



To: VT System Planning Committee

From: Frank Etori, Director of NEPOOL/ISO-NE relations

Date: November 27, 2012

Re: Update on ISO-NE regional issues

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### **Markets Committee and ISO-NE concern with resource reliability**

Over-reliance on natural gas-fired electric generation continues to concern ISO-NE, especially during winter peak conditions. In 2011, natural gas-fired generators provided more than 50% of total New England energy. The gas dependency issue is amplified when generators declare themselves unavailable when called by ISO-NE after a contingency occurs. ISO is addressing this resource unavailability issue by informing generators in writing that failure to notify ISO of their unavailability in advance will result in ISO reporting them to FERC.

ISO penalizes generators when they are unavailable during a scarcity event, currently defined as the last stage of a capacity deficiency, just before ISO requests firm load shedding. By this definition, New England has never experienced a scarcity event and, therefore, has never penalized under-performing generators. ISO's short term plan is to broaden the scarcity event definition to activate it more frequently and perhaps trigger a scarcity event in the early stages of a capacity deficiency.

ISO recently published its latest white paper addressing the reliability of the resource fleet. In that paper the ISO proposes providing incentives for over-performance and penalties for under-performance by generators during capacity deficiency events. The details of this proposal will become clearer during the stakeholder process.

ISO is also pursuing moving the day-ahead market (DAM) up three hours from noon to 9 am. This timing change will allow participants to align their gas-fired electricity commitments with gas market commitments and also allow more time for ISO to commit long-lead resources in the event of a shortage. Stakeholders have proposed amending the timing in ISO's proposal from 9 am to either 10 am or 10:30 am. The 10 am and 10:30 am alternatives are being proposed by load serving entities as a compromise because of potential volatility that might result in the energy market from moving to 9am.

## **FERC Order 1000**

In late October the New England transmission owners (NETOS) and ISO-NE made a compliance filing with FERC to meet the requirements of FERC Order 1000. The filing asserts that the transmission owners' rights and obligation to build reliability and economic transmission projects in their respective territories as reflected in the Transmission Operating Agreement (TOA) cannot be changed absent a high-bar public interest showing because those rights and obligations are protected under the "Mobile-Sierra doctrine,"<sup>1</sup> In the alternative, the filing asserts that FERC should allow competition only for projects with need dates beyond five years. The states would like a competitive transmission planning process for projects with a need date of three or more years. With respect to public policy initiatives, the TOs would like a default cost allocation for public policy projects, the ability to recover prudently incurred costs if a project is requested by a state, and the retention of incumbents' rights of way.

## **NEPOOL Participants Committee**

In early November VELCO and the other NETOs met with the ISO-NE board of directors, ISO-NE senior management, and New England regulators to discuss the new Forward Capacity Market (FCM) whitepaper, strategic planning initiatives, NESCOE and state involvement in transmission planning, and the region's reliance on natural gas. The regulators pushed back on the delays in the planning process and provided insight that these delays in the beginning ideally will reduce delays in the state process. ISO was most interested in feedback on the FCM whitepaper and welcomed initial reactions to the penalty/incentive payment structure. These sessions with the ISO Board and New England regulators occur twice a year.

## **Transmission Cost Estimation**

In alignment with our strategic plan, VELCO is seeking to create greater transparency regarding transmission cost estimates and actual costs by all New England Transmission Owners. To achieve this objective, we are proposing to modify the reporting for all New England transmission owners to require publication of costs. The cost updates would include publication of initial estimated costs, costs at time of cost approval, most recent costs, and final in-service costs. We are currently working with Vermont regulators to ensure alignment and strategy associated with moving this initiative forward.

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<sup>1</sup> The *Mobile-Sierra Doctrine*, named after a pair of 1956 Supreme Court rate decisions, establishes a presumption that freely negotiated transactions subject to FERC's jurisdiction satisfy the Federal Power Act's requirement that rates be "just and reasonable," and that presumption may be overcome only where FERC finds that the agreed-upon arrangements seriously harm the public interest.