

Comments to the Energy Planning Advisory Board
Stakeholder Forum – June 23, 2006

Good afternoon, my name is Bill Sherry, I am Executive Vice President, New Hampshire Public Affairs for National Grid.

(chart 1 – NH Service territory)

You might ask who is National Grid? Well, for almost the past 100 years we have been doing business in New Hampshire as Granite State Electric and New England Power Company. In fact, we trace our corporate history in New England back to the original hydro-electric plants along the Connecticut River, many of which are still operating today. A side note, hydro-electric power was the original renewable energy. At that time in the early 20th century, the electric industry was going through tremendous change as companies merged and regulations and laws were developed to provide consumer protections and bring electricity to all parts of the country.

(chart 2 – National Grid – Who We Are)

Today, National Grid is an international energy delivery company based in the UK. We manage and operate the Transmission system in the UK as well as serve 11 million gas customers.

In the US, we are an Electric and Gas transmission and distribution company in NY, MA, RI and NH, serving 3.3 million electric and 565,000 gas customers.

- focus on the delivery of energy – we do not make any money from the generation or sale of the electric energy itself
- our emphasis is on service to the customer, safety, efficiency and providing a reliable infrastructure for our customers
- doing business locally, cite responses to the floods of last fall in the Alstead area and this spring in the Salem area
- community involvement

In process of acquiring KeySpan and New England Gas

- additional 2.8 million gas customers in NH, NY, RI and MA as well as 1.1 million electric customers on Long Island

(chart 3 – National Grid’s Service Territory including proposed acquisitions)
The energy industry is one of the most capital intense, complex and heavily regulated in history, but today we are hear to talk about several key points:

- Customers
- Prices
- Choices

In the next few minutes, I would like to discuss why National Grid is committed to continuing the journey to competitive generation markets and why this will benefit customers.

(chart 4 – National Grid’s Average residential rates since Jan 1998)

In the 1990’s customers were screaming for lower energy prices. Public Policy evolved as it should have. We were the first company in New England to sell our power plants, pay down our stranded costs and move aggressively to develop the market for competitive supply. For the past 8 years, our NH customers have seen the real benefits of those decisions. All while the underlying delivery charges remained virtually unchanged.

Yes, today we all experiencing a rise in energy prices.

(chart 5 – Avg Monthly electricity clearing prices)

And that has a direct impact on electric bills as natural gas is the major fuel for power generation in the northeast, and drives electricity prices. (representing approx. 80% of the marginal energy sales in the NE wholesale market)

(chart 6 – New England Generation Fuel Mix)

(chart 7 – Avg Monthly Clearing prices, Electricity vs Gas)

The important thing to remember today is - increasing fuel prices impacted electric rates in both the old regulated world and today’s de-regulated world.

(chart 8 – Regulated Generation Business Model)

In the old days of regulation

- Customers bore the risk of paying for the cost of power plants
- There were no timely price signals to customers
- Shareholders earned returns on their power plant investments without regard to performance or need for the plants

(chart 9 – Competitive Generation Model)

Today

- Generators bear the risk of recovering their power plant investments
- Customers receive more efficient price signals
- Shareholder returns on their power plant investments are tied to performance
- We have realized substantial environmental benefits
- After adjusting for today's higher cost of fuel, prices are actually lower in real terms

(chart 10 – Complete the Transition)

The energy market in New England is a regional market. It is important for customers in New Hampshire for the wholesale market for electricity to be vibrant and competitive. What can we do to ensure those benefits come through for customers?

- Implement the forward capacity auction (LICAP settlement). This will lay the groundwork and create the incentives for new generation to come into New Hampshire
- We are concerned that the hybrid generation market being advocated by some parties, with both regulated and unregulated generating plant ownership may poison the well for new competitive generation.
- Instead, we should stay the course. Consistency in legislation and regulation allows the competitive market the time to develop
- Developers can justify investing in New Hampshire

- Siting and Permitting regulations – Developers will walk away from potentially profitable projects if they can't get reasonable permits to build in reasonable timeframes
- Fuel diversity is an important part of the discussion

It is important for NH to have financially strong energy delivery companies, to support the electric and gas infrastructure that drives the economy of the region

Transmission is an important component of this discussion

- Enables competitive markets
- Continue expanding the infrastructure
- Siting and permitting

The Retail Market

- Continue and even enhance energy efficiency programs. It should not be a question of supporting energy efficiency or helping low income customers. Energy efficiency is good public policy. It is an economic development tool for business and beneficial to the environment. Also, we already have an effective delivery mechanism in place with the current programs.
- Continue and support programs to provide for retail competition, make it as seamless as possible for customers to go into the market or return to the utility's energy service when needed, and lower the barriers to entry for new retail competition
- Expand opportunities for real time pricing – provides customers the right price signals in the market.

Environmental Issues

A few comments on global warming. We believe it is a real issue. In fact we have sponsored several fellowships at UNH to study the effects of global warming on the transmission and distribution system of the future. We also believe that the discussion over RGGI and RPS needs to continue, not only at the local level but the regional and national level as well. And we ask, what should we all be doing in our respective businesses to take steps to ensure a healthy environment for the future?

Closing

I would like to thank the committee for the opportunity to present National Grid's views on these critical energy issues. Remember the old days of regulation had its share of problems as well. And as we continue this discussion, please keep in mind that there is a customer on the receiving end of any decisions we make going forward.