



To: Vermont System Planning Committee

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

Date: December 4, 2013

Re: Update on ISO-New England issues

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### **Transmission owners discuss key issues with ISO-NE leaders and New England regulators**

On November 8, 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 several current issues.

In a discussion of the generator Performance Incentive (PI) program, VELCO and the other NETOs expressed concern that the PI program would drive up ratepayer costs. ISO-NE had little reaction to the NETO presentation as it sees PI as a necessary solution to ensure generator performance during shortage events. During the state regulator discussion, it appeared that most state representatives supported the ISO-NE initiative.

Regarding ISO-NE's Distributed Generation Working Group (DGWG) initiative, the NETOs expressed varying degrees of support. VELCO voiced its appreciation for ISO-NE's efforts to incorporate solar generation into the long-term transmission planning forecast. Other NETOs tempered their general support by suggesting that ISO-NE should be wary of the variability and locational uncertainty of solar generators, their reliance on temporary government subsidies, and the potential need for increased distribution system enhancements. They urged caution before supplanting transmission solutions with a reliance on forecasted distributed generation growth.

Lastly, the NETOs urged ISO-NE to reprioritize its strategic initiative to align markets and planning. VELCO, unlike the other NETOs, advocates a least-cost-solution paradigm for resolving reliability deficiencies. With significant non-price generator retirements looming, VELCO suggested New England would be better off installing new generation where it would provide system reliability benefits and, potentially, transmission project deferral.

## **FERC Order 1000 compliance filing and the cost-allocation controversy**

On November 15, the NETOs and ISO-NE made a joint Order 1000 compliance filing. VELCO supported the filing with respect to transmission planning, including elimination of existing ISO-NE/NETO working groups and adoption of a competitive process for selecting reliability and market enhancement transmission projects. VELCO did not concur with ISO-NE and NETOs on cost allocation for transmission projects driven by public policy concerns. ISO-NE and the other NETOs are urging FERC to socialize 70% of these costs, with 30% to be funded by the benefiting states. VELCO believes that public policy transmission costs will be in the billions of dollars; therefore, socializing 70% of these costs may unfairly burden ratepayers in states that do not benefit from these projects. Further, we posit that over-socialization of these big projects undermines more local, smaller-scale, renewable generation.

Parties hold a wide range of positions on how best to fund public policy transmission upgrades. Prior to the filing, an advisory vote on the 70%-30% proposal failed at the Participants Committee. VELCO, the State of New Hampshire and the State of Rhode Island, among others, voiced strong objections. Massachusetts, which originally advocated socializing 100% of public policy transmission costs, Maine, and Connecticut support the 70%-30% split. The New England States Committee on Electricity (NESCOE) had originally supported the 70%-30% approach, but at VELCO's urging Vermont changed its position and decided not to support the 70%-30% allocation, effectively leaving NESCOE without a position. At the Participants Committee, VELCO voted in favor of a floor amendment to socialize only 30% of public policy transmission upgrade costs, but this amendment failed as well.

## **ISO-NE plans for ensuring adequate fuel for winter 2014/15**

ISO-NE recently provided notice that it does not expect to procure out-of-market fuel for the winter of 2014/15 as they have done for this winter. ISO-NE expects market changes now underway will fill the gap.

## **Generator Performance Incentive program**

ISO-NE has been advocating the creation of a generator performance incentive program intended to ensure generators perform when needed. In VELCO's view, numerous recent market changes, such as modifications to the reserve market, increased shortage event triggers, day-ahead market timing changes, and the ability of generators to provide intra-day reoffers, should be given time to produce the generator performance necessary to meet New England needs. VELCO has also been concerned with the costs necessary to implement this program and the lack of exemptions for generator outages caused by transmission outages, intermittency for solar and wind, and any generators with long lead time resources like biomass. Vermont regulators have supported the ISO-NE performance incentive program, suggesting better performance for generators is necessary and worth the significant cost. After 13 meetings at which ISO-NE proposed its PI solution, the Markets Committee defeated the proposal on November 14 by a show of hands, with only about four of 60 members voting in favor of ISO-NE's proposal. Nonetheless, ISO-NE is expected to file its PI proposal with FERC in the near future.