



To: Vermont System Planning Committee

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

Date: October 7, 2015

Re: Update on ISO-New England issues

FERC supports NEPOOL on winter fuel procurement, rejects ISO-NE proposal

In a win for New England ratepayers, FERC issued an order September 11 supporting NEPOOL's proposal for a winter 2015-16 fuel procurement program, rejecting a costlier competing proposal from ISO-NE. VELCO supported NEPOOL's alternative proposal, which effectively replicates the proven 2014/2015 program at significantly lower cost.

ISO-NE's proposal would have raised the amount of "oil barrel equivalents" from 5.1M to 7.2M barrels and expanded out-of-market payments to include nuclear, coal, pumped storage, and hydro resources, which were not compensated in last winter's program, and which run regardless of these incentive payments.

Some type of winter program will be required for the next two winters until the New England market-based Pay-For-Performance program goes into effect in 2018. The Pay-For-Performance program will then replace the stop-gap winter fuel procurement program by providing incentives for generators to perform during shortage events.

The need for these measures stems from the region's dependence on natural gas for more than 50 percent of its electric generation capacity, while firm interstate pipeline capacity is inadequate to meet the demands of both generators and local distribution companies (LDCs) during the peak winter heating season.

ISO-NE resurrects controversial load-shedding policy

About two years ago, over the opposition of New England Transmission Owners (NETOs), ISO-New England developed a load-shedding guideline aimed at minimizing the need for regional transmission investment. It allows ISO-NE to interrupt up to 300 MW of load under certain conditions, rather than socialize the cost of the upgrades that would prevent the conditions from arising. VELCO raised concerns that Vermont would be disproportionately affected by the guideline because 300 MW represents such a significant portion of Vermont's load. We suggested alternative load-shedding criteria be considered, such as a percentage of system demand.

On September 15 notified the Planning Advisory Committee (PAC) that it would not approve regional rate recovery for a \$32M substation project in downtown Boston, although it supported the project from a technical perspective. ISO-NE's decision to require the project, if built, to be funded locally relies on the expectation of implementing the load-shedding guideline.

Implementation of the policy may help flatten the regional network service (RNS) rate by avoiding cost-sharing of some upgrades, an outcome we support. However, the tool may have negative consequences to Vermont in terms of reliability and/or cost-sharing of future Vermont projects, and may mean that more load is at risk during combined contingencies.

Generator retirements drive ISO-NE's proposed FCM rule change

ISO-NE is proposing a change to Forward Capacity Market (FCM) rules to provide a formal mechanism to keep retiring generators in the market. Historically, the FCM has only required generators to submit a retirement request, with no price attached. Under the new proposal, generators would submit their financial requirement for continued operation. This capacity market enhancement, if adopted, will allow ISO-NE to accept or reject generator retirement requests if the specific generator is needed for system reliability. The payment will not set the price for the capacity zone and will only be a payment for a specific generation resource.

ISO-NE and stakeholders begin RNS cost transparency discussion

In June, several state consumer advocates and attorneys general wrote to the New England Participating Transmission Owners Administrative Committee and ISO-NE asking for greater cost transparency in the setting of RNS rates to ensure that only appropriate costs are included. Their concern stemmed from New Hampshire Transmission's (NHT) attempt to recover through RNS \$10.7M in engineering and development costs it incurred in proposing an alternative, submarine cable to solve a reliability problem in greater Boston, outside NHT's service territory. (The states have filed a FERC complaint seeking a refund of the \$10.7M; VELCO has intervened in that case along with the other NETOs.)

In response to the advocates' and AGs' letter, the NETOs and advocates met on September 14 to discuss the issue. The NETO team is developing a cost protocol document and investigating potential tariff changes that may be appropriate. Their next meeting is scheduled for the end of October.

The action by consumer advocates presents an opportunity for Vermont to champion modifications to the tariff we have previously proposed for greater cost transparency, accuracy, discipline and accountability for regional transmission projects.

Consequences of Order 1000 competition starting to be felt

ISO-NE is starting to feel the pressure of an Order 1000 competitive reliability environment. For example, PAC members have questioned ISO-NE's determination that certain projects are exempt from the Order 1000 competitive process on the basis of characteristics or timing.

In September, ISO-NE delayed PAC approval of VELCO's proposed Essex STATCOM refurbishment project due to concern that the project should be subjected to the competitive process. VELCO disagrees, since

the STATCOM is essentially a maintenance project involving an in-kind replacement of obsolete (or soon to be obsolete) components in a facility, not the type of “new” facilities arising out of ISO-NE needs assessments, which may be subject to the competitive process. At this point, ISO-NE has agreed to adopt VELCO’s position, which will now be presented at the October PAC meeting.

ISO-NE recently rolled out its requirements for submitting competitive proposals. To address its concern about being inundated with proposals that have not yet been studied, ISO-NE is requiring competitive proposals to complete an I.3.9 study demonstrating “no adverse impact” before proposal submission. Because no cost recovery is allowed for phase one proposals, these study costs would be borne by the submitters. This sound decision by the ISO-NE will minimize the number and “creativity” of proposals submitted. As an incumbent transmission owner, we will receive cost recovery for providing backstop solutions in all phases of the process, even if they do not get constructed.