

To: NECPUC
From: Carolyn O'Connor
Date: June 30, 2011
Subject: Update on Recent and Upcoming Regional Activities

This memo is prepared by ISO's External Affairs Department to provide an update on several regional issues and activities that may be of interest to you. For your convenience, when appropriate, I have identified dates when key discussions and votes are scheduled to occur at stakeholder meetings, as well as planned filings.

There are also sections highlighting [upcoming ISO speaking engagements](#) and [meetings](#) that may be of interest.

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Regional Strategic Planning Initiative

The New England states and the region's stakeholders discussed the ISO's regional strategic planning initiative, among other topics, at the 64th Annual NECPUC Symposium June 20-21, in Bretton Woods, New Hampshire.

Representatives from the six NEPOOL sectors shared their views and reactions to the five risks identified through the strategic planning initiative during a panel on the future of New England's power system.

The Generator sector indicated that the potential retirement of older generation is the most urgent issue facing the region. In this regard, they view the alignment of planning and wholesale markets as critical to ensuring that market-based resources have the opportunity to help replace these resources. In particular, the specific needs of the system obtained through the planning process must be incorporated into the market design. It was outlined that part of the challenge is to align the time horizons for planning market and transmission solutions. The Publicly-Owned sector representative agreed noting that the fundamental problem is how we define the markets, and argued that resources that provide the same service should receive equal compensation.

The Alternative-Resources sector representative suggested that the ISO issue a request-for-proposals to solicit non-transmission alternatives (NTAs) to identified reliability needs. The Transmission-Owner sector representative urged caution in evaluating alternatives, and stated that NTAs are not equivalent to transmission and perform very differently from generation and demand resources – and that transmission enables the market.

The Supplier sector representative discussed the issues in the context of “carbon planning” and indicated that making further reductions will be challenging given that much of the carbon in New England has been eliminated recently – as evidenced by the fact that oil-fired generation in the region represents less than a percent of total annual generation.

The End-User sector representative stated the biggest challenge is uncertainty, because it adds a premium to the price of electricity.

The ISO, the states, and NEPOOL are discussing the kind of process needed to continue the strategic planning initiative as it shifts from understanding and defining the risks and issues to identifying and developing potential solutions. The states have expressed a strong interest in engaging early in the strategic planning process well before the ISO develops firm solutions to identified needs, so that the states can be involved in decision-making to affect outcomes for the region.

NECPUC Symposium presentations are posted [here](#). Strategic Planning Initiatives materials can be found on the [“Strategic Planning Discussion” section of ISO's website](#).

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Commissioner LeFleur on Major Policy Issues at FERC

[Cheryl LeFleur](#), a commissioner at the Federal Energy Regulatory Commission (FERC) and a former National Grid senior executive from New England, returned to the region for the symposium to highlight reliability, transmission, integrating new resources, and the capacity markets as major policy issues.

Commissioner LeFleur identified reliability as a personal priority and noted that the industry is still in transition from voluntary to mandatory reliability standards. The Commission is working through a backlog on standards, including cybersecurity standards.

LeFleur said the country has made little investment in transmission noting that less than 1,000 miles of high voltage transmission have been constructed in the last decade compared with 10,000 miles of natural gas pipelines during the same period. The Commission is still working through the issue of transmission cost allocation, and the proposed rule on this and other topics would establish a closer link between cost allocation and reliability planning, consider public policy requirements and improve coordination between neighboring regions. Commissioner LeFleur commended New England for the progress it has made in transmission development, and acknowledged NECPUC's concern about FERC-approved incentives for transmission.

LeFleur urged support for a blend of local, regional and broader transmission solutions explaining the best transmission solutions may not be wholly within one footprint. (On that same topic, Tony Clark, chair of the North Dakota Public Service Commission and president of NARUC, told the NECPUC Symposium audience that he didn't come to advocate for Midwest wind power and specifically acknowledged the New England's concern for funding transmission from North Dakota. However, he urged New England stakeholders to support a comparison of alternatives to achieve environmental policy objectives. Clark offered the remarks in the context of planning underway through the Eastern Interconnection Planning Collaborative.)

In discussing resource adequacy, and FCM in particular, LeFleur acknowledged the tension between state policy and federal jurisdiction. She acknowledged benefits from demand resources and natural gas-fired generation, but argued that the country still needs to develop baseload generation.

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Consistent Measurement and Verification of Energy Efficiency Efforts

In one of the symposium's breakout sessions, the [Northeast Energy Efficiency Partnership's](#) executive director, Sue Coakley, joined representatives from state utility commissions to brief participants on the progress made by NEEP's *Regional Evaluation, Measurement and Verification Forum*. [The Forum](#), started in 2008, focuses on the design and implementation of consistent protocols and common technical requirements for measuring energy efficiency.

The development of consistent efficiency measurements is critical as more states and utilities dedicate greater resources to efficiency initiatives. By coordinating various measurement and verification (M&V) programs into unified reporting standards, participants can increase the credibility and promote the value of demand response programs and reduce the cost of ongoing research. These standards can be particularly beneficial to smaller states with limited resources. The successful creation and implementation of regional standards (and the resulting benefits) may ultimately lead to similar national or international standards. It was noted that the successful implementation of consistent efficiency M&V standards will lead to improved planning – especially important as ISO New England works with stakeholders to develop a discrete energy efficiency forecast.

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NERC Standards Development

Matthew Goldberg, ISO's Director of Reliability and Operations Compliance, gave an overview of the reliability standards development process, and the ISO's role in the process. Under the Federal Power Act, NERC drafts reliability standards for FERC review. FERC provides opportunity for comment and then approves, rejects, or remands the proposed standards to NERC.

Reliability standards are requirements to provide for the reliable operation of the bulk power system and can pertain to existing facilities, including cybersecurity protection, and the design of planned additions or modifications to facilities.

ISO has formed a compliance group to ensure compliance with standards adopted by NERC and the North American Energy Standards Board (NAESB). The compliance group's role is to be involved in all stages of standards development, from awareness of emerging NERC and NAESB standards, to commenting on proposed standards, and ultimately to preparing the ISO to be in compliance when standards are approved.

The New England states have expressed concern that the standards development process does not include either a cost-benefit or an economic impact analysis for proposed standards. The states believe the process should evaluate whether a proposed standard is cost-effective and should not focus exclusively on the reliability concern. The states have expressed concern that standards are being developed without concern for the ratepayers who will ultimately incur the cost of compliance. FERC staff offered to act as a liaison with the states to keep an open-line of communication as FERC and NERC work to develop standards.

NERC is in the process of defining the term "bulk electric system," pursuant to FERC order, to "ensure that the definition encompasses all facilities necessary for operating an interconnected electric transmission network."¹ NERC also is in the process of defining the term "adequate level of reliability" to enable FERC to evaluate NERC reliability standards against the requirements of the Federal Power Act (as amended by the Energy Policy Act of 2005). ISO has urged the states to pay attention to these initiatives because the outcomes will drive standards. ISO anticipates that both NERC initiatives will be completed in early 2012.

NERC is hosting a "State of Standards" webinar that will provide an overview of the recent work of NERC's Standards Department done in coordination with the Standards Committee. The webinar is scheduled for July 25, 2011 from 1 PM to 5 PM.²

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Annual Markets Review

To coincide with the [2010 Annual Markets Report](#) (2010 AMR), the ISO's Internal Market Monitor (IMM), David LaPlante and External Market Monitor (EMM), David Patton, Ph.D., discussed their assessments of the performance of the wholesale electricity markets in 2010. This annual meeting with state public utility commissions, state consumer advocates, attorneys general, and FERC was held June 20 during the NECPUC Symposium.³

The 2010 AMR concluded that due to higher fuel prices, an increase in consumer demand, the extended outage of a large flexible resource and lower levels of hydroelectric production, wholesale electricity prices were higher in 2010 than in 2009 – increasing from \$42.02/MWh to \$49.56/MWh. Warmer weather and increased economic activity from 2009 led to a 3.1% increase in energy use in 2010, which resulted in oil units setting prices more frequently than in 2009. The commitment of oil units for reliability led to an overall increase in Net Commitment Period Compensation (NCPC) charges, from \$56 million in 2009 to \$95 million in 2010.

¹ Docket No. RM09-18-000; Order No. 743; Revision to Electric Reliability Organization Definition of Bulk Electric System; Issued November 18, 2010.

² Webinar information includes: www.nerc.com/page.php?cid=183355, Teleconference: 800.679.2941; Access Code: 8816510; and Broadcast Audio Code: 995833.

³ According to [Market Rule 1, Appendix A, Section III.A.12.3](#) of ISO's tariff, the Internal Market Monitor is required to annually review the market trends and the performance of New England's wholesale markets at a non-public meeting with "state or federal government agencies, including the Commission and state regulatory bodies, attorneys general and others with jurisdiction over the competitive operation of electric power markets, subject to the confidentiality protections of the ISO New England Information Policy, to the greatest extent permitted by law."

The IMM made various recommendations to improve the marketplace: review issues regarding the baseline methodology and other aspects of the Day-Ahead Load Response Program; review and revise rules addressing NCPC; review the way real-time prices are set to ensure that prices reflect accurate market conditions; and revise the rules regarding failure to follow dispatch instructions. The last recommendation is in reference to an operational event on September 2, 2010, when New England experienced a loss of two generating units totaling approximately 1,400 MW.

The EMM reported similar results as the IMM and also made recommendations, such as to develop pricing changes to reflect certain reliability costs and operator actions in real-time prices; provide suppliers with the flexibility to modify their offers closer to real-time to reflect changes in marginal costs; and to modify demand resources' Forward Capacity Market obligations to make them more comparable to those of generation resources and imports. The EMM further stated that ISO New England and NYISO need to continue to work to eliminate barriers to improve the efficiency of electricity trade between the regions – particularly to coordinate the real-time physical interchange over the interface.

Both the IMM and EMM found that New England's wholesale electricity markets performed competitively in 2010.

The market monitors also plan to present their findings at the [NEPOOL summer meeting](#), July 12-14 at the Water's Edge Resort in Westbrook, Connecticut.

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Fifth Forward Capacity Auction

On Monday June 27, the ISO [filed results](#) of the fifth Forward Capacity Auction ([FCA-5](#)) with FERC. New England procured 36,918 megawatts (MW) of generation, demand resources and imports to meet the region's need for 33,200 MW of capacity in 2014-2015. FCA-5 resulted in over 300 MW of new resources – including 42 MW of new generation and 263 MW of new demand resources.

In advance of, and during the auction, a total of 201 delist bids were submitted to withdraw from the auction – of which, the ISO accepted 200 bids, for a total of about 1,170 MW of capacity. About 798 MW of generation, 344 MW of demand resources, and 29 MW of imports were allowed to withdraw from the capacity market for the 2014–2015 year.

The ISO rejected Entergy Nuclear Power Marketing's bid to withdraw the 604 MW Vermont Yankee nuclear station from the capacity market. (ISO New England also previously rejected Entergy's delist bid for FCA-4). The decision was based on comprehensive studies showing that the plant is needed to support the grid's ability to reliably meet demand in Vermont, southern New Hampshire, and portions of Massachusetts, as well as reliability for the entire region's power system.

The sixth Forward Capacity Auction will commence April 2, 2012.

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Interstate Siting Collaborative

On June 23, the [New England States Committee on Electricity](#) (NESCOE) announced the formation of the [Interstate Transmission Siting Collaborative](#) to coordinate state siting of interstate transmission projects in New England.

The collaborative is intended to advance the coordination concepts outlined in the New England Governors' Renewable Energy Blueprint, adopted in 2009 by the New England Governors' Conference. The announcement identifies state commissioners and staff who will be involved in the collaborative.

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Federal Affairs: Cybersecurity Legislation

On May 31, a House Energy and Commerce panel heard from expert witnesses on draft legislative language that will comprise the Grid Reliability and Infrastructure Defense (GRID) [Act](#), an effort to address potential vulnerabilities of critical electric infrastructure from cyber attacks. As was the case at a similar Senate hearing in May, the possibility of granting FERC greater short-term oversight of the electric grid during times of imminent or on-going cyber attack was raised.

At issue is the current system of creating standards for grid protection, and if the current interplay between NERC, charged with authoring the guidelines, and FERC, charged with approving NERC proposals, is efficient or timely enough to identify and respond to rapidly unfolding attacks on the bulk electric system. A witness from the U.S. Department of Defense (DOD) outlined the critical role commercial electric power plays in the ability of the DOD to carry out its core functions and noted that a large disruption of the electric system (either cyber or kinetic) could have a devastating impact on the nation's military capabilities.

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Connecticut Energy Legislation

The Connecticut General Assembly passed a major energy bill and adopted a new tax on electric generation facilities during the legislative session that ended, June 8, 2011. The governor has signed the tax bill and is expected to sign the energy bill. The new legislation will have impacts for the state, the region, and the ISO. The legislation is profiled in an article on www.isonewswire.com.

The [energy bill](#) consolidates the state agencies responsible for energy policy into a new Department of Energy and Environmental Protection, known as "DEEP."⁴ The bill merges the Department of Public Utility Control (DPUC) into the DEEP and creates the position of commissioner of energy and environmental protection to oversee the agency. The bill creates a Public Utility Regulatory Authority (PURA) within DEEP that will perform the regulatory functions now performed by the DPUC. The bill establishes several energy related goals for DEEP, which include: reducing electricity rates and costs for Connecticut ratepayers, ensuring the reliability and safety of the state's energy supply, increasing the use of clean energy, and developing the state's energy-related economy. The energy bill requires DEEP to conduct a study of the impact of the ISO and Market Rule 1 on Connecticut ratepayers. DEEP is required to initiate the study by August 1, 2011, and report its findings to the legislature by January 1, 2012.

The [state budget](#) imposes a \$2.50/Megawatt-hour (MWh) tax on electric generators in Connecticut that export power to the regional electric grid.⁵ The tax applies primarily to fossil-fuel and nuclear-powered facilities and exempts generation from fuel cells, solar, wind, hydro, biomass, and resource recovery facilities. The new tax goes into effect July 1, 2011, and is scheduled to sunset two years later—on June 30, 2013.

The state estimates it will raise \$72 million annually for the state's general fund. ISO estimates the tax could have resulted in a \$0.44/MWh increase in the average annual wholesale electricity price for 2010, totaling approximately \$58 million a year, based on analysis of 2010 wholesale market data. ISO's estimate assumes that the entire tax is reflected in the generators' electricity market offers in each hour. The average New England real-time wholesale electricity price in 2010, as calculated by ISO New England's Internal Market Monitor, was \$49.56/MWh. Since the ISO analysis assumes that the entire tax

⁴ See Public Act 11-80, <http://www.cga.ct.gov/2011/ACT/PA/2011PA-00080-R00SB-01243-PA.htm>.

⁵ See Public Act 11-6, §104, <http://www.cga.ct.gov/2011/ACT/PA/2011PA-00006-R00SB-01239-PA.htm>.

is reflected in the generators' electricity market offers, the \$0.44/MWh and the cost of approximately \$58 million should be considered to be an estimate of the upper bound of any increase in the regional wholesale electricity price.

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Upcoming Planning Advisory Committee Meetings

Date	Location	Topics
July 21	Doubletree Hotel, Westborough, MA	Transmission project updates and other items
July 22	Doubletree Hotel, Westborough, MA	Resource adequacy and operating reserve analysis; VT/NH preferred transmission solution
August 11	Doubletree Hotel, Westborough, MA	Draft 2011 RSP page turn
September 8	Colonnade Hotel, Boston, MA	RSP public meeting

RSP11 Materials

The draft assumptions for RSP11 are posted in the meeting materials for the [May 23](#) meeting. The draft RSP11 report will be posted in advance of the “page turn” on August 11. The [CELТ report](#), which contains the load forecast assumptions for RSP11, was posted in early May.

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Consumer Liaison Group and 2010 Report

June 2 Meeting

The Consumer Liaison Group (CLG) met on [June 2](#) in Vermont. Vermont Public Service Department Commissioner Elizabeth Miller spoke about the importance and value of the CLG as a forum for consumers and consumer interests to discuss regional issues. Commissioner Miller also discussed issues with Smart Grid deployment in Vermont – such as the need to address consumer acceptance and privacy concerns and working with utilities to craft a rate design that allows consumers to see maximum benefits. Additionally, Commissioner Miller commended the ISO for its analysis of non-transmission alternatives as a supplement to the VT/NH Needs Assessment.

A panel of utilities, industry and academia discussed Smart Grid issues and initiatives including what it is; its benefits; experiences of Smart Grid deployment in New England; and an overview of ongoing research and development. David Cetola, assistant attorney general, Massachusetts Attorney General's office (MA AG) gave an overview of FERC Order 745, detailing the order's procedural history and final order requirements. The MA AG supports a concept that demand-side resources should be compensated similarly to traditional generation resources because both types of resources support system reliability and resource adequacy. [Order 745](#) states that demand-side resources should be paid the full locational marginal price as long as these resources can balance supply and demand and when payments are cost effective as determined by a “net benefits” test. The ISO is currently working with its stakeholders to develop rules to fully integrate demand resources into the wholesale energy market. (Story [“Demand Response Compliance Filing Request Extension”](#) immediately below).

Finally, a panel representing consumers and the ISO described the ISO's Framework for Evaluating Major Initiatives – how the ISO intends to provide quantitative and qualitative information relating to these initiatives – as well as the type of information that the ISO can provide to the CLG, outside of the Framework. ISO plans to inform the CLG of the developments regarding the determination of a major initiative, including meeting with subject-matter experts to describe the objective of the initiative, as well as consider requests for additional information about other initiatives and issues outside of the

Framework. The purpose of providing this type of information is to ensure that consumers are informed and have an understanding about factors that may affect the wholesale markets and transmission system performance, and their associated costs.

Materials from the June 2 CLG meeting, including presentations are available [here](#). The next CLG meeting is Wednesday, September 28 in Marlborough, Massachusetts.

CLG Annual Report

The CLG Coordinating Committee and the ISO recently issued the [2010 Report of the Consumer Liaison Group](#), the second annual report summarizing the activities of the Consumer Liaison Group and other ISO activities. The report details the major topics that were explored in 2010, which include opportunities for consumers and end users to participate in the wholesale market, the ISO's new Framework for evaluating the impacts of major initiatives, and issues driving transmission development and costs, as well as summaries of the CLG's meetings with public officials.

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Demand Response Compliance Filing Request Extension

On June 27, ISO New England [requested an extension of time](#) to submit its compliance filing on demand response compensation.⁶ The ISO specifically requested that FERC extend the July 22, 2011 compliance deadline to August 19, 2011 – a 4 week extension request.

In this filing, the ISO noted that it has been active in stakeholder outreach to develop rules to integrate demand response into the energy market and that granting additional time will likely “contribute to an improved compliance package that will have more support from the region” and that a short delay in submitting the compliance package will not delay implementation of the transitional or fully-integrated rules.

Preliminary draft market rules were discussed at the [June 14 and 15 Markets Committee](#). Discussions will continue at the next Markets Committee meeting on July 6. Materials for this meeting are available [here](#).

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Wholesale Electricity Costs May 2011

The average Day-Ahead and Real-Time Hub prices in April 2011 were \$42.51/MWh and \$43.52/MWh respectively – a modest decline from the April monthly average of \$43.35/MWh and \$43.91/MWh.

	May 2011	May 2011 Compared to April 2011	May 2011 Compared to May 2010
Average Day-Ahead LMP (hub)	\$42.51/MWh	-2%	-4%
Average Real-Time LMP (hub)	\$43.52/MWh	-1%	-11%
Average Natural Gas Price	\$4.62/MMBtu	-2%	2%
Peak Real-Time Load	19,843 MWh	20%	-13%
Average Real-Time Load	13,425 MW	1%	-2%

May's average natural gas price was \$4.62/MMBtu – down 2% from April. Oil (#6) prices also fell 8% in May. Though the average Real-Time load for May was basically the same as April – the peak load was up 20% in May.

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⁶ See www.iso-ne.com/regulatory/ferc/filings/2011/jun/rm10-17--6-27-11_mot_extend_time.pdf.

Monthly Regional Network Load Cost Report

The [Monthly Regional Network Load Cost Report for April 2011](#) was recently posted. This report provides a rolling 13-month perspective of regional network load (RNL) costs. Among other things, it provides information on reliability costs, average cost by state, and load served by transmission owner. April RNL costs were approximately 16.3% of total wholesale costs.

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ISO Speaking Engagements and Other Meetings of Interest

July 11, 2011

35th Meeting of the Conference of New England Governors and Eastern Canadian Premiers, Halifax, Nova Scotia. ISO speaker: Stephen Rourke, Vice President, System Planning

July 12–14, 2011

NEPOOL Summer Meeting, Water's Edge, Westbrook, Connecticut

August 6, 2011

Council of State Governments/Eastern Regional Conference, Offshore Wind Seminar, Halifax, Nova Scotia. ISO speaker: Eric Johnson, Senior External Affairs Representative

September 8, 2011

Regional System Plan Public Meeting, Colonnade Hotel, Boston, MA

November 1, 2011

New York ISO/ISO New England Joint Symposium, Hilton New York City, New York, NY.

May 20-22, 2012

Save the date: 2012 NECPUC Symposium, The Samoset, Rockport, ME

Upcoming NEPOOL and ISO Meetings of Interest

	Participants Committee	Markets Committee	Reliability Committee	Planning Advisory Committee	Transmission Committee	NECPUC Conference Call	Consumer Advocate Conference Call
July	12-14	19, 20	25-27	21, 22	25-27	7	18
Aug.	12	17-19	23	11	30	9	15
Sep.	9	13, 14	20	21	26	6	19

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