

To: NECPUC

From: Carolyn O'Connor

Date: August 13, 2010

Subject: Update on Recent and Upcoming Regional Activities

This memo is prepared by ISO's External Affairs Department to provide an update on several regional activities that may be of interest to the States. For your convenience, when appropriate, I have identified dates when key discussions and votes are scheduled to occur at upcoming stakeholder meetings, as well as planned filings.

There is also a section highlighting upcoming ISO speaking engagements and meetings that may be of interest.

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ISSUES and UPDATES

2010 Regional Electricity Outlook

Earlier this summer, ISO New England published the [2010 Regional Electricity Outlook](#) (REO).¹ The REO highlights the benefits to the region associated with ISO's three core responsibilities: operating the power system; administering the electricity markets; and power system planning for the region.

The REO notes that over the past dozen or so years the region has seen great improvements – billions of dollars have been invested in new, cleaner and more efficient power plants – demand resources have bolstered the region's capacity – transmission lines have improved interconnections and power flows – and efficiencies and savings have been realized.

Among other things, the REO looks at some of the challenges currently facing the region, including integrating renewable resources and implementing smart grid technologies.

One of the conclusions of the REO is that “in a relatively short time, the combined functions of competitive electricity markets, a dynamic and transparent regional planning process, and centralized system operations have guided the development of a power system that is more reliable, economical, and environmentally sound.”²

The REO also details some key facts for the region:

- Population of 14 million with 6.5 million households and businesses
- Generating capacity is over 30,000 MW
- Approximately 2,000 MW of demand resources
- More than 8,000 miles of transmission lines (115 KV and greater)
- All-time peak demand of 28,130 MW set on August 2, 2006
- Approximately 350 generating units in the region
- Transmission investment since 2002 is \$4 billion with an additional \$5 billion planned
- 13 interconnections to adjacent control areas in New York and Canada.

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Fourth Forward Capacity Auction

The fourth Forward Capacity Auction closed after seven rounds conducted over two days (August 2-3). Preliminary results indicate the auction worked as designed and attracted sufficient resources to meet future reliability needs. More than 40,400 megawatts (MW) of resources from new and existing demand- and supply-side resources competed to provide the 32,127 MW needed for reliability in the 2013 to 2014 timeframe. The descending price auction started at a price of nearly \$9.84 kilowatt-month (kW-month) and bidding in the final round reached the minimum price established for this auction at \$2.95 per kW-month, with 5,374 MW of excess supply. The ISO will file auction results with the Federal Energy Regulatory Commission (FERC) later this month (and this filing will be [posted here](#)).

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¹ *2010 Regional Electricity Outlook*, available at http://www.iso-ne.com/aboutiso/fin/annl_reports/2000/2010_reo_2009_financials_fx.pdf.

² *2010 Regional Electricity Outlook*, page 30.

Consumer Liaison Group Update

Last week, the Consumer Liaison Group (CLG) had its third meeting of the year.³ This well-attended meeting featured [presentations](#) and discussions relative to FERC's [Notice of Proposed Rulemaking](#) (NOPR) on Price-Responsive Demand (PRD). ([See related story below – "FERC Issues Supplemental NOPR and Notice of Technical Conference"](#)).

Panelists representing NECPUC, the Massachusetts Attorney General, the Maine Public Advocate, EnerNOC, Comverge and ISO New England discussed their perspectives on how PRD should participate in the wholesale energy market. The discussion also brought up the issues and concerns associated with dynamic retail pricing, including that businesses and consumers may not have the time, resources or business process to monitor and respond to price; such consumers prefer fixed pricing as a hedge for business planning and budget certainty purposes. Others viewed dynamic pricing as a means for more efficient use of energy and a means by which consumers can manage their electricity costs. CLG members determined that dynamic pricing will be an agenda item for a future meeting.

Robert Ethier, Vice President, Market Development, ISO New England and Sam Newell of the Brattle Group [presented and discussed](#) the ISO's process and current proposal for determining which ISO market initiatives will be the subject of economic impact analysis. This analysis is in response to the Order 719 [RTO Responsiveness and Governance Working Group](#) stakeholder process that committed the ISO to provide consumers and other stakeholders with qualitative and quantitative information on "major" ISO initiatives. Following the determination of the appropriate criteria for market initiatives the ISO will turn to consideration of major system planning initiatives.

Mr. Ethier discussed the challenge in producing timely analysis, such that the information will be useful in the stakeholder process. The ISO expects to produce a specific proposal in the near future for stakeholder review.

The next CLG meeting is November 3 at the Doubletree Hotel in Westborough, MA. Registration is available for this through the [ISO event calendar](#). For more information on the Consumer Liaison Group, please visit the [CLG webpage](#).

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Federal Legislative Update

Comprehensive Energy Legislation

Despite predictions that the Senate would engage in a debate over energy legislation in July, the Senate left for August recess without considering even narrow provisions to address the oil spill in the Gulf of Mexico. On July 28, Senate Majority Leader Harry Reid (D-NV) introduced possible bill language that omitted both a cap-and-trade plan and a renewable energy standard – instead focusing on reforms addressing the oil spill and off-shore drilling, as well as incentives for natural gas vehicles and land conservation. However, adequate support for the measure could not be reached and the bill was never formally debated. The House of Representatives, on the other hand, did pass a bill specifically addressing the Gulf of Mexico spill (as well as future spills).

When the Senate returns after Labor Day, it may find the political environment even tougher for debating energy policy. Beyond needing additional support to approve an oil spill-only measure, a significant bipartisan group of senators, lead by Senator Jay Rockefeller (D-WV), continues to push for a vote on an initiative to prevent the Environmental Protection Agency (EPA) from regulating carbon emissions for two years. While the White House has announced it will likely veto any measure blocking EPA regulations, such a threat is not likely to stop members from pushing for a vote on the measure.

³ August 5 CLG meeting material at: http://www.iso-ne.com/committees/comm_wkgrps/othr/clg/mtrls/2010/aug52010/index.html.

Northeast Governors and Transmission Policy

In anticipation of debate on an energy bill in the Senate, 11 governors, including all six New England governors, [sent a letter](#) to Senate leaders reiterating previously expressed concerns over transmission provisions that may be included in the final bill. The letter noted that earlier legislation, passed by the Senate Energy Committee in 2009 and once thought to form the basis for debate in late July, included a plan for a national transmission corridor that “threatens to undermine the significant renewable energy potential along the East Coast”⁴ by favoring the development of land-based resources from regions outside the northeast. The governors urged Congress to wait for results from planning initiatives (like the [Eastern Interconnection Planning Collaborative](#)) before legislating on transmission policy.

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34th Annual Meeting of the New England Governors and Eastern Canadian Premiers

Last month, the New England Governors and Eastern Canadian Premiers convened their annual meeting to discuss a variety of important regional issues including renewable energy development, energy efficiency, climate change, transportation and smart grid initiatives.

This year, the New England Governor’s adopted resolutions to promote energy efficiency and solar resources.

Resolution 197 (34-3) – A Resolution Promoting Energy Efficiency

- New England will strive to reduce overall energy use in buildings by at least 20% by 2020.⁵
- States agree to propose strong international energy codes for buildings as soon as possible.
- New England states agree to request federal waivers to establish a 90% efficiency standard for natural gas furnaces in the region, and will also seek to set high efficiency standards for other heating systems.

Resolution 198 – Resolution Concerning the Promotion of a Regional Solar Photovoltaic Market

- Commitment of region’s governors to create a robust regional market for solar photovoltaics.
- NEGC will convene a working group to consider areas of policy coordination to create a regional market and to establish a New England goal for installed solar by 2020.

This year’s resolutions should soon be available on the [NEGC website](#).

In 2009, the New England Governors signed [Resolution 33-2](#) in which they resolved to “consider potential terms and conditions for the procurement of regional power.” As a follow-up to last year’s resolution, at last month’s meeting NESCOE provided to the New England Governors a [Report on Coordinated Renewable Procurement](#). “The Report represents the states’ preliminary perspective on the potential to coordinate procurement of renewable resources across New England.”⁶

NESCOE is [seeking comments](#) on the preliminary report by September 12. ISO anticipates filing comments on the report.

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⁴ See also [July 12, 2010 Letter](#).

⁵ The reductions are based on a 20% below business as usual objective.

⁶ http://www.nescoe.com/Coordinated_Procurement.html.

ISO Budget Update

Each year, the ISO employs a transparent process to develop its annual operating budget. Earlier this year, the ISO began the process by discussing with stakeholders its planning, operations and capital project priorities. Discussions continued in the spring when the ISO presented its five-year strategic plan to aid stakeholders' understanding of the longer-term, multi-year objectives.

Next, the ISO will present its draft operating budget for stakeholder review and comment. Once reviewed by stakeholders and approved by the ISO Board, the 2011 operating budget will be submitted to FERC for approval.

Starting this month and through October, ISO management will be meeting with stakeholders to get feedback on the proposed budget. Below are important budget-related dates and meetings (dates are subject to change):

- August 25 Review draft budget at Budget and Finance Committee meeting
- September 17 Review draft budget with NEPOOL Participants Committee
- September 30 Review draft budget with ISO Board
- October 15 NEPOOL meeting to vote on budget
- October 28 ISO Board meeting to vote on budget
- October 31 ISO budget filed with FERC
- December 31 FERC to issue order on budget

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Financial Assurance Policy

The ISO's Financial Assurance Policy (FAP) provides a credit review process to assess the ability of a Market Participant to pay for service transactions. This process also serves to protect participants from the risk of non-payment by other participants.

On July 15, 2010, the FERC issued an [Order](#) in response to proposed changes to the FAP and Billing Policy submitted by the ISO and NEPOOL on March 26, 2010. FERC accepted proposed tariff revisions, effective December 1, 2010 or later, to:

- Shorten the cycle for billing and payment of hourly charges from once to twice each week.
- Account for and collateralize ISO and transmission charges separately.
- Eliminate the use of unsecured credit for Forward Transmission Rights for all Market Participants.
- Eliminate the use of unsecured credit in the form of affiliate guaranties.
- Modify the allocation of payment defaults such that defaults backed by the use of unsecured credit will be allocated only to those participants that utilize unsecured credit.
- Tighten financial assurance requirements to use the lowest credit rating when there is more than one available, and to eliminate the use of senior secured debt ratings for a Market Participant that does not have a corporate rating.

In addition, the FERC denied proposed tariff revisions to:

- Selectively eliminate the use of unsecured credit for those Market Participants that fulfill the FAP requirements for unsecured credit on a stand-alone basis.
- Discontinue the purchase of third-party credit protection.
- Increase the unsecured credit limit for transmission and distribution customers.

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2010 Economic Study Update

In July, the ISO finalized the assumptions for this year's economic study with input from the New England States Committee on Electricity ([NESCOE](#)) and the Planning Advisory Committee ([PAC](#)). The study will evaluate 11 cases for a single year in the 2030 timeframe, building on the [New England 2030 Power System Study](#) performed in 2009 for the New England Governors. The ISO is expecting to present preliminary results to the PAC this fall.

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PAC Update

The Planning Advisory Committee met on August 12 to review comments on the draft 2010 Regional System Plan (RSP10) and for an ISO update on the needs assessment for the New England East-West Solution (NEEWS) Interstate Reliability Project. The ISO's reassessment reaffirms the need for the interstate component of NEEWS.

RSP10

The draft RSP10 was [posted](#) in July for stakeholder review and comments were discussed with the PAC on August 12. PAC comments will be incorporated into a second draft that will be posted in advance of the annual RSP public meeting scheduled for September 16 at the Colonnade Hotel in Boston from 9:30 a.m. to 3:30 p.m. On September 16, in addition to an overview of the RSP10, there will be a morning panel on *State Planning Initiatives and Non-Transmission Alternatives*, and an afternoon panel on *Drivers of the Future Grid*, and a keynote by Patricia Hoffman, Assistant Secretary for Electric Delivery & Energy Reliability, U.S. Department of Energy. The full agenda and registration for the public meeting are available on the ISO [Web site](#).

NEEWS Interstate Update

The presentation on the updated needs assessment for the NEEWS Interstate Reliability Project is posted with the August 12 PAC meeting [materials](#).

Future PAC Meetings

Please save the following dates for future PAC meetings: September 21, October 21, November 16, and December 16.

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Tie Benefits Update

On August 25, the Reliability Committee ([RC](#)) is scheduled to begin discussion of a design basis document that will serve as a basis for any tariff changes affecting the calculation of tie benefits.⁷ Additional RC meetings are scheduled for September 7 and 22, October 19, and November 2 to address outstanding tie-benefits issues. The ISO is working with stakeholders to file changes to the tie-benefits methodology by December 31, 2010.

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Second FCM Revision Briefs Due September 1

On July 1, ISO New England submitted its [First Brief](#) in the paper hearing ordered by the Federal Energy Regulatory Commission with respect to FCM revisions.⁸ The ISO's First Brief was filed in accordance with FERC's [April 23 Order](#) which directs interested parties to effectively address (1) issues relating to the Alternative Capacity Price Rule; (2) modeling of capacity zones; and (3) the proper value of the Cost

⁷ Tie benefits are a calculation of the amount of emergency energy that can be obtained from neighboring control areas over the transmission system and are an input to the calculation of the Installed Capacity Requirement (ICR) in the Forward Capacity Market.

⁸ ISO New England Inc. and New England Power Pool Dockets ER10-787, EL 10-50 and EL10-57 (consolidated).

of New Entry. On September 1, in accordance with the procedural timeline detailed in the April 23 Order, ISO will submit to FERC its Second Brief in response to arguments made by others in their First Briefs.

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September 23 Discussion Meeting on Second FCM Revision Briefs

There will be a stakeholder meeting on Thursday, September 23, 2010 from 9:30 a.m. to 2:00 p.m. (with a break for lunch) at the Courtyard Marriott in Marlborough, MA, to discuss the September 1 FCM filings and to allow proponents of alternatives to the ISO's proposal to respond to questions and help ensure a full understanding of their alternatives. Representatives from each entity or group that proposes an alternative are being asked to present and participate in a panel discussion with the ISO and others who have proposed alternatives. As with other FCM meetings, all interested regulatory representatives and market participants are welcome and encouraged to attend. Meeting information is available on the [ISO Calendar](#).

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FERC Issues Supplemental NOPR and Notice of Technical Conference

On August 2, FERC issued a [Supplemental Notice of Proposed Rulemaking \(NOPR\) and Notice of Technical Conference](#)⁹ to provide additional opportunity for comments on issues related to the [March 18, 2010 NOPR relative to Demand Response Compensation in Organized Wholesale Energy Markets](#).¹⁰ The March 18th NOPR proposes that ISOs and RTOs be required to pay demand response providers the full locational marginal price (LMP) for demand reductions in all hours when demand response resources reduce energy consumption.

The August 2 Supplemental NOPR seeks comments on:

1. Adoption of a net benefits test for determining when to compensate demand response providers, and what, if any, requirements should apply to the methods for determining net benefits; and
2. What, if any, requirements should apply to how the costs of demand response are allocated.

A technical conference will also be held at FERC. It will be scheduled for sometime over the next month and a half. Comments to the supplemental NOPR will be due 30 days following the technical conference.

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NERC Informational Reports

Recently, the North American Electric Reliability Corporation (NERC) submitted to FERC two informational reports.

Last month, NERC released [“Reliability Impacts of Climate Change Initiatives: Technology Assessment and Scenario Development.”](#)¹¹ This report reviews climate change initiatives in North America and considers the possible effect on reliability of integrating technologies needed to meet existing and proposed climate change goals.

The report concludes that “various climate change initiatives will require substantial changes to the bulk power system, including the addition of new or upgraded low-carbon generation and transmission, expanded demand resources, and changes to the process and approaches used in system planning and operations. In the future, a

⁹ 132 FERC ¶ 61,094, see <http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=12404008>.

¹⁰ 130 FERC ¶ 61,213 see http://www.iso-ne.com/committees/comm_wkgrps/mrkt comm/mrkt/mtrls/2010/mar232010/a2_ferc_nopr_03_18_10.pdf.

¹¹ See http://www.nerc.com/files/RICCI_2010.pdf.

variety of demands on existing infrastructure will be made to support the transition from the power system's current state, to one that meets carbon emission reductions. If the necessary resources are not operational in a timely manner, experience with the new resource mix may be insufficient potentially affecting reliability, or require moderation of aggressive climate change goals"¹²

The report contains specific recommendations for NERC to:¹³

- Assess the implications of climate change initiatives through pertinent NERC/regional scenarios as further certainty emerges around industry obligations, timeline and targets.
- Monitor relevant studies performed by industry groups and government agencies to provide reliability insight.
- Support the development of tools, technology, and skill sets.
- Enhance existing, and develop new, standards.

In a separate and distinct report released earlier this month, [*2010 Special Reliability Scenario Assessment Report: Potential Reliability Impacts of Swift Demand Growth after a Long-Term Recession*](#), NERC assessed the reliability of the power system if there was a swift, unanticipated economic recovery. (See [NERC press release on report](#)).¹⁴ Part of the reason for this analysis is that recent declines in demand projections due to the economy could result in generation retirements which in turn could result in a supply and demand imbalance if demand growth increases unexpectedly due to a swift economic recovery.

The report suggests that power plant retirements coupled with an unexpectedly swift economic recovery can result in reduced reserve margins which could lead to challenging reliability conditions for operators.

The report includes a list of solutions that can be implemented quickly for unexpected capacity shortfalls.

These potential solutions include:¹⁵

- Increase transfers from areas of available capacity where transfer capability is sufficient and deliverability is confirmed
- Advance in-service dates for future resources
- Add new resources
- Increase demand-side management and conservation
- Implement new operating procedures that may alleviate potential capacity deficiencies by increasing transmission capabilities and reconfiguring flows to optimize system performance.

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¹² See NERC, *Reliability Impacts of Climate Change Initiatives: Technology Assessments and Scenario Development*, page III.

¹³ See NERC, *Reliability Impacts of Climate Change Initiatives: Technology Assessments and Scenario Development*, page 81.

¹⁴ See http://www.nerc.com/files/NERC_Swift_Scenario_Aug_2010.pdf.

¹⁵ *2010 Special Reliability Scenario Assessment Report: Potential Reliability Impacts of Swift Demand Growth after a Long-Term Recession*, page 13.

ISO SPEAKING ENGAGEMENTS and OTHER MEETINGS OF INTEREST

August 16, 2010

Council of State Governments Eastern Regional Conference, Advancing the Clean Energy Economy in the Northeast, Portland, ME.

ISO New England speaker: Gordon van Welie, President and CEO.

For more information, please see the conference [web site](#).

ISO's presentation to the Council of State Governments is available [here](#).

September 16, 2010

2010 Regional System Plan Public Meeting, Colonnade Hotel, Boston, MA.

Overview of the Draft 2010 Regional System Plan for stakeholder review and comment.

For more information, please see [ISO calendar](#).

September 17, 2010

Restructuring Roundtable, Boston, MA.

Topic and speakers to be determined, see <http://www.raabassociates.org/main/roundtable.asp>.

September 23, 2010

FCM Revision Second Briefs Discussion Meeting, Marlborough, MA

Stakeholders to discuss their September 1 FCM filings. Meeting will allow proponents of alternatives to the ISO's proposal to respond to questions and help ensure a full understanding of proposed alternatives.

October 4-5, 2010

Emerging Issues Policy Forum – 2010 Energy Forum, Amelia Island, FL.

ISO New England speaker: Gordon van Welie, President and CEO.

For more information, please see the conference [web site](#).

October 27, 2010

Atlantic Canada Power Summit, Saint John, New Brunswick, Canada.

ISO New England speaker: Stephen Rourke, Vice President, System Planning.

For more information, please see [website](#) and [brochure](#).

November 7 – 9 2010

Utilities Perspectives, Washington D.C.

ISO New England speaker: Gordon van Welie, President and CEO.

For more information, please see the conference [web site](#).

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UPCOMING NEPOOL and ISO MEETINGS OF INTEREST

Tentative dates for upcoming stakeholder meetings and other meetings of interest:

	<u>Participants Committee</u>	<u>Markets Committee</u>	<u>Reliability Committee</u>	<u>Planning Advisory Committee</u>	<u>Transmission Committee</u>	NECPUC Conference Call	Consumer Advocate Conference Call
August			<i>Joint RC/TC Summer Meeting: 16-17</i>		<i>Joint RC/TC Summer Meeting: 16-17</i>		18
September	17	14-15	20, 22	21	29	8	22
October	15	13-14	20	21	27	12	19

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