

VERMONT SYSTEM PLANNING COMMITTEE

July 15, 2008

Gordon van Welie
ISO New England Inc.
One Sullivan Road
Holyoke, Massachusetts 01040

Dear Mr. van Welie:

The purpose of the letter is to recommend that ISO New England Inc. (ISO) propose and adopt procedures to revise the process for determining what costs are eligible for region-wide cost allocation under the ISO New England Inc. FERC Electric Tariff No. 3 (the Tariff), specifically, to include costs incurred to support non-transmission alternatives (NTAs). The letter is filed on behalf of the Vermont System Planning Committee (VSPC), an entity established by the Vermont Public Service Board (the Board or PSB) to ensure full, fair and timely consideration of cost-effective non-transmission alternatives. The VSPC includes Vermont distribution utilities, the Vermont Electric Power Company as operator of Vermont's bulk transmission system, and three public representatives appointed by the Board as voting members and the Department of Public Service, Efficiency Vermont and the Sustainably Priced Energy Enterprise Development facilitator¹ as non-voting members.

Vermont's approach to electric system planning is designed for the provision of service to customers at least-cost. To achieve these ends, Vermont utility regulation recognizes the potential to cost-effectively defer or avoid transmission upgrades through investment in NTAs. In part, cost-effective NTAs may be funded at least in part through energy sales, the forward capacity market (FCM), the sale of ancillary services, or through enrollment in ISO demand response programs. However, while the Vermont planning approach emphasizes the potential equivalence of transmission and non-transmission alternatives, the incumbent system for funding Pooled Transmission Facilities has not directly recognized the costs to support transmission and NTA elements on a comparable non-discriminatory basis. Since it is important to the NEPOOL system that all bulk transmission facilities meet either market efficiency or reliability standards, and since the NTA costs that may be incurred as a part of Vermont's integrated planning strategies may be incurred, at least in part, to assure market efficiency and/or reliability on these systems, the VSPC believes that the ISO should open a dialogue on the necessity and reasonableness of adapting the regional funding mechanisms for Reliability Transmission Upgrades and Market Efficiency Transmission Upgrades so as to further policies that treat transmission and NTA resources deployed for system efficiency or reliability purposes on an equivalent basis for pool transmission funding purposes.

¹ Efficiency Vermont is the entity contracted by the PSB to fulfill the role of statewide Energy Efficiency Utility. The Sustainably Priced Energy Enterprise Development Facilitator is an entity contracted by the PSB in furtherance of Vermont law related to the promotion of renewable energy and long-term stably priced contracts for such energy that are anticipated to be below the market price.

Developing policies that promote resource parity in transmission planning is explicitly articulated state policy. In 2005 Vermont General Assembly² directed regulators and utilities to advocate at the ISO, in proceedings before the Federal Energy Regulatory Commission, and in all other relevant venues, to support an efficient reliability policy that achieves:

...regional cost support for the least cost solution with equal consideration and treatment of all available resources, including transmission, strategic distributed generation, targeted energy efficiency, and demand response resources on a total cost basis.

Id. at Section 8(6). Vermont's policy is to use, as a principal criterion for approving and selecting a solution to a system-wide constraint, "whether it is the least-cost solution to a system need on a total cost basis." Id. at Section 8(2). For reliability-related projects in Vermont, subject to the review of the PSB, "regional financial support should be sought and made available for transmission and for distributed resource alternatives to transmission on a resource-neutral basis." Id. at Section 8(4). The goals that underlie Vermont's policies recognize that the strategies to assure efficient and reliable service should be pursued creatively so as to help reduce the costs incurred in the provision of electric service for all of society. In short, we strongly believe that NTAs could play an important role in ensuring system efficiency and reliability and that their value ought to be supported in full. To the extent that these resources can resolve system-wide constraints more cost-effectively than transmission, they should be eligible for the same funding treatment afforded a transmission solution.

All New England states have adopted policies that favor investment in energy conservation. Many support distributed resources, and many of these resources may be employed more cost-effectively than transmission investments in pursuit of efficient and reliable least-cost service. The VSPC believes that it is appropriate to reconsider the approaches currently being employed within the region to provide equitable financial support for NTA reliability and efficiency investments that can resolve a system-wide constraint at lower cost than a transmission solution.

The VSPC stands ready to work with the ISO and interested stakeholders to address this issue and looks to the ISO to take leadership in getting the matter under review.

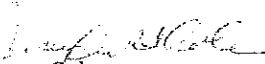
Respectfully yours,

VSPC
Signatories as attached

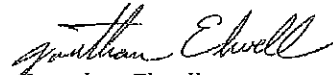
Attachments:

List of Signatories
Relevant Section of Act 61, 2005 Vermont General Assembly

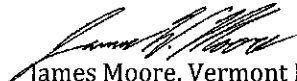
² Act 61 of the 2005 Vermont General Assembly, copy of relevant sections attached.



Jenny Cole
PSB Appointee representing residential
consumers



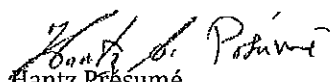
Jonathan Elwell
Village of Enosburg Falls Water & Light
Department



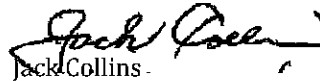
James Moore, Vermont Public Interest Research
Group
PSB Appointee representing an environmental
organization



Duncan Hastings
Village of Johnson Water & Light Department




Hantz Presumé
Vermont Electric Power Company



Jack Collins
Village of Ludlow Electric Department



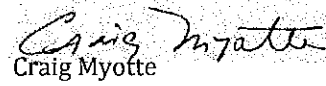
Bruce Bentley
Central Vermont Public Service



Kenneth Mason
Village of Lyndonville Electric Department



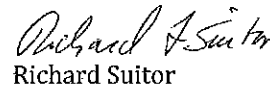
Douglas Smith
Green Mountain Power



Craig Myotte
Village of Morrisville Water & Light Department



Harry Abendroth
Vermont Electric Cooperative




Richard Suitor
Village of Northfield Electric Department



Munir Kasti
Burlington Electric Department



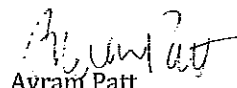
George Lagüe
Swanton Village Electric Department



Todd Allard
Vermont Marble



Eric Werner
Hardwick Electric Department



Avram Patt
Washington Electric Coop



Karen Wescom
Hyde Park Electric Department



Brian Hanson
Barton Village Electric Department



John Morley
Village of Orleans Electric Department

NO. 61. AN ACT RELATING TO RENEWABLE ENERGY, EFFICIENCY,
TRANSMISSION, AND VERMONT'S ENERGY FUTURE.

(S.52)

It is hereby enacted by the General Assembly of the State of Vermont:

* * * III. Transmission and Distribution * * *

* * * Regulatory policy * * *

Sec. 8. ADVOCACY FOR REGIONAL ELECTRICITY RELIABILITY

POLICY

It shall be the policy of the state of Vermont, in negotiations and policy-making at the New England Independent System Operator, in proceedings before the Federal Energy Regulatory Commission, and in all other relevant venues, to support an efficient reliability policy, as follows:

(1) When cost recovery is sought through regionwide regulated rates or uplift tariffs for power system reliability improvements, all available resources – transmission, strategic generation, targeted energy efficiency, and demand response resources – should be treated comparably in analysis, planning, and access to funding.

(2) A principal criterion for approving and selecting a solution should be whether it is the least-cost solution to a system need on a total cost basis.

(3) Ratepayers should not be required to pay for system upgrades in other states that do not meet these least-cost and resource-neutral standards.

(4) For reliability-related projects in Vermont, subject to the review of the public service board, regional financial support should be sought and made available for transmission and for distributed resource alternatives to transmission on a resource-neutral basis.

(5) The public service department, public service board, and attorney general shall advocate for these policies in negotiations and appropriate proceedings before the New England Independent System Operator, the New England Regional Transmission Operator, the Federal Energy Regulatory Commission, and all other appropriate regional and national forums. This subdivision shall not be construed to compel litigation or to preclude settlements that represent a reasonable advance to these policies.

(6) In addressing reliability problems for the state's electric system, Vermont retail electricity providers and transmission companies shall advocate for regional cost support for the least cost solution with equal consideration and treatment of all available resources, including transmission, strategic distributed generation, targeted energy efficiency, and demand response resources on a total cost basis. This subdivision shall not be construed to compel litigation or to preclude settlements that represent a reasonable advance to these policies.

* * * Transmission and Distribution Planning * * *

Sec. 9. 30 V.S.A. § 218c is amended to read:

§ 218c. LEAST COST INTEGRATED PLANNING

* * *

(d)(1) Least cost transmission services shall be provided in accordance with this subsection. Not later than July 1, 2006, any electric company that does not have a designated retail service territory and that owns or operates electric transmission facilities within the state of Vermont, in conjunction with any other electric companies that own or operate these facilities, jointly shall prepare and file with the department of public service and the public service board a transmission system plan that looks forward for a period of at least ten years. A copy of the plan shall be filed

with each of the following: the house committees on commerce and on natural resources and energy and the senate committees on finance and on natural resources and energy. The objective of the plan shall be to identify the potential need for transmission system improvements as early as possible, in order to allow sufficient time to plan and implement more cost-effective nontransmission alternatives to meet reliability needs, wherever feasible. The plan shall:

(A) identify existing and potential transmission system reliability deficiencies by location within Vermont;

(B) estimate the date, and identify the local or regional load levels and other likely system conditions at which these reliability deficiencies, in the absence of further action, would likely occur;

(C) describe the likely manner of resolving the identified deficiencies through transmission system improvements;

(D) estimate the likely costs of these improvements;

(E) identify potential obstacles to the realization of these improvements; and

(F) identify the demand or supply parameters that generation, demand response, energy efficiency or other nontransmission strategies would need to address to resolve the reliability deficiencies identified.

(2) Prior to the adoption of any transmission system plan, a utility preparing a plan shall host at least two public meetings at which it shall present a draft of the plan and facilitate a public discussion to identify and evaluate nontransmission alternatives. The meetings shall be at separate locations within the state, in proximity to the transmission facilities involved or as otherwise required by the board, and each shall be noticed by at least two advertisements, each

occurring between one and three weeks prior to the meetings, in newspapers having general circulation within the state and within the municipalities in which the meetings are to be held. Copies of the notices shall be provided to the public service board, the department of public service, any entity appointed by the public service board pursuant to subdivision 209(d)(2) of this title, the agency of natural resources, the division for historic preservation, the department of health, the scenery preservation council, the agency of transportation, the attorney general, the chair of each regional planning commission, each retail electricity provider within the state, and any public interest group that requests, or has made a standing request for, a copy of the notice. A verbatim transcript of the meetings shall be prepared by the utility preparing the plan, shall be filed with the public service board and the department of public service, and shall be provided at cost to any person requesting it. The plan shall contain a discussion of the principal contentions made at the meetings by members of the public, by any state agency, and by any utility.

(3) Prior to the issuance of the transmission plan or any revision of the plan, the utility preparing the plan shall offer to meet with each retail electricity provider within the state, with any entity appointed by the public service board pursuant to subdivision 209(d)(2) of this title, and with the department of public service, for the purpose of exchanging information that may be relevant to the development of the plan.

(4)(A) A transmission system plan shall be revised:

(i) within nine months of a request to do so made by either the public service board or the department of public service; and

(ii) in any case, at intervals of not more than three years.

(B) If more than 18 months shall have elapsed between the adoption of any version of

the plan and the next revision of the plan, or since the last public hearing to address a proposed revision of the plan and facilitate a public discussion that identifies and evaluates nontransmission alternatives, the utility preparing the plan, prior to issuing the next revision, shall host public meetings as provided in subdivision (2) of this subsection, and the revision shall contain a discussion of the principal contentions made at the meetings by members of the public, by any state agency, and by any retail electricity provider.

(5) On the basis of information contained in a transmission system plan, obtained through meetings held pursuant to subdivision (2) of this subsection, or obtained otherwise, the public service board and the department of public service shall use their powers under this title to encourage and facilitate the resolution of reliability deficiencies through nontransmission alternatives, where those alternatives would better serve the public good. The public service board, upon such notice and hearings as are otherwise required under this title, may enter such orders as it deems necessary to encourage, facilitate or require the resolution of reliability deficiencies in a manner that it determines will best promote the public good.

(6) The retail electricity providers in affected areas shall incorporate the most recently filed transmission plan in their individual least cost integrated planning processes, and shall cooperate as necessary to develop and implement joint least cost solutions to address the reliability deficiencies identified in the transmission plan.

(7) Before the department of public service takes a position before the board concerning the construction of new transmission or a transmission upgrade with significant land use ramifications, the department shall hold one or more public meetings with the legislative bodies or their designees of each town, village, or city that the transmission lines cross, and shall engage

in a discussion with the members of those bodies or their designees and the interested public as to the department's role as public advocate.

Approved: June 14, 2005