

To: NECPUC

From: Carolyn O'Connor

Date: December 22, 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

State Energy Efficiency Programs, Issues and the RSP Process

At the December 16 Planning Advisory Committee (PAC) meeting, ISO Vice President for System Planning Stephen Rourke kicked off a [discussion](#) on the role of energy efficiency (EE) on system planning; the challenges associated with forecasting EE; and the need for the ISO to continue to work with the states to develop more complete data on the states' EE programs. ISO will investigate the development of a discrete EE forecast and its incorporation into the planning process.

Eric Winkler, ISO's Project Manager, Demand Resource Qualifications led a discussion of the issues associated with quantification of EE resources in ISO planning and forecasting processes. He focused on the challenges associated with measuring incremental growth and measurement and verification of EE resources. Specifically, estimating energy savings that will occur in the future is complicated by the fact that EE technologies have a specific "measure" life. In this regard, future EE investments will need to be used to replace existing EE resources that have past their useful life as well as develop new resources. He also discussed the fact that EE resources that participated in the Forward Capacity Market (FCM) are subject to a rigorous measurement and verification (M&V) process overseen by the ISO whereas EE resources that do not participate in the FCM may be subject to various state M&V programs. This regional variation in the M&V programs presents a challenge to understanding the magnitude of non-FCM EE resources.

Paul Peterson from Synapse Energy Economics Inc. gave a [presentation](#) in which he outlined several potential peak load forecast models with a range of assumptions about the impacts of different levels of EE going out to the year 2030. Massachusetts Department of Public Utilities Commissioner Tim Woolf led a [discussion](#) of EE resources in Massachusetts and potential solutions to overcome the challenges of forecasting EE.

Commissioner Woolf noted that the ISO underestimates the impact of EE resources because current long-range forecasting does not include an estimate of EE growth. Rather the ISO forecasting methodologies count only EE resources that participate in the three-year FCM.

Commissioner Woolf emphasized that Massachusetts has a strong track record of accurately predicting EE savings from state-sponsored EE programs. He presented data showing that for the four-year period of 2006-2009, the Commonwealth planned for 233MW of capacity savings and achieved an actual amount of 237MW. While acknowledging that Massachusetts does not have a planned amount of MW savings going out more than three years, Commissioner Woolf urged the ISO to take future growth in EE savings into account to come up with a 'most likely' scenario rather than a 'most conservative' scenario. He expressed a strong desire for the states and their program administrators to work closely with the ISO to develop a new forecasting methodology and urged the ISO to incorporate the Commonwealth's EE data into the 2011 forecast.

Anticipated next steps to advance consideration of EE in planning were outlined including the need for ISO to meet with EE program administrators in each state to identify the extent to which state-sponsored EE resources do not participate in the FCM -- and soliciting input from the PAC on proposed methodologies to better integrate EE into ISO's planning and forecasting methodologies.

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Greater Boston Needs Assessment

Also at the December 16 PAC, the ISO provided an update on the Greater Boston Needs Assessment. By way of background, the ISO and associated transmission owners have been studying the reliability-based needs and regulated transmission options to address the needs of the Greater Boston area over the past couple of years. In the Greater Boston Needs Assessment, it was determined that current transmission infrastructure in the area will not meet reliability standards (see [June 2010 memo](#) for more detailed information about the Needs Assessment).

At the request of the PAC, the ISO revised the critical load level analysis for the Greater Boston study to account for the 2010 CELT report and resources that have Capacity Supply Obligations resulting from the third Forward Capacity Auction (FCA-3).¹ This analysis is still under review and a Needs Report Addendum with these results is expected to be finalized in the first quarter 2011.

Although the Needs Assessment considered the retirement of the Salem Harbor Power Station as a sensitivity case, the permanent delist bid submitted by the plant for FCA-5 requires the ISO to consider the retirement a “design” case. The transmission options proposed by the ISO would not require Salem Harbor to provide generation to maintain reliability. Under the proposed solutions, Salem Harbor may provide energy and participate in the energy markets.

The ISO has proposed two preliminary transmission options to address the reliability needs north and south of Boston. These solutions include the construction of new 345 kV and 115 kV lines and associated upgrades to existing lines and facilities. Preferred solutions for the entire Greater Boston area are expected to be made public in 2011. A preferred solution to address the needs in the central area (downtown Boston and its western suburbs) is ongoing.

Recently, Massachusetts Secretary of Energy and Environmental Affairs, Ian Bowles sent a letter to ISO President and CEO, Gordon van Welie asking the ISO to investigate solutions that would allow for the retirement of the Salem Harbor Power Plant. In response, the ISO indicated that it was in the middle of a multi-year study of the transmission needs of the northeastern Massachusetts area and that preferred transmission solutions, eliminating the need for Salem Harbor generation for reliability, are being considered.

Also on December 16, the Federal Energy Regulatory Commission (FERC) issued an [order](#) accepting the results of the fourth Forward Capacity Auction. The order also required the ISO “to submit a compliance filing within 60 days that either identifies alternatives to resolve the reliability need for Salem Harbor Units 3 and 4 and the time to implement those solutions, or includes an expedited timeline for identifying and implementing alternatives.” In response to this order, on December 22, ISO submitted a [compliance filing](#) identifying alternatives and the timing necessary to implement those alternatives.

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Upcoming PAC Meetings

The PAC is scheduled to meet on January 19 and February 2, 2011. These upcoming meetings will take place at the Courtyard Marriott Hotel in Marlborough, MA, from 9:30 a.m. to approximately 4:30 p.m.

A preliminary list of topics for the January 19 and February 2 meetings includes:

January 19

Review Transmission Projects Including

- SWCT – Needs and Alternatives
- SWCT –Pequonnock Short Circuit Solution
- Glenbrook/South End Alternatives and Solution
- Millstone DCT Need and Solution
- South Norwalk Electric Works Needs and Alternatives
- Oak Hill Solution

February 2

New England Wind Integration Study (NEWIS)

¹ The Greater Boston Needs Assessment used details from the 2008 CELT report, the report that was available at the time the study began. 2010 CELT report can be accessed at: [Hhttp://www.iso-ne.com/trans/celt/report/index.html](http://www.iso-ne.com/trans/celt/report/index.html)H.

- The **final** New England Wind Integration Study (NEWIS) was [posted](#) on December 17, 2010
- PAC members are asked to submit written questions by **January 12**
- Responses to the PAC questions will be discussed the afternoon of the **February 2** PAC meeting
- February 2 is a new PAC meeting date and will likely include additional agenda items

Materials for these meeting will be posted [here](#).

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Peak Energy Rent Rule Change Proposal

At the joint ISO Board-NEPOOL meeting in November, generators in the region suggested changing the Peak Energy Rent (PER) feature of the FCM. Although no vote was taken, this issue was discussed at length at the Markets Committee in early December.

The Peak Energy Rent mechanism is intended to remove the incentive to raise prices in the real-time energy market by offsetting high real-time prices with reductions in capacity payments. This serves to reduce the amount of money a generator receives in the FCM when real-time energy prices are high. Reducing capacity payments to generators when prices are high serves as a hedge for consumers against high prices in the energy market. Unfortunately, experiences have shown that the PER mechanism is not functioning as intended – the current tariff provisions have resulted in the PER deduction being significantly higher than is appropriate.

At the December 10, 2010 NEPOOL Participants Committee (PC) Meeting, over 73% of NEPOOL supported a proposal to revise PER. The proposal supported by the PC calls for two revisions. The first is designed to address concerns that the current PER mechanism is being triggered more often than is appropriate and is resulting in larger deductions from capacity payments. To address this, the proposal changes the characteristics of the PER Proxy Unit. Specifically, the fuel cost for the PER Proxy Unit is being revised to reflect the higher of the price of oil or gas, rather than the lower of those two prices. The second will revise the Average Monthly PER so that it will be based on a 6-month rolling average. This revision will reduce the time over which the PER Strike Price correction will roll into the calculation of the PER deduction.

The proposed revisions to the market rule have been jointly supported by NEPOOL and ISO and were filed with FERC this week and [posted on ISO's website](#).

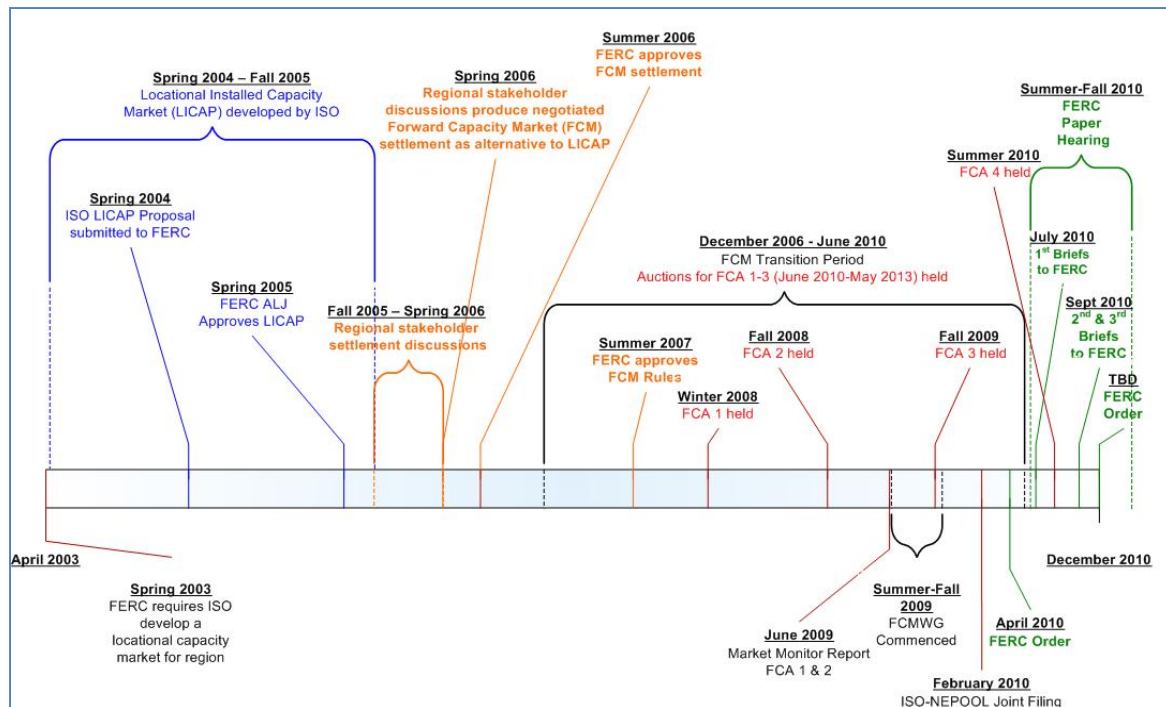
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Restructuring Roundtable Focuses on Forward Capacity Market

The FCM was one of the subjects discussed at the December 17 Restructuring Roundtable. ISO New England's Vice President of Market Development, Bob Ethier was joined on the FCM panel by Rhode Island Public Utility Commissioner Paul Roberti; Connecticut Municipal Energy Cooperative's Director of Power Supply and NEPOOL Participant Committee Chair Brian Forshaw; and EnerNOC's Senior Director of Regulatory Affairs, Herb Healy.

The panelists' presentations are available on the [Restructuring Roundtable website](#) and can be accessed by double clicking the names below:

- [Bob Ethier](#) provided background on the evolution of the capacity market in New England. Below you will see a timeline that contains many of the key historical regional capacity market dates.



- [Brian Forshaw](#) suggested that the region must work together to simplify the capacity market and urged greater attention on making certain that prices and revenues create incentives for the development and use of resources that help system operations.
- [Commissioner Paul Roberti](#) emphasized the need for the regional capacity market to balance revenue requirements and stable rates. He noted that consumers want price stability and that “lifting [the] cap on energy prices [is] simply not palatable.” He also urged the need for future improvements to the capacity market.
- [Peter Fuller](#) explained that regulatory uncertainty coupled with current market projections may not provide sufficient incentives to support investments in aging fleets or to achieve state and regional environmental objectives. He noted that the majority of recent capacity resource additions are the result of contract-based incentives and questioned if the region should explore a contract-based capacity market mechanism.
- [Herb Healy](#) noted that declining capacity market prices will not be sufficient to increase demand resource participation in the region and urged for demand resource participation in the energy and reserve markets.

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CLG Meeting

The Consumer Liaison Group met on December 8 to discuss transmission-related issues with [FERC Commissioner Marc Spitzer](#), the ISO, and representatives from the regional transmission organizations (TOs).

Commissioner Spitzer talked about issues such as FERC’s [Notice of Proposed Rulemaking on transmission planning and cost allocation](#) to meet public policy requirements, the increase in transmission costs as a result of projects being built for reliability.

Additionally, the ISO reviewed highlights of the [2010 Regional System Plan](#), and the TOs spoke about their five-year forecast for regional network service, transmission projects for renewable resource integration and the incremental costs associated with implementing reliability standards set by the North American Electric Reliability Corporation. For a more detailed synopsis of this meeting, please visit the article “FERC’s Spitzer Talks Transmission with Consumer Liaison Group” on the [ISO Newswire](#).

The CLG plans to meet next in March 2011; date and location are to be determined.

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CLG Outreach

The Connecticut Business & Industry Association (CBIA) hosted Connecticut businesses and consumer representatives for a [forum](#) on December 14 to discuss energy issues facing the state and how to get involved in New England’s Consumer Liaison Group. CBIA Assistant Counsel Kevin Hennessy, who serves on the CLG Coordinating Committee, acted as moderator. Featured speakers were Kevin DelGobbo, Chairman of the Connecticut Department of Public Utility Control; Jim Bell, Director of Products and Services for CBIA; Anne George, Vice President of External Affairs and Corporate Communications at ISO New England; Joe Rosenthal, Principal Attorney at the Connecticut Office of Consumer Counsel; and State Representative Sean Williams (R-Watertown), ranking member on the legislature’s Energy & Technology Committee.

The discussion focused on drivers of retail electricity costs, including fuel costs and state public policy commitments that result in surcharges on customer bills. Connecticut’s retail electricity rates for many customers are expected to drop nearly 7% in January as a result of procurement for standard service customers, which reflects the recent decline in wholesale generation costs. The state’s investment in energy infrastructure is helping close the gap with electricity prices in other New England states, speakers said. Speakers also noted that states in the U.S. with the lowest electricity prices use low-cost coal or hydropower as a primary source of energy, compared with New England which primarily uses natural gas.

Anne George’s presentation is posted [here](#).

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Tie Benefits

The ISO is preparing to file tariff changes with the FERC by the end of December to modify the methodology for calculating tie benefits—the amount of emergency energy that can be imported from interconnected regions over the transmission system. Tie benefits are an input to the calculation of the New England’s Installed Capacity Requirement, which affects the amount of capacity to be procured in the FCM.

The ISO is proposing to calculate tie benefits for all FCM auctions assuming that New England and neighboring regions are “at criterion,” i.e., each area has just enough resources to meet the reliability standard that requires firm customers not be disconnected from the bulk power system more than one day in ten years. ISO proposes to use the “at criterion” assumption for each primary Forward Capacity Auction (FCA) and all annual reconfiguration auctions (ARAs). This methodology would first be applied to the third Annual Reconfiguration Auction (ARA3) for the third Forward Capacity Auction (FCA-3). All subsequent FCAs (beginning with FCA-5) will use the new methodology.

The market rules currently provide for calculating tie benefits in the final ARA assuming that New England’s ICR could be reduced if neighboring region’s have surplus capacity, but ISO and other stakeholders have raised concerns that external regions with surplus capacity have no obligation to make that capacity available to New England in emergencies.

As part of the review of the tie benefits methodology, the ISO retained the Brattle Group to develop a quantitative economic assessment of the impact of various levels of tie benefits. The analysis was presented to

ISO and reported to the NEPOOL Participants Committee in December. The Brattle Group analysis found that additional tie benefits of approximately 1,200 MW could result in capacity cost savings, but those savings could be offset, in part, by increases in energy prices and the cost of procuring emergency energy. The overall impact of changes in tie benefits on customers depends on the exact details of future market conditions, the Brattle Group found.

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ISO Speaking Engagements and Other Meetings of Interest

February 13-16, 2011

NARUC Winter Meeting, Washington, DC

For more information and to register, please see [NARUC website](#).

February 16, 2011

NECA Renewable Conference, Boston, MA

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

February 26-28, 2011

National Governor's Association, Washington, DC

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

March 4, 2011

MIT Energy Conference, Boston, MA

ISO Speaker: Gordon van Welie, President and CEO

For more information, please see the [MIT website](#).

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Upcoming NEPOOL and ISO Meetings of Interest

Dates for upcoming stakeholder meetings and other meetings of interest (dates are subject to change):

	Participants Committee	Markets Committee	Reliability Committee	Planning Advisory Committee	Transmission Committee	NECPUC Conference Call	Consumer Advocate Conference Call
January	7	11, 12	18	19	25	10	13
February	4	8, 9	15	2, 16	28	10	17

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