



To: Vermont System Planning Committee
From: Frank Ettori, Director of NEPOOL/ISO-NE Relations and Power Accounting
Date: March 23, 2016
Re: Update on ISO-New England issues

New England congressional representatives criticize region's Forward Capacity Market

The New England congressional delegation sent a letter to ISO-NE's Gordon van Welie and FERC Chairman Norman Bay alleging that the region's Forward Capacity Market (FCM) does "not provide electric reliability at just and reasonable rates for consumers." In particular, the letter expressed the following concerns:

- **Costs are sharply rising:** The FCM construct has become too expensive. The three most recent auctions (Forward Capacity Auctions 8, 9, and 10) cleared region-wide at \$3-\$4 billion each, exceeding by multiples the aggregate cost of the previous seven auctions, when there were capacity surpluses and auctions cleared at the floor price. The delegation concluded that it is "unconvinced that charging ratepayers billions of dollars a year in advance to secure future generation requirements meets the just and reasonable standard."
- **Market manipulation:** The delegation repeated earlier complaints alleging that some auction participants might be prematurely retiring certain generation units in order to inflate prices ultimately paid to their other resources bidding into the capacity auction. The ISO-NE made a FERC filing in December 2015 acknowledging that the retirement rules need to be changed to address this issue, but the delegation expressed its dismay that it took this long to do so.

VELCO doesn't subscribe to every asserted point in the letter but we believe Congress is asking legitimate questions that should provide ISO-NE with an opportunity to educate lawmakers on the complexities of the FCM. We agree with the delegation's assertions that ISO-NE undercounts the value of solar; however, significant, rapid grid transformation, while positive, brings transition costs including, potentially, higher capacity costs.

Order 1000: who should pay for PTF components of projects driven by local needs?

ISO-NE and New England Transmission Owners (NETOs) continue to debate whether the costs of local transmission components that qualify as Pooled Transmission Facilities (PTF) should be funded regionally (the status quo) or locally. The NETOs had previously proposed local funding for local projects' PTF components except where ISO-NE determined, on a case-by-case basis, that the components provide a particular regional reliability benefit. In such cases, the PTF component would be competitively bid and regionally funded. ISO-NE recently suggested that the NETOs instead ask FERC for an exemption to allow continued regional funding of local projects' PTF components without competitive bidding.

Among other concerns, NETOs are unsure how this exemption would integrate with ISO-NE's load shedding criteria. Across the region, local projects fall under the 300 MW threshold below which ISO-NE procedures call for load shedding, rather than upgrades. In these instances, any upgrade would be at the discretion of the local area, thus locally funded.

Our position is that the local funding change has potential value but we will need to review the specifics of the final proposal on its own merits and within the broader context of our policy objectives with the other transmission owners.

Increased natural gas to New England

In April 2016, Spectra Energy will begin constructing its Algonquin Incremental Market Project (AIM), a natural gas pipeline designed to remediate limitations in the Algonquin pipeline system. Spectra Energy will install approximately 37 miles of new pipeline ranging from 16" to 42" in diameter and six new compressor units, and will modify existing metering stations. This project should provide additional, reliable, natural gas supplies from the Appalachian Basin to the Northeast. This year, during AIM construction, portions of the existing Algonquin pipeline will be out of service and will create reductions in natural gas supply from April to October that are not expected to impact electric generation in New England. The project is expected to be completed by November 2016. The new incremental capacity is contracted to serve local distribution gas customers for home heating; however, the project should help alleviate some gas shortages for electricity needs next winter. Thus this project's potential impacts for Vermont are lower costs for ensuring winter electric grid reliability, lower overall energy costs, and lower carbon emissions during winter generation dispatch.

Work continues to achieve greater transparency for Regional Network Service rates

NETOs continue to work with consumer advocates, state regulators, and the New England States Committee on Electricity (the interested parties) on the development of Regional Network Service (RNS) and Local Network Service (LNS) cost transparency protocols. The interested parties are close to finalizing agreed-upon RNS protocols and plan to submit them to FERC in April. The next step, required by FERC, is to reduce the narrative RNS rate formula to a common, mathematical formula to ensure consistency of inputs into transmission owners' yearly revenue requirement calculations.

VELCO continues to support rule changes that increase cost discipline and decision-making transparency both for the RNS and LNS rates. We are concerned, however, about how the proceeding may affect the eventual scope of FERC's LNS rate inquiry. If FERC shifts focus from rate transparency to rate uniformity, this has the potential to draw the Vermont Transmission Agreement, an LNS rate outlier, into question. We are working with our in-house and outside FERC counsel to guard against this exigency.