



memo

To: NECPUC
From: Carolyn O'Connor
Date: September 1, 2011
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 issues and activities that may be of interest to you. For your convenience, when appropriate, I have identified dates when key discussions and votes are scheduled to occur at stakeholder meetings, as well as planned filings.

There are also sections highlighting upcoming ISO speaking engagements and meetings that may be of interest.

Issues and Updates

- [Forward Capacity Market Redesign](#)
- [FERC Order 745 Demand Response Compensation Filing](#)
- [NERC Reliability Standards Development Plan](#)
- [EPA Rulemaking Update](#)
- [Update on FERC Order 1000 on Cost Allocation and Regional Planning](#)
- [Additional Federal Affairs Update](#)
- [ISO New England 101 Training](#)
- [September Consumer Liaison Group Meeting](#)
- [2012 ISO New England Budget Update](#)
- [Upcoming Planning Advisory Committee Meetings](#)
- [July 2011 Wholesale Electricity Costs](#)
- [Upcoming Meetings of Interest and ISO Speaking Engagements](#)

Forward Capacity Market Redesign

In April 2011, the Federal Energy Regulatory Commission issued an order relative to the region's Forward Capacity Market. In order to comply with this order, the ISO is drafting rules for consideration and discussion with the region's stakeholders.

At the August Markets Committee meeting, two presentations were made relative to proposed FCM reforms:

(1) [FCM Redesign Presentation, Andrew Gillespie, ISO Markets Development](#)

The presentation provided an overview of the scope of the proposed rule changes. Among other things, the proposed rules seek to eliminate the FCM pivotal supplier, the use of an auction floor price, and the Cost of New Entry. The presentation also provides a preliminary schedule of future Markets Committee discussions.

Month	Description
September – 2011	Markets Committee Presentations and Discussions
October – 2011	Markets Committee Presentations and Discussions
November – 2011	Markets Committee vote
December – 2011	Participants Committee vote
January – 2012	Submit filing to FERC
March – 2012	Earliest time at which proposed rules can become effective
May - 2012	Qualification windows open for FCA #7
June – 2012	Existing Capacity Qualification Deadline - June 1, 2012

(2) [Market Power Mitigation in FCM Presentation, Marc Montalvo, ISO Internal Market Monitoring](#)

The presentation detailed proposed mitigation reforms to the FCM.

Delist Bid Mitigation Bid Evaluation

- A participant seeking a delist bid from the capacity market, unless an affidavit to the contrary is submitted, will be assumed to retain the option to sell into the energy and ancillary services markets. A resource seeking to delist can include resource specific factors.

Offer Mitigation/Offer Review Trigger

- The internal market monitor will establish an offer review trigger price for various types of generation and demand resources – an offer above the offer review trigger price will be deemed competitive, the offers below the offer review trigger price will be subject to evaluation by the internal market monitor. The internal market monitor will either accept or mitigate the offer.

[Back to Top](#)

Demand Response Compliance Filing

On August 19, 2011, the ISO submitted to FERC [a compliance filing](#) as required by [Order 745](#) – relative to demand response compensation in organized wholesale markets. The ISO's compliance filing includes a proposal that has a two-stage implementation process – which will begin with a transition period beginning in June 2012 and evolve into the full integration of demand resources into the energy market in June 2015.

Integrating demand resources into the energy market is complex and requires the implementation of new market and system operation functions that will treat demand reduction offers from demand resources the same as a supply offer from a generator. The complexity of this issue is part of the reason why the ISO has proposed a transition period prior to full integration.

The ISO's proposal is developed so that: when demand resources are capable of contributing to the balance of supply and demand they will be eligible for energy market compensation at the full locational marginal price; and both generation and demand resources will be dispatched to identify the optimal resources that minimize costs.

*Fully-Integrated Rules*¹

As part of the fully integrated rules demand response providers can submit demand reduction offers and operating parameters for both the day-ahead and real-time markets. Performance will be measured at the retail delivery point – the point at which the ISO observes the resource's contribution to balancing supply and demand. Costs associated with demand response compensation will be allocated proportionately to all entities with a real-time load obligation on a system-wide basis.

*Transition Period Rules*²

The transition period rules include many of the components of the fully-integrated rules including requiring that demand reduction offers exceed a demand reduction threshold price (pass a net-benefits test). The transition rules also include a baseline methodology upon which reductions will be determined and the same cost allocation as the fully-integrated rules. Though the transition rules are similar, they do differ from the fully-integrated rules in a few ways, including (but not limited to):

- ISO will not accept offers associated with demand resources consisting of an aggregation of assets during the transition period;
- Market participants are obligated to provide demand response in accordance with the schedule it receives through participation in the Day-Ahead Energy Market; and
- Real-Time Demand Reduction Obligation of a Real-Time Demand Response Asset will be capped at 200% of the offer.

The ISO's proposed rules and August 19 compliance filing are available at: http://www.iso-ne.com/regulatory/ferc/filings/2011/aug/er11_4336_000_prd_filing.pdf.

[Back to Top](#)

NERC Reliability Standards Development Plan

The *NERC Reliability Standards Development Plan* is the foundation for Reliability Standards development efforts. The plan serves as the management tool and blueprint that guides, prioritizes, and coordinates revision or retirement of Reliability Standards and the development of new Reliability Standards for the immediate 3-year time horizon. To view standards currently under development click [here](#).

In compliance with the *Standard Processes Manual*, the Standards Committee manages the NERC standards development process for the continent-wide Reliability Standards with the support of NERC staff to achieve broad BPS reliability goals for the industry. The Standards Committee protects the integrity and credibility of the standards development process. It is the joint responsibility of NERC staff and the NERC Standards Committee to ensure every regulatory directive related to standards development received by NERC is adequately addressed.³

On November 18, 2010 FERC issued Order 743 and directed NERC to revise the definition of Bulk Electric System so that the definition encompasses all Elements and Facilities necessary for the reliable

¹ Fully-Integrated rules proposed effective date is June 1, 2015.

² Transition period rules proposed effective date is June 1, 2012.

³ http://www.nerc.com/files/Final_2011_Direct_Report_Complete.pdf

operation and planning of the interconnected bulk power system. Additional information on this process is available [here](#). NERC is also in the process of revising a variety of transmission planning standards, additional information on this process is available [here](#).

On October 26-28, 2011 NERC will hold two meetings on standards. One is a NERC101 course (also available as a webinar) which will be a two hour session outlining NERC's standards process. For details and registration information click [here](#). The other is a more detailed workshop focused on the interrelationship between standards and compliance with a focus on active and future standards development. For more information on this workshop and registration materials click [here](#).

The NPCC has developed a methodology to assess the cost and effectiveness of regional standards to ultimately be shared with the other regions and NERC for the purpose of promoting cost effective evaluations of reliability standards. The methodology is known as the NPCC Cost Effectiveness Analysis Procedure (CEAP). The proposed procedure incorporates two separate phases of reviews: a cursory high-level cost benefit analysis; and a cost effectiveness analysis which is intended to solicit information about the relative effectiveness of a draft standard's ability to achieve specific reliability objectives. For more information on CEAP click [here](#).

[Back to Top](#)

US Environmental Protection Agency Rulemaking Update

The US Environmental Protection Agency (EPA) is undertaking a number of rulemakings that will impact the electricity sector. The rules will reduce air emissions from electricity generating units (EGUs) as well as mitigate adverse impacts from EGUs on water quality. The following table summarizes the status of the major rules that will have the most impact on EGUs.

Proposed Rule	Targeted Pollutant	Control/Compliance Options	Schedule
Clean Air Act §112(d)Utility Air Toxics Rule	Hazardous Air Pollutants-Hg, HCl, metals, organics, PM (metals surrogate)	Hg removal: fabric filter baghouse (FF) -activated carbon Injection (ACI) 80-90%; Scrubber-SCR co-benefit >90%	Published May 3, 2011 Final rule due November 16, 2011 Unit compliance due by November 2015 (3 years, plus extensions)
Clean Air Act §110(a)(2)(D)(i)(I) Cross-State Air Pollution Rule (CSAPR)	Reduced downwind contribution to ozone and particulate matter (PM)	NOx removal: selective catalytic reduction (SCR) 70-95%; selective non-catalytic reduction (SNCR) 30-75% SOx removal: scrubber ≥95%; dry sorbent injection <70%	Proposed rule August 8, 2010 Final rule signed July 2011 Unit compliance due in stages: Phase I begins 1/2012 Phase II begins 1/2014
Clean Air Act §109(d) Ozone National Ambient Air Quality Standard (NAAQS) Reconsideration	Ozone	NOx removal	Final expected July 2011, delayed for additional 60-90 days.
Clean Air Act §109(d) Particulate	Particulate matter	PM removal	Propose Summer 2011

Matter NAAQS			
Clean Air Act §110(a)(2)(D)(i)(I) Transport Rule II	Reduced downwind contribution to ozone	NOx removal	To be determined
Resource Conservation & Recovery Act Coal Combustion Residue (CCR)	Coal Combustion Waste Disposal	Phase out wet surface impoundments (ash ponds); composite liners; other changes for disposal sites	Proposed rule March 2010 Final rule? Ash pond closures 5-7 years after final rule (2016-2018).
Clean Water Act §316(b) Cooling Water and §304 Wastewater	Cooling Water Intake Design	Intake design upgrades: cooling water intake structures	Proposed rule April 20, 2011 Final rule July 2012 Facility compliance due by 2020
	Waste Water Toxic Metals	Treatment or zero discharge	Proposed rule July 2012 Final Rule January 2014

A presentation on these rules was provided to the [PAC](#) on August 11, 2011. As indicated above, of these rules, only the CSAPR rule has been finalized. This rule replaces the older Clean Air Interstate Rule which was designed to control emissions of air pollution that cause air quality problems in downwind states. While the older Clean Air Interstate Rule and the proposed CSAPR rule both required emission controls in Connecticut and Massachusetts, the final CSAPR rule does not apply to EGUs in any New England states.⁴

The primary impacts of many of these rules will largely be on coal-fired plants more than 40 years old that have not installed state-of-the-art pollution controls. In New England, these plants run infrequently due to economic reasons, but to continue operating in the future, these plants will likely need to install retrofit controls or switch to cleaner fuels (or use some combination of both). ISO will continue to monitor the development of these rules and assess their potential impacts on reliability.

[Back to Top](#)

FERC Order 1000 Update

On July 21, the Federal Energy Regulatory Commission released [Order 1000](#), a final rule pertaining to intra- and interregional transmission planning and cost allocation practices in both ISO/RTO and non-ISO/RTO regions. On August 30, NEPOOL hosted an initial stakeholder discussion of Order 1000, focusing on those aspects of the Order that require a compliance effort for the New England region, as well as areas in which the region may want to consider enhancements to its planning process.

One of the areas of the final rule identified as potentially requiring the most significant compliance effort is the integration of planning and a cost allocation mechanism for transmission projects to satisfy public policy requirements. In comments to the proposed rule in 2010, ISO New England joined other regional stakeholders

⁴ It is possible that New England EGUs may be subject to a future phase II CSAPR rule that will be based on updated ozone standards.

advocating that a specific organization (such as the New England States Committee on Electricity) be charged with identifying and unifying public policy requirements for the region – and similar views were voiced by many at the August 30 meeting. In this regard, NESCOE indicated a strong interest in receiving stakeholder comments on the laws and regulations that should be included in the public policy requirement for planning -- as well as the process for determining the requirement and options for cost allocation. Stakeholders suggested that state Renewable Portfolio Standards, US EPA clean air regulations and state policy for the treatment of non-transmission alternatives should be included, to name a few. Other aspects of Order 1000 identified as possibly requiring tariff changes are FERC's altering of the current right of first refusal for incumbent transmission developers and formalizing the existing cost allocation mechanism for interregional projects.

It was noted that FERC set a compliance deadline for the intraregional provisions of Order 1000 of October 2012 with an additional six months beyond that for compliance with interregional issues covered in the final rule. Given the subject matter of Order 1000, the NEPOOL Transmission Committee will extend its usual half-day meetings to accommodate discussion and compliance efforts, with an informal initial goal of May 2012 for the Committee to provide stakeholders with possible compliance language. On September 12, FERC will host an informational conference in Washington, DC "focusing on compliance issues related to RTO/ISO regions." Details of the event (and webcast) [can be found here](#).

[Back to Top](#)

Additional Federal Affairs Update

U.S. Dept. of Energy Shale Gas Production Recommendations

On August 11, the Secretary of Energy Advisory Board's Shale Gas Subcommittee released its [interim 90 day report](#) on possible improvements and modifications to current shale gas production practices. In addressing the widely-discussed practice of hydraulic fracturing, the report notes that "the risk of fracturing fluid leaking into drinking water sources through fractures made in deep shale reservoirs is remote," yet the report calls for greater transparency in the chemicals used in the fracturing process (outside of proprietary information). In addition to the disclosure recommendation and several other water quality protection measures, the report details steps that could be taken to increase water quality protection and reduce the amount of methane and air toxins released during shale gas operations. Broader recommendations included greater communications between state and federal regulators, an adoption of field-tested best practices throughout the industry, and a greater federal commitment for research and development.

Energy Secretary Steven Chu called the report "practical, thoughtful and insightful," and said he will "be working closely with my colleagues in the Administration to review the recommendations and to chart a path for continued development of this vital energy resource in a safe manner." The Subcommittee is scheduled to release its final report in mid-November.

Nuclear Regulatory Commission Fukushima Task Force Report

On August 2, all five Nuclear Regulatory Commissioners testified before the [Senate Environment and Public Works \(EPW\) Committee](#) on the NRC's Near-Term Task Force's 12 [recommendations](#) for regulatory improvements following the devastating earthquake/tsunami in Japan. The hearing illustrated the division within the NRC on the timing and implementation of any regulatory changes and the Chairman of the NRC's call for the Commission to review and act on all 12 of the recommendations within 90 days of the report's release (with an implementation period of five years). The 90 day timetable was strongly supported by the Chairwoman of the EPW Committee, Sen. Barbara Boxer (D-CA).

However, the Ranking Member noted the U.S. and Japanese regulatory systems are different, there is still information to gather about the Fukushima tragedy, and the NRC should take the appropriate amount of time to adequately address potential problems instead of adhering to potentially arbitrary deadlines. While voicing varying support for a number of the recommendations, a majority of the Commission did not expressly support approving all 12 recommendations within 90 days. Chairwoman Boxer noted she will continue to call the NRC before her committee if inadequate progress on the recommendations is not achieved.

On August 19, the NRC announced it will begin a short-term review of Task Force recommendations #2-#12, but take an additional 18 months to consider a larger overhaul of the existing regulatory framework (as outlined in recommendation #1). By October 3, the Commission is asking staff to produce an opinion on prioritizing and implementing recommendations #2-#12. The NRC notes the 11 recommendations it will immediately review involve “loss of electric power, earthquakes, flooding, spent fuel pools, venting and preparedness.”

Potential Boost for “Green” Initiatives in Jobs Package?

After Labor Day, the Obama Administration is expected to unveil a wide-ranging job creation package that could include several energy initiatives. Some possible candidates for inclusion in a broad plan include a “HOMESTAR” point-of-sale rebate program to incentivize residential energy efficiency improvements (or other various energy efficiency programs), efforts to promote the manufacture/use of electric or natural gas vehicles, and possibly an extension of the Treasury Department’s Section 1603 renewable energy grant program. The initial 2-year Section 1603 program was created in the 2009 economic stimulus measure (subsequently reauthorized through 2011) and provides cash grants for the development of renewables projects in lieu of tax credits. Through December 2010, over \$5.5 billion in Section 1603 grants had been awarded.

However, given the contentious budget disagreements that have unfolded this year (with the work of the debt reduction committee still to be done) and the amount of dissatisfaction over the results of the 2009 stimulus bill, any job creation package that dramatically increases government spending will face significant legislative challenges.

[Back to Top](#)

ISO New England Training (ISO-NE 101)

For the second year in a row, ISO New England is offering a one-day training for state and regional regulatory officials, legislators, consumer advocates and consumer representatives that will cover, at a high level, an overview of New England’s bulk transmission system, ISO New England’s functions and responsibilities, and New England’s wholesale electricity markets, including the Forward Capacity Market. The training is intended to be an introductory course for individuals relatively new to the industry and a refresher course for others; the course will be comprehensive, but not in-depth on any individual topic. This training is also intended to provide assistance for individuals in determining their future training needs.

ISO New England 101 will be held Tuesday, September 27, 8:30 a.m. – 5:00 p.m. at the Doubletree Hotel in Westborough, Massachusetts.

Although maximum capacity for this training has been reached, registration is still open. A wait list has been established to accommodate interested individuals in the event attendees need to cancel their registration. Once a cancellation is confirmed, we will move individuals off the wait list and onto the registration list. We encourage all individuals who have registered to let us know *as soon as possible* if they cannot attend, so that we may accommodate individuals on the wait list. To register for this training, please [click here](#).

Additionally, individuals associated with a state agency are eligible to receive market training at a 50% discount. To register for a training event, please [click here](#).

[Back to Top](#)

Consumer Liaison Group

The next [Consumer Liaison Group](#) meeting will be Wednesday, September 28 at the Courtyard Marriott Hotel in Marlborough, Massachusetts. Massachusetts Attorney General, Martha Coakley, will be the guest speaker who will discuss key energy and consumer issues. There will also be an update on wholesale market issues and initiatives followed by a panel discussion involving policymakers, electric industry participants, and end users talking about the challenges of meeting diverse energy objectives such as reliability, clean air, efficiency, and economic development while maintaining reasonable consumer rates. The [agenda](#) is posted on the CLG webpage.

To register for this meeting, please [click here](#).

[Back to Top](#)

2012 ISO Budget Update

Each year, the ISO conducts 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 business plan to aid stakeholders' understanding of the longer-term, multi-year objectives (the five-year business plan begins on slide 98 of the [budget presentation](#).)

Last year, the ISO presented two budget scenarios for stakeholder review – a status quo and a two-year measured growth scenario. Stakeholders favored the measured growth scenario as it allowed the ISO to better address an increased demand for information and increasing regulatory and reliability initiatives and mandates.

The 2012 proposed budget continues year two of the measured growth scenario budget. It reflects the costs to address new initiatives planned for the region, such as issues identified through the [Strategic Planning Initiative](#), and priorities addressed through the on-going measured growth initiative, such as the Forward Capacity Market, increasing reliability regulations, transmission planning and economic studies, integration of wind resources, demand resource integration, Price Responsive Demand and cost impact analysis.

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):

- September 8 Review draft budget with NECPUC and NESCOE
- September 9 Review draft budget with NEPOOL Participants Committee
- September 15 Review draft budget with ISO Board
- October 14 NEPOOL meeting to vote on budget
- October 21 ISO Board meeting to vote on budget
- On or before Nov. 1 ISO budget filed with FERC
- December 31 FERC to issue order on budget

For more information on the ISO's proposed budget, please see the [ISO's budget presentation](#) to the NEPOOL Budget and Finance Subcommittee.

[Back to Top](#)

Upcoming PAC Meetings

The public meeting to release the 2011 Regional System Plan is Thursday, September 8 at the Colonnade Hotel in Boston ([register for the meeting here](#)). The meeting will include a keynote address from FERC Commissioner Cheryl LaFleur, as well as panels on the integration of wind resources and the impact of pending U.S. Environmental Protection Agency regulations on the New England region. The final agenda [can be found here](#).

Date	Location
September 8	Colonnade Hotel, Boston, MA (RSP Public Meeting)
September 21	Doubletree Hotel, Westborough, MA
October 18	Doubletree Hotel, Westborough, MA
November 16	Doubletree Hotel, Westborough, MA

[Back to Top](#)

July Wholesale Electricity Costs

The average Day-Ahead and Real-Time Hub prices in July 2011 were approximately \$55/MWh and \$58/MWh respectively. Spurred by a heat wave and near-record consumption on July 22, the average Day-Ahead and Real-Time Hub prices rose in July as a result of increases in average and peak real-time load growths. Fuel prices in July also increased – the monthly average natural gas price was \$5.21/MMBtu – up 6% from June and the monthly average Oil (#6) prices also rose 1% over the same timeframe.

	July 2011	July 2011 Compared to June 2011	July 2011 Compared to July 2010
Average Day-Ahead LMP (hub)	\$55.23/MWh	24%	-10%
Average Real-Time LMP (hub)	\$57.98/MWh	34%	-3%
Average Natural Gas Price	\$5.21/MMBtu	6%	-6%
Peak Real-Time Load	27,702 MWh	19%	2%
Average Real-Time Load	17,388 MW	17%	-3%

[Back to Top](#)

ISO Speaking Engagements and NEPOOL and Other Meetings of Interest

September 8, 2011

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

September 27, 2011

ISO New England 101, Doubletree Hotel, Westborough, MA

[17th Annual NECA Conference on Natural Gas and Fuel Issues](#), Doubletree Hotel, Westborough, MA (Panelist: Mark Babula, Principal Engineer, ISO New England)

September 28, 2011

Consumer Liaison Group Meeting, Courtyard Marriott, Marlboro, MA

November 1, 2011

New York ISO/ISO New England Joint Symposium, Hilton New York City, New York, NY.

November 3, 2011

NECA Annual Power Markets Conference, Doubletree Hotel, Westborough, MA (keynote speaker: ISO-NE President & CEO Gordon van Welie)

November 3-4, 2011

New England-Canada Business Council Annual Energy Trade and Technology Conference, Seaport Hotel, Boston, MA (Panelist: John Norden, ISO-NE Director of Operations)

May 20-22, 2012

Save the date: 2012 NECPUC Symposium, The Samoset, Rockport, ME

	<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
Sep.	9	13, 14	20	21	26	6	19
Oct.	14	12, 13	19	18	26	11	17

[Back to Top](#)

###