



To: Vermont System Planning Committee

From: Frank Etori, Director of NEPOOL/ISO-NE relations and Power Accounting
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Re: Update on ISO-New England issues

Meeting with ISO-New England board and New England regulators

On June 25, the New England transmission owners (NETOs) met with ISO-New England (ISO-NE) senior management, ISO-NE Board of Directors, and New England state regulators to discuss topics of interest to the NETOs. The common agenda included FERC Order 1000, the New England generator “pay-for-performance” initiative, and natural gas fuel supply issues. VELCO took the opportunity to champion our “fighting for customers” strategic initiative. VELCO addressed rising transmission rates, changes to the planning processes, incorporation of distributed generation in long-term planning assumptions, and the benefits of energy efficiency in current load forecast trends. Not surprisingly, VELCO’s issues generated disagreement and countervailing positions from the other NETOs. The New England regulators were receptive to VELCO’s presentation and suggested future discussion on our positions.

Recent high loading

During recent extreme heat and humidity, ISO-NE recorded its highest energy demand ever for the first 20 days in July. The conditions constituted the highest temperatures and dew points since 1980.

On Friday, July 19, ISO called on Operating Procedure #4 (Actions in a capacity deficiency) due to a momentary shortage of 30 minute reserves. One of those OP4 actions was to call on active demand response resources. Demand response activation appears to have been effective, reducing load by 650 to 700 MW. The system performance reflects 1,200 MW of energy efficiency that has been installed since the previous peak in 2006. The ISO will provide further detail on the loads at upcoming meetings.

Winter 2013/14 fuel procurement

ISO-NE has proposed a stopgap solution to address over-reliance on natural gas-fired generators for the coming winter. After soliciting proposals from stakeholders ISO-NE has recommended a combination of fuel oil procurement and demand response resources. Under this proposal, ISO-NE will procure 4.2 million barrels of fuel or 2.4 million MWh of electric energy. These out-of-market fuel costs will be allocated in proportion to network load share. This winter's procurement program is expected to cost about \$35 million dollars. ISO-NE intends this effort to last only for this winter, with a market-based solution to be in place by the following winter.

FERC Order 1000

Significant changes in transmission planning are being developed to comply with FERC's May Order rejecting a number of key aspects of New England's Order 1000 compliance filing. ISO-NE and the participating transmission owners filed a 60-day extension request with FERC to provide time for the region to comply with the May FERC order, which required major modifications to complex aspects of New England's current transmission planning regime. FERC approved the 60-day extension on July 22.

The NETOs have worked together to develop a draft proposal to assist ISO-NE in the compliance filing. Elements of the proposal include elimination of ISO/NETO working groups, ISO-NE development of transmission Requests for Proposal, a sequence of events for the different stages of proposals, proposal evaluation protocols, and cost allocation. The NETO group is proposing a novel approach to allocate costs based on the assumption that all reliability projects have some public policy benefit and all public policy projects have some reliability benefit. The draft proposal contemplates a new mechanism for allocating load ratio share for a portion of the costs and allocating some costs to a subset of states with specific Renewable Portfolio Standard (RPS) requirements. This proposal is still in its infancy but may have some promise.

Forward capacity zones

New England currently has four capacity zones; Maine, Northeast Massachusetts/Boston (NEMA), SW Connecticut, and Rest of Pool (ROP). In the Forward Capacity Market Order, FERC ruled that New England must redefine its capacity zones, creating either eight zones or an appropriate number of zones. A "pure" capacity zone should be defined as a geographic region within which resources (new and existing) have a very high probability of substitutability. A zone should constitute an area of the system across which limited constraints are anticipated and pricing for resources will likely be consistent. ISO-NE is developing a proposal to comply with the FERC Order with an effective date of either 2018 or 2019. The hope is that properly defined capacity zones will send the correct price signal to encourage generation to be built where it will satisfy reliability issues. The dilemma is that the timeframes for markets and planning are not aligned, meaning the

planning horizon looks ahead ten years but the forward capacity market looks only three years into the future. These unaligned timeframes make it less likely that a new generator will solve a reliability need.

Shortage event trigger

ISO-NE currently has provisions for penalizing generators who failed to perform when called. The current rule depends on the formal declaration of a “shortage event,” which is triggered by the last step in Operating Procedure #4 (Actions during a Capacity Deficiency), which is the final step before the ISO-NE operator goes from voluntary load curtailment to shedding firm customer load. Problematically, that trigger is so extreme that it has never been activated. ISO-NE has made a motion to change the trigger to occur much earlier in the OP4 actions, making the occurrence of generator penalties more likely. This motion has varying support. The generators oppose this effort on the premise that the payment was set when they enrolled in the program and the penalties shouldn’t change after the fact. Load serving entities support this motion because it creates a stronger incentive for resources to perform.

Negative bidding

The New England energy marketplace currently allows generators to submit bid values from \$0 to \$1000/MW. In excess generation conditions, New England sets Locational Marginal Prices (LMPs) at \$0/MW and ISO-NE curtails generators on other parameters. In these situations some generators may be willing to pay for the ability to stay on line. For example, a wind generator who is receiving Renewable Energy Certificates (RECs) or Production Tax Credits (PTCs) and is receiving revenue via another source would likely want to pay to stay on line. ISO-NE has, therefore, proposed an initiative to allow generators the ability to submit negative bid offers of as low as negative \$150/MW. This motion received stakeholder support and has an expected in-service date of 2014.