

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

In Reply Refer To:
Office of Enforcement
Docket No. PA16-6-000

April 18, 2018

Mr. Raymond W. Hepper
Vice President, General Counsel and Corporate Secretary
ISO New England, Inc.
One Sullivan Road
Holyoke, MA 01040-2841

Dear Mr. Hepper:

1. The Division of Audits and Accounting (DAA) within the Office of Enforcement (OE) of the Federal Energy Regulatory Commission (Commission) has completed an audit of ISO New England, Inc. (ISO-NE). The audit covered the period July 10, 2013 through June 30, 2017.

2. The audit evaluated ISO-NE's compliance with: (1) the transmission provider obligations described in the ISO-NE Transmission, Markets and Services Tariff; (2) Order No. 1000 as it relates to transmission planning and expansion, and interregional coordination;¹ (3) accounting requirements of the Uniform System of Accounts under 18 C.F.R. Part 101; (4) reporting requirements of the FERC Form No. 1, Annual Report, under 18 C.F.R. Part 141; and (5) record retention requirements under 18 C.F.R. Part 125. The enclosed audit report did not identify any findings of noncompliance that require ISO-NE corrective action at this time.

3. On April 11, 2018, you notified DAA that ISO-NE accepts audit report. A copy of your verbatim response is included as an appendix to this report. I hereby approve the audit report.

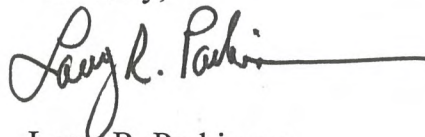
¹ *Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities*, Order No. 1000, FERC Stats. & Regs. ¶ 31,323 (2011), *order on reh'g and clarification*, Order No. 1000-A, 139 FERC ¶ 61,132, *order on reh'g and clarification*, Order No. 1000-B, 141 FERC ¶ 61,044 (2012), *aff'd sub nom., S.C. Pub. Serv. Auth. v. FERC*, 762 F.3d 41 (D.C. Cir. 2014).

ISO-NE may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713 (2017).

5. This letter order is without prejudice to the Commission's right to require hereafter any adjustments it may consider proper from additional information that may come to its attention. In addition, any instance of non-compliance not addressed herein or that may occur in the future may also be subject to investigation and appropriate remedies.

6. I appreciate the courtesies extended to the auditors. If you have any questions, please contact Mr. Steven D. Hunt, Acting Director and Chief Accountant, Division of Audits and Accounting at (202) 502-6084.

Sincerely,

A handwritten signature in black ink that reads "Larry R. Parkinson" followed by a horizontal line extending to the right.

Larry R. Parkinson
Director
Office of Enforcement

Enclosure



Federal Energy Regulatory Commission
Office of Enforcement
Division of Audits and Accounting

Final Audit Report

**Audit of ISO New England, Inc.'s
Compliance with its
Transmission, Markets and
Services Tariff; and Commission
Accounting, Reporting, and
Record Retention Requirements.**

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I. Executive Summary

A. Overview

The Division of Audits and Accounting (DAA) in the Office of Enforcement of the Federal Energy Regulatory Commission (Commission) has completed an audit of ISO New England, Inc. (ISO-NE). The audit evaluated ISO-NE's compliance with (1) the transmission provider obligations described in the ISO-NE Transmission, Markets and Services Tariff (OATT); (2) Order No. 1000 as it relates to transmission planning and expansion, and interregional coordination;¹ (3) accounting requirements of the Uniform System of Accounts under 18 C.F.R. Part 101; (4) reporting requirements of the FERC Form No. 1, Annual Report, under 18 C.F.R. Part 141; and (5) record retention requirements under 18 C.F.R. Part 125. The audit covered the period July 10, 2013 through June 30, 2017.

B. ISO New England, Inc.

ISO-NE was approved by the Commission in 1997 to serve as the independent organization responsible for overseeing the restructured, or deregulated, wholesale electricity industry in New England, including operation of the regional power system ensuring nondiscriminatory access to the transmission grid by generators and utilities. In 2005, the Commission approved ISO-NE as the Regional Transmission Organization (RTO) for the New England region. ISO-NE's footprint consists of six New England states: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont. ISO-NE's footprint includes about 31,000 Megawatts (MW) of generating capacity and approximately 8,600 miles of high-voltage (115 kV and above) transmission lines with multiple ties to the New York region and eastern Canada. ISO-NE has three critical responsibilities to ensure that customers in its footprint have reliable, competitively priced, wholesale electricity today and into the future:

- *The day-to-day reliable operation of New England's power generation and transmission system* - This responsibility involves providing centrally dispatched direction for the generation and flow of electricity across the region's interstate high-voltage transmission lines, ensuring the constant availability of electricity at substations for delivery by distribution utilities to the end users. ISO-NE also

¹ *Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities*, Order No. 1000, FERC Stats. & Regs. ¶ 31,323 (2011), *order on reh'g and clarification*, Order No. 1000-A, 139 FERC ¶ 61,132, *order on reh'g and clarification*, Order No. 1000-B, 141 FERC ¶ 61,044 (2012), *aff'd sub nom., S.C. Pub. Serv. Auth. v. FERC*, 762 F.3d 41 (D.C. Cir. 2014).

administers the region's Open Access Transmission Tariff (OATT), which ensures nondiscriminatory access to the region's transmission system.

- *The management of the comprehensive planning of the regional power system* - For this effort, the ISO-NE coordinates with the region's various transmission owners and takes input from all stakeholders.
- *The design, administration and monitoring of the region's competitive wholesale electricity markets* - ISO-NE is responsible for operation of the Day-Ahead and Real Time markets for electric energy products on a regional basis.

The role of the ISO-NE in planning and implementing regional transmission system, and coordinating interregional transmission planning has changed with the Commission's issuance of Order No. 1000. In particular, ISO-NE's implementation of Order No. 1000 required enhanced transparency to ensure independence and competition in building regional transmission facilities and allocating the costs of such facilities to those that benefit from the facilities.

C. Conclusion

The audit did not result in any findings of noncompliance within the scope of the audit that require ISO-NE to take corrective actions at this time. Audit staff based its conclusion on an examination of material provided by ISO-NE in response to data requests, interviews with ISO-NE employees, and a review of publicly available documents.

II. Background

A. Order No. 1000

On July 21, 2011, the Commission effectively reformed its policies regarding transmission planning and cost allocation in Order No. 1000 which sought to promote more efficient or cost-effective transmission development by requiring each public utility to, among other things: (1) participate in regional transmission planning processes; (2) provide opportunities for nonincumbent transmission developers to propose and develop regional transmission facilities; (3) improve coordination between neighboring transmission planning regions for interregional transmission facilities; (4) establish a regional cost allocation method to allocate the cost of transmission facilities selected in the regional transmission plan; and (5) establish an interregional cost allocation method to allocate the cost of transmission facilities that traverse two or more neighboring transmission planning regions. Additionally, each public utility was required to submit compliance filings with the Commission to implement the requirements of Order No. 1000.

B. ISO-NE Order No. 1000 Compliance Filings

Local and Regional Plan Filings

On October 25, 2012, ISO-NE and the Participating Transmission Owners Administrative Committee (PTOAC) filed with the Commission primary and contingent amendments to the OATT and the PTOAC members' Transmission Operating Agreements (TOA) to comply with the local and regional planning and cost allocation requirements of Order No. 1000.² The primary and contingent compliance filings relied in part on ISO-NE and the PTOAC's interpretation of the applicability of the *Mobile-Sierra* doctrine to the TOA as it pertains to a right of first refusal (ROFR).³ The Commission directed removal of ROFR language from tariffs in Order No. 1000-A.⁴ However, where planning entities believed that ROFRs may be protected by the *Mobile-Sierra* doctrine, the Commission directed that compliance filings could also include alternative language retaining the ROFR. The Commission explained that it would

² *Id.*

³The *Mobile-Sierra* doctrine originated in the United States Supreme Court's decisions in *United Gas Pipe Line Co. v. Mobile Gas Service Corp.*, 350 U.S. 332 (1956) and *Federal Power Commission v. Sierra Pacific Power Co.*, 350 U.S. 348 (1956).

⁴ Order No. 1000-A, 139 FERC ¶ 61,132 at P 299.

review each claim of protection on a case-by-case basis.⁵ The primary compliance filing retained ROFR language, while the contingent filing removed the language. On May 17, 2013, the Commission issued an order that rejected the primary compliance filing and conditionally accepted the contingent compliance filing, subject to further modifications.⁶ The Commission order stated that “[b]ecause we reject the claim of Mobile-Sierra protection for a right of first refusal in the TOA, we reject the [primary compliance filing].” The order also addressed certain inconsistencies with Order No. 1000 requirements that were included in the contingent compliance filing such as ISO-NE’s definition of new transmission facilities.

On June 17, 2013, ISO-NE and the PTOAC filed requests for rehearing and clarification of the First Compliance Order. Among other things, the filers requested that the Commission: 1) find that the public interest does not require modification of the TOA to amend transmission owner’s right and obligation to build transmission upgrades; 2) dismiss the contingent compliance filing as moot; and 3) reverse its ruling on the five-year reliability need threshold. On November 15, 2013, ISO-NE and the PTOAC submitted a filing with the Commission to comply with the First Compliance Order subject to their rehearing requests.

On March 19, 2015, the Commission issued an order that granted and denied the rehearing in part, and accepted and rejected in part the compliance filing.⁷ Specifically, the Second Compliance Order granted the rehearing request with regard to the issue of whether the First Compliance Order erred in rejecting language in the TOA that recognized transmission owners’ rights to build upgrades to their transmission facilities and to retain use and control of their rights of way, and denied rehearing of ISO-NE’s proposal for a 5-year instead of a 3-year threshold for transmission projects that address reliability needs that would be exempt from the Order No. 1000 competitive requirements. In addition, among other things, the Second Compliance Order directed ISO-NE to submit another compliance filing that: (1) makes further revisions to the OATT pertaining to the structure of the Needs Assessment Study Group; and (2) removes ROFR language from the OATT.

On May 18, 2015, ISO-NE and the PTOAC submitted compliance filings to comply with the directives of the Second Compliance Order. On October 2, 2015, the Commission issued an order that conditionally accepted the compliance filings subject to

⁵ Order No. 1000, 136 FERC ¶ 61,051 at P 292 (2011), *order on reh’g* Order No. 1000-A, 139 FERC ¶ 61,132 at P 388 (2012).

⁶ *ISO New England Inc.*, 143 FERC ¶ 61,150 (2013) (First Compliance Order).

⁷ *ISO New England, Inc.*, 150 FERC ¶ 61,209 (2015) (Second Compliance Order).

further revisions.⁸ On November 2, 2015, ISO-NE submitted a compliance filing in response to the Third Compliance Order. On December 14, 2015, the Commission issued a delegated letter order that accepted for filing the compliance filing, with an effective date of May 18, 2015, for ISO-NE's revised OATT to incorporate the local and regional planning and cost allocation requirements of Order No. 1000.⁹

Interregional Plan Filings

The Commission required each public utility transmission provider through its regional transmission planning process to coordinate with the public utility transmission providers in each of its neighboring transmission planning regions within its interconnection to implement the interregional transmission coordination requirements adopted in Order No. 1000.¹⁰ Specifically the Commission required entities to make (1) a commitment to coordinate and share the results of respective regional transmission plans to identify possible interregional facilities that could address transmission needs more efficiently than separate intraregional facilities (Coordination); (2) an agreement to exchange at least annually planning data and information (Data Exchange); (3) a formal procedure to identify and jointly evaluate transmission facilities that are proposed to be located in both regions (Joint Evaluation); and (4) a commitment to maintain a website or e-mail list for the communication of information related to the coordinated transmission planning process (Transparency).

The Commission also required public utility transmission providers in each pair of neighboring transmission planning regions to develop the same language to be included in each public utility transmission provider's OATT that describes the interregional transmission coordination procedures for that particular pair of regions. Alternatively, if the public utility transmission providers so choose, the Commission allowed these procedures to be reflected in an interregional transmission coordination agreement among the public utility transmission providers within neighboring transmission planning regions that is filed with the Commission.¹¹

ISO-NE share a border in the United States with the New York Independent System Operator, Inc. (NYISO). As such, ISO-NE was required to submit proposals to comply with the interregional transmission coordination and cost allocation requirements

⁸ *ISO New England, Inc.*, 153 FERC ¶ 61,012 (2015) (Third Compliance Order).

⁹ *ISO New England, Inc.*, Docket No. ER13-193-006 (Dec. 14, 2015) (delegated letter order).

¹⁰ Order No. 1000, FERC Stats. & Regs. ¶ 31,323 at P 415.

¹¹ *Id.* Order No. 1000, FERC Stats. & Regs. ¶ 31,323 at PP 346, 475; Order No. 1000-A, 139 FERC ¶ 61,132 at P 223.

of Order No. 1000 with that region. To fulfill the requirements of Order No. 1000, ISO-NE submitted filings with the Commission to update its OATT and Northeastern ISO/RTO Planning Coordination Protocol. Because ISO-NE has been engaged in interregional planning with not only NYISO but also the PJM Interconnection, L.L.C. (PJM) and bordering Canadian systems, the ISO submitted its joint compliance filings with both NYISO and PJM.

On July 11, 2013, ISO-NE filed an amended and restated Northeastern ISO/RTO Planning Coordination Protocol (Amended Northeastern Protocol) on behalf of itself, NYISO and PJM to comply with interregional transmission coordination and cost allocation requirements of Order No. 1000. Further, on July 11, 2013, ISO-NE filed on behalf of itself and the Participating Transmission Owners Administrative Committee, joined by the New England Power Pool Participants (collectively, New England Filing Parties), revisions to sections I and II of the ISO-NE OATT, to comply with the interregional transmission coordination and cost allocation requirements of Order No. 1000 (New England Filing Parties Compliance Filing).

On May 14, 2015, the Commission issued an order that found the filings partially complied with the Order No. 1000 interregional requirements, and as such conditionally accepted the filings subject to further compliance filings.¹² For example, in the order, the Commission determined that the Amended Northeastern Protocol only partially complied with the Order No. 1000 requirement to enhance existing regional transmission planning processes to provide for the identification of interregional transmission facilities that may be more efficient or cost-effective solutions to a neighboring region's regional transmission needs. Rather than including language in the Amended Northeastern Protocol that was consistent with the more efficient *or* cost-effective language of Order No. 1000, the language included in the Amended Northeastern Protocol stated more efficient *and* cost-effective. Likewise, language added to the ISO-NE OATT included similar wording. The Commission directed ISO-NE and the New England Filing Parties to submit compliance filings to correct the language.

On July 13 and July 14, 2015, ISO-NE and the New England Filing Parties submitted separate compliance filings to reflect changes to the Amended Northeastern Protocol and ISO-NE OATT to comply with the regional transmission planning and cost allocation requirements of Order No. 1000 and the Commission's May 14, 2015 order. On November 19, 2015, the Commission issued a delegated letter order that accepted for filing the compliance filings' revisions to the Amended Northeastern Protocol and the ISO-NE OATT, with effective dates of July 10, 2013 and January 1, 2014, respectively,

¹² *ISO New England Inc.*, 151 FERC ¶ 61,133 (2015).

to incorporate the interregional transmission coordination and cost allocation requirements of Order No. 1000.¹³

Order No. 1000 requires the interregional transmission costs to be allocated following six principles established for regional cost allocation. While the Commission-approved compliance filings include a formula for interregional cost allocation,¹⁴ to date, ISO-NE has not developed detailed cost allocation manuals further setting out the application of that formula.

C. Competitive Model and Sponsorship Model

Transmission planning regions have adopted one of two types of competitive transmission development processes to comply with Order No. 1000: the sponsorship model or a competitive bidding model.¹⁵ ISO-NE has selected the sponsorship model for its selection process. Under the sponsorship model, ISO-NE, with stakeholder input, would identify regional transmission needs. Then, qualified transmission developers¹⁶ (both nonincumbent and incumbent) may propose transmission projects to meet those identified regional transmission needs.¹⁷ ISO-NE would select the more efficient or cost-effective transmission solution to meet each identified regional transmission need, which

¹³ *ISO New England Inc.*, Docket No. ER13-1957-001, (Nov. 19, 2015) (delegated letter order).

¹⁴ *ISO New England Inc.*, 151 FERC ¶ 61,133 P 168.

¹⁵ ISO-NE is a transmission planning region. However, a transmission planning region may also be a group of transmission providers within a region that administer the competitive transmission development process.

¹⁶ A qualified transmission developer is a project sponsor who executed a TOA and is determined by ISO-NE to be an entity physically, technically, legally, and financially capable of constructing a Reliability Transmission Upgrade, Market Efficiency Transmission Upgrade or Public Policy Transmission Upgrade in a timely and competent manner, and operating and maintaining the facilities consistent with Good Utility Practice and applicable reliability criteria for the life of the project. ISO-NE OATT, Attachment K Regional System Planning Process 22.0.0.

¹⁷ Order No. 1000 defines a “nonincumbent transmission developer” as either: (1) a transmission developer that does not have a retail distribution service territory or footprint; or (2) a public utility transmission provider that proposes a transmission project outside of its existing retail distribution service territory or footprint, where it is not the incumbent for purposes of that project. By contrast, an “incumbent transmission developer/provider” is defined as an entity that develops a transmission project within its own retail distribution service territory or footprint. *See* Order No. 1000 at P 225.

can be a solution proposed by a transmission developer or one that ISO-NE designed itself. If ISO-NE selected a transmission solution that was sponsored by a transmission developer, then the sponsor would be eligible to use the regional cost allocation method to develop the selected transmission project. In addition to ISO-NE, PJM,¹⁸ NYISO, South Carolina Regional Transmission Planning, Florida Reliability Coordinating Council, Southeastern Regional Transmission Planning, Northern Tier Transmission Group, and ColumbiaGrid have adopted a sponsorship model for regional transmission planning.

Under the competitive bidding model, a transmission planning region, with stakeholder input, identifies regional transmission needs and selects the more efficient or cost-effective transmission solutions to meet those needs. A transmission planning region then solicits bids from qualified transmission developers (both nonincumbent and incumbent) for the transmission solutions it selected. A transmission planning region chooses from among the bidders and designates a winning transmission developer as eligible to use the regional cost allocation method to develop the selected transmission project. Midcontinent Independent System Operator, Inc., California Independent System Operator Corp., Southwest Power Pool, Inc., and WestConnect have adopted the competitive bidding model for regional transmission planning.

D. ISO-NE Regional System Planning Process

ISO-NE is required to publish a report with the results of studies performed through its Regional System Plan (RSP) to identify the region's electricity needs and plans for meeting the needs over a 10-year planning horizon.¹⁹ The report involves the culmination of 24 months of collaboration between ISO-NE planning staff and regional stakeholders, particularly members of the Planning Advisory Committee (PAC) according to the requirements specified in the ISO-NE OATT.²⁰ To meet the tariff requirements the RSP report must provide the following planning activities information:

- A 10-year forecast of annual energy use and peak loads and identified system resource needs;

¹⁸ PJM relies primarily on a sponsorship model but its process includes aspects of a competitive bidding model in certain situations.

¹⁹ ISO-NE, Transmission, Markets and Services Tariff, Section II, Attachment K, Regional System Planning Process (22.0.0).

²⁰ The PAC is an advisory group established pursuant to the ISO-NE OATT that consisted primarily of stakeholders representing transmission owners, other incumbents, non-incumbents, generators, New England States Committee on Electricity (NESCOE), state representatives and other interested parties. *Id.* at Attachment K § 2.

- The amounts, locations, and characteristics of market responses (e.g., generation or demand resources or elective transmission upgrades) that can meet identified system resource needs; and
- Descriptions of transmission projects for the region that can meet the identified system resource needs.

Transmission projects described through the RSP process must be summarized and included in an RSP Project List that encompasses information on project status and cost estimates and is updated three times a year. ISO-NE's June 2017 RSP Project List included a summary of transmission projects determined to be needed for the region and information on project type, the primary owner, the transmission upgrades and their status, and the estimated portion of a project's costs that will not be allocated throughout the regional footprint.²¹ The list included information on the status of reliability transmission upgrades and elective transmission upgrades, and the lack of need for market-efficiency transmission upgrades, generator-interconnection transmission-related upgrades, and public policy transmission upgrades. Projects on the list were classified according to their implementation status at the levels of: 1) Concept; 2) Proposed; 3) Planned; 4) Under Construction; 5) In-Service; or 6) Canceled. There were 185 projects on the June 2017 RSP Project List at the proposed, planned, or under construction status.

E. ISO-NE Competitive Solution Sponsorship Process

In May 2015, ISO-NE implemented changes to its regional and interregional transmission planning process to comply with the directives in Order No. 1000. The changes added requirements to solicit proposals for reliability projects that have a planning need longer than three years beyond the completion of needs assessments through the RSP process and a process for identifying and evaluating federal, state, and local public policies that create the need for additional transmission. ISO-NE's competitive process would begin with issuance of a public notice request for proposal inviting qualified transmission project sponsors (QTPS) to offer solutions to address identified system resource needs.

Incumbent and nonincumbent project sponsors may voluntarily submit proposals that seek to satisfy particular resource needs. However, an incumbent transmission owner whose electric system is located within or connected to an identified system resource need's area of solution is required to submit a solution pursuant to existing obligations under its transmission operator agreement that require it to address resource needs identified through the RSP process. Such submissions by an incumbent are called

²¹ The June 2017 RSP Project List is available at <https://www.iso-ne.com/system-planning/system-plans-studies/rsp>.

Backstop Transmission Solutions.²² The Backstop Transmission Solution and other transmission solutions will be reviewed by ISO-NE simultaneously.

The ISO-NE competitive solution process is divided into two phases. Phase One involves incumbent and nonincumbent QTPS' submissions of detailed solutions with explanations, milestones and completion dates, and information on existing land rights and assets which would contribute to the solutions and estimated lifecycle cost. Phase One proposals and the Backstop Transmission Solution will be evaluated by ISO-NE to identify the proposals that meet its selection criteria. Qualifying Phase One proposals will be advanced as Phase Two solutions at which point ISO-NE may require the QTPS associated with a solution to provide more detailed information.

The more detailed information required at Phase Two of the competitive solution process involves submissions of proposals listing technical standards, contractual details and itemized costs. The submissions must also include details on legal authority, experience and status on acquiring land and rights of way. ISO-NE will evaluate Phase Two solution proposals and preliminarily select a Preferred Solution that it deems to offer the best combination of factors such as electrical performance, cost, and system expandability and feasibility to meet a required in service timeframe. The PAC will be provided an opportunity to comment on ISO-NE's preliminary Preferred Solution.

ISO-NE did not identify any resource needs that could be addressed through its competitive process during the audit period. ISO-NE explained that the needs assessments and updates it conducted only identified reliability issues that occurred within three years of the conclusion of needs assessment studies conducted pursuant to its RSP process. Reliability issues that arose within three years of completion of needs assessment studies were excluded from ISO-NE's competitive process as allowed by the Commission.²³ Rather, solutions to those needs were directly assigned to the incumbent transmission owners in the affected areas.

F. Projects ISO-NE Excluded From Order No. 1000 Requirements

Reliability Transmission Upgrade Projects

All bulk power system owners, operators and users are required to register with the North American Electric Reliability Corporation (NERC). ISO-NE is the Registered

²² See ISO-NE, Transmission, Markets and Services Tariff, Section II, Attachment K, Regional System Planning Process (22.0.0).

²³ *ISO New England Inc.*, 150 FERC ¶ 61,209, at P 211 (2015).

Entity in the NERC Compliance Registry²⁴ for the Planning Authority/Planning Coordinator function in the ISO-NE region.²⁵ This required ISO-NE to consider factors that impact current and future reliability in its transmission planning and coordination activities. Accordingly, ISO-NE acknowledged that a primary goal of many transmission projects was to maintain system reliability. In support of this goal, ISO-NE conducted needs assessments that were intended to help ensure the transmission system was in compliance with three sets of standards: (1) applicable NERC reliability standards; (2) reliability standards adopted by Northeast Power Coordinating Council, Inc. (NPCC);²⁶ and (3) ISO-NE Criteria.²⁷

The mandatory standards define acceptable power flows, voltage levels and system stability limits. ISO-NE is required, as the NERC-registered Planning Authority/Planning Coordinator, to identify a solution for each identified violation that could otherwise lead to overloads, equipment failures or blackouts. ISO-NE's studies included simulations to assess transmission reliability in the near and long term, using analytical models representing various system conditions five and 10 years out. The results of these analyses were intended to create a comprehensive assessment of long-term system reliability, as well as evidence for NERC compliance.

²⁴ The NERC Compliance Registry is a listing of all organizations registered and therefore subject to compliance with approved NERC reliability standards. The NERC Compliance Registry is posted on the NERC website and updated monthly. See, <http://www.nerc.com/pa/comp/Pages/Registration-and-Certification.aspx>.

²⁵ ISO-NE is also the NERC Registered Entity for the Balancing Authority, Reliability Coordinator, Transmission Operator, Transmission Planner, and Transmission Service Provider functions.

²⁶ NPCC is a 501(c) (6) not-for-profit corporation in the state of New York responsible for promoting and enhancing the reliability of the international, interconnected bulk power system in Northeastern North America. The NPCC geographic region includes the State of New York and the six New England states as well as the Canadian provinces of Ontario, Québec and the Maritime provinces of New Brunswick and Nova Scotia.

²⁷ The Reliability Committee is a standing technical committee of the New England Power Pool (NEPOOL). NEPOOL is an unincorporated voluntary association that acts to provide advisory input to the ISO-NE RTO on a range of matters. This includes input on proposed ISO New England Planning Procedures for the New England transmission system. Detailed discussion of system planning assumptions and methodologies is held at the Planning Advisory Committee.

Based on ISO-NE's tariff, a short-term reliability need is any transmission project need deemed essential for reliability purposes within three years. ISO-NE considered these types of projects Reliability Transmission Upgrades.²⁸

In the ISO-NE region, Reliability Transmission Upgrade projects that were needed to address reliability criteria violations within three years of completion of needs assessments were assigned by ISO-NE, following solution studies, to be built by incumbent transmission owners in their respective retail service territories where the projects were located.²⁹

Local System Plan Projects

Local System Plan (LSP) projects are intended to improve or maintain system reliability of transmission facilities that are not included in the ISO-NE pool of transmission facilities subject to regional cost allocation. Rather, the cost of LSP projects are allocated locally. An LSP project may emerge due to load growth in an area, local reliability assessments, customer initiated point of delivery requests, and other efforts that may impact local facilities (e.g., reliability transmission upgrades, generator interconnections, short circuit or temporary overvoltage studies). These types of projects are generally excluded by ISO-NE from the Order No. 1000 competitive process, and as such are built by incumbent transmission owners.

Each participating transmission owner in ISO-NE is individually responsible for publicly posting and updating the status of its respective LSP and transmission project list on its website in a format similar to the ISO-NE RSP project list. The LSP process is conducted in coordination with ISO-NE and other entities that are interconnected with the New England transmission system. LSP Needs Assessments are coordinated with the RSP and include the information that ISO-NE incorporates into the RSP plans, as applicable. Proponents of transmission proposals that respond to needs assessments conducted through an LSP process must evaluate the RSP plan and identify any projects in the plan that would require coordination. Further, proponents of LSP projects are required to present the projects to the PAC. The ISO-NE RSP Project List includes links to each participating transmission owner's specific LSP project.

²⁸ Reliability transmission upgrades are network upgrades identified through ISO-NE's needs assessment process that are intended to help ensure that the Transmission System is in compliance with applicable NERC reliability standards and reliability standards adopted by NPCC and ISO-NE Criteria. *See*, ISO-NE, OATT, Attachment N, Procedures for Regional System Plan Upgrade (3.0.0).

²⁹ *See* ISO-NE, Transmission, Markets and Services Tariff, Section II, Attachment N, Procedures for Regional System Plan Upgrade (3.0.0), §§ 4.2 - 4.3.

Other Projects

In the ISO-NE region elective transmission upgrades, generator interconnections, and merchant transmission facilities are typically evaluated and planned outside the Order No. 1000 process. These projects generally address reliability issues either due to aging transmission infrastructure, local non-baseline reliability needs that are not dictated by NERC standards, or target localized economic benefits or line relocations to accommodate other infrastructure. The impact of these types of projects on the system is considered through the RSP and LSP processes. However, the costs of the projects are generally localized.

Grandfathered Projects

In its November 15, 2013 compliance filing made to implement the Order No. 1000 requirements, ISO-NE sought to exclude transmission projects from the requirements that were selected through the RSP process and were at the “Proposed” or “Planned” stages of pre-construction, or were under construction prior to the effective date that ISO-NE would become subject to the requirements of the order, May 18, 2015.³⁰ ISO-NE proffered a list of projects that met this criteria. ISO-NE contended, and the Commission agreed, that grandfathering such transmission projects would allow ISO-NE to transition to its revised transmission planning process that incorporates Order No. 1000 protocols without requiring that it assume additional costs to redevelop transmission solutions that had already been assessed. ISO-NE had 47 proposed, 137 planned, and 31 under construction projects that were included on its list of projects excluded from Order No. 1000 at the effective date of its requirements. During the audit, there were no projects that ISO-NE determined to be subject to its Order No. 1000 competitive process.

³⁰ISO-NE, Compliance Filing, Docket No. ER13-193-003, at 8 (filed Nov. 15, 2013).

III. Introduction

A. Objectives

The audit evaluated ISO-NE's compliance with its OATT, Order No. 1000, and the Commission's accounting, reporting, and record retention requirements. The audit covered the period July 10, 2013 through June 30, 2017.

B. Scope and Methodology

To facilitate testing and evaluation of ISO-NE's compliance with the terms and conditions of its OATT and Order No. 1000, audit staff performed these general actions:

- *Review of Public Information* - Reviewed publicly available materials to get a broad understanding of ISO-NE's corporate structure and related entities, regulatory actions and history, northeast power system and operations, tariff procedures and services, Order No. 1000 compliance filings, and other pertinent business and regulatory aspects. Reviewed information included in the ISO-NE FERC Form No. 1, Annual Reports, ISO-NE OATT, prior Commission audit reports, and other relevant information in the Commission's eLibrary records system and available on public websites.
- *Standards and Criteria* - Identified standards and criteria used to evaluate compliance in each audit scope area. This evaluation also included a review of the ISO-NE OATT and related filings to understand procedures, services, and rate mechanisms approved under the tariff. Also, reviewed Commission financial accounting and reporting requirements and other Commission orders relevant to the audit.
- *Data Collection and Data Requests* - Issued data requests, supplemental site visit informational requests, and numerous emails with questions and requests for clarification to collect information necessary to support compliance tests and evaluation of compliance. Audit staff used this information as its underlying support for compliance testing and evaluation.
- *Site Visits* - Conducted two site visits to ISO-NE's corporate office at Holyoke, Massachusetts, for testing in audit scope areas. The visits enabled audit staff to understand ISO-NE's structure, activities, functions, systems, and the processes used in its operations. While on site, audit staff interviewed personnel with direct knowledge and involvement with activities in the audit scope areas to discuss processes, procedures, operations, and preliminary observations; reviewed and

discussed documented policies and procedures; and observed accounting system functionalities.

- *Interviews and Teleconferences* - Held an opening conference with ISO-NE to discuss the audit objectives, scope, and process. Also, held a closing conference about the completion of audit fieldwork and the extent of audit findings and recommendations. Throughout the audit, conducted phone interviews and teleconferences to clarify and understand technical policies, practices, and procedures relevant to the audit and to discuss data requests, responses, and other administrative matters
- *Collaboration with Commission Staff* - Conferred with Commission staff in other divisions within the Office of Enforcement that have knowledge and expertise about ISO-NE. Consulted with Commission staff in other offices to identify potential audit concerns and assess whether the audit finding was consistent with Commission precedent and policy. Collaborated with Commission staff in the Office of Energy Market Regulation and Office of General Counsel familiar with ISO-NE's Order No. 1000 compliance filings.

Further, audit staff performed specific actions to facilitate the testing and evaluation of compliance with Commission requirements relevant to audit scope areas. A summary of these actions included:

ISO-NE OATT and Order No. 1000

- *Compliance Filings* - Reviewed Commission-accepted Compliance Filings related to ISO-NE's regional and interregional compliance with Order No. 1000.
- *Commission Orders* - Reviewed initial and subsequent Commission orders related to rehearing and accepting ISO-NE's compliance filings, including orders approving related Attachment K, the RSP process and subsequent revisions to Attachment K.
- *Regional System Planning Procedures* - Evaluated ISO-NE's processes, procedures, and controls used for identifying and evaluating regional system needs, developing efficient and cost effective solutions, evaluation of solutions, development of the RSP, follow up on projects selected in the RSP process and cost allocations.
- *Interviewed Employees Responsible* - Interviewed ISO-NE employees responsible for conducting needs assessments, identifying time sensitive needs,

- evaluating solutions, and developing the RSP to test compliance with Order No. 1000 in an open and transparent, and unduly non-discriminating environment. Tested training and email communications of ISO-NE's employees to verify independence and compliance with Order No. 1000.
- *ISO-NE's Postings on PAC Section of Website* - Evaluated postings on ISO-NE's website to verify meeting schedules, and open and transparent, and non-discriminating information exchange with stakeholders.
 - *Grandfathered Projects* - Analyzed projects included on the RSP Project List that were excluded from Order No. 1000 requirements to validate whether those projects were appropriately excluded from Order No. 1000 requirements in compliance with ISO-NE OATT.
 - *Stakeholders Emails* - Analyzed a sample of emails between ISO-NE and stakeholders to assess whether communications were consistent with protocols of the OATT. During this analysis we also verified whether or not there appeared to be preferential treatment given to incumbent transmission owners. Also, evaluated communications to assess whether information sharing on and about transmission planning was conducted in an open and public forum through the PAC group meetings, internet postings, and emails.
 - *ISO-NE Regional System Plan* - Performed a review of the transmission system plan to understand the bottom-up and top-down approaches ISO-NE used and considered to conduct its needs assessments and develop the RSP reports.
 - *Qualified Transmission Developer List* - Evaluated the manner in which ISO-NE applied its tariff requirements for accepting and approving new qualified transmission developer applications.

Uniform System of Accounts Requirements

- *Accounting Process and Procedures* - Evaluated ISO-NE's financial accounting processes, procedures, and internal controls used to comply with Commission financial accounting regulations under 18 C.F.R. Part 101. Interviewed ISO-NE's employees about accounting practices, reviewed system processes for account assignments, and observed controls for achieving compliance with the Uniform System of Accounts Requirements (USofA).
- *Accounting Applications and Classifications* - Examined ISO-NE's chart of accounts used during the audit period to determine whether the conversion from internal accounts to the USofA resulted in proper mapping of costs to

specific balance sheet and income statement account. Reviewed descriptions of accounting practices and examples for specified accounts for sample months with supporting material, and evaluated quality controls to check whether its application complied with the accounting requirements of the USofA.

- *Accounting Systems* - Reviewed ISO-NE's financial accounting systems used to manage its financial records, such as systems for recording and tracking costs, including the general ledger, capital work orders, expense and billing systems, and accounts payable.
- *Employee Time Tracking System* - Reviewed the employee time-tracking system and internal controls, such as management reviews and budget variance procedures for employee time.
- *Project Tracking System* - Analyzed procedures used to track projects' life cycles, procurement schedules, selection of cost allocators, tracking and billing of costs, and system work order procedures.

FERC Form No. 1 Reporting Requirements

- *Reporting Process and Procedures* - Evaluated the financial reporting processes, procedures, and quality controls used to prepare the FERC Form No. 1 and comply with Commission regulations in 18 C.F.R. Part 141.
- *Financial Reporting Instructions* - Evaluated the financial reporting to determine whether it complied with the account and page instructions of the FERC Form No. 1.
- *Financial Statement Account Balances* - Vouched and confirmed account balances reported in the FERC Form No. 1 to ISO-NE's books and records. To facilitate the review, analyzed a sample of transactions to establish whether the balances were accurately and correctly reported.
- *Bank Statements* - Reviewed bank statements to determine whether committed funds tendered by project bidders for particular projects were properly segregated.
- *Account Variance Analysis* - Performed variance analyses of items reported in accounts of the FERC Form No. 1 that contained large balances, unusual activity, and/or significant fluctuations.
- *Notes to Financial Statements* - Reviewed the Notes to Financial Statements beginning on page 122 of the FERC Form No. 1 for significant accounting

matters, and followed up on these matters to understand financial statement implications.

IV. Appendix A- ISO New England, Inc. Response



Theodore J. Paradise
Assistant General Counsel, Operations & Planning

April 11, 2018

Steven D. Hunt
Acting Director and Chief Accountant
Division of Audits and Accounting
Office of Enforcement
Federal Energy Regulatory Commission
888 First Street, N.E. – Room 51-37
Washington, DC 20426

VIA FEDEX OVERNIGHT COURIER & ELECTRONIC MAIL

RE: Office of Enforcement, Docket No. PA16-6-000

Dear Mr. Hunt:

Thank you for the draft audit report attached with your letter of March 20, 2018. This letter is to inform you that ISO New England Inc. agrees with the content of that draft report.

Sincerely,

A handwritten signature in blue ink, reading "Theodore J. Paradise". The signature is fluid and cursive, with a large initial "T" and "P".

Theodore J. Paradise
Associate General Counsel, Operations & Planning

cc:

Christopher Handy
Nkoski Brooks
Subramaniam Narthana
Maria Gulluni