

To: NECPUC

From: Carolyn O'Connor

Date: October 20, 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

Greater Boston Needs Assessment

ISO is revising its critical load level analysis for the Greater Boston Needs Assessment. This revision will include updated load information contained in the [2010 CELT](#) and resources that were acquired through the third Forward Capacity Auction (FCA-3). ISO expects this analysis and the Solutions Assessment to be concluded by December 2010. The June 2010 NECPUC memo contains more detailed information about the Greater Boston Needs Assessment process.

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Tie Benefits

The ISO and stakeholders are expected to begin drafting tariff language in November to implement changes to the methodology for calculating tie benefits—the amount of emergency energy that can be imported over the transmission system from neighboring control areas. The changes would first be applied to the ICR calculation for the fifth FCA scheduled for June 2011, which affects the need for resources in the 2014/15 timeframe.

On October 15, the NEPOOL Participants Committee deferred action on the Reliability Committee's recommended Tie Benefits Calculation Methodology Design Basis Document (DBD). Notwithstanding the lack of action by the Participants Committee, the ISO will develop draft tariff language for discussion at the Reliability Committee on November 2. The RC and PC are then expected to vote on the changes by early December and the ISO is scheduled to file the changes with FERC by year's end.

There is consensus on several aspects of changes to the tie-benefits calculation methodology. However, there remains a disagreement between ISO and stakeholders about whether to assume New England and neighboring systems just meet reliability criteria (*i.e.*, they are modeled “at criteria”), or to assume that surplus resources may be available in neighboring systems (*i.e.*, they are modeled “as is”). The states and other representatives of load generally favor modeling the system “as is” to capture the benefit of surplus resources that may be available in neighboring systems. The ISO has raised operational concerns about relying on surplus resources in other regions that have no obligation to the New England system and may not actually be available in real time. Assuming a higher level of tie benefits results in a lower ICR and reduces the amount of capacity that needs to be purchased in the FCM. Conversely, assuming a lower level of tie benefits results in a higher ICR and increases the amount of capacity that needs to be purchased in the FCM.

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FCA-4 Reliability Assessment Update

The fourth Forward Capacity Auction (FCA-4) was held earlier this summer on August 2 and 3. Over 280 de-list bids representing over 2,400 MW were submitted for FCA-4. A de-list bid for FCA-4 is a request from a generator or demand resource to withdraw from the capacity market for the 2013-2014 Capacity Commitment Period (June 1, 2013 through May 31, 2014).

When a resource seeks to de-list from the capacity market, a reliability analysis is conducted (See [ISO New England Planning Procedure No. 10 – Planning Procedures to Support the Forward Capacity Market](#)). The reliability analysis obligates the ISO to analyze thermal, voltage and stability impacts of de-list bids. As part of this analysis, if a reliability need is found, the de-list request is rejected.

For FCA-4, Dominion requested to withdraw Salem Harbor units 1, 2, 3 and 4 – representing almost 750 MW of capacity. In its reliability analysis the ISO determined that units 1 and 2 could be de-listed however units 3 and 4 were needed for reliability under second contingency scenarios. Second contingency, often referred to as N-1-1 includes the loss of the two most critical system elements (including generators, transmission lines or a

combination of the two). Under various second contingency scenarios, generation is needed online to avoid Long-Term Emergency (LTE) violations – and other area generation is ineffective in reducing the thermal overloads. Furthermore, without Salem Harbor generation, under second contingency scenarios load shedding, particularly on the North Shore of Massachusetts may be necessary.

Entergy Nuclear Power Marketing also submitted a de-list request for Vermont Yankee. Vermont Yankee has a summer capacity qualification of about 600 MW. The ISO denied the de-list request for reliability reasons. The ISO determined in its reliability analysis of Vermont Yankee that under second contingency scenarios, Vermont Yankee is needed to mitigate LTE violations and to provide voltage support for Vermont and neighboring areas.

As required by Planning Procedure No. 10, the ISO will provide a summary of accepted de-list bids at the upcoming [October 20 Reliability Committee Meeting](#) and will solicit formal input and advice from the committee members. The ISO will also come back to the committee in November to answer additional questions and will likely seek an advisory vote.

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FCA-5 Schedule

The schedule for the fifth Forward Capacity Auction is included in [Manual M 20](#). Pertinent FCA-5 related events (Capacity Commitment Period June 1, 2014 through May 31, 2015) include:

Date	Event
October 1, 2010	Existing Capacity Qualification Deadline
October 6, 2010	ISO Posts Existing Capacity Static De-List Bid and Export Bid Information
October 15, 2010	New Capacity Qualification Deadline; New Import Documentation Due
October 20, 2010	ISO Posts New Import Information
January 7, 2011	Show of Interest Reduction in Capacity Changes Deadline for Generation
January 28, 2011	ISO Notifies New Capacity of Qualification Acceptance/Denial and Disposition of De-List Requests for New and Existing; ISO posts INTMMU approved Static and Permanent De-List Bid
January 29, 2011	Market Participant Status Deadline
February 6, 2011	Non-price Retirement Request Window Closes
February 11, 2011	Composite Offer Deadline
February 18, 2011	Notification of FCA Qualified Capacity
February 23, 2011	Sponsor Withdrawal Deadline from Qualification Process
February 28, 2011	Collect Financial Assurance Information from Accepted New Capacity; Self-Supply Designation Deadline for Generation
March 8, 2011	FERC Filing
May 2, 2011	DR Milestones
June 6, 2011	Begin Auction

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Record Setting Months for Regional Consumption

Over the past five months the region has seen historic electricity consumption. Peak demand hit record levels for the months of May and September and the region set a monthly consumption record in July with the use of 13,385 gigawatt-hours of electricity consumed. More information on region's record consumption levels is available at http://www.iso-ne.com/news/pr/2010/summer2010_10082010.pdf.

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Economic Impact Analysis Update

Working with the assistance of the Brattle Group, ISO is continuing its efforts to design appropriate and acceptable quantitative and qualitative analysis of its major market and planning initiatives pursuant to its commitment in the 719 Responsiveness filing. To date, the ISO has proposed specific criteria to help determine the initiatives that should be studied. Specifically, one of the factors for determining if an analysis is to be undertaken should be the identification by the states that a particular initiative is important.

Throughout the summer, the Markets and Reliability Committees reviewed ISO's proposal for the criteria to determine major markets and planning initiatives respectively. Most recently, ISO presented to the Markets Committee its proposal for the kind of information that will be provided in the various studies. The ISO explained some limitations that may exist in the creation of quantitative analysis, particularly if that analysis relies on highly speculative assumptions. In this regard stakeholders requested that the ISO explain the reasons why certain analysis may not result in meaningful results. Additionally, the discussion focused on the importance of providing qualitative information about why the ISO is pursuing a certain initiative and what market principle is being pursued through the initiative.

ISO will continue to seek feedback from stakeholders on the criteria, as well as the types of information that will be provided, to ensure satisfactory results. The next phase in the development of the ISO's impact analysis will be to work with stakeholders to standardize a timeframe in which analysis will be provided in the regional stakeholder process. Preliminary feedback from stakeholders is that they would like to have the analysis as early in the process as possible.

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Consumer Liaison Group Update

The next meeting of the Consumer Liaison Group (CLG) is December 9 at the Colonnade Hotel in Boston, Massachusetts. FERC Commissioner [Marc Spitzer](#) will be participating in the lunch and a dialogue with members of the CLG. Other agenda items will include a presentation on the *2010 Regional System Plan* (RSP10) and a panel discussion with representatives from the regional transmission owners (TOs). Panelists will discuss NERC¹ compliance, transmission projects for renewable resource integration, and the TO's five-year forecast for regional network service (RNS) - all with an emphasis on how these topics will impact consumers.

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

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ISO New England Training Opportunities

November 4, Doubletree Hotel, Westborough, MA

The ISO is offering a one-day training for state and regional regulatory officials and legislators. This high-level training will provide overviews 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 state regulatory and legislative staff relatively new to the industry and a refresher course for those who have worked in the industry. The course will be comprehensive, but not in-depth on any individual topic.

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

¹ North American Electric Reliability Corporation, <http://www.nerc.com/>.

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](#).

2011 Market Training Schedule

To help individuals plan for their future training needs, the ISO has posted its [2011 Market Training Schedule](#) (please note that this is not the final classroom schedule, additional courses will be posted in the future). Individuals associated with a state agency are eligible to receive market training at a 50% discount. To register for training, please [click here](#).

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Summary of Federal Issues

Renewable Energy Legislation

On Sept. 29, Senator Olympia Snowe (R-ME) joined Senate Energy Committee Chairman Jeff Bingaman (D-NM) in introducing a bill to encourage research and development of renewable and alternative energy technology. The Advanced Energy Tax Incentives Act of 2010 ([S. 3935](#)) cobbles together a handful of previously-introduced measures highlighting the need for the Senate, stalled on larger climate-centered bills for the near future, to encourage renewable energy production. Among other initiatives, the measure hopes to encourage energy efficiency upgrades in homes and businesses by allowing owners to defray the cost of energy-savings improvements, as well as provide tax credits for businesses that either manufacture renewable energy infrastructure or make energy efficiency measures. The bill also includes tax incentives for energy storage systems to accompany intermittent sources of energy.

On Sept. 21, Chairman Bingaman introduced a stand-alone Renewable Energy Standard (RES) measure ([S. 3813](#)), similar to the provision he included in the comprehensive energy bill he moved through the Senate Energy Committee in 2009 ([S. 1462](#)). This stand-alone RES mirrors the effort in S. 1462, calling for electric utilities to derive 15% of their output from renewable or alternative sources of energy by 2021, with approximately one-quarter of that target allowable through energy efficiency measures. The bill's nearest compliance target is the 2012-2013 timeframe with a 3% target. New England Senators Collins (R-ME), Dodd (D-CT), Kerry (D-MA), Lieberman (D-CT), and Shaheen (D-NH) have co-sponsored the measure.

While an RES measure and incentives for renewable energy production remain somewhat popular in both parties, it is unlikely either will make significant progress in the remainder of the 111th Congress, with lawmakers not returning to Washington until a week before Thanksgiving and trillions of dollars in expiring tax cuts and government funding for Fiscal Year 2011 still to address. If neither bill is enacted by the time Congress adjourns, each must be re-introduced when the 112th Congress convenes in 2012.

Myriad of Regional Comments on FERC Cost Allocation/Regional Planning NOPR

With energy policy on Capitol Hill stalled for the near future, observers have turned their attention to comments submitted to FERC in late September in response to FERC's cost allocation and planning NOPR released in June. Many RTOs joined ISO New England in supporting increased planning for public policy goals and detailing efforts already undertaken or in progress within their regions to integrate public policy initiatives.

However, regional differences were illustrated clearly when the debate shifted to how the cost allocation of interregional projects should be treated. In their individual comments, ISO New England and New York ISO argued that regional sovereignty should be protected, and objected to "top down" mandates on cost allocation methodologies when regions are unable to agree to terms on their own. In contrast, PJM and Midwest ISO noted that the final rule should recognize that a "beneficiary pays" system cannot limit the "beneficiary" designation to only the regions that host the physical infrastructure of new transmission but instead should include other regions that see benefits like increased reliability.

US EPA's Proposed Transport Rule

On August 2 2010, the U.S. Environmental Protection Agency (EPA) proposed a new [rule](#) pursuant to the Clean Air Act designed to limit the interstate transport of nitrogen oxides (NO_x) and sulfur dioxide (SO₂). This rule is referred to as the transport rule. Emissions of these pollutants affect the ability of certain states to attain and maintain compliance with the 1997 and 2006 fine particulate matter (PM_{2.5}) National Ambient Air Quality Standards (NAAQS) and the 1997 ozone NAAQS. NO_x and SO₂ react in the atmosphere to form fine particles and ground-level ozone and are transported long distances, making it difficult for some states to achieve clean air standards when emissions come from out-of-state, upwind sources.² The proposed transport rule would impact 32 states, but in New England only Connecticut and Massachusetts will see emission limits due to their ability to attain NAAQS. The rule focuses exclusively on limiting emissions from electric generating units. In the proposed rule, the EPA estimates that by 2014 emissions from power plants of SO₂ will be reduced by 71% over 2005 levels and NO_x emissions will be reduced by 52%.

The proposed transport rule establishes state emission budgets developed by the EPA. In addition, each electric generating unit will have a [budget](#) or cap on emissions which they may not exceed. The budgets were based on a state-by-state analysis of each upwind state's significant contribution to nonattainment and interference with maintenance of NAAQS in downwind states. Connecticut and Massachusetts filed extensive comments on the proposed allowance budgets and on the modeling used to calculate them. This table is intended to provide an approximate summary³ of the proposed allowance budgets for each state:

State	SO ₂ (tons)	NO _x (tons)	
		Annual	Seasonal
CT	2,968	2,695	1,278
MA	7,664	5,783	NA

These budgets will be enforced through a Federal Implementation Plan (FIP) designed by the EPA. The FIPs will require reduction of emissions by specific amounts. A state may choose to replace the FIP with a state plan. Under the proposed transport rule, only limited interstate trading of emission allowances will be accommodated. The states are split into two groups and trading is not allowed between groups only within each group. EPA proposed that all significant contribution to nonattainment and interference with maintenance of PM_{2.5} NAAQS be eliminated by 2014 and therefore sources will need to be in compliance in the 2012 – 2014 timeframe. For the 1997 ozone NAAQS, EPA proposed to require an initial phase of NO_x reductions starting in 2012. The final date for 1997 ozone NAAQS compliance will be the subject of future rulemaking.

² See <http://www.epa.gov/airtransport/pdfs/FactsheetTR7-6-10.pdf>.

³ Source: <http://www.epa.gov/airquality/transport/tech.html> These budgets were also presented to the ISO's Environmental Advisory Group meeting on October 8, 2010. See: http://www.iso-ne.com/committees/comm_wkgrps/prtcpnts_comm/eag/mtrls/2010/oct82010/index.html . These numbers may change for several reasons including responses to comments, adjustments for variability of unit output, and a 3% set aside for new units.

The proposed transport rule is one of several that the EPA plans to issue regulating emission and operations of power plants over the next two years. Other rule changes under consideration deal with the following topics:

- Cooling water intake structures;
- revisions to NAAQS for ozone and particulate matter, and if these standards are lowered, revisions to this transport rule may be necessary;
- new emission limits for mercury and other hazardous air pollutants;
- new source performance standards for coal and oil-fired generators to require the best system of emission reductions for NO_x and SO₂;
- best available retrofit technology to improve regional haze; and
- coordination with other agencies like the Department of Energy to promote energy efficiency.

This rule would replace the existing Clean Air Interstate Rule (CAIR) and is designed to be consistent with the DC Circuit Court's decision in *North Carolina v. EPA*⁴ which identified flaws in the CAIR and ordered the EPA to fix them.

ISO Submits Comments on Supplemental DR NOPR

On August 2, 2010 the Federal Energy Regulatory Commission issued a [Supplemental Notice of Proposed Rulemaking \(Supplemental NOPR\) and Notice of Technical Conference](#) asking parties to comment on the possible adoption of a net benefits test to determine when to compensate demand response and methodologies for allocating the costs of demand response. (RM10-17) The Supplemental Notice also obligated FERC to host a technical conference so stakeholders can comment on these issues.

On September 13, FERC hosted a [technical conference](#) – and Bob Ethier, Vice President of Market Development for the ISO, was one of handful of stakeholders invited to speak. His presentation from this conference is posted on the ISO's [website](#).

Results of a study that were the basis of some of the ISO's comments at the technical conference were subsequently revised (See http://www.iso-ne.com/regulatory/ferc/filings/2010/oct/rm10-17-00_10-8-10_rev_study_results.pdf). However, the changed results did not change the conclusions and recommendations presented by the ISO at the technical conference.

Comments on the Supplemental Notice were due to FERC by October 13. ISO submitted written comments on that date. (See <http://www.iso-ne.com/regulatory/ferc/filings/2010/oct/index.html>).

The ISO's comments include recommendations that the Commission:

- Adopt a net benefit test based on economic efficiency
 - An efficient market discourages consumption when costs are highest and encourages more use when costs are lowest. However, paying full-LMP for load reductions provides an incentive to consumers to reduce high-value consumption even when the cost of serving that consumption is relative low. Additionally, paying full-LMP for load reductions does not allow consumers to benefit from increasing consumption when costs are low.
- Adopt a net benefit test that considers the impact of demand response compensation on both the energy and capacity markets.
 - Recently conducted analysis produced for the ISO indicates that “as the number of hours in which full-LMP is paid for reduced energy consumption increases, net benefits become more

⁴ *North Carolina v. EPA*, 531 F.3d 896 (DC Cir. 2008).

negative” and “when considering capacity market impacts under full-LMP compensation approaches, increases in capacity prices in response to suppressed LMP’s offset consumer savings. This leaves consumers worse off over time.”

- Allocate LMP less the retail generation rate portion of demand response costs to the load-serving entity that would have served the interrupted load and allocate any additional demand response costs to consumers through transmission companies.
 - Analysis conducted by the ISO shows that this cost allocation methodology results in the lowest costs to final consumers.
- Require the implementation of a baseline estimation method that maintains accuracy and integrity given the frequency with which demand response resources participate in energy markets.
 - Baselines are needed to estimate the amount by which consumption changes in response to demand response incentives. If demand response incentives cause participants to curtail consumption very frequently, it becomes very difficult to estimate accurate and reliable baselines and increases the possibility of paying for essentially normal consumption levels.

ISO Submits Third Brief in FERC’s FCM Redesign Docket

On September 29th the ISO filed its third [brief](#) in response to FERC’s April 23, 2010 Order regarding the redesign of the Forward Capacity Market (FCM). In the April 23 Order, the Commission set certain issues for a paper hearing including: (1) issues relating to the Alternative Capacity Price Rule; (2) modeling of Capacity Zones; and (3) the proper value of the Cost of New Entry. In this brief, the ISO responded to arguments made by stakeholders in the second briefs and provided further clarification regarding its Revised FCM Proposal. Both the ISO and the Internal Market Monitor in their third round briefs advocated a design that seeks to minimize both buyer and seller market power and establish just and reasonable capacity prices through efficient market design.

FERC Begins Smart Grid Standards Setting Process

Section 1305 of the Energy Independence and Security Act of 2007 (EISA) requires FERC to adopt in a formal rulemaking proceeding standards and protocols necessary to ensure smart grid functionality and interoperability in interstate transmission of electric power, and regional and wholesale electricity markets. The EISA also directs the National Institute of Standards and Technology (NIST) to coordinate the development of these standards. FERC has created a docket for this rulemaking, and in the near future will solicit public comments via the issuance of a Notice of Proposed Rulemaking (NOPR).

According to NIST, the suites of smart grid standards will:

- Provide a model necessary for exchanges of data between devices and networks, primarily in the transmission (IEC 61970) and distribution (IEC 61968) domains (the IEC numbers reference two related groups of standards);
- Facilitate substation automation, communication and interoperability through a common data format (IEC 61850);
- Facilitate exchanges of information between control centers (IEC 60870-6); and
- Address the cyber security of the communication protocols defined by the preceding IEC standards (IEC 62351).

The summaries of the smart grid standards are available on FERC's eLibrary under Docket No. [RM11-2-000](#). There will be an opportunity for public comment on the standards only after FERC issues the NOPR in this case.

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Planning Advisory Committee

The Planning Advisory Committee (PAC) is scheduled to meet October 21, November 16 and 30, and December 16. These meetings are scheduled to take place at the DoubleTree Hotel in Westborough, MA, beginning at 9:30 a.m. Advanced registration for PAC meetings is required and available online through the Calendar on the ISO homepage: www.iso-ne.com.

Preliminary topics:

October 21: Vermont substation rebuilds, New Hampshire/Vermont needs analysis, Pittsfield/Greenfield (MA) preferred solutions, reassessment of Western Massachusetts needs and preferred solution, transmission project listing, initial discussion of non-transmission alternatives, and Local System Plan updates from Bangor Hydro, Central Maine Power, and NSTAR

November 16: New England Wind Integration Study, state energy efficiency programs, and New England East–West Solution (NEEWS) Interstate project

November 30: Transmission Owners updates on preferred solutions for NEEWS Interstate

December 16: Greater Boston preferred solution and updates on the economic study of power flows between New York and New England and the 2010 economic studies requested by NESCOE and other New England stakeholders

PAC materials are posted at: http://www.iso-ne.com/committees/comm_wkgrps/prtcpnts_comm/pac/index.html.

The ISO anticipates posting the final RSP10 in early November. A notice will be issued when the report is available.

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ISO Speaking Engagements and Other Meetings of Interest

October 18-19, 2010

Energynautics 9th International Workshop, Quebec, Canada

ISO New England speaker: John Norden, Director, Operations

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

October 19, 2010

Northeastern Energy Efficiency Partnerships - Annual Meeting, Baltimore, MD

ISO New England speaker: Eric Wilkinson, External Affairs Representative

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

October 21, 2010

NECA Conference on Energy Efficiency and Demand Response, Newton, MA

ISO New England speaker: Robert Laurita, Manager of Market Design

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

October 26, 2010

Wind Power's Impact on Grid Reliability, Backup Supply, and Fossil Fuel Use in New England, Webinar

ISO New England speaker: Bill Henson, Senior Engineer, Renewable Resource Integration

For more information, send an email to: rsvp@neweep.com

October 27, 2010

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

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

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

October 29, 2010

Restructuring Roundtable, Boston, MA

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

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

November 7-9, 2010

Utilities Perspectives, Washington D.C.

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

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

November 14-17, 2010

National Association of Regulatory Utility Commissioners Annual Meeting, Atlanta, GA

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

December 1, 2010

NPCC Annual Meeting of Members and 2010 General Meeting, Albany, NY

For more information and to register, please see the NPCC [web site](#).

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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
October				21	29		
November	18	9-10	2	16, 30		8	15

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