development of renewable generation. National Grid looks forward to working with the PSC and other stakeholders on this and related matters.

Net Metering and Contracts

The Draft Plan calls for the amendment of laws on net metering to provide commercial customers with greater flexibility to size distributed generation systems to meet a greater percentage of their energy needs. Net metering provides electric customers with an incentive to install renewable generation by essentially paying them the higher retail rate, rather than the lower wholesale rate they offset, for the electricity they generate. If net metering is to be expanded, the enabling legislation should provide utilities with the ability to collect resulting lost revenues and evaluate customer projects on an individual basis to determine the impacts on existing infrastructure and the level of customer contribution required to enhance this infrastructure, if necessary.

The Draft Plan also promotes the use of bilateral contracts between New York power authorities or utilities and renewable energy producers to attract additional in-state renewable energy development. If New York's electric utilities are to participate in such contracts, the rules for future cost recovery must be clear and unequivocal, and must ensure that the incremental cost of long-term contracts are borne by all customers. In addition, appropriate compensation must be provided for any risks of long term contracting not otherwise addressed.¹

Non-Electric Renewables

The Draft Plan recognizes the need to promote non-electric renewables, as well as more traditional renewable generation. To this end, the final State Energy Plan should address certain disparities in regulatory treatment that undercut the development of New York's renewable gas and liquid biomass resources.

New York has substantial renewable gas resources which, if developed, could contribute significantly to the State's GHG reduction and renewable energy goals while providing local economic development benefits. National Grid currently is undertaking an assessment of renewable gas potential within its New York service territory, and may

¹ The Massachusetts Green Communities Act provides a robust framework for managing long term contracts for renewable energy.

consider future investments in renewable gas projects. However, disparities in regulatory treatment currently discourage the full development of these resources. Under current State rules, RECs are created when renewable gas is used for power generation, but there is no comparable incentive for the direct injection of renewable gas into the distribution system, or for the use of renewable gas on-site for heat. In order to encourage the most efficient use of renewable gas, National Grid recommends that the State consider a Production Tax Credit or similar incentive, at a level equivalent to the REC, to be earned when renewable gas is used for purposes other than power generation.

The Draft Plan also encourages the development and use of sustainable biomass to displace heating oil and gasoline. National Grid concurs, and recommends that sustainable liquid biomass be used not only for heating and transportation but also to displace oil-fired electric generation. The current RGGI program does not recognize sustainable liquid biofuels as a RGGI-compliant fuel for electric generation. The final State Energy Plan should call for revisions to the current RGGI rule (NYCRR 242) to recognize sustainable liquid biofuels as a RGGI compliant fuel for electric generation. Doing this will further the State's objective of cutting GHG emissions and reducing its dependence on foreign petroleum supplies.

Key Recommendations

In summary, National Grid recommends that the final State Energy Plan call on the State to undertake the following actions in implementing its strategy to support the development of in-state energy supplies (Strategy 2):

- Implement transmission cost allocation and recovery mechanisms that recover the cost of new transmission to deliver renewable energy located in remote areas from all customers, and that increase the certainty of cost recovery for this critical class of infrastructure;
- Permit electric utilities to invest in certain levels of renewable energy generation;
- Create a Production Tax Credit or similar incentive, at a level equivalent to the REC, to be earned when renewable gas is used for purposes other than power generation.

STRATEGY 3: INVEST IN ENERGY AND TRANSPORTATION INFRASTRUCTURE

The Draft Plan recognizes that achieving New York's energy and environmental goals will require considerable investment in the State's energy infrastructure. National Grid is currently investing heavily in electricity transmission and distribution, and will continue to do so, in order to refurbish and replace aging infrastructure, to respond to growing demand, to move clean power into and around New York, and to install "smart" technologies to increase the efficiency of its systems and provide customers with tools to manage and reduce their energy use. On the natural gas side, National Grid is investing in gas mains and connections to meet demand, improve safety, and reduce leakage that contributes to greenhouse gas emissions. The Company stands ready to make this investment in New York's energy future. However, in order to do so, it will need a supportive investment climate that provides for timely recovery of costs and adequate returns on investment.

Electric Infrastructure

There is an urgent need to make significant investments in electric transmission and distribution infrastructure in New York to permit the State to achieve its energy policy

objectives. Without timely investments in the transmission system, New York consumers will not benefit from the development of renewable generation, more efficient use of the electric grid, or the economic development opportunities that can be achieved when a robust electric grid exists. Similarly, without timely investment in the distribution system, New York businesses and residents will experience a declining quality of service, and will not reap the full benefits of “smart” energy technologies and distributed generation resources.

National Grid stands ready to make major investments in its transmission and distribution systems. The Company currently is undertaking a multi-year, multi-billion dollar investment program to refurbish and replace aging transmission and distribution systems, to reliably serve growing load, and to provide the infrastructure to support economic growth throughout the State. In addition, National Grid has proposed an approximately \$249 million investment in Smart Grid technologies on its distribution systems, to be partially funded with federal Stimulus money. It also stands ready to make major investments in transmission to deliver renewable energy to load centers in New York. However, National Grid cannot make these investments unless processes are put in place to identify the needs of the system on a statewide basis, and unless it has certainty that it will recover the costs of its investments.

Transmission Planning

At present, transmission planning in New York is conducted primarily by individual New York transmission owners, which plan their systems to address the needs of their own customers. These individual plans are then aggregated through into the New York Independent System Operator’s (NYISO) Comprehensive System Planning Process (CSPP). The resulting transmission plan is focused on the high-voltage system, and does not address issues such as aging infrastructure, bottled-in generation, the need to maintain or increase transfer capabilities, and impacts on State energy and environmental policy objectives.

The New York transmission owners, with support from the NYISO, are seeking to fill this analytical gap by conducting the New York State Transmission Assessment and Reliability Study (STARS). The objective of this study is to undertake a thorough assessment of the transmission system, develop long-term reliability and economic upgrade strategies, and propose a long-range roadmap for coordinated investment across the state’s power system. New York should continue to support the STARS effort as a means of identifying the transmission investments needed to allow New York to accomplish its ambitious energy and environmental goals.

New York also should support the development of a robust regional transmission planning process that provides a clear assessment of the entire transmission infrastructure that is needed to reliably and economically serve the energy needs of New York consumers, and to meet the state’s environmental objectives over the long term. Such a planning process would address the impact of the development of remote renewable resources on the existing transmission network, identify transmission projects that would allow bottled generation to reach the market (thereby reducing reliance on capacity zones that inhibit transmission development), and recognize that the transmission system is essential to allowing generation and demand resources access to competitive markets.

Natural Gas Infrastructure

The Draft Plan recognizes the need for investment in the State's natural gas infrastructure to meet the needs of New York customers and to achieve its GHG reduction goals. Natural gas is not only a transition fuel that will allow New York to move from its current reliance on carbon-based generation to a greater reliance on clean, renewable generation; it also has an important independent role to play in New York's clean energy future.

National Grid plans significant investment in its gas distribution infrastructure, both to meet the growing demand for natural gas, and to improve safety and reduce leakage that contributes to GHG emissions. Further expansion of the natural gas transmission and distribution systems will be needed to support individual, state and local actions to reduce GHG emissions. For example, New York City has launched an initiative to convert generators currently using No. 4 and No. 6 oil to natural gas. If this initiative goes forward, it will have a dramatic impact on the need for incremental natural gas supplies, particularly on peak days. Distribution company infrastructure may also need to be upgraded to support the incremental flows.

On a smaller scale, cities and towns may seek to reduce their carbon footprint by investing in garbage trucks and other municipal vehicles that operate on compressed natural gas, rather than gasoline. Individual New Yorkers may opt for appliances that run on natural gas, rather than on electricity generated from more carbon-intensive fuels. These actions may require local distribution companies such as National Grid to expand their distribution infrastructure to meet these increased loads.

Infrastructure for Natural Gas and Electric Vehicles

The Draft Plan recognizes the need to invest in transportation infrastructure, including the infrastructure needed to support the broad-based deployment of alternative fuel vehicles (AFV) vehicles. Natural gas, in both compressed and liquid form, has great potential to meet the State's future transportation needs, as evidenced by the large truck manufacturers' consideration of natural gas engines to meet the 2010 federal emissions requirements. However, fuel infrastructure will need to be developed to support widespread interstate transportation by natural gas vehicles. Infrastructure will also be needed to support growth in the electric and plug-in hybrid electric vehicle sector.

In order to support the development of AFV infrastructure, the State should consider extending the Clean Fuel Vehicle Refueling Property Tax Credit for five years. This incentive, which expires on December 31, 2010, provides a 50% State income tax credit on the installation of clean fuel vehicle refueling property. This tax credit is needed for at least another five years to allow the AFV market time to mature. The State should also consider reinstating the AFV Tax Credit, a 60% tax credit on the incremental cost of a compressed natural gas (CNG) vehicle, in order to provide New York businesses with an incentive to implement CNG vehicle programs. Finally, the State should consider the best way to provide for accelerated regulatory review of rates and tariffs to support growth in the electric and plug-in hybrid electric vehicle market.

Infrastructure Siting

National Grid has committed to aggressive capital investment in its electric transmission, electric distribution, and natural gas systems to replace, refurbish and modernize the State's infrastructure and to meet changing and growing customer demand. Many of the Company's larger investments, including projects designed to address safety issues

associated with aging transmission infrastructure, will require approval by the PSC through its Article VII process for the approval of major natural gas and electric transmission facilities.

To accommodate the unprecedented level of infrastructure investment that will be required over the next decade, the PSC will need to tailor its review of transmission projects based on the scope and likely impacts of each project. This could be accomplished by adopting a streamlined review process for certain refurbishment and replacement projects, similar to the streamlined Article VII process already in place for certain natural gas projects.

In addition, National Grid recommends that the final Energy Plan require interagency coordination during the review of Article VII filings in order to address the potential impact, recognized in the Draft Plan, of permitting delays on the development of natural gas infrastructure. By implementing procedures that require agencies with clear jurisdiction and approval authority to provide early indications of acceptable sites, the State can promote projects that will help it meet its energy and environmental goals. National Grid stands ready to work with all interested parties toward the adoption of a siting process that will ensure timely development of needed facilities in an environmentally sensitive manner.

Key Recommendations:

In summary, National Grid recommends that the final State Energy Plan call on the State to undertake the following actions to support investments in energy infrastructure (Strategy 3):

- Endorse the development of a comprehensive, robust and transparent statewide planning process, led by NYISO, that encompasses the entire transmission system (at a minimum 115 kV and above). Primary goals of this process should include meeting reliability criteria, reducing congestion, and supporting State environmental policy.
- Support the development of transmission projects arising out of the STARS initiative.
- Extend the Clean Fuel Vehicle Refueling Property Tax Credit for five years, reinstate the AFV Tax Credit, and provide for accelerated regulatory review of electric vehicle and PHEV rates and tariffs.
- Adopt a streamlined review process for certain refurbishment and replacement projects, similar to the streamlined Article VII process already in place for certain natural gas projects.
- Require agency coordination during Article VII proceedings, and clarify the jurisdiction and authority of the agencies involved in such proceedings.

STRATEGY 4: STIMULATE INNOVATION IN THE CLEAN ENERGY ECONOMY

The Draft Plan recognizes an on-going evolution in the United States from an economy based on mass production to an “innovation economy.” In response to this fundamental change, the Draft Plan calls on the State to stimulate innovation in the clean energy economy by increasing demand for clean energy goods and services, by providing targeted workforce training, and by providing direct support to attract and retain promising clean energy firms.

National Grid shares the State's desire to promote a clean energy economy in New York, and is already taking action in this direction. While the Draft Plan focuses on the State's academic/industrial base and agencies such as NYSERDA and NYSTAR, the final Energy Plan should also recognize the leadership role that New York's utilities can, and indeed must, play in energy sector innovation.

Historically, utilities have been critical to the deployment of new energy technologies. For example, National Grid played, and continues to play, a key role in the development of infrastructure for natural gas vehicles. Without the early support of gas distribution utilities, this technology would not be available today.

Today, National Grid is poised to take a lead role in deploying Smart Grid technology, in New York and throughout the northeast, to provide its customers with tools to manage and reduce their energy use, and to create a distribution infrastructure capable of supporting significant levels of distributed renewable generation. The Company has proposed a New York Smart program that would install Smart Grid and distributed renewable technologies in the Syracuse and Albany (Capitol District) areas, reaching 82,000 customers at an estimated cost of \$249 million, and creating approximately 400 new jobs. National Grid has submitted an application to the US Department of Energy seeking matching funds for this program and for smaller Smart Grid programs in Massachusetts and Rhode Island. If the Company receives DOE funding, Smart Grid deployment will begin in early 2010.

Another example of the role utilities can play in the clean energy economy is National Grid's collaboration with the New York State Parks Department on an energy storage demonstration project involving a zinc bromide battery integrated with a photovoltaic system at Niagara Falls. Energy storage systems have many potential applications, but the most promising of these require close integration with utility operations and assets. These systems, coupled with intelligent sensing and controls, can provide peak shaving and voltage support to the distribution system. They may also prove to be an efficient means of compensating for the intermittency of certain types of renewable generation.

Utilities can also be an important partner with colleges, universities and state and local agencies to develop the workforce necessary to support New York's growing clean energy economy. National Grid is launching a program called "Engineering our Future" which will focus on enhancing the science, technology, engineering and mathematics (STEM) subjects in grades K through 12. The long-term goal of the program is to create a workforce with the skills needed to develop and implement clean energy technologies, design the networks needed in a more energy-intensive world, and create solutions for a low-carbon economy.

Utility leadership in the clean energy economy could result in the creation of thousands of jobs throughout the State. National Grid estimates that its New York Smart proposal, standing alone, will create at least 400 jobs. The Company's energy efficiency programs will create a demand for skilled workers to analyze customer needs, install efficient equipment at customer sites and conduct program evaluation. Our investments in renewable energy and in the transmission and distribution systems needed to support it will create a demand for solar panels, wind turbines, advanced metering equipment, and the workers to install and maintain them. Utilities are, in fact, core members of New York's clean energy economy.

The renewed involvement of utilities in technology and innovation will benefit our customers in three ways: through reduced energy costs, through accelerated penetration of new technologies and through the realization of technologies that cannot be demonstrated and commercialized without utility participation. National Grid looks forward to a long and fruitful collaboration with the State energy agencies, colleges and universities, and businesses to develop, demonstrate and deploy innovative energy technologies, to develop a skilled workforce, and to build New York's clean energy economy.

Key Recommendations:

National Grid recommends that the final State Energy Plan call on the State to undertake the following actions to stimulate innovation in the Clean Energy Economy (Strategy 4):

- Continue to support utility investment in Smart Grid and other innovative technologies by providing appropriate cost-recovery mechanisms and streamlined approval processes as needed. The PSC's aggressive approach to providing cost share assurances for utilities applying for federal stimulus funding may serve as a model for supporting innovation by New York utilities.

STRATEGY 5: ENGAGE OTHERS IN ACHIEVING THE STATE'S POLICY OBJECTIVES

The Draft Plan recognizes the need to engage other stakeholders – including local governments, other states and Canadian provinces, and the federal government – in order to achieve the State's aggressive energy goals. The State's utilities can and should take a leadership role in developing these relationships.

It is critical to remember that New York's efforts to reach its goals will take place within a national, and even global, context, and to engage all stakeholders – public, non-profit, and private – in discussions about how to move forward. For example, the Draft Plan calls on New York to do its fair share to achieve the overall GHG reductions required to address climate change. National Grid is already taking a lead in the national debate on this issue. The Company supports a comprehensive mandatory national cap and trade program as the most expedient means of achieving these necessary reductions, and is actively lobbying for federal legislation to create such a program. We look forward to working with New York as we engage with other stakeholders to develop efficient and effective plans to meet our common energy and environmental goals.

ENSURING THE ECONOMIC VITALITY OF NEW YORK'S UTILITIES

New York's electric and gas utilities have a vital role to play in the implementation of the policies set forth in the Draft Energy Plan. The Draft Plan relies on utilities to design and deliver energy efficiency programs; to provide the infrastructure needed to increase the State's reliance on clean renewable energy resources; to maintain and improve the reliability of New York's electric and gas transmission and distribution systems; and to invest in new technologies that will improve end use efficiency, reduce GHG emissions, and enable New York citizens and businesses to reap the benefits of innovation in the electric, natural gas, and transportation sectors. If New York utilities are to be able to support the State in its efforts to achieve aggressive climate change and energy plan targets, they must be seen as viable, high-value, low-risk investments by Wall Street.

A New York utility's ability to make large investments in infrastructure, energy efficiency, or "smart" technology is affected by investor perceptions of the attractiveness of investing in regulated utilities in New York. These perceptions are based on the stability and fairness of the regulatory process, the attractiveness of allowed and achievable returns, and timeliness of cost recovery. New York utilities are compared with their counterparts across the nation and, in many cases, around the world. The perceived attractiveness of the regulatory climate is reflected in the financing cost of utility investments, a cost which ultimately is borne by utility customers.

Thus, in order to undertake the significant investments required to support the State's energy and environmental goals, National Grid must operate within a regulatory and investment climate that ensures timely recovery of costs and provides a sound and consistent policy for cost of capital and investment recovery. As National Grid stated in its March 10, 2009 comments, New York policymakers and regulators need to provide utilities with a greater degree of certainty with respect to the adequacy and timeliness of investment recovery. The Draft Plan calls on New York utilities to invest billions of dollars in long-lived assets that take considerable time to plan, permit and construct. The traditional "used and useful" regulatory construct puts these billions of dollars at risk, and influences the scale of investment that investors are comfortable undertaking.

To address this issue, the State should evaluate regulatory mechanisms, such as capital trackers and formula rates, that could provide increased transparency and flexibility for customers and utilities, particularly when capital plans may require regular updating due to changes in underlying factors such as materials costs. Such mechanisms may also provide regulatory savings by eliminating the need for frequent rate cases.

If they are to raise the capital required to make investments in support of the State's energy and environmental goals, New York utilities also must be seen to reliably earn returns on equity as attractive as the returns allowed to utilities in other states and other industries with similar risk profiles. A consistent approach on cost of capital across the State's utilities would enhance regulatory stability while allowing for company-specific conditions to be properly addressed.

Key Recommendations:

In summary, National Grid recommends that the final State Energy Plan call on the State to undertake the following actions to ensure the economic vitality of New York utilities, which are being asked to make multi-billion dollar investments in support of the Draft Energy Plan:

- Enhance the regulatory environment by considering the adoption of mechanisms that will compensate utilities in a timely fashion for the costs that they prudently incur, demonstrating a positive investment environment for debt and equity investors.
- Implement policies that will provide utilities with the opportunity to earn returns on equity as attractive as those provided to utilities in other states and to other industries with similar risk profiles.

CONCLUSION

National Grid commends the New York State Energy Planning Board on the scope, depth and thoughtfulness of the Draft 2009 State Energy Plan. The Company wholeheartedly endorses the Draft Plan's focus on maintaining reliability, reducing

greenhouse gas emissions, stabilizing energy costs and improving economic competitiveness, reducing public health and environmental risks, and improving energy independence.

Achieving the State's goals will require leadership from policymakers and from the utilities that provide energy services to New York customers. New York's utilities will need to design and implement energy efficiency programs to serve their customers, invest in clean renewable generation and in the transmission and distribution infrastructure needed to deliver it to their customers, maintain and improve the reliability and efficiency of the State's existing electric and natural gas infrastructure, and build a new Smart Grid that can support technologies ranging from plug-in hybrid electric vehicles to distributed generation. For this to happen, policymakers will need to forge new partnerships between stakeholders, rethink traditional roles and processes, and create a framework in which innovative ideas and technologies can take root.

National Grid stands ready to make this investment in New York's energy future, but it cannot do so without a supportive regulatory and investment climate. If the energy efficiency goals set forth in the Draft Plan are to be met, New York will need to develop efficient and flexible frameworks for approving utility energy efficiency programs. If the State's renewable resources are to be fully developed, New York will need to resolve the cost allocation and recovery issues that currently impede the development of transmission to deliver renewable energy to customers. And if utilities are to make significant investments in support of the Draft Plan's energy and environmental goals, they will need to operate in an investment climate that ensures timely recovery of costs and industry-standard returns.

National Grid looks forward to working in partnership with the Board, the State, other utilities, stakeholders, and most importantly, our customers to implement the Governor's vision for New York's energy and environmental future.