To: Vermont System Planning Committee

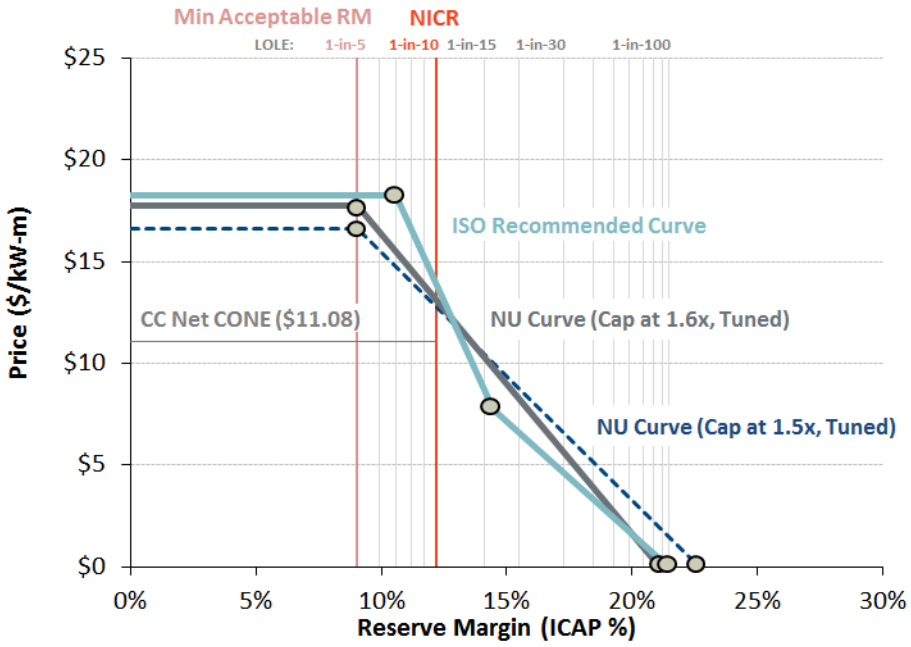
From: Frank Ettori, Director of NEPOOL/ISO-NE Relations and Power Accounting

Date: April 23, 2014

Re: Update on ISO-New England issues

Imminent FERC deadline drives Forward Capacity Market redesign; cost implications are significant

In January, FERC ordered New England to develop a capacity demand curve by April 2014. (Other regions like NY and PJM have had sloping capacity demand curves for years.) In response, three minimally different proposals were developed that result in an average capacity cost just above $4.4B, well above both the most recent capacity auction that cleared at an all-time high of $3.05B and the previous range of $1.06B to $1.77B. ISO-NE, with the help of the Brattle Group, developed a capacity demand curve with parameters they believed would incent, through higher prices, the building of new generation. The graph below shows the three curves that were considered:



Again, each of these three curves result in an average capacity cost just above $4.4B.

The New England States Committee on Electricity (NESCOE) advocated exempting some generation from the capacity market in order to balance competitive market efficiency and the ability of states to pursue state policy objectives. Ultimately, NESCOE, state representatives, end users, VELCO and other transmission owners reached a compromise with ISO-NE that exempts 200MW of renewable generation from the FCM and provides a "use it or lose it" unused capacity provision, and adopts a compromise on the recommended curve. The compromise secured majority support at the Participants Committee and has been filed by ISO-NE for approval by FERC. Undoubtedly, the proposal will be contested at FERC by members of the generator sector.

NESCOE outlines initiatives to secure additional electric and natural gas deliveries

At the March 7 ISO-NE Participants Committee meeting, NESCOE unveiled initiatives to invest in two infrastructure projects: (1) electric transmission designed to deliver 1200-3600 MW of hydro/wind energy; and, (2) natural gas pipeline capacity to deliver an additional 1000 mmcf/day. These initiatives are being driven by system reliability and escalating energy price concerns, as well as Connecticut and Massachusetts statutory Renewable Portfolio Standard (RPS) requirements. NESCOE's presentation was high-level and neither the NESCOE representative nor state officials in attendance were able to answer the many questions raised, but the proposal did spark considerable debate, ranging from concerns regarding rate impacts, to the potential that the initiatives would suppress energy prices in New England with adverse impacts on generators. The Governors' Infrastructure Initiative, as the proposal has been dubbed, is evolving rapidly. At this writing, the states are suggesting they will issue a request for proposal in October, but many specifics of the funding and regulatory framework have yet to be determined.

ISO-NE capacity zone modeling

ISO-NE recently announced that Vermont, New Hampshire, and Western Massachusetts would not be modeled as separate capacity zones. This change relieves the concern that the departure of Vermont Yankee from the generation fleet in Vermont would result in a binding, and potentially costly, constraint constituting a capacity deficiency that would require additional generation. ISO-NE's decision that Vermont will be part of the NH and Western Massachusetts zone tempers Vermont's local capacity needs. Stakeholders provided significant feedback on ISO-NE's analysis that led to the larger zone. The study's assumption that the Highgate Converter is a tie line and not a generator results in a better outcome for Vermont's capacity needs. Following further consideration at the Reliability Committee, it appears that stakeholders are satisfied with ISO-NE's explanation of how it determined the new capacity zone modeling, and that the combined Vermont, NH, Western Mass zone will be implemented.