



memo

To: NECPUC
From: Carolyn O'Connor
Date: May 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.

Issues and Updates

- [Federal Affairs Update](#)
- [Release of 2010 Annual Markets Report](#)
- [Salem Harbor Reliability Determination](#)
- [Strategic Planning Update](#)
- [Summary of Mass. Amendments to the Renewable Energy Portfolio Standard](#)
- [Price Responsive Demand Compliance](#)
- [Forward Capacity Market Compliance Filing](#)
- [Forecasting Energy Efficiency Update](#)
- [Vermont Operating Plan](#)
- [2011 Summer Outlook](#)
- [Changes to ISO-NE Board of Directors](#)
- [Planning Advisory Committee Update](#)
- [Consumer Liaison Group Update](#)
- [Monthly Regional Network Load Cost Report](#)
- [Wholesale Electricity Costs March 2011](#)
- [Upcoming meetings](#)

Federal Affairs Update

Energy Efficiency Legislation

On May 12, Senators Jeanne Shaheen (D-NH) and Rob Portman (R-OH) introduced the *Energy Savings and Industrial Competitiveness Act*, a [measure](#) to promote energy efficiency improvements and new energy saving technologies. The bill calls for greater efficiency standards for lighting, heating/cooling systems, washers and dryers, and a variety of other household appliances. The authors (both members of the Senate Energy and Natural Resources Committee) cited a study that estimates \$43 billion in net savings can be achieved through these standards by 2030. The measure also calls for improved efficiency standards in building codes and creates a Department of Energy-led effort to educate and train workers in energy-efficient building techniques.

Beyond new efficiency standards, the Act creates several programs to provide low-cost financial support for efficiency improvements. The Rural Energy Savings Program would provide loans for ratepayers in electric co-ops to undertake efficiency improvements. Commercial and industrial facilities could receive federal loans to upgrade specified facilities and manufacturers are encouraged to make new investments in energy-efficient technology. In addition, the bill provides incentives for companies to make their supply chains more energy efficient by awarding a “Supply Star” label to qualifying companies that may attract consumers. The chairman of the Senate Energy and Natural Resources Committee applauded the bipartisan measure and noted he looks forward to scheduling a hearing on the measure. A full summary can be found [here](#).

Securing Electricity Infrastructure from Cyber-attacks

On May 12, the Obama Administration released [draft cybersecurity language](#) it hopes will become a foundation for Congressional action. The language empowers the U.S. Department of Homeland Security, in conjunction with federal and state agencies and impacted stakeholders, to identify various tiers of critical cyber-infrastructure and develop cybersecurity standards based on the importance of the hardware and the level of threat it may face. Owners and operators of that equipment would be responsible for designing and implementing individual cybersecurity strategies; however, those plans would be subject to certification and testing by DHS-approved, third-party auditors. It is likely the Senate Homeland Security and Government Affairs Committee will introduce a modified version of its initial bill ([S. 143](#), authored by Sens. Lieberman (ID-CT) and Collins (R-ME)) to move the debate forward. A thorough summary of the Administration’s proposal can be found [here](#).

On May 5, the Senate Energy and Natural Resources Committee held a [hearing](#) on a [discussion draft](#) introduced by the Committee chairman to promote greater cybersecurity for the electricity sector (with testimony from representatives from the Department of Energy’s Office of Electricity Delivery and Energy (DOE), the Federal Energy Regulatory Commission (FERC), the North American Electric Reliability Corporation (NERC), and the Edison Electric Institute). Significant time was spent discussing the current process of FERC defining and outlining a potential cyber-threat and the responsibility of NERC to create a specific standard to meet that challenge. In addition, members asked if states are adequately working with distribution companies on a local level and if a time-sensitive situation may arise where federal action is needed to protect a distribution network. Committee members may try to attach language to a broader cybersecurity bill to more clearly define DOE’s, FERC’s, and NERC’s roles in electric grid cybersecurity. The Committee plans a May 26 [mark-up](#) of the discussion draft.

FERC’s Notice of Inquiry on Transmission Investment

On May 19, FERC released a [Notice of Inquiry](#) titled “Promoting Transmission Investment Through Pricing Reform” seeking comment on how the Commission can improve on its current practices to promote the development of transmission infrastructure. The NOI notes that in the 2005 energy bill

passed by the U.S. Congress, FERC was directed to find ways to incent the building of much-needed transmission. Since that time, companies have requested approximately \$50 billion in investments through the process determined by the 2006 FERC Order No. 679. FERC poses 74 questions in the inquiry, including asking for comment on if current incentive practices are appropriate, what challenges to investment remain outside FERC's jurisdiction, and what modifications should be made to the status quo.

Specific to regional transmission organizations, FERC seeks comment on the traditional incentives provided for utilities that are part of an RTO/ISO. FERC asks "Is it appropriate to offer a standard [Return on Equity] adder for all utilities that join or remain members of an RTO/ISO?" and "In the alternative, are there other incentives that the Commission should consider to encourage joining or remaining in an RTO/ISO?" In a concurrent statement, Commission Moeller notes that Congressional intent to provide incentives for utilities to join a regional transmission organization "would be frustrated were this Commission to increase regulatory uncertainty by changing long-held investor expectations." Comments are due within 60 days of the NOI's publication.

Ongoing Implementation of Dodd-Frank and oversight of Financial Transmission Rights

In late April, the Commodity Futures Trading Commission (CFTC) issued several proposed rules in its ongoing effort to comply with various provisions of the Dodd-Frank financial services reform measure passed in 2010. Still unknown is how the CFTC will treat Financial Transmission Rights (FTRs), and if the CFTC will seize oversight of FTRs from the FERC. At a public meeting of the CFTC on April 27 several members raised the issue, noting representatives from Regional Transmission Organizations (who hope to see FERC retain oversight over FTRs) have met with the CFTC as part of an ongoing dialogue to reach a fair conclusion, and that the discussions have been productive.

The CFTC's general counsel noted the Dodd-Frank measure includes language that allows the CFTC to provide a "waiver" for certain financial instruments if it is in the "public interest" to exempt them from new regulations. The general counsel noted he hopes the RTOs apply for such a waiver and CFTC Chairman Gary Gensler stated he believes the public interest waiver mentioned is consistent with Congressional intent in Dodd-Frank.

[Back to Top](#)

2010 Annual Markets Review

In June, ISO New England will be issuing its annual report on the performance of the wholesale electricity markets for 2010. To coincide with the report, the ISO is also hosting its annual meeting with federal and state regulators and consumer advocates to discuss the *2010 Annual Markets Report* with the ISO's Internal Market Monitor, David LaPlante and External Market Monitor, David Patton.

The meeting will take place during the 64th Annual NECPUC Symposium at the Omni Mount Washington Hotel and Resort in Bretton Woods, New Hampshire on June 20 from 3:30 p.m. – 5:00 p.m.

In accordance with the ISO's tariff, the ISO is obligated to host this *non-public* meeting with "appropriate state or federal government agencies, including the Commission and state regulatory bodies, attorneys general, and others with jurisdiction over the competitive operation of electric power markets, subject to the confidentiality protections of the ISO New England Information Policy."¹ ISO also will present the report at the NEPOOL Summer Meeting in July.

¹ See *Market Rule 1, Appendix A, Section III.A.12.3, Annual Review and Report by the Internal Market Monitor*, http://www.iso-ne.com/regulatory/tariff/sect_3/3-3_10_mr_1_appendix_a.pdf

To register for this meeting, please go to [ISO TEN](#). (Please note that you will have to log-in to your ISO TEN account before you can register).

[Back to Top](#)

Salem Harbor Update

On May 9, the ISO released its determination on the reliability need for generation from the Salem Harbor power plant in 2014. The reliability study was triggered by Dominion Energy's February Non-Price Retirement Request to permanently retire the entire Salem Harbor power plant effective June 1, 2014.

The ISO determined that Salem Harbor units 3 and 4 will be needed in 2014-2015 to ensure the reliability of the power system in northeastern Massachusetts and Greater Boston; units 1 and 2 were not found to be needed for reliability and Dominion's request to retire those units in June 2014 was accepted. ISO's study found that between 415 and 560 MW of generation was deemed necessary to prevent potential thermal overloads in the event of a second system contingency; units 3 and 4 could provide this capacity. Dominion was required to notify the ISO by mid-November 2011 whether it was going to continue operating units 3 and 4 in 2014, or retire. The non-price retirement request is binding, meaning that once it decides to retire, the request cannot be rescinded.

On May 11, Dominion Energy [notified](#) the ISO that it plans to "retire all four units on June 1, 2014, because pending environmental regulations and market conditions are making the power station uneconomical to operate." Units 1-3 burn coal. Unit 4 burns oil.

Working with local transmission owners, NSTAR, National Grid and Public Service of New Hampshire, the ISO concluded a comprehensive study of the reliability needs of northeastern Massachusetts and Greater Boston last year and have been evaluating a variety of transmission solutions to address reliability concerns in those areas and to eliminate the need for Salem Harbor. Preferred solutions are expected to be finalized this summer. If appropriate solutions are not in place by June 1, 2014, the ISO and transmission owners will have a plan in place that will detail how to operate the transmission system in the event of generator and/or transmission line outages on the North Shore and in Greater Boston.

For a more detailed history of Salem Harbor and the Greater Boston Study, please see the "Salem Harbor Update" from the April 2011 [memo](#).

[Back to Top](#)

Strategic Planning Discussion

Throughout April and May, ISO staff met with almost all of the states and NEPOOL sectors for initial discussion of the issues identified for the Strategic Planning Initiative. Summary notes from each of the meetings held to date have been posted on the [Strategic Planning Discussion section](#) of the ISO's website. In response to the feedback received to date, a [revised problem statement](#) and a [draft risk assessment](#) summary have been developed, both of which are also posted. The remaining state and sector meetings will take place in early June and any additional feedback will be incorporated into the documents.

The summary risk assessment distills the overall challenges being faced by the regional power system into five separate issues: Resource Performance and Flexibility, Increased Reliance on Natural Gas-Fired Capacity, Retirement of Fossil-Fired Generators, Integration of a Greater Level of Variable Resources; and Alignment of Planning and Markets (which was previously referred to as Non-Transmission Alternatives). Each issue is defined with descriptions of the probability of timing and occurrence, consequences and mitigation options. The assessment also identifies any analysis that is underway by the ISO to inform solutions for each issue. A significant study being done as part of this effort will analyze

the capacity of the natural gas system to serve the existing and potential repowering needs of the region's power sector and consider the impacts of natural gas system contingencies. [The scope of work for this study is also posted.](#)

The revised problem statement provides a higher level view of the issues, explains how they fit together and categories them as either short or longer-term.

The issue of alignment of planning and markets and how alternatives to transmission projects can come forward was of particular interest to the state commissions. The ISO believes this topic is worthy of continued discussion such that the objectives are clear and the risks that it could present are understood by all stakeholders.

Looking ahead, the ISO plans to issue initial solution information prior to the NECPUC Annual Symposium. Additionally, the issues of the Strategic Planning Initiative will be the subject of consideration by the Massachusetts' Restructuring Roundtable on June 10th in Boston and during the June NEPOOL Participants Committee Meeting the same day.

[Back to Top](#)

Summary of Massachusetts Department of Energy Resources (DOER) Amendments to the Renewable Energy Portfolio Standard (RPS) to Address Woody Biomass

This summary provides a brief overview of [regulatory changes](#) pertaining to the eligibility of woody biomass fuel and biomass units to meet RPS requirements in Massachusetts.

Background

Because the impact on climate change from biomass facilities was unknown, in 2009 the DOER suspended qualification of biomass units for the RPS and commissioned a research team led by the Manomet Center for Conservation Science to analyze this issue. The goal of the RPS amendments is to provide eligibility criteria on biomass generation units to assure that these units contribute positively to the carbon reduction commitments of the Commonwealth as established by the Global Warming Solutions Act, and to assure that biomass fuel removals from forest lands are sustainable. The regulations incorporate the findings of the Manomet study as well as public comments on earlier proposed regulations.

Key Provisions

- Each delivery of woody fuel to a biomass unit must be certified by a professional forester, who must demonstrate that it constitutes a certain percentage of the total amount of harvested material from a given site. This percentage varies by soil and drainage conditions for each harvest area. Construction materials are not eligible fuels for the RPS program.
- Biomass units must provide a lifecycle greenhouse gas (GHG) analysis and demonstrate GHG emissions reductions of at least 50 percent over 20 years compared to the most efficient combined cycle natural gas generators.
- Biomass units must demonstrate a unit's overall efficiency calculated by the Biomass Input Heat Content of the fuel when fed into the generation unit. Biomass units must report on their efficiency quarterly.
 - A Generation Unit achieving 60% or higher Overall Efficiency in a quarter will receive one RPS Class I Renewable Energy Attribute for each MWh of RPS Class I Renewable Energy Generation.

- A Unit achieving 40% Overall Efficiency in a quarter will receive one-half RPS Class I Renewable Energy Attribute for each MWh of RPS Class I Renewable Energy Generation.
- Existing biomass generation units already qualified for the RPS Class I program will be required to demonstrate compliance with the fuel eligibility requirements by 2013, and with all provisions (including overall efficiency) by the start of 2015.

Biomass in the Interconnection Queue

There are currently three wood-based biomass plants in the interconnection queue in Massachusetts. These plants have a combined capacity of approximately 143 MW. Two of these have been in the queue since 2005 and the third since 2008.

Conclusion

The future of wood-based biomass generation in Massachusetts is unclear. Any wood-based biomass plant that intends to rely upon revenues from renewable energy attributes in its business model will face a challenging regulatory regime. The regulation was referred to the Legislature's Joint Committee on Telecommunications, Utilities, and Energy, on May 3, 2001. The Committee has 30 days to review the regulation and provide comments to DOER. After considering these comments, DOER anticipates filing the final regulation after another 30 days.

[Back to Top](#)

Demand Response Rulemaking Stakeholder Process

In March, the FERC issued a final rule in [Docket RM10-17-000](#) with respect to demand response resources ability to participate in energy markets (130 FERC ¶ 61,213, "Demand Response Compensation in Organized Wholesale Energy Markets"). In the final rule, 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."

[Preliminary discussions](#) have begun at the Markets Committee and will continue during the [June 2 committee meeting](#). At this meeting the discussion will focus on baseline and threshold price issues. The ISO will present a draft of the rules for discussion at the [June 14-15 committee meetings](#).

The final rule provides that each RTO and ISO must submit a compliance filing by July 22, 2011.

On April 29 Bob Ethier, ISO New England's Vice President for Market Development, appeared at the Platts Northeast Power Markets Forum in Arlington, VA on a panel focused on the implementation of demand response resources into energy markets. Bob noted that despite the fact that the recent order from the FERC did not follow New England's recommendation, the region has been focused on seamless integration of DR for several years, the region has made significant progress, and this order allows for the resolution of a big part of the DR integration debate. The goal, he noted, is to fully integrate DR but that the creation of the net benefits test is a difficult task and that full integration may take three years. Bob was joined on the panel by representatives from PJM Interconnection and the Electric Power Supply Association.

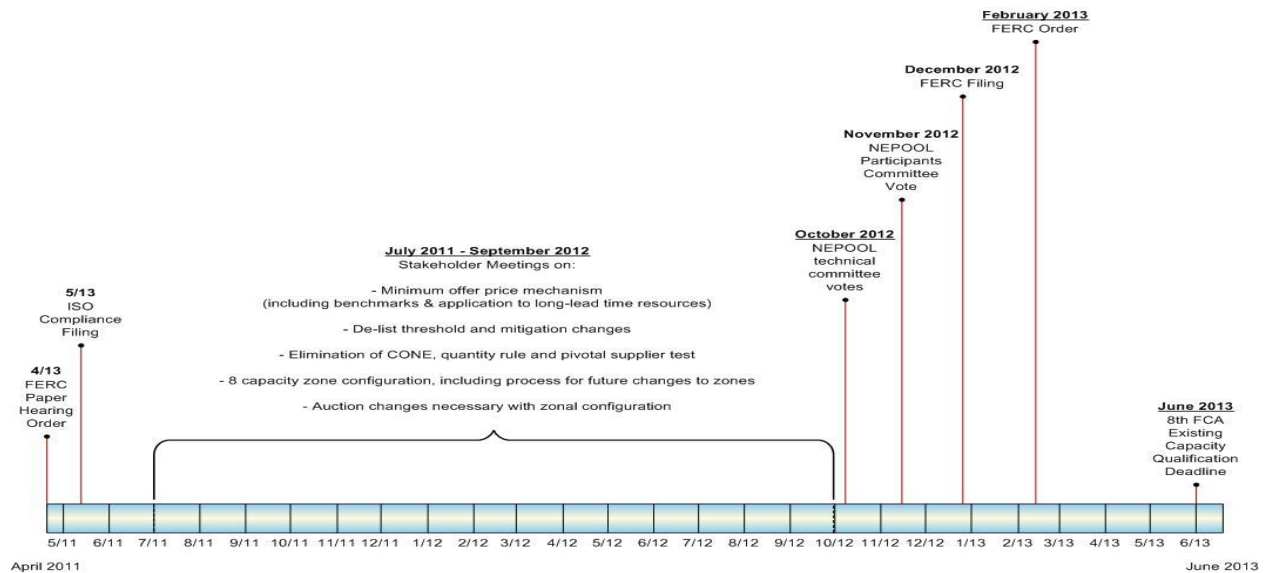
[Back to Top](#)

FCM Rule Modification Stakeholder Schedule Proposed to FERC

On May 13, ISO New England submitted a compliance filing as required by the April 13, 2011 FERC [Order](#) relative to reforms to the region's Forward Capacity Market. The April 13 order specifically required that the

ISO “examine with stakeholders – the development of market rules to implement an offer-floor mitigation construct, and the proper offer floor price for long-lead-time resources,” and file within 30-days a proposed schedule for filing revised market rules.

The ISO’s May 13 filing includes a schedule to have revised rules approved and effective before June 2013 – which would allow the new rules to be in place prior to the qualification deadline for the eighth Forward Capacity Auction. The schedule in the May 13 filing includes:



In the May 13 compliance filing the ISO also noted that if possible, on or before August 12, the ISO will announce whether an earlier implementation – in time for the seventh Forward Capacity Auction – is possible.

[Back to Top](#)

Update on Energy Efficiency

In response to stakeholder concerns, ISO is exploring potential improvements to forecasting and planning practices that may more accurately account for energy efficiency (EE) and is investigating the possibility of creating a discrete EE forecast.

In early 2011, the ISO held a series of meetings with state regulators and EE Program Administrators (PAs) in each of the six states to determine if the PAs have long-term projections of EE savings as well as to quantify the amount of state-sponsored EE resources that may be in the region, but not bid into the FCM. The PAs were generally unable to predict future EE savings and indicated that the amount of EE they can produce is directly related to the levels of funding available from the states. Preliminary indications are that the FCM does capture nearly all state-sponsored EE resources in the region.

ISO is also engaged in ongoing conversations with other ISOs regarding any EE forecasting that they may conduct. The first step in this process is the acquisition of a much more detailed understanding of the current NYISO EE forecast methodology. When this is complete ISO and the stakeholders will be able to determine if there are elements of the NYISO forecast methodology that may be adaptable for New England. ISO will continue to work with stakeholders including the states and NESCOE to develop a discrete EE forecast methodology.

[Back to Top](#)

Vermont Operating Plan

In order to maintain reliable operation of the grid in the event that the Vermont Yankee nuclear power station does not operate beyond 2012, ISO and VELCO have begun to establish an operating plan. These types of plans are conducted as part of ISO's regular planning activities. The objective of this plan is to provide grid operators with specific procedures to maintain reliability in the event that contingencies occur. The plan will concentrate on procedures for operating the system in the 2012-2013 timeframe should Vermont Yankee not be available. ISO and VELCO planners and operators have a good understanding from this process of the specific actions that they will need to take to maintain reliability in the 2012 timeframe, but longer-term solutions will be necessary.

[Back to Top](#)

ISO New England Releases Summer Outlook

ISO New England has released its electricity demand forecast for summer 2011, noting the region should have sufficient resources to satisfy expected demand. If New England experiences typical summer weather, ISO-NE predicts a peak demand of 27,550 MW, which would be 448 MW higher than the 27,102 MW peak load reached in 2010. However, an extended heat wave resulting in above-average temperatures could see demand climb to 29,695, a level exceeding the all-time demand record set in New England of 28,130 MW in August 2006. ISO-NE's Chief Operating Officer pointed to the gradual recovery from recent poor economic conditions as a reason for increased demand over previous years. New England's total capacity is 32,980 MW – including 29,710 from generation and over 1,200 MW of demand-response resources.

[Back to Top](#)

Changes to ISO New England's Board of Directors

On May 19, ISO New England announced changes to its Board of Directors, including the election of Vickie VanZandt and Christopher Wilson to the Board. Ms. VanZandt currently runs VanZandt Electric Transmission Consulting, Inc., based in Washington State, and is also the Western Electricity Coordinating Council's Program Manager for the Western Interconnection Synchrophasor Program. In 2009, she retired from Bonneville Power Administration after 35 years of service. Christopher Wilson has three decades of experience in the financial sector, including serving as President and CEO of CDC IXIS Asset Management Services, Inc., and President of Columbia Funds at the Bank of America, where he was responsible for the entire operational nondistribution segment of the mutual fund business.

Two of the ISO's original board members, John Kassakian and Alvin Klevorick, will retire later this year. Ms. VanZandt will replace Mr. Kassakian, and Mr. Wilson will replace Mr. Klevorick. Kathryn Jackson and Paul Levy were reelected to a second full term. Ms. Jackson has served on the board since 2008, and Mr. Levy has served on the board since 2006.

[Back to Top](#)

Upcoming Planning Advisory Committee meetings and preliminary agendas:

June 29 *Doubletree Hotel, Westborough, MA*

- Environmental issues

June 30 *Doubletree Hotel, Westborough, MA*

- Discussion of Energy Efficiency (EE) projections

July 21 *Doubletree Hotel, Westborough, MA*

- 2011 Economic Study

July 22 *Doubletree Hotel, Westborough, MA*

- Discussion of Energy Efficiency (EE)
- Resource adequacy and operating reserves
- VT/NH preferred transmission solution

August 11 *Doubletree Hotel, Westborough, MA*

- Draft 2011 RSP page turn

September 8 *Colonnade Hotel, Boston*

- RSP public meeting

Registration for PAC meetings is available through the calendar on the ISO homepage: www.iso-ne.com. Advanced registration is required for all PAC meetings.

RSP11 Materials

The draft assumptions for RSP11 are posted in the meeting materials for the [May 23](#) meeting. The draft RSP11 report will be posted in advance of the “page turn” on August 11. The [CELT report](#), which contains the load forecast assumptions for RSP11, was posted in early May.

[Back to Top](#)

Consumer Liaison Group

On June 2, the Consumer Liaison Group (CLG) goes on the road as Vermont hosts the next quarterly meeting.

Newly-appointed Commissioner of the Vermont Department of Public Service Elizabeth Miller will provide opening remarks followed by two panel discussions. The first panel will talk about smart grid technologies – opportunities available for residential, commercial and industrial customers; smart grid benefits and challenges; and ongoing smart grid activities and expectations.

A second panel will review the ISO’s framework for evaluating major initiatives - providing information on the methodology for providing quantitative and qualitative analysis, and why this information will be useful to consumers. Finally, there will be a presentation on FERC Order 745 that instructs ISOs and RTOs how to compensate demand resources that participate in the wholesale energy market.²

The meeting will be held in Essex, Vermont at [The Essex Resort](#). The [agenda is posted](#) and advanced [registration](#) is required. [Special Room rates](#) are also available by calling the hotel at (800) 727-4295 and mentioning the CLG meeting.

[Back to Top](#)

Monthly Regional Network Load Cost Report

The [Monthly Regional Network Load Cost Report for March 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.

² See the “Demand Response Rulemaking Stakeholder Process” update from the April 2011 memo for more information, http://www.iso-ne.com/committees/comm_wkgrps/othr/clg/mnthly_issu_memo/index.html

The report showed that in March, pool-aggregate RNL costs decreased 5.5% from February 2011 and increased 3.3% from March 2010. March's average RNL cost for New England also decreased 1.9% from February 2011 values – and increased 3.3% from March 2010. The March RNL costs were approximately 14.2% of total wholesale costs.

[Back to Top](#)

Wholesale Electricity Costs April 2011

The average Day-Ahead and Real-Time Hub prices in April 2011 were \$43.35/MWh and \$43.91/MWh respectively – a modest decline from the March monthly average of \$45.61/MWh and \$44.51/MWh.

April's average natural gas price was \$4.71/MMBtu – down 9% from March. Oil (#6) prices however rose 2% in April.

	April 2011	April 2011 Compared to March 2011	April 2011 Compared to April 2010
Average Day-Ahead LMP (hub)	\$43.35/MWh	-5%	17%
Average Real-Time LMP (hub)	\$43.91/MWh	-1%	20%
Average Natural Gas Price	\$4.71/MMBtu	-9%	8%
Peak Real-Time Load	16,592 MWh	-12%	1%
Average Real-Time Load	13,305 MW	-8%	2%

[Back to Top](#)

ISO Speaking Engagements and Other Meetings of Interest

June 8, 2011

Joint Meeting of ISO/MA DPU to consider Strategic Planning Issues

June 15, 2011

Vermont System Planning Committee, Montpelier, Vermont
ISO Speaker: Stephen Rourke, Vice President System Planning
For more information, please see the [Committee's website](#).

June 20 – 22, 2011

NECPUC Symposium, Bretton Woods, New Hampshire
For more information, please see the [conference website](#).

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
June	10	2, 14, 15	21	29, 30	28	13	16
July	12-14	19, 20	25-27	21, 22	25-27	7	18
Aug.	12	17-19	23	11	30	9	15

[Back to Top](#)