



## **Statement of ISO New England The Consumer Protection and Cost Accountability Act**

### **Introduction and Mission of ISO New England**

ISO New England (ISO-NE) is the Regional Transmission Organization (RTO) for the six-state New England region. Its mission is the reliable operation of the bulk power system and the development and administration of efficient wholesale markets. ISO-NE is also responsible for long term planning for the regional power grid and facilitation of a robust stakeholder process to identify and address power and market system needs. State utility commissions, states' attorneys general, and state consumer advocates interact regularly with ISO-NE through this stakeholder process.

In the nearly ten years since wholesale electricity markets have been operating in New England, significant consumer savings have been achieved<sup>1</sup>. Price signals and incentives offered by wholesale markets accomplish these savings by promoting efficiency and availability of existing supply and demand resources, stimulating new entry of resources when needed, and maintaining appropriate resource levels over time.

### **Summary of ISO New England position on S. 2660 and H.R. 5547**

Expansion of the mission and function of ISOs and RTOs to provide for "reliable service to consumers at the lowest reasonable cost" and require cost benefit analysis for virtually all market rule changes is unnecessary—and could jeopardize achievement of New England's energy, economic and environmental policy goals.

The best mechanism for providing electricity at the lowest cost and least risk to consumers over the long term is efficient and transparent wholesale markets. Fortunately for the New England region, effective electricity markets are in place, have been tested and improved over several years, and work to meet this objective. In this regard, the purpose of the bill already has been achieved.

Yet introduction of an ambiguous new requirement into ISO New England's administration of the market could have unintended consequences for the region. For example, a mandate for cost benefit analysis of market changes without defining how this should be applied, what timeframes this should be applied to, and whether this should trump efficient wholesale market pricing could harm the region's ability to develop demand resources and renewable power supplies<sup>2</sup> or otherwise attract needed infrastructure investment. Ultimately, this requirement could deny entry of the resources that have the greatest potential to lower air emissions and reduce price volatility for consumers by changing the resource mix and increasing the base of demand-side and renewable resources.<sup>3</sup>

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<sup>1</sup> The ISO roughly estimates that wholesale market savings of approximately \$850 million in 2006 compared with 2000 can be attributed to improvements in markets and infrastructure over this period. This is equivalent to an approximate net monthly savings of \$4.00 for the average New England ratepayer. [ISO New England: Delivering Value to the Region, 2007.](#)

<sup>2</sup> Markets that reveal high prices when demand is highest provide effective incentives for investment in demand response resources -- which in turn will reduce the long run cost of power system infrastructure.

<sup>3</sup> [ISO New England's 2007 Scenario Analysis Initiative](#) demonstrates that energy efficiency, demand response, renewables and nuclear power provide maximum economic, reliability and environmental benefit when added to the region's resource mix.

With the completion of a Forward Capacity Market (FCM) that allows the participation of both traditional and alternative supply resources, and recently encouraged nearly 1200 Megawatts of new demand resources to enter the marketplace, ISO New England believes the region is making progress in addressing its electricity cost and environmental challenges. Adoption of S. 2660 (and H.R. 5547) is unnecessary and could stall the region's ability to implement effective solutions to meet these challenges.

### **Purpose and Format**

ISO New England has developed this document as a discussion piece for the New England Congressional delegation in response to proposed legislation that it considers detrimental to the continued operation of the wholesale markets and progress towards long-term energy policy goals. Below is a more expanded description of how New England's wholesale electricity markets are designed to provide the lowest cost supply, what drives the cost of electricity in the region, and how the region might address those cost drivers. Our view is that the existing structures and authorities including efficient markets, accountable decision-making, and the Federal Energy Regulatory Commission's (FERC) responsibility to protect consumers, adequately ensure the lowest possible electricity cost for consumers.

#### *Market pricing stimulates new entry and facility improvement*

Transparent pricing in electricity markets will stimulate entry of new supply and demand resources, including new technologies if they are cost-effective, to serve consumer demand. As consumer demand for power grows at a rate of 1.2% each year in New England, new entry is essential for reliable system operations. As evidence of the effectiveness of market signals in stimulating investment, more than 10,000 megawatts (MW) of new generating supply has been added to New England's power system since 2000 and, approximately 1,800 MW of both new generation and new demand resources has been procured in a recent FCM auction held for electric capacity.

New England policymakers have set aggressive environmental goals through two market-based mechanisms, specifically Renewable Portfolio Standards and the Regional Greenhouse Gas Initiative. Market-based pricing contributes to achievement of these initiatives by creating incentives to displace resources that do not meet environmental standards and clean up certain resources that emit high levels of pollutants. Additionally these initiatives have been structured to depend on efficient wholesale markets to minimize compliance costs.

#### *Market performance requirements increase availability and reduce air emissions*

New England's markets are designed with strong performance incentives that compensate resources that are efficient and available to operate when needed most. This incentive keeps the most efficient resources on the system and displaces the least efficient (and most expensive) resources. Consumers benefit from these incentives by avoiding the cost of paying for non-performance and through reduced air emissions. Since the opening of wholesale electricity markets in 1999, generator availability rates have increased from 81% to 89% and emissions of harmful pollutants have decreased, including a 7.5% reduction of carbon dioxide emissions, a 44% reduction of nitrogen oxide emissions, and a 65% reduction of sulfur dioxide emissions.

#### *New England's electricity cost drivers*

The two primary cost drivers for electricity in New England are the cost of fuel and the type of generation that has been sited in New England. Virtually all of the new generation developed in New England uses natural gas to produce electricity. Consumer savings, achieved by the efficiency gains

mentioned above, have been overwhelmed by substantial increases in the price of imported fossil fuels. Price volatility and increases in New England's electricity markets are likely to continue, with growth in consumer demand and heavy reliance on expensive natural gas and oil fueled resources.

In terms of mitigating growth in demand, progress is also being made through wholesale markets. ISO-NE has worked with its stakeholders to develop the innovative FCM design capable of achieving higher levels of demand resources. In fact by 2010, the region will be meeting nearly 10% of its total resource needs with demand resources. FCM has already proven to be more successful and cost-effective in attracting demand resources than previous non-market programs.

Addressing the issue of New England's fuel mix will be challenging – but it is the only way to significantly impact the price of electricity in the long term. It will require significant investment in alternative fuel sources for power, such as renewables, and willingness to site new infrastructure, including transmission, which will be required in New England for the interconnection of large-scale renewable resources.

#### *Decision-making and authority*

The New England states decided more than 10 years ago that the appropriate framework for the power supply industry is competitive wholesale markets. Since then, ISO-NE's job has been to assure that the region's competitive markets are effective and produce the lowest possible costs. In this regard, ISO-NE develops the market design, but it does so with high levels of transparency and accountability to all its stakeholders. Ultimately, the FERC decides on all market design changes proposed by ISO-NE and has the responsibility to balance consumer interests and electric industry needs with specific market design proposals. This is done in the context of the Federal Power Act standard that requires FERC to ensure just and reasonable rates.

#### **Conclusion: Proposed legislation is unnecessary, consumer protections already in place**

ISO-NE believes that appropriate consumer protections already exist within the governance structure of the ISO that ensure a robust review of all proposals. This includes extensive stakeholder review which by its very nature is a review of the costs and benefits of a proposal from the perspective of over 350 different market participants and each of the six New England States. Our governance structure also guarantees the ability of stakeholders to file opposing proposals, with the assurance that the Federal Power Act requires the FERC to ensure just and reasonable rates.

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