



To: Vermont System Planning Committee
From: Frank Ettori, Director of NEPOOL/ISO-NE Relations and Power Accounting
Date: January 13, 2015
Re: Update on ISO-New England issues

Order 1000 implementation moves forward in multiple arenas

1. VELCO and other New England Transmission Owners (NETOs) to develop competitive process for selecting local system solutions

VELCO will have to create a competitive process to select local system project developers. As previously reported, Order 1000 requires that (with some exceptions) ISO-New England must use a competitive process to select *regional* transmission reliability solutions in order to be eligible for regional cost recovery. Incumbent transmission owners identify *local* system reliability needs. Local system solutions typically consist of local components (paid for locally) and Pool Transmission Facility (PTF) components the costs of which are typically paid for by the region. ISO-NE recently determined that the incumbent transmission owners will need to apply a competitive selection process to the PTF-portion of local system projects in order for those components to qualify for regional cost recovery. ISO-NE intends to be involved only in the competitive process for regional needs, not for local needs. VELCO and the transmission owners have convened a working group to determine how such a local competitive process, or a local funding process, should be structured.

2. ISO-NE considers asset condition-driven projects exempt from competition

Providing some much needed clarity, ISO-NE confirmed that it will not use a competitive selection process to vet projects that are driven by asset age and condition. Thus, ISO-NE will not consider alternate solutions to the brownfield replacement of VELCO's Essex STATCOM because the need is driven by the age and condition of the existing facility and because the replacement is being sited in the same place as the original facility. ISO-NE's confirmation is particularly helpful to VELCO as most of the capital projects on our horizon address asset condition (i.e., maintenance) issues.

3. Competitive transmission forum meeting

On October 26, the New England States Committee on Electricity held a day-long forum to explore how, and how well, other planning regions are implementing Order 1000 competitive transmission processes. The forum included a Regional Transmission Organization (RTO) panel consisting of senior officials from PJM, CA-ISO, NYISO, and Southwest Power Pool, followed by a merchant transmission developer panel featuring officials from PG&E, LS Power, NHT, and Anbaric Transmission.

The panel revealed that other RTOs are ahead of ISO-NE in implementing their competitive processes. Not surprisingly, the RTOs reported that the post-Order 1000 solution selection processes: "take[s] much longer" than the pre-Order 1000 processes; create unsustainable workloads; and make it difficult to retain the specialized personnel/skill sets needed to evaluate competing proposals. The panel also revealed widely varied competitive processes, some markedly different than ISO-NE's process. Some regions, for example, use a solicitation model in which the RTO determines the deficiency, outlines a single basic project that solves the deficiency, and then evaluates bids to build that project. In contrast, in other areas including New England, the RTO identifies the deficiency, openly solicits all potential solutions to resolve the deficiency, and then chooses the best project. In addition, some RTOs exempt from competition projects below 200 kV.

Lastly, there was considerable discussion about the efficacy of project cost caps. CA-ISO, for example, requires a project sponsor to provide a declaration from a ranking corporate officer stating that his/her company's bid is accurate – a provision that appeals to us. Despite its initial appeal, our review suggests that a cost cap may not yield the cost certainty desired. For example, one participant indicated his company would avail itself of all the carefully drafted contract exit ramps available if project costs were significantly higher than estimated. Another developer implied the possibility of petitioning FERC to recover above-bid costs.

With transmission largely built, ISO-NE proposes changes to Regional System Plan (RSP) process

ISO-NE does not see many significant transmission projects on the planning horizon owing to the large amount of transmission built over the last ten years, the amount of energy efficiency deployed, and the extent of behind-the-meter solar generation installed. Under these circumstances, ISO-NE is considering whether to produce the regional system plan every other year instead of annually. ISO-NE had also considered eliminating its board of director's approval of the RSP, but, based on stakeholder feedback, decided to stick with the status quo.

Renewable generation backlog drives proposed changes to ISO-NE's interconnection study process

ISO-NE continues to be concerned about the backlog of wind generation in the interconnection queue. In an attempt to streamline the study process ISO is proposing changes to the interconnection requirements for inverter-based (i.e., solar and wind) generation resources. The proposal would ask new inverter-based generators to provide more specific modeling information up front and would impose more stringent voltage control requirements on applicants, all of which should simplify required ISO-NE studies. For Northern Maine, an area with greater wind potential than the transmission infrastructure can support, ISO-NE is considering clustering proposed generators and sharing transmission costs among the participants. This proposal seems to have merit; however, some developers of proposed wind projects think the new requirements are too onerous and would like to see them reduced.

FERC staff added to NETOs' usual meeting with ISO-NE Board and regulators

Twice annually the NETOs meet with New England regulators and the ISO-NE board of directors and senior management. This year's discussion generally reflected support of ISO-NE's initiatives, including proposed generator interconnection changes (discussed in more detail above), changes to the forward capacity market descending clock auction, and consideration of probabilistic planning. We also discussed the three-state Clean Energy RFP, potential natural gas pipeline expansion, and the states' effort to achieve greater transparency in Regional Network Service calculations. For the first time, the sector also met with FERC staff, which presented the opportunity to engage with FERC on regional issues.