

MEMORANDUM

From: Paul J. Hibbard, Chairman, Department of Public Utilities

To: Gordon van Welie, ISO New England
Bob Ethier, ISO New England

cc: Sharon Reishus, Chairman, Maine Public Utilities Commission
Joe Staszowski, Northeast Utilities
Economic Study Process Stakeholder List

Date: June 11, 2008

Subject: Economic Studies Working Group

Dear Gordon and Bob,

As you know, in late March ISO New England kicked off a Stakeholder Review Process for Attachments K and N to the Open Access Transmission Tariff (Tariff), recognizing that until now, these provisions have never been used. In a few meetings since that time, we have reviewed (without conclusion) a number of issues, including background on the Tariff Attachments, issues related to interpretation of Tariff Attachment language, what projects are eligible for review under these Attachments, the type of analysis for projects submitted, and the application of certain analytic methods to a recently-filed Attachment N request. It is fair to say that the Stakeholder Review Process has been initiated, and that stakeholders are busy getting up to speed on the many and complex issues raised by these Attachments and the implications of various interpretations and project reviews that may flow from them. In this vein, I look forward to continuing to participate in such review.

However, I am writing to express a growing concern over the focus and pace of the current Stakeholder Process. As you may have noticed in previous meetings, there remain significant reservations with respect to ISO's interpretation of related tariff language, the economic and policy rationales for the analytic method proposed for associated studies, and the framing and processing of the Attachment N study request for the Maine Power Connection (MPC). I believe these stakeholder reservations reflect a deeper unease and disagreement concerning ambiguity in the Tariff with respect to the purpose of and process for Attachments N and K, and the implications of potential outcomes for (1) the continued evolution and competitiveness of our region's wholesale electricity markets, (2) the jurisdictional roles of states and the federal government over resource planning, (3) the proper role of ISO in the administration of electricity markets and the Tariff, and (4) the impact of related resource and cost allocation decisions on all of the region's electricity consumers.

For example, it is clear that the purpose of some – if not all – Attachment N and K study requests received to date is to achieve regionalization of the cost to interconnect specific generating resources inside or outside the New England region. This raises some fundamental questions concerning the future of regional electricity markets, and the role of the ISO, such as:

1. Will demand and supply resources for New England continue to be selected via the region's competitive markets, or should they result, in whole or in part, from system planning analyses, or administrative determinations of potential or asserted generation project benefits?
2. If the latter, who ultimately is responsible for making decisions related to which demand and supply resources should be added to meet each state's retail customer needs?
3. Who is or should be responsible for paying for transmission system projects that are not focused on maintaining power system reliability, or reducing congestion, but instead are entirely or largely driven by the interconnection of new generation resources?
4. What is the appropriate economic and analytic basis for modeling approaches under Attachments N or K, particularly if such studies are focused on the addition of generating capacity?
5. What should be the role of the system operator in the administration or review of state environmental legislation and policy?

I understand that the entities filing the MPC request have asked for expedited treatment under Attachment N. However, the issues involved in considering the processing of Attachments N and K requests are new, and are fundamental to the role of ISO, the administration of the Tariff, and the fairness and competitiveness of the region's wholesale electricity markets. It is simply premature and inappropriate to process *any* request under either Attachment prior to resolution at the regional level of the underlying policy and tariff issues associated with such reviews, agreement on analytic and modeling approaches, and clear delineation of the practical outcomes that flow from such studies with respect to resource selection and infrastructure cost allocation.

Please do not hesitate to contact me if you have any questions.