

New England States Committee on Electricity

Annual Report to the New England Governors | 2009

The New England States Committee on Electricity, or NESCOE, is New England's Regional State Committee. NESCOE represents the collective interests of the six New England states on electricity matters by advancing policies that will provide electricity at the lowest possible price over the long term, while maintaining reliable electric service and environmental quality.

SUMMARY

In 2009, NESCOE's focused its substantive attention on issues associated with system planning and expansion and resource adequacy. Within those broad subject matters, the New England Governors' interest in developing low carbon, cost-effective and secure energy resources in and proximate to the region directed NESCOE's priorities.

Administratively, NESCOE began the process of implementing organizational practices and procedures. While work remains to be done to achieve fully developed financial and employee policies and practices, NESCOE took important steps toward that end.

Throughout 2009, NESCOE began the process of establishing constructive working relationships with other regional entities, including ISO New England, Inc. (ISO-NE), the New England Power Pool (NEPOOL), the New England Conference of Public Utility Commissioners (NECPUC) and the New England Governors' Conference (NEGC). In NESCOE's view, NECPUC and the NEGC's early efforts to engage in regular dialogue, both structured and informal, about regional matters were helpful to setting the foundation for ongoing coordination, as appropriate, and to making the most efficient use of resources.

Throughout 2009, a NESCOE representative also attended various NEPOOL and regional stakeholder meetings. These included: Participants Committee meetings; Planning Advisory Committee meetings; Reliability Committee meetings; Power Supply Planning Committee meetings; ISO-NE Responsiveness Work Group meetings; and, from time to time, other committee meetings. NESCOE also attended NEPOOL's Winter and Summer meetings. As NESCOE increases its staff and technical capacity in the year ahead, its attendance and activity at stakeholder meetings will increase correspondingly. NESCOE is appreciative of the time and effort by ISO-NE and NEPOOL, both organizationally and by its individual members, to facilitate NESCOE's integration into the region's stakeholder processes.

In the sections that follow, NESCOE describes its current management and priorities in 2009, including substantive focus areas, organizational progress and

interactions with other entities. NESCOE also sets forth below anticipated priorities over the next two years and budget information.

SECTION I: NESCOE GOVERNANCE

NESCOE is directed by Managers who represent the six New England states. Each NESCOE Manager is appointed by their respective Governor. Regardless of the number of individuals each Governor appoints to be NESCOE Managers, each New England state has one undivided vote in arriving at NESCOE determinations. 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.

NESCOE's day to day operations are overseen by NESCOE's President, Thomas Getz. NESCOE's other officers are Vice President David O'Brien and Treasurer Elia Germani. NESCOE Managers generally conduct business by regular monthly and other periodic conference calls and/or meetings.

In addition, from time to time, Governors assign other representatives from their states to work with NESCOE on specific issues.

The current NESCOE Managers are as follows¹:

State of Connecticut

Kevin M. DelGobbo, Chairman, Department of Public Utility Control

John A. Mengacci, Undersecretary, Connecticut Office of Policy and Management

State of Maine

Sharon M. Reishus, Chairman, Public Utilities Commission

¹ Earlier in 2009, Donald Downes, previously Chairman of Connecticut's Department of Public Utility Control and Amy Ignatius, previously Director, New Hampshire Office of Energy Planning, were NESCOE Managers.

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Commonwealth of Massachusetts

Paul J. Hibbard, Chairman, Department of Public Utilities

State of New Hampshire

Thomas B. Getz, Chairman, Public Utilities Commission (*NESCOE President*)

State of Rhode Island

Elia Germani, Chairman, Public Utilities Commission (*NESCOE Treasurer*)

State of Vermont

David O'Brien, Commissioner, Public Service Commission (*NESCOE Vice President*)

NESCOE's Executive Director, Heather Hunt, assumed her position in January 2009. NESCOE is in the process of hiring additional staff members. In the latter part of 2009, NESCOE retained a consultant to provide analytic support on resource adequacy as well as a consultant to provide general assistance to NESCOE on an interim and limited basis while NESCOE continues its efforts to build the organization. NESCOE has technical assistance in the area of system planning as of January, 2010.

SECTION II: 2009 PRIORITIES

Consistent with NESCOE's mission, NESCOE concentrated its substantive work in 2009 on issues associated with system planning and expansion and resource adequacy. It placed particular emphasis on renewable resource development and associated transmission system expansion.

System Planning and Expansion & the New England Governors' Renewable Energy Blueprint

In early 2009, the Governors of the six New England states articulated a shared vision of meeting New England consumers' electricity needs with low carbon, cost-effective and secure power. That common goal focused NESCOE's 2009 substantive efforts.

To inform the Governors and other policy-makers about the most sensible way forward to achieving their shared goal, NESCOE requested ISO-NE to conduct Economic Studies pursuant to Attachment K of its Open Access Transmission Tariff, and presented this request to the Planning Advisory Committee (PAC). The studies are referred to as Renewable Development Scenario Analysis (RDSA). The New England states, with technical support from ISO-NE, developed the key assumptions for the RDSA. The RDSA's assumptions were reviewed by the PAC.

In broad terms, the purpose of the RDSA was to inform the Governors' and other policy makers' consideration of complex issues associated with developing the significant sources of renewable energy available in and proximate to New England, the means to integrate them into the region's power grid and estimated costs.

The RDSA provided technical, economic and environmental data in connection with large-scale integration of wind resources in the year 2030. More specifically, it was designed to produce information associated with multiple wind development scenarios, from 2,000 MW to 12,000 MW of new on-shore and off-shore wind resources, and the conceptual transmission required to integrate it.

It is important to understand what the RDSA was not designed to do. First, because the study looks out to a single year in the 2030 timeframe, it was not intended to identify precise supply and demand levels. Second, through the RDSA, the New England states do not identify preferred locations for resource development or preferred transmission pathways. Current market mechanisms and specific proposals by entities in the market will identify what resources ought to be built where, by whom, and the appropriate transmission pathways to deliver power to New England load centers. Similarly, by requesting the RDSA, the states did not seek to identify the kind of resources best suited to meet consumer needs in the year 2030, or to achieve various state and federal policy objectives. The study is in the nature of a "what if" scenario analysis intended to identify power system integration issues, but is not meant to discount the value of other New England low carbon resources that will contribute to New England's energy and environmental future, or to diminish the strong interest of all states in increasing efficiency and reducing demand.

With the RDSA as a technical foundation, NESCOE, in coordination with the NEGC, developed the New England Governors' Renewable Energy Blueprint (Blueprint). In July 2009, after ISO-NE made the preliminary RDSA results available to the states and the PAC, the states issued a Status Report on the Blueprint's development, which included some initial observations on the preliminary results of the RDSA.

In September 2009, NESCOE presented the Blueprint at the Annual Conference of New England Governors and Eastern Canadian Premiers. The New England Governors adopted the Blueprint at that time. In addition to assessing the RDSA from the states' policy perspective, the Blueprint examined practical means to facilitate the commercial development of renewable resources to meet our future energy needs. This included an assessment of potential opportunities, within current law, for the states to coordinate their processes in connection with siting interstate transmission facilities and an examination of procurement and contract opportunities available under current law that could help provide revenue certainty to cost-competitive renewable projects that emerge in the market. The states will continue work on siting and contracting opportunities in the year ahead. In late 2009, New England formed a state Renewable Procurement Work Group to work with NESCOE and the NEGC on means to coordinate or synchronize procurement of renewable power.

In the area of system planning, NESCOE participated in PAC meetings and provided comment on ISO-NE's Draft 2009 Regional System Plan. In addition, NESCOE presented at ISO-NE's Regional System Plan Annual Meeting and identified areas where it believes future Regional System Plans would benefit from a sharpened focus.

In the year ahead, NESCOE will continue to work on system planning and expansion issues, including but not limited to ISO-NE's Regional System Plan and the New England Governors' interest in increasing New England's development of and access to low carbon, cost-effective, secure power.

Cost Estimation and Control Work Group

In 2009, ISO-NE, Transmission Owners and the New England states formed a Cost Estimation and Control Work Group (Work Group) to address common concerns about the accuracy of transmission cost estimates throughout the region, the escalating

costs of individual transmission projects and corresponding customer rate impacts. Through the Work Group, the three entities began a process of working collaboratively on issues that present opportunity for more accurate cost estimates and for increased cost control.

The Work Group's initial effort focused on New England Transmission Owners' cost estimating practices, as well as means to increase project cost transparency and reporting. The purpose was to move toward a standard approach across the region to cost estimating; to use common cost engineering terms and definitions; and, to establish consistent reporting of cost estimates throughout transmission projects' lifecycles. An initial work product developed by the Transmission Owners in consultation with the states and ISO-NE, called the *Cost Estimating Guidelines*, was submitted for review and input by stakeholders through the PAC and NEPOOL's Reliability Committee. The *Cost Estimating Guidelines* are an attachment to Planning Procedure 4, Procedure for Pool Supported PTF Cost Review. Further work will continue on the development of a cost estimation committee to serve as a forum for Transmission Owners to share experiences and best practices, which should advance consumer interests.

In the year ahead, the Work Group, and other stakeholders as appropriate will discuss other issues that present transmission project cost control opportunities. Any proposals that ensue will be considered by the PAC and appropriate NEPOOL committee(s).

Eastern Interconnection Planning

In 2009, the United States Department of Energy (DOE) stated that national goals relating to clean electricity cannot be achieved without an adequate electricity delivery system and that robust transmission and distribution networks are essential to enable the development, integration, and delivery of new renewable and other low-carbon resources. The national interest in delivering low carbon resources to consumers correspond in large measure to the New England Governors' goals, discussed above.

Accordingly, the DOE indicates that as a matter of national interest the United States needs to develop, in each of the three interconnections, robust high voltage transmission networks. The lower 48 United States is served by three interconnections:

the Western Interconnection, which covers most of Western North America; the Eastern Interconnection, which includes New England and covers most of Eastern North America, extending from the foot of the Rocky Mountains to the Atlantic seaboard; and, the Texas Interconnection. According to DOE, in the Eastern U.S., new interconnection-level entities should be established to facilitate this coordination, perform needed analyses, and develop interconnection-level plans.

To facilitate such coordinated planning, the DOE is funding the development of long-term interconnection plans in each region of the country. The planning will include dialogue and collaboration among states within each interconnection on how best to meet the area's long-term electricity supply needs. The objective, as defined by the DOE, is: 1) to facilitate the development or strengthen the capabilities in each of the three interconnections serving the lower 48 states; 2) to prepare analyses of transmission requirements under a broad range of alternative futures; and, 3) to develop long-term interconnection-wide transmission expansion plans.

Eastern Interconnection Planning is important to the region and relevant to the goal of serving customers with secure, low-carbon and cost-effective resources. In mid-2009, representatives of NESCOE began participating in discussions with various regional state organizations in the Eastern Interconnection about how to ensure state representation in interconnection wide planning efforts, as required by the American Recovery and Reinvestment Act of 2009 (ARRA).

In December, 2009, DOE awarded ARRA funding to support transmission planning for the country's three interconnection transmission networks. This included funding for the Eastern Interconnection Planning Collaborative, which will support transmission planners' work with stakeholder organizations, and for the Eastern Interconnection States' Planning Council, which will facilitate state coordination across the eastern interconnection. In the coming year, representatives of NESCOE will participate in these processes to ensure New England's interests are considered in the national discussions. A priority for NESCOE within this effort will be to contribute technical analysis and to proactively communicate New England's planning priorities and resource preferences in the context of this national planning dialogue.

Installed Capacity Requirements

In connection with ISO-NE's commitment to file changes related to Installed Capacity Requirements (ICR) with the Federal Energy Regulatory Commission in February 2010, NESCOE is participating in the regional stakeholder process on ICR-related issues such as tie benefits, local sourcing requirements and reliability reviews. As this and related stakeholder processes moves forward, NESCOE will continue to express a regional point of view on ICR-related issues and associated market rule changes. NESCOE will also participate in related FERC proceedings as necessary.

SECTION III: ORGANIZATIONAL DEVELOPMENT

NESCOE began implementing appropriate business practices and structures in 2009. For example, NESCOE put into place an accounting and payroll system well-suited to both current and future needs. It adopted interim draft policies on basic matters such as check signing authority and a prohibition on the receipt of gifts. These business practice and employee policies will be revised and expanded as the organization grows. NESCOE also established a basic web presence to provide information about its activities. As NESCOE expands, NESCOE will continue to develop business practices and employee policies commensurate with its size and operations.

As noted above, in the latter part of 2009, NESCOE retained a technical consultant to provide analysis on resource adequacy and a consultant to assist the Executive Director on a short-term and limited basis as NESCOE continues efforts to build the organization. NESCOE has technical assistance in the area of system planning as of January, 2010.

SECTION IV. COORDINATION WITH REGIONAL STATE ENTITIES

In 2009, NESCOE, NECPUC and the NEGEC established cooperative and communicative working relationships. NESCOE participated in NECPUC's regularly scheduled conference calls including NECPUC's staff conference calls; NECPUC's calls with ISO-NE staff; and, NECPUC's calls with the Federal Energy Regulatory Commission staff. NESCOE was also welcomed at several events in 2009 with

NECPUC Commissioners and representatives of ISO-NE's Board of Directors and attended NECPUC's Annual Symposium.

As important as those scheduled interactions were throughout 2009, NECPUC, NEGC and NESCOE staff also communicated informally on a regular basis about subject matters under discussion by each entity.

Both NECPUC and the NEGC dedicated time and effort to establishing strong communication patterns from the outset of NESCOE's operations. In NESCOE's view, these efforts will serve the region and consumers well going forward by enabling the most efficient use of resources and mutual awareness of issues and positions. Regular interaction with NECPUC and the NEGC, both scheduled and informal, will remain a NESCOE priority.

SECTION V: PROSPECTIVE POLICY PRIORITIES

Looking ahead to 2010 and 2011, NESCOE will focus on issues related to system planning and expansion and resource adequacy.

Consistent with its initial work in 2009, NESCOE will be responsive to the New England Governors' interest in developing cost-effective, low carbon and secure energy. This may include further examination of technical analysis and continuing work on the practical means to help bring proposed projects that would achieve that end to completion as expeditiously as possible. As noted in the context of the Blueprint, NESCOE began examining potential ways to coordinate state processes for siting interstate transmission infrastructure. It also assessed potential opportunities to synchronize procurement and contracting across the New England states, which could provide long-term revenue streams to facilitate project development. Given the complexity of these subject matters, and their importance to project development in and around New England, NESCOE will continue to work on these issues in coordination with the NEGC, the states' Renewable Procurement Work Group, and stakeholders as appropriate.

Also, during the next two years NESCOE will participate in Eastern Interconnection Planning. This national planning dialogue is important to the nation, to the region and our consumers. Some of the work done in 2009 in New England, including the RDSA and the Governors' Regional Renewable Energy Blueprint, provides relevant

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and helpful information as New England begins to participate in this national planning process. NESCOE will work to see that state policies common throughout New England are central in the planning discussions and that New England's specific interest in developing cost-effective, low carbon, secure resources in and proximate to the region are considered in the process.

NESCOE will continue to explore transmission facility cost control opportunities through the Work Group and/or through other forums as appropriate. NESCOE will also offer a regional point of view on ISO-NE's ICR determinations and contribute a regional perspective and technical analysis to regional system planning, including but not limited to ISO-NE's development of the Regional System Plan.

2009 SPENDING & 2010 and 2011 BUDGETS

NESCOE provides herewith an accounting of spending for the calendar year 2009 and its budget for the upcoming two years. The Federal Energy Regulatory Commission has approved the rate to fund NESCOE's 2010 budget.

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NESCOE, LLC.
Expense Report
Calendar 2009

	<u>Jan - Dec 09</u>
Expense	
Employment and Benefits	
Payroll Taxes	10,643.15
Salaries and Wages	175,000.00
Total Employment and Benefits	<u>185,643.15</u>
Direct Expenses, Consulting	
Legal (FERC) Expenses	-
Technical Consulting	73,462.24
Total Direct Expenses, Consulting	<u>73,462.24</u>
General and Administrative	
Internet and Web Maintenance	712.20
Postage and Delivery	63.54
Professional Services	
Auditing Fees	9,750.00
Accounting Fees	5,975.00
Legal Fees	11,749.40
Payroll Service Charges	995.10
Total Professional Services	<u>28,469.50</u>
Telephone, Telecommunications	247.22
Travel and Meetings	
Conference, Convention, Meeting	1,026.82
Meals	119.76
Travel	13,111.09
Total Travel and Meetings	<u>14,257.67</u>
Total General and Administrative	<u>43,750.13</u>
Total Expense	<u><u>302,855.52</u></u>

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**NESCOE
2010 and 2011 Budgets**

	2010	2011
Salaries and Wages		
Salaries	600,000	750,000
Payroll Taxes	60,000	75,000
Health and Other Benefits	210,000	262,500
Retirement §401(k)	18,000	22,500
	<u>888,000</u>	<u>1,110,000</u>
Total, Salaries and Wages	888,000	1,110,000
Direct Expenses - Consulting		
Technical Analysis	400,000	400,000
Legal (FERC)	50,000	50,000
	<u>450,000</u>	<u>450,000</u>
Total, Direct Expenses, Consulting	450,000	450,000
General and Administrative		
Occupancy	35,000	35,000
Equipment Leasing	24,000	24,000
Professional Services		
Legal	20,000	17,500
Accounting	15,000	15,000
Payroll Service Provider	3,000	4,500
Other	5,000	5,000
Audit	20,000	20,000
Computer Maintenance	6,000	6,000
Travel and Lodging	60,000	72,000
	<u>188,000</u>	<u>199,000</u>
Total General and Administrative	188,000	199,000
Capital Expend. & Contingencies		
Computer Equipment, etc.	20,000	10,000
Server and Secure Network	6,000	-
	<u>180,000</u>	<u>200,000</u>
Contingencies	180,000	200,000
	<u>206,000</u>	<u>210,000</u>
Capital Expend. & Contingencies	206,000	210,000
TOTAL EXPENSES	<u>1,732,000</u>	<u>1,969,000</u>