

January 29, 2009

**Initial Comments of The Connecticut Department of Public Utility Control
and The Connecticut Office of Consumer Counsel to the RTO
Responsiveness Working Group**

In Response to ISO New England's (ISO NE) request for feedback from participants in the RTO Responsiveness and Governance Working Group, the Connecticut Department of Public Utility Control (CT DPUC) and the Connecticut Office of Consumer Counsel (CT OCC) provide the following comments.

The American Public Power Association (APPA) has expressed that Regional Transmission Organizations (RTOs) should be accountable for demonstrating both the costs and benefits associated with their operations, and should be required to consider not just the reliability need for various proposed actions but also the projected costs and benefits associated therewith. Certain members of the New England Senate delegation have sponsored a bill, The Consumer Protection and Cost Accountability Act (Bill), that would accomplish APPA's goal. The CT DPUC and CT OCC also agree and therefore believe that ISO NE mission statement and various portions of the tariffs and market rules governing the New England market should be revised to provide more publicly available information about the need and projected costs and benefits associated with certain current ISO NE market rules as well as any proposed new rules or market rule changes. The CT DPUC and CT OCC believe that the ISO NE, as policy making body, must have some level of accountability and some limits placed on its ability to act based on the costs and benefits associated with its actions and proposals.

CT DPUC and CT OCC agree in particular with the purpose of the Bill, which is to expand the mission of the ISO NE so that its focus is not just on reliable service but on assuring that such service is provided "to consumers at the lowest reasonable cost." CT DPUC and CT OCC's experience has been that the ISO-NE tends to use conservative assumptions in its planning, which may result in New England consumers buying more products and services than are reasonably needed to maintain system reliability. The ideal balance between reliability and cost should probably be more focused on cost than it is at present, particularly since products are available on the market for those customers that require extremely reliable power.

For example, in connection with the Forward Capacity Market (FCM), ISO-NE determined in the first Forward Capacity Auction that Connecticut has sufficient capacity resources to cover its Local Sourcing Requirement (LSR), as required by FCM rules. However, ISO NE imposed a new Transmission Security Analysis (TSA) requirement, which in CT DPUC and CT OCC's view was not contemplated in the FCM rules. The TSA was based on several unrealistic and conservative assumptions including assuming substantially higher than historically normal unavailability and outage rates for certain resources. As a result of ISO NE's application of the TSA requirement, Connecticut was required to purchase several hundred more megawatts of additional capacity than required to meet its LSR, in the form of a Reliability Must Run arrangement with the Norwalk Harbor Station. Additionally, in response to the imposition of the new TSA requirement, other Connecticut generators are now claiming entitlement to be paid a reliability premium because they purport to provide a

valuable service that addresses Connecticut's newly identified transmission security issues. In a related development, the Federal Energy Regulatory Commission has asked ISO NE to conduct a stakeholder process to re-examine how the concept of "separate capacity pricing zone" should be defined for purposes of FCM. Connecticut is concerned that the TSA may be applied in manner that will establish Connecticut as a separate pricing zone without any true reliability need.

In general, the CT DPUC and CT OCC are currently experiencing some frustration with (1) market rule creation; and (2) the lack of transparency with regard to the implementation of those rules outside of ISO-NE's immediate organization. As anticipated during the settlement, the State of Connecticut undertook the process of assuring that Connecticut had sufficient capacity and quick start resources to improve system reliability. However, the lack of transparency in ISO-NE's processes left virtually all of New England's market participants surprised at the reliance on TSA to implement the FCM and the subsequent designation of RMR resources in Connecticut. The CT DPUC and CT OCC are concerned that by either changing how it implements rules or through its failure to create the transparency required that ISO NE is thwarting the State of Connecticut's efforts to ensure ratepayers are not burdened by excessive costs to meet the required reliability standards. In this regard, the CT DPUC and CT OCC are very concerned that the ISO NE may entertain requests to change the current FCM rules even before there has been any actual experience with the performance of selected resources under the FCM performance requirements, which do not begin until June 2010. From the CT DPUC's and CT OCC's perspective, the first two FCM auctions appear to have operated successfully. The CT DPUC and CT OCC urge ISO NE to be cautious in making any changes to the FCM market, and reject any efforts that amount to a re-negotiation of the essential terms of the deal.

CT DPUC and CT OCC recognize that a mandate for conducting cost/benefit analyses poses a challenge. Any new requirement must be established in a manner that does not have unintended consequences of unduly disrupting markets or frustrating the development of needed infrastructure. However, the difficulty of striking the appropriate balance, and the scrutiny that cost-benefit modeling assumptions may create, should not dissuade ISO-NE from undertaking these tasks. Although a requirement to test every market rule change on some type of cost-benefit parameter would be unwieldy, CT DPUC and CT OCC believe that there is substantial opportunity to discuss the possibility of designating certain types of rule changes that would be subject to a cost-benefit analysis. CT DPUC and CT OCC are open to discussing these options with ISO-NE and the NEPOOL participants so long as the parties realize that we consider some degree of change as being crucial to resolving the issues of ISO/RTO responsiveness. The potential solutions to the question of which activities must be subject to a cost-benefit analysis could possibly be resolved by setting threshold levels of financial impact, or by requests from regulators for such analysis, and/or as a result of a NEPOOL vote.

In conclusion, although we do not have a fully-developed solution to this accountability issue, we believe it is critical that costs and consumer interests are made a component of the ISO-NE mission statement, tariffs and market rules. In addition to cost/benefit analysis of changes to market rules, we urge ISO-NE to find improved ways to incorporate non-transmission alternatives and better cost estimates and controls (to avoid cost overruns) into its analyses. More generally, there also needs to be a regional policy discussion as to whether and to what extent it may be appropriate to risk a limited loss of load for very short

periods of time rather than building out the system to an extreme level of reliability that is quite costly to achieve. We look forward to working together with ISO-NE and market participants to develop the appropriate manner in which to address these important cost controls and cost/benefit issues.