memo

To: NECPUC

From: Carolyn O'Connor

Date: March 31, 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.

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Issues and Updates

Strategic Planning Discussion

Early this year, ISO New England announced a strategic planning initiative it is undertaking with the states and other stakeholders to describe, analyze and move forward to address some of the major challenges facing the region's electric system. These challenges include the potential retirement of a significant amount of the region's existing oil-fired capacity and the resulting issues associated with increased reliance on natural gas, the integration of larger amounts of variable energy resources including the potential need to increase system flexibility – and the future role of, and appropriate framework for, incorporating non-transmission alternatives into the planning process to meet identified system needs.

Following this announcement, ISO England issued a draft problem statement[1] for stakeholder comment and provided background information[2] on the recent study work and operational experience that highlight the problems. These materials were reviewed in a webinar with the states and have been the subject of ongoing discussion with NEPOOL participants and the states.

To date, states have expressed interest in understanding the magnitude of risk associated with the various elements of the problem statement and NEPOOL participants have begun to share initial reactions and potential solutions.

The ISO is in the process of conducting a high-level risk assessment for discussion with stakeholders and will be meeting with each of the six NEPOOL sectors and state regulatory commissions this spring. On April 1, ISO will begin initial discussion of solution ideas with NEPOOL participants for addressing the concern about resource flexibility and performance, particularly under stressed system conditions, as we view this as an immediate issue facing the power system.

ISO New England expects that the solution development process will begin in the third quarter of this year and continue through 2012.

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FERC Issues Final Demand Response Rule

Earlier this month, the Federal Energy Regulatory Commission (FERC) issued a final rule in Docket RM10-17-000 (130 FERC ¶ 61,213, "Demand Response Compensation in Organized Wholesale Energy Markets"). This docket began with the issuance of a Notice of Proposed Rulemaking (NOPR) a year ago – and almost a year to the day a final rule was issued. (See 134 FERC ¶ 61,187, Order No. 745).

The NOPR issued on March 18, 2010, proposed that ISOs and RTOs be required to pay demand response providers the full locational marginal price (LMP) for demand reductions in all hours demand response resources reduce energy consumption.

In the final rule issued March 15, 2011, FERC stated that demand response resources should be compensated for reductions they bid into the energy market at the LMP provided that the dispatch of these resources satisfies a "net benefits test." (Final Order, 48 and 54). The purpose of the net benefits test is to ensure that the benefits of the reduced LMP produced by dispatching demand resources and displacing generation exceeds the cost of dispatching the demand resources. (Final Order, 53). As part of the net benefit test requirement, the final rule requires ISOs and RTOs to "determine on a monthly basis under which conditions it is cost-effective to pay full LMP to demand resources." (Final Order, 79).

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[1] See page 164 of NEPOOL Participants Committee Additional Material (Section 6-ISO Strategic Planning Problem Statement).
[2] See pages 105-163 of NEPOOL Participants Committee Additional Material (Section 6-ISO Strategic Planning Problem Statement).

The final rule provides that each RTO and ISO must submit a compliance filing by July 22, 2011. The compliance filing must demonstrate that costs are allocated "proportionally to all entities that purchase from the relevant energy market in the area(s) where the demand response reduces the market price for energy at the time when the demand response resource is committed or dispatched." (Final Order, 102).

The Final Order and the process for developing a compliance filing will be discussed at upcoming NEPOOL Markets Committee meetings.

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Senate Energy Committee's Clean Energy Standards Whitepaper Released
On March 21, 2011 the Chairman (Senator Jeff Bingaman (NM)) and Ranking Member (Senator Lisa Murkowski (AK)) of the Senate Energy and Natural Resources Committee released a whitepaper requesting public comment on possible Clean Energy Standard (CES) legislation. The whitepaper asks several crucial questions, including if a CES is an appropriate policy at this time, the appropriate amount of electricity to be produced from clean sources (and within what time frame), and which energy sources should qualify for the standard.

Interested parties are encouraged to submit comments by April 11, 2011 – though there is no guarantee a CES will be introduced or debated in this Congress. In his State of the Union Address, President Obama endorsed a CES to achieve 80% of our nation's electricity from clean sources by 2035, including natural gas, nuclear, and through the use of carbon capture and sequestration technology.

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March CLG Meeting Highlights Electricity Cost Concerns
The Consumer Liaison Group (CLG) met for its first quarterly meeting of the year on March 3 to discuss consumers' concerns regarding electricity costs. Over 60 people were present as guest speaker Patricia Begrowicz, Owner and President of Onyx Specialty Papers, spoke about the challenges of sustaining a profitable business in a climate of increasing electricity costs.

In particular, Ms. Begrowicz noted that although the commodity portion of her bill has been declining, other charges (such as transmission) are increasing – resulting in higher electricity bills. She also suggested that policymakers and utilities consider ways to inform commercial and industrial business consumers of increasing costs and mandates as a means of improving their ability to plan and budget.

A panel of business leaders discussed their concerns with the rising cost of transmission and suggested that the CLG educate consumers on transmission-related issues. Panelists also mentioned that contradictory energy policies – such as policymakers who advocate for lower electricity costs, but promote policies that ultimately increase the cost of electricity – often send mixed messages to consumers and can create a negative environment for businesses.

For the last panel, representatives from key sectors of the electricity industry – including EnerNOC, ISO New England, the New England Power Generators Association, and the Vermont Electric Power Company – discussed their roles and perspectives on electricity costs. First, EnerNOC explained that there are various opportunities for businesses to simultaneously manage their electricity consumption and earn revenue. For example, participation in demand response programs allows businesses to be compensated for reducing their energy consumption when there are constraints on the power system. Next, panelists noted that competitive markets have helped to provide the lowest overall prices for consumers in that they have spurred investment in new, cleaner, more efficient and reliable generation and in fact, the price of wholesale electricity dropped 50% from 2008 to 2009. Panelists also explained that transmission costs are increasing because the region is playing catch up after years of underinvestment in New England's transmission infrastructure – but that this investment is helping to reduce costs because it improves access to cheaper generation and reduces the need to run expensive out-of-merit generation. Additionally, VELCO noted that the process for estimating transmission project costs has improved the transparency and accuracy of transmission projects as they progress through the regional stakeholder process. This is particularly important given that project costs are considered when determining the most cost-effective solution to meet regional needs.

CLG members suggested that in order for consumers to fully understand the drivers behind rising retail electricity costs, state policymakers need to be included in the discussion. The CLG Coordinating Committee will consider the potential participation of state policy makers at future meetings.

All of the speaker presentations can be found on the CLG webpage.

The next CLG meeting will take place June 2 at the Essex Resort in Burlington, Vermont.

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Connecticut and Maine Energy-Related Legislation

Connecticut

Under proposals adopted by the legislature's energy and environment committees, Connecticut's public utility and environmental regulatory agencies would be merged; the state would study the costs and benefits of participating in the ISO's regional system; subsidies would be created for developing in-state renewable resources, particularly solar energy; and nuclear, coal and oil-fired electric generators in the state would be subject to new taxes beginning in July 2011.

Proponents of the generation tax say it could raise more than $300 million to help close the state's $3.5 billion budget deficit; opponents argue it would raise retail electricity rates. The tax would apply to electricity producers at different rates according to fuel type.

Fuel type	Rate per kWh	Rate per MWh
Nuclear	$0.02	$20
Coal[3]	$0.005	$5
Oil	$0.0005	$0.5

The proposals would establish a new commissioner-level position to lead the new Department of Energy and Environmental Protection (DEEP), which would be responsible for developing a statewide energy policy with a focus on promoting renewable energy resources and lowering electricity costs. Governor Dan Malloy has named Yale professor Dan Esty to lead the new agency.

Under this proposal, the Department of Public Utility Control would become a bureau within DEEP and would retain authority for regulating public utilities. A new bureau of energy would be created to formulate energy policy. A third bureau would be responsible for environmental protection – preserving the Department of Environmental Protection's role as environmental regulator. The governor proposed the merger as part of an overall reorganization and consolidation of state agencies. The independent Office of Consumer Counsel, which advocates on behalf of ratepayers in utility proceedings, would be eliminated and its responsibilities would be transferred to the Department of Consumer Protection under the governor's proposal.

Anne George, ISO's VP of External Affairs and Corporate Communications, testified on two studies proposed by the Energy & Technology Committee. One study would evaluate repowering older coal- and oil-fired generators in Connecticut. The ISO highlighted the results of the retirement and repowering scenarios evaluated in the 2009 and 2010 economic studies requested by the New England states. Another study would look at the impacts of the ISO on Connecticut ratepayers. The ISO explained that

[3] The tax on coal generation only would apply in January, February, June, July, and August.

participation in a regional power system brings benefits to Connecticut, but acknowledged that the state may need to conduct a study to resolve the Committee's questions about the benefits of the region's wholesale electricity market. Both studies would be conducted by the new DEEP. The ISO's written testimony and background materials are posted on the Committee website under SB-1.

Maine
Last week, the Maine Joint Standing Committee on Energy, Utilities and Technology recommended LD 668 – An Act To Improve Regional Transmission Organization Responsiveness – "Ought Not to Pass."

As introduced, LD 668 would require by 2013 that each investor-owned transmission and distribution utility in Maine be members of a regional transmission organization (RTO) conditioned on the RTO meeting the following requirements:

- Have a public nomination process for selecting board members;
- Guarantee consumer representation; and
- Certify that the rates and actions of its member investor-owned transmission and distribution utilities are just and reasonable to their customers.

The legislation noted that if necessary, a new regional transmission organization that comports with these requirements may need to be formed.

The ISO testified in opposition to LD 668 and submitted additional materials to the committee at its request.[4] In its testimony, the ISO explained that independent decision making is required of the entity responsible for administering the region's multi-billion dollar wholesale electricity market, operating the power system and conducting long-term planning for the six-state region. Furthermore, the ISO believes that existing practices and procedures and the Board selection process, preserve board independence while providing access and responsiveness to stakeholders.

The ISO noted that each of the states actively works with the ISO and in the regional stakeholder process to ensure that their states' viewpoints are heard and needs are being considered, and progress has been made to facilitate greater involvement of consumer representatives and advocates in the regional process.

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Planning Advisory Committee Update
The PAC is scheduled to meet on April 13 and 14 at the Doubletree Hotel in Westborough, Massachusetts. The meetings are scheduled to begin earlier than usual – at 9:00 a.m.

Preliminary list of topics:

April 13

- New Hampshire/Vermont Non-transmission Alternative (NTA) Analysis
- NH/VT Solution Studies–Planning (ISO)
- NH/VT Solution Studies–Physical (Northeast Utilities)
- Reassessment of Advanced NEEWS Rhode Island Needs and Preferred Solution
- Advanced Southwest Connecticut Solution

April 14

- Stakeholder Proposals for Economic Planning Studies (see below)
- 2011 Regional System Plan (RSP) Scope of Work
- Energy Efficiency

[4] Please email Michael Giaimo, External Affairs Representative (or call 413.540.4576) if you would like to receive these materials.

- RSP Transmission Project List
- Third taxing district substation (E. Norwalk, CT) Needs and Solution

Registration is required for all PAC meetings and is available through the ISO's Calendar. Future PAC meetings are planned for May 26, June 29 and 30, and July 21 and 22. The annual "page turn" of the draft RSP is scheduled for August 11. The annual RSP public meeting is scheduled for September 8. Updates to the schedule and topics are listed in the PAC Administrative Items presentations.

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NEEWS Update

The New England East–West Solution (NEEWS) Interstate Reliability Project Updated Needs Assessment and Appendices (all password-protected) have been posted for PAC review and comment. Comments are due by *April 24* to PACMatters@iso-ne.com. ISO will review and post responses to the comments prior to finalizing the report. If you have any questions about accessing the report or appendices, please contact ISO Customer Service at 413-540-4220 or custserv@iso-ne.com.

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2011 Economic Study Request Reminder

ISO New England conducts economic planning studies each year as outlined in Attachment K of the ISO tariff. Study requests are reviewed with stakeholders through the PAC.

Timeline for 2011 Economic Study Requests:

• **Deadline to submit economic study requests:**	**April 1**
• ISO will contact requestors to confirm presentations:	April 4
• Deadline to submit presentation materials:	April 7
• Stakeholder presentations at PAC:	April 14
• Discuss draft scope of work with PAC:	May 26

For additional information on the process for submitting study requests, please reference the material presented to PAC on February 17, 2011. Meeting materials are posted on the PAC website. All communications to the ISO should be made to PACMatters@ISO-NE.com.

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Vermont Operating Plan

As part of the ISO's overall grid management responsibilities, staff is working with VELCO to develop an operating plan for Vermont. The objective of this plan is to provide grid operators with specific procedures to maintain reliability in the event that contingencies occur. This effort will be particularly important if the Vermont Yankee nuclear power plant retires in 2012.

The two-phase plan will:

(1) concentrate on procedures for operating the system in 2012 should Vermont Yankee not be available; and
(2) include the development of procedures developed for the longer-term.

The current goal is to have the plan completed in the coming months. In the past, similar plans have been developed in Connecticut and Massachusetts.

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Vermont Energy Partnership
ISO New England's Eric Wilkinson was the luncheon speaker for a meeting of the Vermont Energy Partnership (VEP) in Montpelier on March 24, 2011. VEP is an industry focused organization created to help promote clean, low-cost and reliable power in Vermont. ISO presented information on the ongoing planning activities in the state including updates on the VT/NH Needs Assessment, Solutions Assessment and the Non-Transmission Alternatives Assessment.

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Energy Efficiency Meetings
The ISO is hosting a series of upcoming meetings with energy efficiency (EE) Program Administrators, NESCOE and state regulators to discuss the magnitude of EE in the region. The Program Administrators (generally the large utilities) run EE programs funded through a variety of sources including system benefits charges. Some ISO stakeholders are concerned that not all EE resources are included in ISO's planning and load forecasting activities. To investigate this issue and better understand EE that exists in the region, ISO designed and distributed a data collection template that is intended to determine how much EE exists outside of the Forward Capacity Market.

The schedule for recent and upcoming EE meetings is as follows:

- Connecticut — March 28
- Vermont — March 31
- Maine and New Hampshire — April 4
- Massachusetts and Rhode Island — April 5

The meetings will be an opportunity for ISO staff and regulators to discuss the information submitted to the ISO by the Program Administrators as well as the trends, costs and challenges of implementing more energy efficiency.

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Wholesale Electricity Costs February 2011
The average Day-Ahead and Real-Time Hub prices in February 2011 were between $55 and $58/MWh – a sharp decline from January 2011 when average Day-Ahead and Real-Time prices were $71. Similarly, February's average natural gas price was approximately 25% below the January 2011 average.

	February 2011	February 2011 Compared to January 2011	February 2011 Compared to February 2010
Average Day-Ahead LMP (hub)	$55.46/MWh	-22%	6%
Average Real-Time LMP (hub)	$57.37/MWh	-20%	8%
Average Natural Gas Price	$6.29 MMBtu	-26%	-3%
Peak Real-Time Load	19,985 MWh	-5%	4%
Average Real-Time Load	15,443 MW	-2%	2%

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Monthly Regional Network Load Cost Report
The Monthly Regional Network Load Cost Report for January 2011 was recently posted. This report provides a rolling 13-month perspective of regional network load (RNL) costs. Among other things, it provides information on reliability costs, average cost by state, and load served by transmission owner.

The report showed that in January, pool-aggregate RNL was 20,760 MW-month which represented a 2% increase from December 2010 and a 5.4% increase from January 2010. The average RNL cost for New England was $5,991/MW-month, a 0.5% increase from December 2010 values and an increase of 4.5% from the prior year. The January RNL costs were approximately 11.3% of total wholesale costs.

Reliability costs averaged $320/MW-month, reflecting a 16.8% increase from December 2010 values and a decrease of 31.5% from the prior year. Reliability costs were approximately 5% of overall RNL costs.

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ISO Speaking Engagements and Other Meetings of Interest

April 6, 2011

Environmental Business Council New England, Inc., Energy Seminar: Impact on Renewables Market of Marcellus Shale Gas and Canadian Hydro, Waltham, Massachusetts.
ISO Speaker: Michael Henderson, Director, Regional Planning and Coordination
For more information, please see the seminar website.

April 19, 2011

6th Annual Renewable Energy Conference, Halifax, Nova Scotia
ISO Speaker: Anne George, Vice President, Corporate Communications and External Affairs
For more information, please see the conference website.

April 28, 2011

New England Women in Energy Conference, Portland, Maine
ISO Speaker: Anne George, Vice President, Corporate Communications and External Affairs

April 28 and 29, 2011

Platts Northeast Power Markets Forum, Arlington, Virginia
ISO Speaker: Bob Ethier, Vice President, Market Development
For more information, please see the forum website.

May 18, 2011

Northeast Energy and Commerce Association and the Connecticut Power and Energy Society 18th Annual New England Energy Conference and Exposition, Groton, Connecticut
ISO Speaker: John Norden, Director, Operations
For more information, please see the conference website.

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Upcoming NEPOOL Stakeholder and ISO Meetings of Interest

	Participants Committee	Markets Committee	Reliability Committee	Planning Advisory Committee	Transmission Committee	NECPUC Conference Call	Consumer Advocate Conference Call
April	1	5, 6	12	13, 14	26	11	20
May	6	10, 11	25	26	24	9	16

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