

New England States Committee on Electricity
2012 Annual Report to the New England Governors

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Message from the President



Since the formation of NESCOE in 2006, the State Managers designated by the six New England Governors have strived to represent the interests of the citizens of the region by advancing policies designed to provide electricity at the lowest possible price over the long term, consistent with maintaining reliable service and environmental quality. Through collaboration with stakeholders and by presenting its views to regulators, NESCOE has sought to facilitate the efficient development of power generation, demand management and transmission resources needed to reliably serve the electricity requirements of consumers.

Under the leadership of Executive Director Heather Hunt, NESCOE has become integral to the development of sound energy policy in New England. As an organization, NESCOE has grown at a deliberate pace and now has a staff of six highly competent professionals with backgrounds in economics, accounting, engineering, and law, as well as experience in government, the generation and transmission sectors of the electric industry, and consulting. Working closely with the New England Conference of Public Utilities Commissioners and the staffs of the six New England utility commissions, NESCOE is an active participant in the various NEPOOL committees that drive the development of electricity policy in the region. It also works closely with ISO-New England regarding the ISO's obligation to ensure day-to-day reliable operation of the regional bulk power generation and transmission system, oversee the fair administration of wholesale electricity markets, and manage a comprehensive planning process. NESCOE has also taken the lead in preparing the New England Governors' Renewable Energy Blueprint and in other efforts regarding coordinated power procurement and transmission siting collaboration.

In my two-and-a-half years as Chair of the Massachusetts Department of Public Utilities, I have witnessed the ever growing need for utility commissions and states to be actively involved in regional and national regulatory and policy forums affecting electricity and energy policy as the costs of transmission increase and the volatility of energy prices persists. From the perspective of Massachusetts, I have focused on expanding our capabilities to engage effectively on these issues. I have also witnessed during that time the positive effects of the six New England states working closely together on these important issues. It has certainly been the case that what unites us is much greater than what divides us and, as a consequence, New England has been an exceptionally influential voice in Congress and at the Federal Energy Regulatory Commission.

It is my distinct honor to serve as the President of NESCOE. I am proud to have played a role in the development of NESCOE as a strong and consistent voice that relies on clear-eyed research and analysis, attentive communication and consultation, and

effective advocacy to accomplish its mission. It is a pleasure to work with Heather and the NESCOE staff, the State Managers, and the staffs of the New England public utility commissions, all of whom toil in obscurity on incredibly complex subject matter with little acknowledgment for their tremendous efforts on behalf of the citizens of our six states.

Ann G. Berwick

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President, NESCOE

Chair, Massachusetts Department of Public Utilities

SECTION I: GOVERNANCE

A Board of Managers representing the six New England states directs NESCOE's affairs and engagement in regional issues. Each NESCOE Manager is appointed by his or her respective Governor. Regardless of the number of individuals each Governor appoints as a NESCOE Manager, each New England state has one undivided vote in arriving at NESCOE determinations.



New England Governors during 2012, from left, Vermont Governor Peter Shumlin, Connecticut Governor Dannel P. Malloy, Maine Governor Paul LePage, Massachusetts Governor Deval L. Patrick, Former New Hampshire Governor John Lynch, Rhode Island Governor Lincoln D. Chaffee

NESCOE makes policy determinations with a majority vote (i.e., a numerical majority of the states) and a majority weighted to reflect relative electric load of each state within the region's overall load. Nearly all NESCOE determinations have been unanimous, reflecting the New England states' efforts to achieve consensus on matters of regional electricity policy.

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In addition, representatives from various agencies within state governments and New England Governors' offices contribute their diverse expertise to NESCOE on various matters. NESCOE appreciates the contributions these perspectives provide to its policy determinations.

2012 NESCOE MANAGERS

STATE OF CONNECTICUT

*Katie Scharf Dykes*¹

Deputy Commissioner for Energy, Connecticut Department of Energy and Environmental Protection (CT DEEP)



Deputy Commissioner Dykes oversees the work of both halves of CT DEEP's Energy branch: the Public Utilities Regulatory Authority (PURA) on the regulatory side, and the Bureau of Energy and Technology Policy on the energy strategy side. Deputy Commissioner Dykes joined CT DEEP in March 2012, after serving as Deputy General Counsel for the White House Council on Environmental Quality. In that role she provided legal counsel on a variety of energy and environmental issues including climate change and sustainability. Prior to that, she served as Legal Advisor to the General Counsel for the U.S. Department of Energy. At the Department of Energy, she worked on issues related to regulatory reform, electric power transmission, energy efficiency, and renewable energy. Deputy Commissioner Dykes holds a bachelor's degree in history and environmental studies from Yale, a master's degree in history, also from Yale, and she is a graduate of Yale Law School.

STATE OF MAINE

Thomas L. Welch

Chairman, Public Utilities Commission



Chairman Welch was appointed to the Maine Public Utilities Commission as Chair in April 2011. He had previously served as Chair of the Commission from 1993-2005. Between his Commission appointments, Commissioner Welch worked for PJM Interconnection, a Pennsylvania-based Regional Transmission Organization, and for five years was an attorney at Pierce Atwood, LLP, in Portland, Maine, specializing in energy and utility law. Before moving to Maine in 1993, he served as Chief Deputy Attorney General for Antitrust in the Pennsylvania Attorney General's Office, in-house counsel for Bell Atlantic, and Assistant Professor at Villanova University School of Law. Commissioner Welch graduated from Stanford University in 1972 and received his law degree from Harvard Law School in 1975. His term on the Commission

¹ Previously in 2012, Kevin DelGobbo, Chairman of the Department of Public Utility Control, served as NESCOE Manager.

expires March 2017.

COMMONWEALTH OF MASSACHUSETTS

Ann Berwick

Chair, Department of Public Utilities (*NESCOE President*)



Ann Berwick was appointed Chair of the Department of Public Utilities by Governor Deval Patrick in June 2010. Prior to that, Chair Berwick was the Commonwealth's Undersecretary for Energy and also served as Acting Chair of the Energy Facilities Siting Board. As Undersecretary, Chair Berwick was a key participant in the development of the Green Communities Act, the Patrick Administration's signature energy legislation, and worked closely on its implementation with the state's Department of Energy Resources and Department of Public Utilities. Chair Berwick worked with those agencies on a range of issues, including the introduction of a more progressive building code and the development of renewable resources in the Commonwealth.

Before serving in the Patrick Administration, Chair Berwick was a senior consultant at M.J. Bradley & Associates in Concord, Massachusetts. In that role she advised non-profit organizations and electric distribution and generating companies on a wide range of issues, including environmental science; pollution control technology; and developments in state and federal energy and environmental law, regulation, and policy.

Chair Berwick served as Chief of the Environmental Protection Division in the Massachusetts Attorney General's Office from 1991 to 1996, where she exercised joint oversight of the Massachusetts Environmental Strike Force. From 1996 to 1997 she worked in the Alaska Attorney General's Office, where she participated in litigation before the Ninth Circuit Court of Appeals and the U.S. Supreme Court. She has also been a legal services attorney, and a partner in the litigation department at the Boston law firm Goulston & Storrs.

Chair Berwick holds a B.A. from Radcliffe College and a J.D. from the University of Wisconsin Law School.

STATE OF NEW HAMPSHIRE

Michael D. Harrington²

Commissioner, Public Utilities Commission



Commissioner Harrington was appointed Commissioner of the Public Utilities Commission in March 2012. He previously served as a Commissioner there from November 2004 to December 2005. Just prior to this most recent appointment, Commissioner Harrington served as the Public Utility Commission's Senior Regulatory Policy Analyst, where he was responsible for regional electric issues and interactions

with the Independent System Operator and the Federal Energy Regulatory Commission. Commissioner Harrington was a member of the New Hampshire House of Representatives and the Science, Technology and Energy Committee from 2000 to 2004. He has over 25 years experience in the nuclear power industry, having held various management and engineering positions at the Seabrook Nuclear Power Plant (1983-2004), as a Startup Engineer at the Marble Hill Nuclear Plant (1981-1983), and as a Nuclear Fluid Systems Engineer at the Norfolk Naval Shipyard (1978-1981). Commissioner Harrington holds a B.S. in Nuclear Engineering from the University of Massachusetts at Lowell. His term on the Commission expires on June 30, 2013.

STATE OF RHODE ISLAND

Elia Germani

Chairman, Public Utilities Commission (*NESCOE Treasurer*)



Chairman Germani was appointed to the R.I. Public Utilities Commission by Governor Lincoln Almond in May 2000 and reappointed to a six-year term in March 2001. He was reappointed to an additional six-year term commencing March 2007 by Governor Donald Carcieri.

Chairman Germani was General Counsel for Blue Cross and Blue Shield of Rhode Island for 18 years. He also was a partner in the

² Previously during 2012, Thomas Getz, Chairman of the New Hampshire Public Utilities Commission served as New Hampshire's Manager.

law firm of Tillinghast, Collins & Graham and served as attorney and assistant secretary of the Narragansett Electric Company.

Chairman Germani earned his Juris Doctor from Harvard University Law School and a B.A. magna cum laude from the University of Rhode Island. He serves as chairman of the R.I. Energy Facility Siting Board and has been a member of the Board of Governors of Higher Education and the Board of Regents for Elementary and Secondary Education. He currently serves as a member of the Directors of Justice Assistance, which is a non-profit criminal justice agency, and as a member of the Board of Governors of the Providence Boys & Girls Club.

STATE OF VERMONT

*Christopher Recchia*³

Commissioner, Department of Public Service



Christopher (Chris) Recchia was named Commissioner of the Public Service Department by Governor Peter Shumlin in January, 2013. Prior to his appointment as Public Service Commissioner, Recchia served as Deputy Secretary for the Agency of Natural Resources, a position to which he was appointed in January, 2011. Commissioner Recchia has almost 30 years of experience as an environmental leader in the development of state and federal environmental and energy policy and the implementation of programs managing natural and energy resources. In addition to serving in leadership roles in the private sector, Recchia also served as both Deputy Commissioner and Commissioner for the Vermont Department of Environmental Conservation from 1997 to 2003. He holds a bachelor's degree from the University of Vermont in biology, a master's degree in Environmental Law from Vermont Law School, as well as a master's degree in Natural Resource Policy and Management from Yale University.

³ Previously in 2012, Elizabeth Miller, former Commissioner of the Department of Public Service, served as Vermont's Manager.

SECTION II: STAFF & CONSULTANTS

In 2012, NESCOE successfully reached its expected steady state with respect to professional staff. The NESCOE team has diverse academic and professional backgrounds, including economics, accounting, engineering, and law as well as a cross section of private and public sector experience in New England. NESCOE's professional staff and technical consultants bring comprehensive and deep experience to the analysis presented to Managers for their consideration.

Jeff Bentz

Director of Analysis



In 2011 *Jeff Bentz*, CPA was named NESCOE's Director of Analysis. Previously, Jeff was with a New England generating facility, MASSPOWER, for nearly twenty years. Jeff served in progressive positions with MASSPOWER and was ultimately its General Manager. Earlier in his career Jeff was with Arthur Andersen and Company. Jeff has a Bachelor of Science degree in Accounting from Central Connecticut State University.

Dorothy Capra

Director of Regulatory Services



In 2011, *Dorothy Capra* was named NESCOE's Director of Regulatory Services. Since 2000, Dorothy was International Power's Director of Regulatory Affairs for NEPOOL and more recently for PJM. In that capacity, she coordinated regulated activities in New England and PJM and related activities at the Federal Energy Regulatory Commission. Dorothy was elected Vice Chair of NEPOOL's Transmission Committee and has served in the past as Vice Chair of its Reliability Committee. Before that, Dorothy was with New England Electric System (National Grid) for ten years in a variety of positions, including in transmission and rates. She began her career at BP Oil, Inc. Dorothy has an MBA from the Amos Tuck School at Dartmouth and a BS in Chemical Engineering from Washington University in St. Louis.

Ben D'Antonio
Counsel & Analyst



Ben D'Antonio joined NESCOE in 2012 as Counsel and Analyst. Before coming to NESCOE, Ben worked in the Regional and Federal Affairs Division of the Massachusetts Department of Public Utilities as an economist and legal counsel, with a focus on wholesale electricity market and transmission planning issues. Previously, Ben was the Regulatory Assistance Project's first Energy and Environment Fellow, where he provided support to state utility commissions on clean energy policies. Earlier in his career, Ben worked in financial services as an investment analyst and operations specialist. Ben has a Juris Doctor, cum laude, and Masters of Environmental Law, magna cum laude, from Vermont Law School and a Bachelor of Arts in Economics from the University of Vermont.

Heather Hunt
Executive Director



NESCOE's Executive Director is **Heather Hunt**. She assumed her position in January 2009. Previously, Heather had a regulatory law practice, was Director, State Government Affairs at United Technologies Corporation and a Group Director, then Vice President, Regulatory at Southern Connecticut Gas. Earlier, she was a Public Utility Commissioner in Maine and Connecticut and was on the legal staff of a Connecticut Governor. Heather has a Bachelor of Arts in Politics from Fairfield University and a Juris Doctor from Western New England College School of Law.

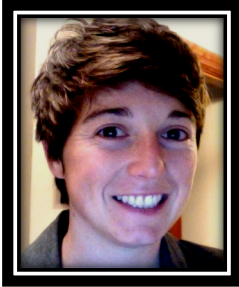
Jason Marshall
Senior Counsel



Jason joined NESCOE in 2012 as Senior Counsel. Previously, he was Counsel with the Regional and Federal Affairs Division of the Massachusetts Department of Public Utilities (DPU), where he represented the DPU in proceedings before the Federal Energy Regulatory Commission and in the ISO-NE and NEPOOL stakeholder processes. Before that, Jason was Legal Counsel to a Massachusetts State Senator. Earlier, Jason was an associate at Brown Rudnick and was a Law Clerk to the Chief Justice of the Massachusetts Appeals Court. Jason has a Bachelor of Arts, with honors, from Boston College and a Juris Doctor, with honors, from the University of Connecticut School of Law.

Allison Smith

Analyst



Allison Smith joined NESCOE in 2010 as an Analyst. Previously, Allison was with Anbaric Transmission as a Development Associate. Before that she was with Synapse Energy Economics as a Research Associate. Allison has a Bachelor of Arts in Environmental Studies from Dartmouth College and a Master of Studies in Environmental Law from Vermont Law School.

NESCOE will hire an administrative assistant in 2013.

NESCOE also retains consultants to provide technical analysis in the areas of system planning and expansion and resource adequacy. The following are the consultants with whom NESCOE worked in 2012.

Ray Coxe, President of **Mosaic Energy Insights, Inc.**, of Massachusetts, advises NESCOE on mechanisms to facilitate development of the region's cost-effective renewable resources, including NESCOE's 2012 Renewable Power Supply Curve Analysis intended to inform decisions about coordinated competitive renewable power procurement and NESCOE's work plan relative to such potential coordinated procurement.

George Smith, P.E., of Vermont, is an electrical engineer with substantial planning, transmission and engineering experience in New England. He supports NESCOE with technical analysis in system planning.

To supplement expertise in the area of power system planning and engineering, NESCOE benefits from the assistance of ***Ricardo Galarza, PhD***, President of **PSM Consulting**, of New York. Dr. Galarza is an electrical engineer who, prior to founding PSM Consulting, was with the New York ISO. Additionally, ***La Capra Associates*** of Boston advises NESCOE on matters such as alternative resource analysis.

From time to time NESCOE also retains certain consultants to conduct specific analysis or assist with specific projects to inform policy-makers' consideration of current issues:

- NESCOE selected *Black & Veatch* by competitive solicitation in November 2012 to conduct a study of the current and future natural gas fuel supply in New England and to inform policymakers' understanding of the future implications for natural-gas fired power generation in New England, power system reliability and consumer costs over the long-term.
- *RLC Engineering* provided technical assistance in transmission analysis and *Sustainable Energy Advantage, LLC* assisted with renewable generation data for the Renewable Power Supply Curve Analysis completed in 2012.
- NESCOE retained *Mystic River Energy Group LLC* to provide commercial expertise to coordinated competitive renewable power procurement efforts.

While NESCOE does not use litigation as a primary means to accomplish its objectives, when it required outside counsel in 2012, NESCOE had the assistance of *Lisa Gast* of the law firm *Duncan, Weinberg, Genzer & Pembroke, P.C.* in Washington D.C. Earlier in 2012 and in prior years, NESCOE had engaged *Elizabeth Grisar* and her former law firm of *Whiteman, Osterman and Hanna, LLP* to assist with regulatory and other matters.

SECTION III: COORDINATION WITH REGIONAL STATE ENTITIES

NESCOE works to ensure coordination and communication by and between state entities in the New England region. Throughout 2012, NESCOE continued to work closely with the New England Conference of Public Utilities Commissioners (NECPUC), including participating in regular internal NECPUC conference calls, NECPUC's monthly conference calls with ISO New England Inc. (ISO-NE) staff, and NECPUC's monthly conference calls with the Federal Energy Regulatory Commission (FERC) staff. NESCOE also participated in several meetings in 2012 with NECPUC Commissioners and ISO-NE's Board of Directors, as well as NECPUC's Annual Symposium. NESCOE expresses its deep appreciation to William Nugent, who retired as NECPUC's Executive Director in late 2012, for his unwavering support of NESCOE's work and the steady leadership that has defined his tenure with NECPUC and advanced collective state interests. NESCOE looks forward to working with NECPUC's new Executive Director, Sarah Hoffman, in 2013.

NESCOE also continued to coordinate with the New England Governors Conference (NEGC) on substantive matters in 2012. On a going forward basis, following the NEGC's work folding into the Council of Northeastern Governors (CONEG), NESCOE will strive to ensure coordinated policy positions where appropriate and avoid duplication of efforts on subject matters of mutual interest.

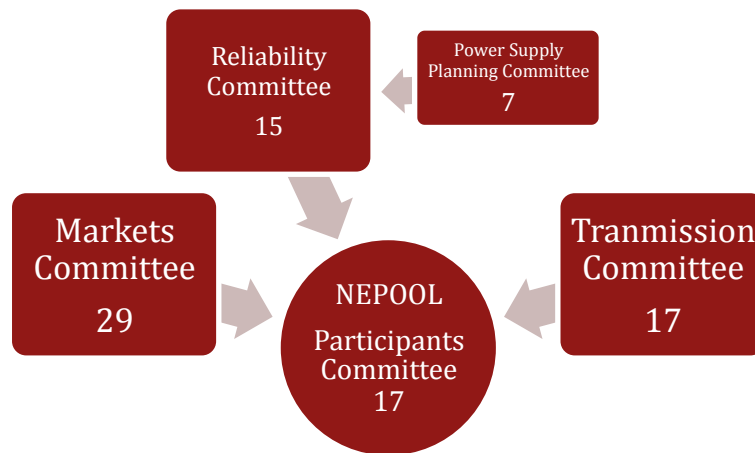
Additionally, to maximize coordination among states and leverage the technical expertise that exists within the states on various matters, in 2012, NESCOE coordinated several teams of subject matter experts from state governments to work with NESCOE on matters such as energy efficiency data collection, North American Electric Reliability Corporation (NERC) standard development, and natural gas and coordinated renewable power procurement.

SECTION IV: 2012 ACTIVITY, FOCUS AREAS & ACCOMPLISHMENTS

Regional Stakeholder Meeting Participation

NESCOE participated—and regularly played an important role—in substantive New England regional stakeholder meetings in 2012. NESCOE continued its regular participation in NEPOOL’s Participants, Reliability, Transmission, Markets and Power Supply Planning Committee meetings. The Transmission Committee meetings included many meetings devoted to FERC Order 1000, with significant focus on consideration of public policies in regional planning. NESCOE represented the collective views of the New England states and offered proposals to ensure the appropriate role for states in relation to state policy determinations and decisions about infrastructure proposed to advance state policies.

2012 NEPOOL Committee Meetings (in meeting days)



NESCOE additionally participated in ISO-NE’s Planning Advisory Committee (PAC) and Consumer Liaison Group meetings. NESCOE appreciates the opportunity provided by ISO-NE at PAC meetings for NESCOE to update stakeholders periodically regarding its activities.

2012 ISO-NE Regional Meetings

ISO-NE Planning Advisory Committee

•20 meetings

ISO-NE Consumer Liaison Group

•4 meetings

Together, these committees held one hundred and nine (109) meetings days in 2012.

NESCOE also participated in various working groups and ad hoc subject matter meetings convened for specific purposes, such as the Energy Efficiency Forecast Working Group, meetings associated with the Forward Capacity Market (FCM), and the New England Gas-Electric Focus Group. NESCOE appreciates ISO-NE and NEPOOL welcoming its participation in such groups, which facilitates NESCOE's understanding of diverse stakeholder perspectives and communication of the collective views of the six New England states.

With respect to the region's work on FCM in 2012, NESCOE co-chaired a working group that sought to settle a range of related issues. Late in 2012, NESCOE began serving as one of the Tri-Chairs of a Gas-Electric Focus Group established to improve cross-sector coordination regarding reliability issues. The other Tri-Chairs represent the natural gas industry and the NEPOOL Participants. ISO-NE, representatives of all the major pipelines that serve New England, LNG terminal operators, generators, transmission owners (TOs), public power, end users (both electricity and gas), and natural gas local distribution companies (LDCs) are all represented on the Focus Group.

NESCOE participated in, and provided technical analysis to inform New England's contributions to, Eastern Interconnection States Planning Council meetings and Eastern Interconnection Planning Collaborative task force and working group meetings relating to interregional coordination. Also, from time to time and as warranted, NESCOE participated in Inter-area Planning Stakeholder Advisory Committee meetings, Northeast Power Coordinating Committee Government Relations Committee meetings, and the NEGC Northeast International Committee on Energy meetings. NESCOE also coordinated with states outside New England on the U.S. Department of Energy's (DOE) 2012 Congestion Study and on a number of NERC matters.

In 2013, NESCOE will continue to participate in regional stakeholder meetings and, as needed to advance and protect New England consumers, in meetings outside of the region on issues related to resource adequacy and system planning and expansion.

Comments to Regulators, Agencies and ISO-NE

NESCOE's increasing interactions with federal regulators, agencies, and ISO-NE reflected a year of significant regional and federal activity with important implications for New England consumers in the areas of resource adequacy and system planning and expansion. In 2012, NESCOE made over 15 substantive filings with federal jurisdictional entities to represent the interests of New England consumers. NESCOE also presented written comments to ISO-NE on a broad range of issues.

A representative sample of such filings and comments includes:

- **Gas and Electric Market Coordination:** NESCOE submitted comments to FERC concerning related reliability issues on *March 30, 2012*. After receiving comments from NESCOE and others, the FERC convened a technical conference in New England in August, and in several other regions, to further explore challenges and potential solutions. NESCOE is actively engaged in ongoing efforts at the regional level to develop solutions as needed and at costs that are reasonably reflective of the risk.
- **2012 Regional System Plan (RSP12):** NESCOE submitted comments to ISO-NE on the 2012 draft RSP on *August 1, 2012*. ISO-NE made a number of clarifications in response to NESCOE's comments.
- **Cost Effective Analysis Process (CEAP):** On *July 6, 2012* NESCOE submitted comments to NERC requesting it to integrate a formal cost-benefit analysis into the standard development process, the first request of this kind. In October 2012, the NERC Standards Committee approved the CEAP for a pilot implementation.

Coordinated Competitive Renewable Power Procurement to Serve Customers at the Lowest All-In Delivered Cost

On July 30, 2012, the six New England Governors adopted a Resolution *Directing NESCOE to Implement a Work Plan for the Competitive Coordinated Procurement of Regional Renewable Power*. The Governors identified the goal of issuing a solicitation for procurement by the end of December 2013.

This latest Resolution follows a series of New England Governors' resolutions from 2009-2011 expressing interest in exploring joint or separate but coordinated, competitive procurement as a means to identify those renewable resources located in or proximate to the region that could help meet the region's clean energy goals at the lowest "all-in" cost (generation and transmission combined).

The Governors identified the goal of issuing a solicitation for procurement by the end of December 2013.

Related efforts since 2009 also informed the Governors' 2012 Resolution:

- The 2009 *New England Governors' Renewable Energy Blueprint* prepared by NESCOE and associated technical analysis (2009 Economic Study) prepared by ISO-NE. The Blueprint identified the significant renewable resources located in and around the region and the potential for New England to coordinate competitive renewable power procurement and better coordinate siting of interstate transmission facilities.
- In mid-2010, in response to the New England Governors' request by Resolution, NESCOE provided the Governors with a *Report on Coordinated Renewable Procurement*. The Report identified potential coordination mechanisms and preliminary ideas about contractual terms and conditions.
- A 2011 *Request for Information* (RFI) from renewable developers and others, including transmission owners. Responses to the RFI confirmed that sufficient potential resources exist to enable New England to develop or import Renewable Portfolio Standard-qualifying renewable energy to meet the region's renewable energy goals.
- A 2012 *Renewable Supply Curve Analysis* provided information about the relative, directionally indicative costs of on- and off-shore wind resources in two study years. Wind was selected for this analysis not because of a preference for this resource type over others, but because it was the predominant resource that responded to the 2011 RFI and was the subject of several ISO-NE studies.

In response to the Governors' July 2012 Resolution, NESCOE issued a draft *Work Plan* for stakeholder comment in late summer 2012 and finalized its *Work Plan* in November 2012. The *Work Plan* is designed to facilitate coordination among the six New England states in pursuing the potential development of renewable resources through the

issuance of a Request for Proposals (RFP). However, the *Work Plan* is clear that participation in the RFP process does not bind any state to procure any level of resources. Whether, to what extent, and under what terms and conditions a state will commit to any particular resources will depend on state regulatory authorities' analyses and decisions.

Following issuance of a public notice of the final *Work Plan*, NESCOE formed a Procurement Team (PT) comprised of NESCOE staff, state agency personnel, and representatives of New England electric distribution companies identified by the states. NESCOE also formed a Legal Subteam comprised of NESCOE staff and staff from New England state agencies with expertise in that state's legal requirements. By the end of 2012, the PT and Legal Subteam began to implement the *Work Plan*, including developing a draft RFP, evaluation criteria, and a model Power Purchase Agreement (PPA).

The *Work Plan* calls for the PT to identify a "short list" of preferred responses, if any, based on the evaluation criteria. Ultimately, EDCs may enter into PPAs with the PT's preferred project(s), with any such PPAs generally subject to state regulatory review and approval.

Enhanced Gas-Electric Industry Coordination to Improve System Reliability

In 2012, NESCOE was actively involved in regional and federal discussions regarding electric system reliability operational challenges and potential risks to reliability arising from an increased dependence on natural gas as a fuel source. Those topics will continue to be an important focus of NESCOE's work in 2013.

ISO-NE Risk Assessment of Gas Dependence

Through its Strategic Planning Initiative (SPI) (discussed further below), ISO-NE identified increasing reliance on natural gas-fired generation resources as a reliability risk to New England's power system. ISO-NE's discussions to date with stakeholders and states have focused on a concern that sufficient gas may not be available to meet power system needs during periods of high seasonal demand, under other stressed system conditions, or when facing contingencies associated with natural gas supply/transportation system infrastructure. Further, ISO-NE has noted that current and expected levels of gas usage and the potential for gas unavailability may threaten the reliability of the electric system

due to infrastructure limitations and/or potential gas supply interruptions. The region's generation fleet's increasing reliance on natural gas due in part to low gas prices exacerbate this risk. Other recent industry studies and assessments appear to draw similar preliminary conclusions.

Independent Assessment of Risk to Inform Policymakers' Decisions

NESCOE commissioned its own study in 2012 that will extend through much of 2013 to confirm the nature of the asserted risk and inform policymakers' understanding of the future implications for natural gas-fired power generation in New England, power system reliability and consumer costs. Following responses to a Request for Proposal, NESCOE selected Black & Veatch to conduct a three-phase study, with the latter two phases optional at

NESCOE's discretion. NESCOE issued Black & Veatch's *Phase I Study Report in December 2012*. This Report was Black & Veatch's independent review and assessment of recent studies and papers concerning the adequacy of the natural gas infrastructure to meet New England's forecasted demand in the near future. In short, Black & Veatch stated that it believed New England's natural gas infrastructure will become increasingly stressed as regional demand for natural gas grows, leading to infrastructure inadequacy at key locations. Black & Veatch also identified information gaps and elements not addressed in prior studies and papers.

NESCOE initiated Phase II of the study based on the results of the initial phase. The latter two phases of the study involve a deeper review of future gas usage levels to better define the potential for gas unavailability and to identify the range of future infrastructure development options and other potential solutions. A critical component of the overall study is an analysis of associated costs and potential benefits of these potential solutions. Phase II is scheduled for completion in early 2013, with Phase III, if initiated, completed by the summer of 2013. NESCOE will use the Gas-Electric Focus Group as a forum to communicate with market participants about the study. Along with ISO-NE's ongoing SPI and stakeholder dialogue, the NESCOE Gas Study will help inform state

The NESCOE Gas Study will provide independent analyses to help guide policymakers' decisions in connection with power system reliability and costs to consumers.

policymakers' decisions.

FERC Activity on Gas-Electric Coordination

NESCOE participated in a FERC docket opened in February 2012 (AD12-12) to explore coordination between natural gas and electricity markets. NESCOE provided comments on the role the Commission can play in addressing coordination issues, the need for regional resolution of identified issues, timing and markets, and coordination issues and preliminary thoughts regarding potential solutions.

NESCOE Managers and staff participated in a FERC-convened Technical Conference held in Boston in August 2012. Following the conference, NESCOE sent a letter to Commissioners LaFleur and Clark, who participated in the Boston meeting, to underscore NESCOE's position that resolving gas-electric coordination issues requires a balancing of reliability, cost, and environmental considerations. NESCOE further noted the importance of exploring the most cost-effective solutions, taking necessary actions in the short-term to preserve reliability pending long-term solutions, and its agreement with a suggestion at the conference that New England should form a focus group to continue the discussion and consider solutions, which NESCOE believes in the first instance should be addressed by the region.

In November 2012, the Commission directed FERC staff to convene additional technical conferences on gas-electric market information sharing and scheduling. NESCOE will continue to participate in FERC activities in this area in 2013.

Other Regional Efforts to Enhance Gas-Electric Coordination

NESCOE serves as a Tri-Chair of a New England Gas-Electric Focus Group formed in September 2012 to continue discussions that took place at the August 2012 FERC Technical Conference. The Focus Group initiated meetings in 2012, which were attended by ISO-NE, representatives of all the major pipelines serving New England, LNG terminal operators, generators, TOs, public power representatives, end users (both electricity and gas), LDCs, and other regional stakeholders. Representatives of the gas industry and NEPOOL joined NESCOE in chairing the Focus Group. In addition to discussing how improved gas-electric market coordination can address reliability issues, the Focus Group's work is expected to culminate in a non-binding final report to be issued in 2013,

memorializing the issues and potential solutions around which there may be consensus or need for further analysis.

Additionally, by the close of 2012, ISO-NE proposed a number of market rule changes designed to address reliability issues concerning an increasing reliance of generating units on natural gas as a fuel source. NESCOE participated in NEPOOL stakeholder discussions on these proposed changes and, where appropriate, filed comments with the FERC. ISO-NE has announced its plans to propose a number of additional market revisions in 2013 and NESCOE will continue to track and be engaged in these efforts.

Advocating for Balance Between Competitive Markets and State Policies

On December 3, 2012, ISO-NE submitted proposed market rule changes to the FERC in response to the Commission's March 30, 2012 Order on FCM. ISO-NE's compliance package followed extensive stakeholder discussions over several years and multiple FERC orders. The proposed changes included, among other revisions, a mechanism for pricing resources bidding into Forward Capacity Auctions (so-called "buyer-side mitigation"), de-list reforms, and modeling of zones.

On December 28, 2012, NESCOE filed with the FERC a Protest and Complaint under the Federal Power Act, challenging ISO-NE's buyer-side mitigation proposal as unjust and unreasonable. NESCOE set forth how ISO-NE's proposed tariff revisions would likely exclude from the FCM new renewable resources developed pursuant to state statutes and regulations. NESCOE argued that, although these resources would be providing capacity to the region, they would not be counted toward the region's resource adequacy requirement, resulting in electricity customers being forced to purchase more capacity than is necessary for resource adequacy and undermining legitimate state policies promoting renewable resources. NESCOE presented the FERC with an alternative proposal that would provide a narrowly-tailored exemption for renewable resources, which NESCOE believed would achieve the appropriate balance between the FERC's and the states' shared interest in promoting competitive outcomes in the wholesale electricity

markets and supporting state public policies and laws. NESCOE had previously proposed this exemption, unanimously supported by the states, through the NEPOOL stakeholder process over the course of 2012. NESCOE filed its Complaint, the first NESCOE has ever filed, only after exhausting its proposal in the stakeholder process.

FERC Order 1000: Ensuring Appropriate Opportunities for Competition and State Determinations Concerning Implementation of State Policies

In October 2012, ISO-NE and New England TOs filed with the FERC a compliance package in response to Order 1000, which required revisions to the transmission planning process and cost allocation rules. NESCOE submitted comments to the FERC when the rule was issued in proposed form, emphasizing, among other points, that regions should have the flexibility to tailor solutions to regional needs and markets, the existence in New England of abundant renewable resources and close proximity to other zero- and low-carbon resources, and that New England consumers should not be involuntarily assigned any portion of the costs of transmission facilities located in other regions.

Beginning in 2011, NESCOE participated extensively in the NEPOOL process that was established to develop revisions to the transmission planning process and cost allocation structure to comply with Order 1000. NESCOE focused its attention on two critical areas of Order 1000 compliance: (1) how the transmission planning process would consider public policies that may drive transmission and associated in-region cost allocation, and (2) removing from the planning process and cost allocation rules obstacles to competition in transmission development. NESCOE engaged proactively in the Order 1000 stakeholder process, presenting the New England states' unanimous positions on these issues.

In early 2012, following the work of states in achieving a unanimous position, NESCOE presented a draft framework for considering public policies in the transmission planning process and a method for allocating associated costs. The framework set forth a process whereby states assume the central role, with stakeholder input opportunities, in identifying those public policies appropriate to consider in planning and selecting cost-effective solutions that best satisfy their state policy objectives. NESCOE made a number

of refinements to its framework over the course of 2012 in response to feedback from ISO-NE, TOs, and other stakeholders. Despite efforts to reach consensus and agreement in a number of key areas, the changes proposed by ISO-NE and TOs—the entities with compliance obligations under Order 1000—fell short on many elements, including consumer safeguards, required by the states to coalesce around a workable structure. Instead, an alternative NEPOOL-supported public policy framework emerged, incorporating design elements critical to the states, and garnering broad stakeholder support. In December 2012, NESCOE filed with the FERC a Protest to the ISO-NE/TO compliance filing and expressed support for the modifications reflected in the NEPOOL-supported alternative.⁴

NESCOE's Protest also asserted that the ISO-NE/TO filing did not comply with the requirements of Order 1000 to remove barriers to transmission project competition. NESCOE supported the modifications reflected in the NEPOOL-supported proposal, which reasonably balanced reliability concerns with meaningful opportunities for competition for transmission projects, benefitting customers in the form of downward cost pressures due to a new competitive dynamic.

FERC will likely take action on the compliance filing and related protests in 2013. Additionally, Order 1000 requires compliance filings in April 2013 on interregional coordination and related changes required by the Final Rule. NESCOE stands ready to facilitate continued state discussions regarding Order 1000 and to work with ISO-NE, TOs, and other stakeholders on these issues in 2013. Further, Order 1000 is one way, but not the only way, available to states to consider advancing public policies. Irrespective of whether FERC resolves Order 1000 contested issues in a way that the states consider workable, the New England states will move forward to advance state policies by other available means.

Improving Transparency and Clarity in Transmission Planning

In 2012, following discussions between ISO-NE and the states regarding transmission

⁴ Post-compliance, the State of Maine decided not to support the NESCOE position on appropriate means to consider public policy in planning and cost-allocation.

planning issues that arose in common across a number of state siting proceedings, ISO-NE began to develop a preliminary draft Transmission Planning Manual and a related document on planning assumptions. When finalized, the Planning Manual should help to increase transparency about ~ and confidence in ~ aspects of the planning process that are often questioned in both the ISO-NE stakeholder process and in state siting proceedings. These issues relate generally and most frequently to how ISO-NE models transmission system conditions in identifying a system “need.” In this regard, the value of a Transmission Planning Manual is not simply to memorialize current practices, but to have a regional discussion about what are reasonable assumptions and criteria.

In the fall of 2012, NESCOE, state regulators, and some state siting board representatives met with ISO-NE to discuss these and other transmission planning topics, including how the base model is developed and other changes ISO-NE can make to give states and stakeholders greater confidence in the planning process and its outputs. NESCOE understands that ISO-NE plans to circulate the draft Planning Manual to stakeholders in 2013 and looks forward to continuing to work with ISO-NE and others on these planning issues.

NESCOE continued work in 2012 on a separate initiative also intended to provide states’ siting authorities and others with increased confidence associated with planning process outcomes. Beginning in the latter half of 2011, the six New England states expressed their collective view of the value of a so-called “non-transmission alternative” (NTA) analysis earlier in the planning process than occurs today and in a more uniform analysis from TOs across the region than is currently produced. At a high level, an NTA analysis is intended to show information relative to whether there are alternatives to a backstop transmission solution, such as the ability of a market resource (e.g., energy efficiency or new generation) to solve an identified system need. Earlier NTA analysis by the TOs—before the siting phase, which is typically at the end of the planning process—will help ensure there is no bias *in timing* between resource types.

NESCOE developed a draft NTA Framework in May 2012 with state direction on structuring a regional approach to NTA analyses. In October 2012, following consultation and feedback from ISO-NE, TOs, and other NEPOOL stakeholders, NESCOE issued the

final NTA Framework and an associated report. The report provides context for the NTA Framework and a more detailed explanation of the contemplated analysis. To be clear, as stated in the report, the NTA Framework does not prescribe a means to implement alternatives to backstop transmission solutions, interfere with or otherwise interrupt New England's competitive wholesale market, or present or contemplate modifications to cost allocation methodologies. Instead, it is focused on providing states and stakeholders with alternative planning analysis earlier in the transmission planning process and in a more consistent way than occurs today across the region.

Following release of the final NTA Framework, individual New England states began working on implementation, which is expected to continue in 2013. At the same time NESCOE was developing the NTA Framework, ISO-NE introduced a related analytic enhancement to its planning process called Market Resource Alternatives (MRA), which, as part of ISO-NE's Strategic Planning Process, is designed to better align markets and planning. NESCOE will continue to monitor the MRA planning analysis and stands ready to continue facilitating states' activity on the NTA Framework, including any appropriate modifications as both the NTA and MRA analyses are implemented and evolve over time, while avoiding duplicative analysis.

Accounting for Energy Efficiency in Load Forecasting and Planning

NESCOE and the New England states' sustained efforts to obtain from ISO-NE greater integration of energy efficiency (EE) savings in the regional load forecast and system planning achieved results in 2012 when ISO-NE finalized its first ever EE forecast. The forecast reflects projected annual reductions in electric energy use, including peak demand, related to the New England states' investments in EE measures. Specifically, from 2015 through 2021, the forecast estimates that combined spending by the six states on EE programs will be over \$5 billion, resulting in an average annual reduction in electricity consumption for the region as a whole of roughly 1,300 gigawatt-hours. ISO-NE has reported that this is equal to the amount of energy used on average by more than 160,000 homes. Additionally, energy used during peak times is estimated to decrease on average by over 206 megawatts per year over the forecast horizon.

NESCOE greatly appreciates ISO-NE's strong efforts in this important area. Going forward, the forecast should help capture the full value of public dollars committed to state EE programs. Indeed, implementation of the EE forecast has already translated into hundreds of millions of dollars of savings for consumers. When ISO-NE applied its estimate of EE savings to a planning study of the Vermont/New Hampshire area, its analysis showed that a planned transmission solution to a system reliability need was no longer needed during the planning period because of the combination of reduced consumption from EE, new resource additions, and recent equipment upgrades. ISO-NE estimated that elimination of the proposed transmission project would save or at least defer approximately \$260 million in construction costs.

ISO-NE is presently in the process of finalizing its second EE forecast, which covers the years 2016 through 2022. Additionally, ISO-NE continues to apply the current EE forecast to planning studies. These efforts ensure that the load forecast appropriately incorporates the region's significant investment in EE and that transmission planning accounts for the increasing impact of EE savings. In 2013, NESCOE will continue to participate actively in ISO-NE's Energy Efficiency Forecast Working Group and work with states and stakeholders as the second forecast is finalized and implemented. With several years' experience with the EE forecast, 2013 presents an opportunity to consider the reasonableness of ISO-NE's EE forecast assumptions.

Increasing Engagement in North American Electric Reliability Corporation Standard Development

NESCOE participated actively in a number of NERC issues in 2012, both continuing its advocacy on issues carried over from 2011 and weighing in for the first time in other areas. In all instances, NESCOE's actions have been guided by the same core principle important to New England consumers, namely that the development of new reliability standards must consider both system reliability benefits and whether incremental reliability gains justify new costs imposed on electricity consumers. NESCOE's efforts on NERC matters in 2012 were greatly benefitted by its continued collaboration with a NERC Working Group formed by NESCOE in 2011 and comprising experts in New England

state agencies and the New York State Department of Public Service, who share common interests in reliability and consumer costs and who recognize the interregional character of NERC reliability standards. NESCOE also appreciates the close collaboration with ISO-NE and other New England stakeholders in identifying common issues and exchanging viewpoints.

The past year marked the first time that NESCOE submitted comments to the FERC on a NERC-related issue. NESCOE commented on the FERC's Notice of Proposed Rulemaking (NOPR) on the definition of Bulk Electric System and related proposed changes, asserting that NERC should be required as a threshold matter to provide a technical justification for the proposed standard and that the states should be accorded a greater role in the process of submitting exceptions to the definition. NESCOE also commented in general support of a NOPR proposing to accept NERC's changes to transmission system vegetation management, but noted that the FERC's approval of the standard should be conditioned on NERC undertaking a cost-benefit analysis.

NESCOE also submitted comments to NERC on a wide range of matters in 2012, including NERC's proposed Cost Effective Analysis Process and the interpretation of a reliability standard involving the modeling of protection system failures. NESCOE will continue to follow NERC standard development in 2013 and NERC-related issues at the FERC with significant resource adequacy and system planning implications for New England consumers.

FCM Performance Incentives and Penalties and other Strategic Planning Initiative Activities

ISO-NE introduced the SPI in 2010 to evaluate wholesale markets and system planning issues. The SPI's objective, at a high level, is to identify current and emerging risks to the New England power system and markets and to implement integrated solutions at the earliest possible time. The specific challenges identified in the SPI were:

- Resource performance and flexibility
- Increased reliance on natural gas-fired capacity, such as challenges arising from thermal and electric demand pressures on natural gas usage
- Potential retirement of generation units

- Integration of a greater level of variable resources, such as wind power
- Alignment of markets and planning

NESCOE has closely monitored and participated in activities related to the SPI.

ISO-NE took a number of steps in 2012 to advance its proposed short- and long-term solutions to risks identified through the SPI. Most recently, ISO-NE circulated an *FCM Performance Incentives Whitepaper* in October, 2012, that proposes core changes to market rules intended to drive better resource performance and provide market-based incentives to enhance system reliability (e.g., compensation for longer-term fuel agreements, dual-fuel capability). The proposed performance structure also includes provisions that would penalize generation resources with a capacity obligation that fail to provide energy or reserves during certain high-demand times. ISO-NE has stated that the changes would help address multiple strategic risks: resource performance and flexibility, an increased reliance on natural gas-fired generation, and the greater integration of variable resources.

ISO-NE released additional documents over the course of 2012 to further the SPI discussion and provide a context for potential changes ISO-NE may propose through the stakeholder process, including:

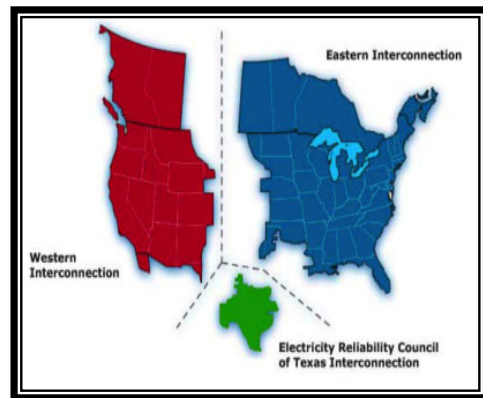
- March 2012 – a *Strategic Planning Roadmap* setting forth the risks identified to system reliability and efficient market operations and outlining potential solutions and a process for stakeholder consideration.
- May 2012 – *Using the Forward Capacity Market to Meet Strategic Challenges*, a white paper providing a high-level proposal for a suite of FCM improvements preceding more detailed papers in 2012 and 2013 on specific categories of changes.
- June 2012 – *Aligning Markets and Planning*, a discussion paper identifying changes to the planning process and the pricing of capacity resources to ensure that generation and other market-based resources are accorded an equal opportunity as transmission solutions to meet a reliability need.
- July 2012 – *Addressing Gas Dependence*, a white paper detailing risks arising from New England’s increasing dependence on natural gas-fired resources and proposing potential solutions to address such risks.

As detailed earlier in this report, NESCOE has initiated its own work in several areas

closely related to the risks identified in the SPI to help inform policymakers' decision-making. Additionally, NESCOE has participated in NEPOOL stakeholder committee discussions on market rules changes that ISO-NE has introduced to begin addressing issues that the SPI has identified. ISO-NE made filings with the FERC in late 2012 seeking authorization for some of these changes, with significantly more filings expected in 2013. NESCOE has and will continue to engage through the NEPOOL process and weigh in at the FERC on market rule modifications.

Eastern Interconnection Planning

In 2012, NESCOE continued to provide technical support to the states regarding the Eastern Interconnection Planning Collaborative (EIPC). Funded by the DOE, the EIPC was formed in 2010 to develop and analyze a range of hypothetical future scenarios for the bulk power system in the eastern interconnection. The eastern interconnection includes 39 states – from the foot of the Rocky Mountains to the Atlantic seaboard and part of Canada. In addition to the states, the EIPC includes system operators such as ISO-NE, utilities, electric generators, and environmental organizations. The goal of the EIPC over the two-year period from 2010-2012 was to develop three transmission build-out scenarios representing a range of hypothetical future conditions.



To provide policy input and the states' collective perspective to the EIPC's work, the DOE also funded the Eastern Interconnection States Planning Council (EISPC), an organization comprising state regulators and representatives of governors' offices across the 39 states. EISPC represents the states on the EIPC. The DOE also funded an Energy Zone Workgroup to identify screening-level criteria and data to allow for regional analysis of siting for renewable, natural gas, clean coal and nuclear generation, transmission and natural gas lines and environmental data. The Energy Zone effort is coordinated through ten state representatives appointed to represent five regions composed of the states in the

Eastern Interconnect.

The New England states, which are individual EISPC members, have worked actively with their colleagues outside the region and with various other sectors comprising the EIPC. Through their participation in EISPC and the EIPC, the New England states have worked to ensure that analyses performed in the EIPC process reflect to the fullest extent the states' implementation of energy and environmental goals and provide objective data to inform future policy decisions.

During 2012, NESCOE offered the New England states technical support in monitoring and analyzing the activities of EIPC's Transmission Options Task Force (TOTF), which developed the transmission build-out scenarios to accompany the resource expansion futures. NESCOE, with the assistance of an engineering consultant, prepared a memorandum to the TOTF highlighting the shortcomings of the TOTF's scope, which influenced the TOTF's final product. NESCOE also monitored and reported back to the states on EIPC's modeling workgroup activities, including providing proposed production cost model inputs and analysis of the ultimate results. NESCOE finally reviewed the draft final EIPC report and monitored the substance of the report from a New England view.

In early 2013, NESCOE will develop a summary of the entire two-year EIPC project from a New England perspective. This report will synthesize the substantial technical data for policymakers and help inform any forward-looking decisions. It will also note the highlights of the Energy Zone effort. NESCOE will also review and provide feedback where appropriate on any studies and whitepapers developed through EISPC and monitor ongoing activities of the Planning Authorities on further studies.

Comparative Assessment of Independent System Operator/Regional Transmission Organization Metrics Report to the FERC

In 2012, NESCOE again evaluated ISO-NE's performance as represented in the second annual *2011 Independent System Operator/Regional Transmission Organization Metrics Report* (RTO Metrics Report) submitted to the FERC. In the report, the RTOs submitted performance data on an RTO-by-RTO basis without a comparative evaluation of any of the metrics across RTOs. NESCOE agrees that there are differences in scale, scope and market

structures that make comparative data difficult to assess. Nevertheless, some comparative assessments can help illuminate RTO best practices and areas where New England may require focus, such as interconnection queue timing and costs. In early 2013, NESCOE will evaluate comparative data in the 2012 RTO Metrics Report.

Smart Grid

Decisions about electric system planning and the adequacy of the New England's power resources - and the overall costs customers incur to ensure resource adequacy - may be directly influenced by whether and the extent to which customers shift their power use from peak periods to off-peak periods. Smart grid technologies are one means to enable customers to do so. Accordingly, NESCOE reviewed smart grid decisions by New England regulatory authorities and experiences in some other states to share information primarily about customer-related issues that may arise if states elect to pursue smart grid technology deployment. NESCOE prepared a paper to briefly review smart grid legislation and policy in New England and summarize smart grid funding made available to New England states by the DOE. The paper also provided information about: 1) educating consumers about smart grid; 2) experience with technology opt-out provisions; and, 3) program evaluation metrics based on experience in other jurisdictions. The paper shared early state experience as New England states examine whether to implement smart grid programs or, in states where such programs are underway, whether and how to modify them over time.

Congestion Study

Every three years, the DOE is required to conduct a congestion study on electric transmission congestion and constraints within the Eastern and Western Interconnections. The last study, from 2009, also included an analysis of areas with significant renewable resource potential but that are constrained because of insufficient transmission infrastructure. The Secretary of the DOE has the authority to designate an area experiencing energy transmission constraints or congestion that adversely affects consumers as a "national interest electric transmission corridor," which is a prerequisite to the FERC exercising so-called "backstop siting authority" over electric transmission facilities.

DOE issued for comment in early 2012 its preliminary findings made in connection with developing the latest study. The findings suggest that DOE may view generation interconnection queues as an indicator of the need to build transmission for renewables, an area that would be of particular interest to New England. NESCOE submitted comments to DOE confirming that congestion in New England is nearly non-existent. NESCOE also advised DOE of the New England states' efforts to develop their renewable resources and serve customers most cost effectively. NESCOE continues to monitor DOE's approach and the study's progress and will prepare comments as appropriate on the draft Congestion Study when DOE releases it at some point in 2013.

Presentations

NESCOE made a number of presentations in 2012 in response to requests from various Northeast and North American organizations. NESCOE appreciates the opportunity to share information about current issues and to receive feedback.

A representative sample of 2012 presentations includes:

- The NEGC and Eastern Canadian Premiers' "Energy Dialogue" on FERC Order 1000 and Coordinated Renewable Power Procurement
- The New England Governors on Renewable Power Supply Curve Analysis
- FERC/NARUC "Emerging Issues" Collaborative on Non-Transmission Alternative Analysis
- The New England Clean Energy Transmission Summit

SECTION V: PRIORITIES FOR 2013 AND 2014

NESCOE carries into 2013 several priority projects that require significant attention. With direction from Managers, NESCOE will also continue to identify areas for proactive engagement related to resource adequacy and system planning and expansion. Going forward, NESCOE will increasingly conduct independent technical analyses to inform policymakers' decisions.

Consistent its activities in past years, NESCOE looks forward to participating actively in NEPOOL stakeholder meetings, exchanging ideas with ISO-NE and market participants, and representing New England states at the FERC and, where appropriate, before other federal agencies.

In addition to addressing new issues that will inevitably emerge that require NESCOE's attention, NESCOE anticipates undertaking work in the following areas in 2013 and 2014:

- **Transmission Planning Priorities:** Review and provide input on *ISO-NE's plans and planning processes*, including but not limited to Regional System Plans, forecasting, and certain needs assessments and solution studies; provide feedback on iterations of ISO-NE's draft Transmission Planning Manual and related documents on planning assumptions, which will include an examination of what are reasonable planning assumptions and inputs and the base case; and support state efforts to explore with ISO-NE and market participants whether to incorporate probabilistic analysis into the regional planning process.

- **Coordinated Procurement:** Pursuant to direction from the New England Governors and in accordance with the Coordinated Competitive Renewable Power Procurement Work Plan, continue efforts to achieve the goal of issuing a *regionally coordinated request for proposals* by December 2013 to facilitate development of renewable resources in and around the region,

which would take advantage of economies of scale to the potential benefit of consumers across the region, and provide individual states the opportunity to consider projects that may advance their energy and environmental objectives at the lowest all-in delivered cost to consumers.

- **Facilitating Transmission Siting:** To the extent transmission project developers propose interstate transmission projects that would advance state policies and consumer interests and benefit from coordinated approaches to state siting within existing law, work with state siting representatives within the *Interstate Transmission Siting Collaborative* and TOs to implement such coordination.

- **NESCOE Gas Supply and Demand Study:** Provide policymakers with independent analyses of the costs and benefits of potential solutions to the identified power system operational and reliability risks related to New England's *growing dependence on natural gas* as the fuel source for New England's electric generation fleet; participate in discussions with regional stakeholders and ISO-NE about proposed electric market-based solutions to increased gas dependency and seek to ensure that any solution has costs that reasonably reflect the risks and assure that the region does not emphasize solutions in one industry if solutions in another may be achieved at a lower cost to consumers.

- **Accommodating State Policies:** Consider the FERC's response to NESCOE's petition for a narrowly tailored *renewable energy exemption* to ISO-NE's proposed FCM rules for renewable energy resources; as needed, continue to advocate in various forums for reasonable and necessary accommodations in the regional electricity market of state policies reflected in state laws.

- **Reliability Over the Long-Term:** As ISO-NE's *Strategic Planning Initiative* translates into proposed changes to the FCM and other rules in 2013 and beyond, work with stakeholders and ISO-NE to ensure that any such modifications provide consumers with reliable service at the lowest possible cost over the long-term while maintaining environmental quality. Additionally, to inform policy-makers' consideration of solutions in connection with the SPI, provide state policymakers with analyses where appropriate to confirm the nature of identified risks, and to understand the range of potential cost-effective solutions, including whether the costs of proposed solutions have a reasonable relationship to asserted risks.

- **FERC Directed Changes to Regional Planning:** Work toward a state consensus position on the FERC's anticipated order related to New England's *Order 1000* compliance filings; ensure—by whatever means—that any regional planning process through which state laws or policies are considered and potentially advanced provides the appropriate decisional role for state policymakers to implement state laws; and participate with ISO-NE and stakeholders in developing tariff provisions associated with Order 1000's requirements concerning interregional coordination, including continued advocacy for New England consumers' economic interests.

- **Considering Alternatives to Meet Identified Needs:** Continue to support states' efforts to implement NESCOE's regional *NTA Framework* and work with ISO-NE on its Market Resource Analysis, with the goal of obtaining analysis early in the regional planning process of market resources that could meet identified reliability needs and making appropriate market design enhancements to ensure sufficient opportunities for resources to compete with backstop transmission solutions.

- **U.S DOE Activity:** Ensure that the *U.S. DOE's 2012 Congestion Study* accurately reflects the fact that congestion in New England is essentially non-existent; to the extent the U.S DOE's approach to the Congestion Study has any bearing on state determinations about whether and how states implement state statutory objectives, ensure that the U.S. DOE understands the New England states' work and status in this regard as well as the appropriate decisional role for states in connection with implementation of state laws and policies.

- **Eastern Interconnection Planning:** To memorialize the recently concluded complex and lengthy *EIPC* process, summarize the project from a New England perspective, including those procedural and substantive decision points that had significant implications for the region and that could arise in future inter-regional transmission expansion studies; monitor and closely analyze any going-forward interconnection-wide study activities to ensure that New England ratepayers' interests are appropriately represented and that system planning determinations that have economic implications for New England ratepayers remain a function of regional decision-making; and work to ensure that any ratepayer-supported interconnection-wide studies provide value to ratepayers.

- **NERC Liaison:** Continue to track and comment on *NERC* proposals with potentially significant cost implications for New England electricity consumers, ensuring that, while reliability is always a top priority, reliability standard development and other NERC activities consider the costs relative to potential incremental reliability gains and take regional differences into account.

- **Cost Tracking and Containment:** Consistent with requests to ISO-NE in prior years to gather and report transmission project costs in a way that enables costs to be tracked accurately over time as a project moves from a proposal to operation, continue tracking *transmission project costs*, monitoring cost overruns, and recommending changes to ISO-NE, as appropriate, to facilitate the ability to track and review project costs. To the extent improved project cost reporting and tracking reveals cost overruns, which, among other issues, suggest alternative means would have been a better choice for consumers to satisfy the identified need, work with ISO-NE and transmission companies to develop a means to improve cost estimating and/or mitigate cost escalations.

- **Energy Efficiency in Planning:** Support the development and implementation of ISO-NE's *2013 Energy Efficiency Forecast* to ensure that New England's transmission planning process continues to accurately reflect consumers' significant investments in EE resources and the resulting reduction to the region's energy use; with two years' experience with ISO-NE's EE forecast assumptions, consider whether forward-looking adjustments make sense.

- **Accounting for All Resources:** To ensure that consumers receive the full benefit of state policies and ratepayer investments in all forms of power generation technologies, work with ISO-NE and stakeholders to appropriately capture in the load forecast and transmission planning process the increased penetration of solar energy and other *distributed generation resources*.

- **Interconnecting Resources Efficiently:** Continue to monitor the operation of ISO-NE's *generation interconnection queue* including the time and costs to move proposed projects through the queue in absolute terms and in relation to other Regional Transmission Organizations; if appropriate and

helpful to facilitate future coordinated procurement of renewable resources, work with ISO-NE and stakeholders to implement the cluster interconnection provision in ISO-NE's tariff.

- Review and provide input on ISO-NE's *Installed Capacity Requirements* value recommendations and associated issues.
- **2012 RTO Metrics Report:** Assess ISO-NE's performance and data relative to other Regional Transmission Organizations as represented in the annual Independent System Operator/Regional Transmission Organizations' Metrics Report provided to the FERC.
- **ISO Major Initiatives Assessment:** Assess ISO-NE's approach to determining which major initiatives that will affect the bulk power system – and consumers – merit *quantitative and qualitative analysis* and the associated analysis ISO-NE provides to states and market participants, with a focus on ensuring the consumer cost implications of proposed initiatives, and alternatives as appropriate, are understood and considered in decision-making.
- **Coordination with Regional Organizations:** Continue NESCOE's close collaboration and partnership with NECPUC, as well as other state agencies and organizations, on important regional and federal issues affecting resource adequacy and system planning and expansion to ensure consistency of views and to avoid the potential for duplication of efforts.

VI. 2012 EXPENDITURES

NESCOE operations are funded by a FERC-approved charge collected through ISO-NE's tariff. In 2012, NESCOE's spending increased over that in 2011 commensurate with its increasing substantive activity. An independent audit of NESCOE's books, as a subsidiary of the New England Governors' Conference, Inc., for the year-end June 30, 2012, was completed and presented to the Board of Directors of the New England Governors' Conference and to NESCOE Managers. The independent auditor opined that the organization's books conform to generally accepted accounting principles and issued an unqualified opinion letter. In January 2013, NESCOE will have fully executed prior auditor recommendations to have legal status independent of the NEGC.

A 2012 Statement of Spending is at page 41.

VII. BUDGETS 2013, 2014

NESCOE's 2013 budget, which is within the current five-year pro-forma previously approved by NEPOOL and accepted by the FERC, was presented to and affirmed by NEPOOL in October 2012. NESCOE then submitted the 2013 budget to the FERC, which the FERC accepted in December 2012.

The 2013 and preliminary 2014 budgets are at page 42.

NESCOE
Statement of Spending
Calendar Year 2012

Expense

Direct Expenses, Consulting	
Legal (FERC) Services	84,484.86
Technical Consulting	<u>209,934.15</u>
Total Direct Expenses, Consulting	294,419.01
Employment and Benefits	
Vacation (accrued)	29,269.23
Disability	4,374.79
Life Insurance	1,069.96
Employee Health Insurance	62,389.99
Payroll Taxes	49,087.27
Salaries and Wages	<u>690,149.99</u>
Total Employment and Benefits	836,341.23
General and Administrative	
Insurance	3,631.26
Employee Training	338.00
Dues and Subscriptions	3,095.07
Filing Fees	520.00
Office Expenses	2,865.39
On Line Computer Services	1,487.60
Postage and Delivery	152.53
Printing and Copying	216.42
Professional Services	74,928.24
Rent, Parking, Utilities	16,555.36
Telephone, Telecommunications	13,095.35
Travel and Meetings	<u>45,557.56</u>
Total General and Administrative	162,442.78
Capital Expenditures	
Computer Purchases	<u>4,598.87</u>
Total Capital Expenditures	4,598.87
Total Expenses	<u>1,297,801.89</u>

**NESCOE Pro Forma Budget
2013 and 2014**

	2013	2014
Salaries and Wages		
Salaries	845,000	886,500
Payroll Taxes	84,500	88,650
Health and Other Benefits	177,450	186,165
Retirement §401(k)	25,350	26,595
	<u>1,132,300</u>	<u>1,187,910</u>
Total, Salaries and Wages		
Direct Expenses - Consulting		
Technical Analysis	460,000	460,000
Legal (FERC)	125,000	125,000
	<u>585,000</u>	<u>585,000</u>
Total, Direct Expenses, Consulting		
General and Administrative		
Rent	17,500	18,025
Utilities	4,000	4,120
Office and Administrative Expenses	25,000	25,500
Professional Services	71,000	71,500
Travel and Lodging	75,000	75,000
	<u>192,500</u>	<u>194,145</u>
Total General and Administrative		
Capital Expend. & Contingencies		
Computer Equipment	5,000	5,150
Contingencies	191,480	197,221
	<u>196,480</u>	<u>202,371</u>
Capital Expend. & Contingencies		
TOTAL EXPENSES	<u><u>2,106,280</u></u>	<u><u>2,169,426</u></u>
BUDGET	2,120,800	2,184,424