

Economic Studies Working Group

Report of Bangor Hydro and National Grid

July 18, 2008





Introduction

1) We firmly believe that significant consumer benefits are available

- We understand the importance of assuring projected savings
- There is an urgency to move forward; not to capture these benefits is a disservice to consumers
- We are ready to invest to achieve these gains
- But it is critical to get the analysis right
- Transmission development has a long lead-time
- Regional goals will not be met without action



Introduction

2) Sound Economic Analysis is Essential

- We believe we should take the time to work together to design the right analysis (both methodology and assumptions)
- We are also willing to work on the issue of project cost accountability, but feel that should be addressed outside the economic benefits analysis



Introduction

3) Very legitimate concerns have been raised

- It is positive that we have the forum and commitment to work on these issues – we are talking about it
- Bangor Hydro and National Grid are willing to work together with others to find common solutions
- These are long-term investments – it is in everyone's interest to make the right decisions



Q1: Who should pay for non-reliability transmission projects?

- When clear economic benefit accrues to consumers, regionalized sharing of transmission cost is appropriate
 - This is a tightly interconnected region and market
 - Who benefits is the key
- There is not a clear distinction between reliability projects and economic projects
 - Economic projects will improve reliability, and reliability projects have economic benefits
- Transmission efficiency improvements can benefit the entire New England region in the long run



Q1: Who should pay for non-reliability transmission projects?

Assurance of New Supply and Savings

- Modeling must include projected generation - studies should reflect reasonable & foreseeable entry of new supply
- Bangor Hydro and National Grid are open and flexible in terms of considering mechanisms to assure supply and savings



Q1: Who should pay for non-reliability transmission projects?

Bangor Hydro and National Grid Position on “Who Pays”

- If it can be demonstrated through sound analysis that regional consumers receive significant benefit over the cost of a proposed transmission project, then the transmission costs of the project should be regionalized.
 - History shows that regionalization moves needed projects forward
 - We believe this is consistent with FERC cost allocation principles
 - Consistent with OATT
 - Consistent with New England history



Q2: What is the appropriate analytic basis for approving projects?

- Economic analysis of projects should focus on customer impacts
 - Conduct market analysis with and without transmission to test benefits and impacts
 - Historic “cost based” pricing of generation to customers should be replaced by marginal pricing reductions on energy, capacity, and ancillary services.
 - Agreements on modeling must include: assumptions, fuel pricing, supply
- The combination of market, regulatory and policy considerations makes reliance on production cost alone as a criteria inappropriate
- Group should work with ISO to design the analysis and agree on inputs. This would produce confidence and agreement in the results.



Q2: What is the appropriate analytic basis for approving projects?

Bangor Hydro and National Grid Position on “Analytic Approach”:

- The ISO-NE should forecast impacts to customers in determining whether projects are economic.
- The ISO-NE should consider the New England state objectives and policies and the pricing impacts of such in their studies (DSM, RGGI, RPS).



Q3: What is the role of state environmental policy in such determinations?

- The States proper role as steward of environmental policy must be respected.
- State environmental policy directions will impact costs to customers and determination of regional benefits.
- Projects or analyses that fail to comply with state environmental policies are not viable and should be rejected.



Q3: What is the role of state environmental policy in such determinations?

BHE and NG Position on “State Environmental Policy”

- We support market solutions and “getting the price signals correct”
- We support the RGGI and RPS initiatives
- We support the current direction of state policy makers.
- We support the Alternative Compliance Payment approach for states meeting RPS objectives.
 - The ISO-NE should model this price ceiling in their studies.



Conclusions

- We have heard the concerns and want to respond
 - We are open to consider many viable options
- Must properly balance a current need to step back and reach agreement on the process, with an urgency to keep the effort moving forward
 - Should avoid lost opportunity to consumers and loss of investment capital
 - Thoroughness and diligence are needed – but, neither delay nor inaction are prudent options for our customers
 - Due to long lead-times, it is essential to keep our development work progressing
- Bangor Hydro, National Grid and the Northeast Energy Link team are committing to work with the States and ISO-NE to develop needed processes to move this important transmission infrastructure forward