

New England States Committee on Electricity



2013 Annual Report to the New England Governors

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Message from the President



Since the formation of NESCOE in 2006, the 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 has a staff of 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, in regional discussions on procurement of natural gas capacity and clean energy-related infrastructure, and in other efforts regarding coordinated power procurement and transmission siting collaboration.

In my three-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, the volatility of energy prices persists, the region's dependence on natural gas increases, and the imperative to address climate change becomes increasingly urgent. 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

Ann G. Berwick
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.

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.

**With limited exceptions,
NESCOE determinations have
been unanimous, reflecting the
New England states' efforts to
achieve consensus on matters of
regional electricity policy.**

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.

2013 NESCOE MANAGERS

STATE OF CONNECTICUT

Katie Scharf Dykes

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 (NESCOE Treasurer)



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 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. Harrington
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 (FERC). 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 ended in 2013.

Robert Scott¹
Commissioner, Public Utilities Commission



Commissioner Scott was appointed Commissioner of the New Hampshire Public Utilities Commission in March 2012. He previously served with New Hampshire Department of Environmental Services as Air Resources Director (2003-2012) and in various positions with the Department of Environmental Services prior to that. He worked as an engineer in private industry from 1990 to 1995 and as a

Munitions and Aircraft Maintenance officer in the active duty US Air Force from 1986 to 1990. Commissioner Scott serves on the Regional Greenhouse Gas Initiative, Inc. (RGGI) Board of Directors, Co-Chairs the Northeast Energy Efficiency Partnerships Evaluation, Measurement and Verification Forum Steering

¹ Commissioner Scott was named a NESCOE Manager in September 2013 and served concurrently with Commissioner Harrington.

Committee, and Co-Chairs the New England Conference of Public Utilities Commissioners (NECPUC) subcommittee on cyber security. He is currently commander of the 265th Combat Communications Squadron of Maine Air National Guard. Commissioner Scott holds a B.S. in Mechanical Engineering from Lehigh University.

STATE OF RHODE ISLAND

Elia Germani

Chairman, Public Utilities Commission



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 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.

Margaret Curran³

Chairperson, Public Utilities Commission



Margaret Ellen (Meg) Curran was appointed to Chair the Commission by Governor Lincoln Chafee in June 2013. Ms. Curran had served as United States Attorney (District of Rhode Island) from 1998 to 2003, previously serving as Assistant US Attorney. She was most recently a member of the Rhode Island Parole Board, and is currently Chair of the Rhode Island health benefits exchange Advisory Board (HealthSource RI).

Chairperson Curran has a B.A. in Biology from the University of Pennsylvania and an M.S. in Anthropology from Purdue University. Ms. Curran received her J.D., with high honors, from the University of

² Chairman Germani served as NESCOE Manager during the first half of 2013.

³ Chairperson Curran was named NESCOE Manager in August 2013.

Connecticut School of Law. She was Editor-in-Chief of the Connecticut Law Review. After graduation, she clerked for the Honorable Bruce M. Selya in the United States District Court for the District of Rhode Island. She subsequently clerked for the Honorable Thomas J. Meskill, who was then on the Court of Appeals for the Second Circuit. She has also been in private practice and served as Adjunct Professor of Law at the Roger Williams University School of Law, which would later award her an Honorary Doctor of Laws degree in 2003. In 2004, she received the John H. Chafee Memorial History Maker Award for Service.

Ms. Curran is a member of the American Law Institute and an advisor on the Model Penal Code: Sentencing Project. She is a member of the First Circuit Court of Appeals Rules Advisory Committee. She also belongs to the National Association of Former United States Attorneys and Bat Conservation International. Since 2008, Ms. Curran has also been a member of the Board of Directors of the Institute for the Study & Practice of Nonviolence.

STATE OF VERMONT

Christopher Recchia

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.

SECTION II: STAFF & CONSULTANTS

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 FERC. 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 a 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 Marshall 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 FERC and in the regional stakeholder process. Before that, Jason was Legal Counsel to a Massachusetts State Senator. Earlier, Jason was an associate at the law firm 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



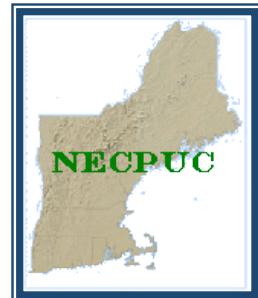
Allison Smith joined NESCOE in 2010 as an Analyst. Previously, Allison was with Anbaric Transmission as a Development Associate. Before that she was with Synapse Energy Economics as a Research Associate. Allison has a Bachelor of Arts in Environmental Studies from Dartmouth College and a Master of Studies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

NESCOE retains consultants to provide technical analysis in the areas of system planning and expansion and resource adequacy. NESCOE also retains consultants to conduct specific analysis to inform policymakers' consideration of current issues. In 2013, NESCOE worked with consultants such as **Black & Veatch** and **Wilson Energy Economics**.

While NESCOE does not use litigation as a primary means to accomplish its objectives, when it required outside counsel, NESCOE worked primarily with **Miller, Balis & O'Neil, P.C.**, now **McCarter & English**, in Washington D.C.

SECTION III: COORDINATION WITH REGIONAL STATE ENTITIES

NESCOE works to ensure coordination and communication by and among state entities in the New England region. Throughout 2013, NESCOE continued to work closely with NECPUC, including participating in regular internal NECPUC conference calls, NECPUC's monthly conference calls with ISO New England Inc. (ISO-NE) staff, and its conference calls with FERC staff. NESCOE also participated in several meetings in 2013 with NECPUC Commissioners and ISO-NE's Board of Directors, as well as NECPUC's Annual Symposium.



NESCOE also continued to work with the Coalition of Northeastern Governors (CONEG) to ensure coordinated policy positions where appropriate and avoid duplication of efforts on subject matters of mutual interest. At CONEG's request, NESCOE participates from time to time in discussions with the Northeastern International Committee on Energy (NICE) on electricity matters with cross border implications.

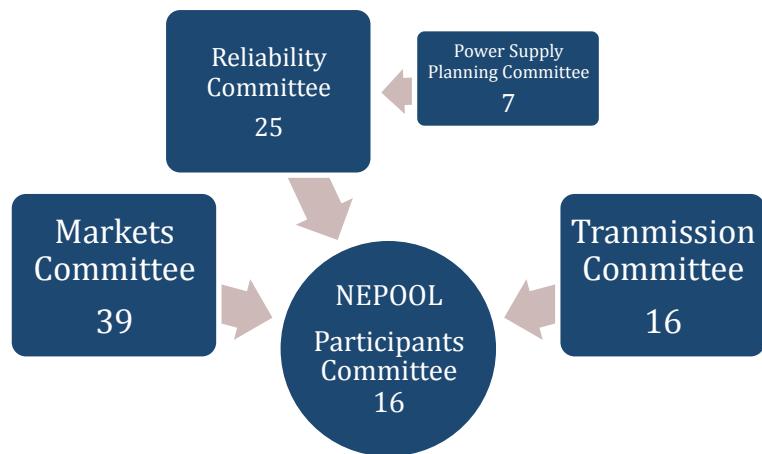
Additionally, to maximize coordination among states and leverage the technical expertise that exists within the states on various matters, in 2013, NESCOE coordinated several teams of subject matter experts from state governments to work with NESCOE on matters such as energy efficiency data collection, North American Electric Reliability Corporation (NERC) standards development, and natural gas and coordinated renewable power procurement.

SECTION IV: 2013 ACTIVITY, FOCUS AREAS & ACCOMPLISHMENTS

Regional Stakeholder Meeting Participation

NESCOE participated – and regularly played an important role – in substantive New England regional stakeholder meetings in 2013. NESCOE continued its regular participation in the New England Power Pool's (NEPOOL) Participants, Reliability, Transmission, Markets, and Power Supply Planning Committee meetings. NESCOE represented the collective views of the New England states and offered proposals to ensure appropriate planning and market rule changes and the states' role in relation to decisions about infrastructure proposed to advance state policies.

2013 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.



2013 ISO-NE Regional Meetings

ISO-NE Planning Advisory Committee

- 16 meetings

ISO-NE Consumer Liaison Group

- 4 meetings

Together, these committees held more than 120 meetings in 2013.

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, the Distributed Generation Working Group, and meetings associated with the Forward Capacity Market (FCM). 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.

Throughout 2013, NESCOE continued to serve as one of the Tri-Chairs of a Gas-Electric Focus Group (the Gas-Electric Focus Group) established to improve cross-sector coordination in exploring solutions to address New England's increased dependency on natural gas. The other Tri-Chairs represent the natural gas industry and NEPOOL Participants. ISO-NE, representatives of all the major pipelines that serve New England, liquefied natural gas (LNG) terminal operators, generators, transmission owners (TOs), public power, end users (both electricity and gas), and natural gas local distribution companies (LDCs) were all represented on the Gas-Electric Focus Group.

NESCOE participated in Eastern Interconnection States Planning Council (EISPC) meetings and Eastern Interconnection Planning Collaborative (EIPC) 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 (NPCC) Government Relations Committee meetings, and the New England Governors' Conference, Inc. (NEGC) Northeast International Committee on Energy meetings. NESCOE also coordinated with the National Association of Regulatory Utility Commissioners (NARUC) on a number of NERC matters.

In 2014, NESCOE will continue to participate in regional stakeholder meetings and, as needed to advance and protect the interests of 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 2013, NESCOE made more than 20 substantive filings with federal jurisdictional entities. NESCOE also presented written comments to ISO-NE on a broad range of issues.

A representative sample of such filings and comments includes:

- **FERC Order 1000 Compliance Filings:** NESCOE requested rehearing of FERC's order conditionally accepting New England's Order 1000 compliance filing, particularly as it impacts the role of state governments in implementing state laws and regulations. That rehearing request remains pending.
- **ISO-NE's 2013/2014 Winter Reliability Program:** NESCOE submitted multiple comments to FERC on ISO-NE's proposed Winter Reliability Program in connection with design elements to minimize consumer costs, the need for robust competition and the value of ISO-NE administering the initial competitive process to achieve those ends.
- **FCM Administrative Pricing Proceedings:** NESCOE protested requests by the New England Power Generators Association (NEPGA) and ISO-NE for expedited approval of changes to FCM administrative pricing provisions that risked imposing billions of dollars in additional costs on consumers without the benefit of meaningful discussion or process to identify the lowest cost means to achieve the desired objectives.

- **FERC Technical Conference on Capacity Markets:** NESCOE filed written comments and participated in an all-day FERC technical conference on capacity markets. The purpose of the technical conference was to consider how centralized capacity market rules and structures are supporting the procurement and retention of resources necessary to meet future reliability and operational needs.

New England Governors' Regional Energy Infrastructure Initiative

In December 2013, the New England Governors issued a statement setting forth their collective belief that New England ratepayers can benefit if the states collaborate on energy infrastructure issues to advance the states' common goals. The Governors committed to continue to work together, in coordination with ISO-NE and through NESCOE, to advance a regional energy infrastructure initiative that diversifies New England's energy supply portfolio while ensuring that the benefits and costs of transmission and pipeline investments are shared appropriately among the New England states. The Governors directed their appropriate staff to work together with NESCOE to ensure that the states are taking all necessary steps to meet their common needs and goals.

In furtherance of the Governors' statement, in January 2014, NESCOE issued a letter to ISO-NE requesting its technical support and related assistance in connection with two objectives. First, the New England states indicated that they have agreed that one or more requests for proposals will be issued to advance the development of transmission infrastructure that would enable delivery of at least 1,200 MW and as much as 3,600 MW of clean energy into the New England electric system from no and/or low carbon emissions resources. The states also agreed that the costs of transmission infrastructure would be recovered through a mechanism that ensures that the benefits and costs of transmission investments are shared appropriately among the New England states.

Second, the states requested ISO-NE's assistance in obtaining FERC approval of a tariff-based cost recovery for natural gas pipeline capacity, in a manner that is effective to achieve the construction of new, or expansion of existing, pipeline, to enable firm delivery into New England of 1,000 mmcf/day above 2013 levels or, 600 mmcf/day beyond what has already been announced for the several current expansion projects. The New England states also indicated preliminary agreement that recovery of the net cost of any such

procurement of firm pipeline capacity be collected through the Regional Network Service electric transmission rate shared appropriately among the New England states.

In 2014, NESCOE will work with ISO-NE, NEPOOL and the Gas-Electric Focus Group, as appropriate, to explore and ultimately execute solutions to New England's pressing power system reliability challenge and the profound price disparity between New England customers and customers in neighboring states due to natural gas infrastructure constraints, which adversely affects New England's economic competitiveness.

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.

That Resolution followed 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).

In response, NESCOE finalized and began executing a *Work Plan*, 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. The PT and Legal Subteam developed a draft Request for Proposal (RFP), evaluation criteria, and a model Power Purchase Agreement (PPA).

In February 2013, to give states and the market certainty, NESCOE halted further work on coordinated renewable power procurement in light of several states' interest in moving forward with single-state RFPs expeditiously in order to capture for their ratepayers the benefits of federal tax credits that were set to expire in the near-term. In 2014 and

beyond, NESCOE will remain prepared to execute coordinated competitive procurement in furtherance of state policies pursuant to state direction.

Enhanced Gas-Electric Industry Coordination to Improve System Reliability

In 2013, NESCOE was actively involved in regional and federal discussions regarding electric system operational challenges and potential risks to reliability arising from an increased dependency on natural gas and supply infrastructure constraints. Advancing solutions to this critical reliability and consumer cost issue will be a focus of NESCOE's work in 2014.

ISO-NE has identified increasing reliance on natural gas-fired generation resources as a significant reliability risk to New England's power system. Moreover, gas supply infrastructure constraints in New England have caused significant economic disparity between New England consumers and consumers in other states.

In 2013, NESCOE concluded its *Gas-Electric Study* through its consultant Black & Veatch. The purpose of the NESCOE *Gas-Electric Study* was to analyze the current and future natural gas fuel supply and infrastructure in New England and to assist 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. The Gas-Electric Focus Group was the primary forum through which NESCOE shared information with interested stakeholders in connection with the three-phase *Gas-Electric Study*.

Primary study observations included the following:

- In the absence of infrastructure and demand reduction/energy efficiency/non- natural gas powered distributed generation solutions, New England will experience pipeline capacity constraints that will result in high natural gas and electric prices. Alternatively, in a Low Demand Scenario, no long-term infrastructure solutions are necessary.
- Gas-supply requirements driven by episodes of extremely cold weather can be very costly and create significant reliability risks – they aggravate infrastructure deficiencies.
- Short-term solutions (able to be implemented in the 2014-2016 timeframe) like LNG imports, dual-fuel and demand response resources, provide net economic benefits to New England customers.
- In the absence of greater demand reduction/energy efficiency/non-natural

gas powered distributed generation solutions, a hypothetical Cross-Regional Natural Gas Pipeline solution presents higher net economic benefits to New England consumers than do alternative long-term solutions studied (able to be implemented in the 2017-2029 timeframe).

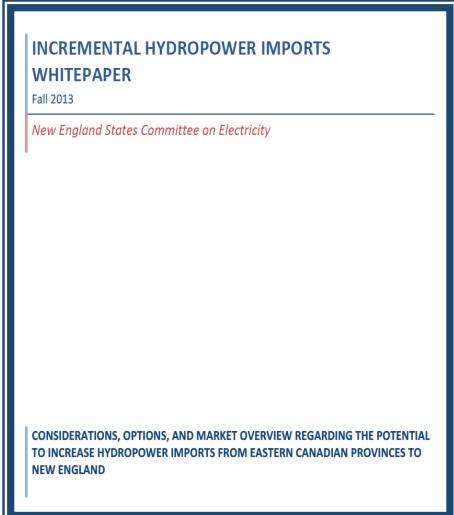
- For most or all prospective solutions, the majority of the benefits would accrue to New England electric customers.

As noted above, NESCOE's Executive Director served as a Tri-Chair of the Gas-Electric Focus Group, which formed in September 2012 and met throughout 2013. The Gas-Electric Focus Group meetings 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. The Gas-Electric Focus Group discussed how improved gas-electric market coordination might address reliability issues and welcomed discussion of any potential solutions to the region's challenges. Throughout 2013, NESCOE focused considerable attention on assessing the range of potential solutions advanced by participants of the Gas-Electric Focus Group. The Gas-Electric Focus Group intends to issue a non-binding final report in 2014, memorializing the issues discussed and potential solutions.

In addition, NESCOE participated in NEPOOL stakeholder discussion about ISO-NE's proposed market rule changes designed to address reliability concerns due to increasing natural gas dependency, one of the strategic risks discussed further below. The changes included revisions to day-ahead energy market timing requirements and hourly energy offer flexibility enhancements. Where appropriate, NESCOE participated in relevant FERC proceedings. In 2014, NESCOE will focus on the execution of solutions to New England's gas-electric challenges as expeditiously as possible.

Informing Policymakers' Consideration of Potential Means to Diversify New England's Fuel Sources and Reduce Carbon Emissions: Analysis of Increasing Hydropower Imports

In 2013, New England policymakers considered the range of options to address the region's natural gas challenges as they relate to reliable power system operations and consumers costs over the long-term as well as options to increase the extent to which low-



and no-carbon power resources serve the region's energy needs. To inform policymakers' deliberations, NESCOE produced the *Incremental Hydropower Imports Whitepaper* (the Whitepaper). In sum, the Whitepaper provided context for policymakers in the form of a comprehensive overview of New England's competitive energy markets; New England and eastern Canadian Provinces' generation resource mixes; power system synergies between eastern Canadian

Provinces and New England; discussion of the potential benefits and risks associated with increasing hydropower imports, including the need for resource tracking systems if any New England state is to satisfy carbon-reduction requirements by increasing imports; and options for increasing hydro imports and their implications.

NESCOE also produced analysis, through its consultant Black & Veatch, which provided policymakers with a high level view of the economic and environmental impacts of incremental hydro imports (the Hydro Analysis). The Hydro Analysis considered the addition of three new hypothetical transmission lines from different points in Canada into different areas in New England, and two different hydro power supply outlooks. Given the uncertainty associated with the cost of incremental imported Canadian hydropower, the analysis did not include cost estimates associated with the different illustrative supply and transmission configurations.

In 2014, NESCOE will continue to provide analysis, information and otherwise support policymakers' consideration of means to resolve New England's gas-electric challenges, interest in diversifying fuel sources to enhance power system reliability, and in increasing reliance on no- and low-carbon resources in furtherance of state laws and policies, as appropriate.

Advocating for Balance Between Competitive Markets and State Policies

In late 2012, FERC denied NESCOE's complaint against ISO-NE in which NESCOE argued that buyer-side mitigation provisions in ISO-NE's proposed FCM tariff

revisions are unjust and unreasonable without an exemption for certain state-sponsored renewable energy resources. By effectively not counting renewable resources toward the region's resource adequacy requirement, ISO-NE fails to accord ratepayers the full value of their investments in capacity resources and results in an energy market blind to the requirements of state laws, an outcome that is unsustainable over the long run. NESCOE requested rehearing of that FERC decision in early 2013. That request remains pending. NESCOE also reiterated the importance of achieving a balance between competitive markets and state public policies in comments to FERC in connection with its 2013 technical conference on centralized capacity markets.

In 2014, NESCOE will continue to urge ISO-NE and FERC to strike an achievable and appropriate balance between efficient markets and state energy and environmental laws. Particularly as FERC mandates consideration of state laws in regional transmission planning through its Order 1000 policies, NESCOE will seek to ensure that ISO-NE and FERC recognize and respect those same state laws in the context of the wholesale power market.

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

During 2013, NESCOE continued efforts to ensure that the New England implementation of Order 1000, which marks a major shift in the regional transmission planning and development landscape, respects the authority and jurisdiction of state governments to execute the requirements of state laws and regulations. NESCOE also supported Order 1000's directive to introduce competitive dynamics into transmission development. Open processes, appropriately implemented, will allow experienced developers to compete to satisfy system needs at the lowest overall cost to consumers.

Order 1000 is one way, but not the only way, available to states to consider advancing public policies. Irrespective of how FERC resolves contested issues in the Order 1000 compliance proceedings, the New England states can move forward to advance state policies by other available means and through coordinated efforts.

In 2014, NESCOE will evaluate FERC's response to NESCOE's Request for

Rehearing and other Order 1000-related FERC and federal court actions. NESCOE will also participate actively in any process for implementing competitive dynamics and the consideration of public policies in regional transmission planning.

Improving Transparency and Clarity in Transmission Planning

In response to states' request following discussions between ISO-NE and the states regarding transmission planning issues that arose in common across a number of state siting proceedings, ISO-NE is in the process of developing draft Transmission Planning Guides (the Planning Guides) on planning process assumptions. When finalized, the Planning Guides should help to increase transparency about – and confidence in – aspects of the planning process that are often questioned in both the New England 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, development of the Planning Guides has provided a valuable opportunity to discuss and memorialize what are reasonable assumptions and criteria. NESCOE will continue to provide input on the Planning Guides as ISO-NE finalizes them in 2014.

In connection with the regional discussion about reasonable planning assumptions, NESCOE presented to the PAC and the NPCC Regulatory/Government Affairs Advisory Group in 2013 the concept of probabilistic planning. In short, probabilistic planning would establish a more analytically and mathematically coherent approach to developing planning assumptions, enhancing both consistency across planning studies and transparency.

ISO-NE indicated that it would establish a working group to continue efforts on probabilistic planning. In 2014, NESCOE will continue to bring states' siting experience and other analysis to the dialogue about means to enhance consistency and transparency in the planning process.

Accounting for Energy Efficiency in Load Forecasting and Planning

NESCOE's and the New England states' sustained efforts to obtain from ISO-NE greater integration of energy efficiency savings in the regional load forecast and system

planning achieved results in 2012 when ISO-NE finalized its first ever energy efficiency forecast. The forecast reflects projected annual reductions in electric energy use, including peak demand, related to the New England states' investments in energy efficiency measures. From 2015 through 2021, the forecast estimates that combined spending by the six states on energy efficiency programs will be over \$5 billion, resulting in an average annual reduction in electricity consumption for the region 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.

Going forward, the forecast should help capture the full value of public dollars committed to state energy efficiency programs. Implementation of the energy efficiency forecast has already translated into hundreds of millions of dollars of savings for consumers in the form of transmission project deferrals.

In 2014, NESCOE will continue to participate actively in ISO-NE's Energy Efficiency Forecast Working Group and work with states and stakeholders as the forecasts are refined in light of experience gained over the first three years of the forecast.

Accounting for Distributed Generation in Load Forecasting and Planning

Through state programs and policies, New England consumers invest substantially in distributed generation (DG) resources. To ensure consumers receive the benefit of their full value, the New England states requested in 2013 that ISO-NE establish a Distributed Generation Forecast to incorporate in the 2014 Regional System Plan (RSP14). To that end, ISO-NE formed a Distributed Generation Forecast Working Group. In 2013, the New England states provided ISO-NE with significant information on DG policies in each state to inform discussions on how to forecast DG growth over the next ten years. NESCOE worked with ISO-NE to develop an initial Interim Solar PV Forecast for RSP14 to account for the rapid growth of that resource in planning studies as soon as possible. In 2014, NESCOE will continue to provide input to the development of the DG Forecast and its appropriate applications so that consumers receive the full benefit from their

investment in distributed resources.

Increasing Engagement in NERC Standards Development

In 2013, NESCOE continued its engagement on NERC matters with power system reliability and consumer cost implications. In all instances, NESCOE's actions have been guided by the same core principle important to New England consumers: 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.

Among other NESCOE activities on NERC matters in 2013, NESCOE closely monitored NERC's Phase II Gas-Electric Report and worked with the other chairs of the Gas-Electric Focus Group to communicate New England's interest in the report while it was in draft form. NESCOE also continued its advocacy for NERC implementation of a meaningful cost-benefit analysis process in the development of reliability standards. NESCOE's efforts on NERC matters benefit from its continued collaboration with a NERC Working Group formed by NESCOE in 2011, comprised of experts in New England state agencies and the New York State Department of Public Service as appropriate, 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 NARUC, ISO-NE, and other New England stakeholders in identifying common issues and exchanging viewpoints.

NESCOE will continue to follow NERC standards development in 2014 and NERC-related issues at the FERC with significant resource adequacy and system planning implications for New England consumers.

ISO-NE's Strategic Planning Initiative and Associated Market Rules

ISO-NE introduced its Strategic Planning Initiative in 2010, calling for the evaluation of wholesale markets and system planning issues. At a high level, ISO-NE identified then current and emerging risks to the New England power system and markets and indicated its intent to implement integrated solutions at the earliest possible time. The specific challenges ISO-NE identified were:

- Resource performance and flexibility
- Increased reliance on natural gas-fired capacity
- Potential retirement of generation units
- Integration of a greater level of variable resources, such as wind power
- Alignment of markets and planning

In 2013, the region focused on market design changes to address New England's evolving strategic risks and to improve various markets. Over the course of the year, the Markets Committee covered over 50 topics, involving dozens of proposed market rule changes. Some proposed changes resulted from years of analysis and discussion. Others emerged in reaction to changing circumstances. For example, as noted above, ISO-NE introduced a power procurement proposal to help secure reliable system operations during the 2013/2014 winter period. NESCOE spent considerable time trying to shape this first-ever procurement program in a way that had the highest likelihood to deliver the desired results at the lowest possible cost to consumers.

Most significantly, ISO-NE advanced its “pay-for-performance” proposal, which NESCOE considered along with alternatives and amendments. Also, in reaction to a NEPGA request for a FERC order directing expedited changes to the region’s market rules (and to a related ISO-NE exigent circumstances filing) that could cost consumers billions of dollars without the benefit of meaningful stakeholder process, NESCOE advocated for reasonable and fair opportunity for states and stakeholders to identify means to achieve objectives at the lowest overall cost to consumers.

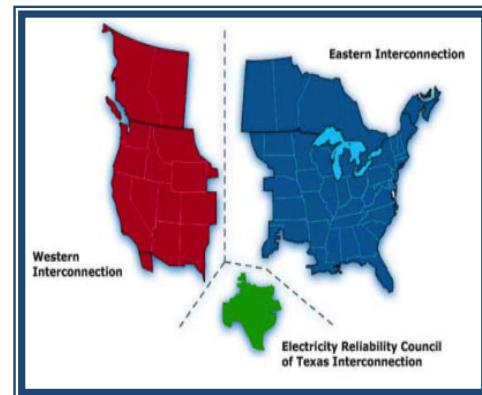
In 2014, NESCOE will continue to focus on seeking to improve the region’s markets in ways that provide consumers with reliable service at the lowest cost over the long-term while maintaining environmental quality. This will include but not be limited to consideration of a downward-sloping demand curve in the FCM.

Eastern Interconnection Planning Collaborative

In 2013, NESCOE continued to provide technical support to the states regarding the EIPC. 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 (shaded in blue in the illustration inset below) includes 39 states – from

the foot of the Rocky Mountains to the Atlantic seaboard and part of Canada. Initial EIPC activities were funded by the U.S. Department of Energy (DOE) and included broad state and stakeholder participation; at this time, state and stakeholder participation is funded by consumers through, and EIPC-related work conducted by, the Regional Transmission Organizations in the eastern interconnection, such as ISO-NE.

To further support public policy input and the states' collective perspective to the EIPC's work, the DOE historically funded EISPC, an organization comprising state regulators and representatives of governors' offices across the 39 eastern interconnection states. 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 2013, NESCOE offered the New England states technical support in monitoring and analyzing the EIPC activities, papers and reporting back to the states on EISPC activities.



In 2014, NESCOE will review and provide feedback where appropriate on studies and whitepapers developed through EIPC and monitor Planning Authorities' work on further studies to ensure New England consumers' interests are fully and fairly reflected.

Department of Energy 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 in which development may be inhibited 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 in 2014.

Presentations

In response to requests from various Northeast and North American organizations, NESCOE representatives made a number of presentations in 2013. NESCOE appreciates the opportunity to share information about current issues and to receive feedback.

A representative sample of meetings at which NESCOE presented includes the following:

- The New England Governors and Eastern Canadian Premiers Annual Meeting
- The New England Gas-Electric Focus Group
- The Northeast International Committee on Energy
- The Northeast Energy and Commerce Association/Connecticut Power and Energy Society Annual Conference
- The New England Consumer Liaison Group
- National Regulatory Research Institute Teleseminar
- Platts Northeast Energy Markets Conference

SECTION V: PRIORITIES FOR 2014 AND 2015

NESCOE carries into 2014 several priority projects that will require significant attention. With direction from its Managers, NESCOE will also continue to identify areas for proactive engagement related to resource adequacy and system planning and expansion.

Going forward, NESCOE will conduct independent technical analyses to inform policymakers' decisions.

Consistent with past year's activities, NESCOE looks forward to participating actively in NEPOOL stakeholder meetings, exchanging ideas with ISO-NE and market participants, and representing New England states at 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 2014 and 2015:

- **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 ISO-NE's draft Transmission Planning Guides and related documents on planning assumptions, which will include an examination of what are reasonable planning assumptions and inputs and the base case; and continue to explore with ISO-NE and market participants whether and how to incorporate probabilistic analysis into the regional planning process.
- **New England Governors' Regional Energy Infrastructure Initiative:** Work with ISO-NE, NEPOOL and other stakeholders, as appropriate, and take other steps to execute the New England Governors' direction to *develop new diverse energy infrastructure* that will address New England's natural gas-electric interdependency challenge and gas supply infrastructure constraints and enable increased levels of new low- and no-carbon resources to serve New England consumers.
- **Coordinated Procurement:** At the direction of the New England states, execute *regionally coordinated competitive procurement* to facilitate development of resources that would further state policies, take

advantage of economies of scale to the 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 Upon Request:** Work with state siting representatives within the *Interstate Transmission Siting Collaborative* and Transmission Owners to implement coordination to the extent transmission project developers bring forward proposed interstate transmission projects that would advance state policies and express to the states that such projects would benefit from coordinated and feasible approaches to state siting within existing law.
- **Accommodating Requirements of New England States' Energy and Environmental Laws and Regulations in New England Wholesale Markets:** Consider FERC's expected response to NESCOE's petition for a narrowly tailored *renewable energy exemption* to the FCM rules; 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 issues – and risks – identified in ISO-NE's *Strategic Planning Initiative* continue to translate into proposed changes to the FCM and other rules, 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 proposed solutions, 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.

- **Advocate for Reasonable Decision-Making Processes that Enable Full Consideration of Economic Implications on Consumers:** Continue advocacy begun in 2013 for *decision-making processes* that provide reasonable notice and opportunity to fully consider the consumer implications of proposed rule changes and opportunities for states – and stakeholders – to explore the lowest cost means to achieve identified objectives.
- **FERC-Directed Changes to Regional Transmission Planning Processes:** In connection with FERC *Order 1000* compliance efforts, ensure that the 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; participate with ISO-NE and stakeholders in furthering competitive transmission development processes in a way that advances reliable service at the lowest cost over the long-term while maintaining environmental quality.
- **Generator Interconnection System Modifications, as Needed:** To the extent New England states seek to count imported *hydropower* resources as satisfying state carbon reduction requirements or goals, work with NEPOOL, other stakeholders, and Canadian provinces, as appropriate, to modify and/or implement *tracking systems* to enable hydro generator unit specific validation.
- **DOE Activity:** Ensure that *DOE's 2012 Congestion Study* accurately reflects the fact that congestion in New England is essentially non-existent; to the extent the 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 DOE understands the New England states' work and

status in this regard as well as the jurisdictional role for states in connection with implementation of state laws and policies.

- **Eastern Interconnection Planning Collaborative:** Monitor and analyze interconnection-wide study activities conducted by *EIPC* 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 customer-supported interconnection-wide studies provide value to New England customers.
- **NERC:** Continue to track and comment on *NERC* activities with potentially significant cost implications for New England electricity consumers, ensuring that, while reliability is always a top priority, reliability standards 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 escalation.
- **Energy Efficiency in Planning:** Support continued refinement of ISO-NE's *Energy Efficiency Forecast* to ensure that New England's transmission planning process continues to accurately reflect consumers'

significant investments in energy efficiency resources and the resulting reduction to the region's energy use.

- **Distributed Generation Forecast:** To ensure that consumers receive the full benefit of state policies and ratepayer investments in all forms of power generation technologies, continue 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*. In 2014, NESCOE will work with states and ISO-NE to implement a 2014 Interim Photovoltaic Forecast for inclusion in the 2014 RSP, and continue progress toward a forecast that incorporates other distributed generation resources for inclusion in the 2015 RSP. NESCOE will also contribute to the discussion concerning the appropriate use of the Interim Photovoltaic Forecast and subsequent Distributed Generation Forecast in transmission system planning, markets and operations.
- **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 procurement of renewable resources, work with ISO-NE and stakeholders to implement the cluster interconnection provision in ISO-NE's tariff.
- **Reliability Requirements:** Provide input as appropriate on ISO-NE's recommended *Installed Capacity Requirement*, related values and associated issues.
- **ISO Major Initiatives Assessment:** Monitor 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 any alternatives, 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. 2013 EXPENDITURES

NESCOE operations are funded by a FERC-approved charge collected through Schedule 5 of Section IV.A of ISO-NE's tariff. In 2013, NESCOE's spending increased over 2012 spending commensurate with its increasing substantive activity. An independent audit of NESCOE's books, as a subsidiary of the NEGC, for the year-end June 30, 2012, was completed and presented to the Board of Directors of the NEGC 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. Pursuant to direction by CONEG, which absorbed the NEGC in August 2012, NESCOE's books for the period July 2013 through the end of January 2013 underwent a financial review by an independent auditor. In January 2013, NESCOE fully executed prior auditor recommendations to obtain legal status independent of the NEGC.

A 2013 Statement of Spending is at page 36.

VII. BUDGET 2014 & PRELIMINARY BUDGET 2015

NESCOE's 2014 budget, which is consistent with the current five-year *pro-forma* approved by NEPOOL and accepted by FERC, was presented to and affirmed by NEPOOL in October 2013. The 2014 NESCOE budget was submitted to the FERC, also in October, and was accepted in November 2013.

The 2014 and preliminary 2015 budgets are at page 37.

NESCOE
Statement of Spending
December 31, 2013

Expense

| | |
|-----------------------------------|---------------------|
| Direct Expenses, Consulting | |
| Legal (FERC) Services | 85,018.00 |
| Technical Consulting | 326,191.00 |
| Total Direct Expenses, Consulting | <u>411,209.00</u> |
| Employment and Benefits | |
| Disability | 9,912.00 |
| Employee Health Insurance | 46,808.00 |
| Life Insurance | 1,196.00 |
| Payroll Taxes | 54,126.00 |
| Pension Contributions | 27,116.00 |
| Salaries & Wages | <u>791,007.00</u> |
| Total Employment and Benefits | <u>930,165.00</u> |
| General and Administrative | |
| Insurance | 6,985.00 |
| Dues And Subscriptions | 2,865.00 |
| Office Expenses | 2,156.00 |
| Postage and Delivery | 141.00 |
| Printing and Copying | 175.00 |
| Professional Services | 15,432.00 |
| Rent, Parking & Utilities | 14,686.00 |
| Telephone & Telecommunications | 13,328.00 |
| Travel and Meetings | <u>55,966.00</u> |
| Total General and Administrative | <u>111,734.00</u> |
| Capital Expenditures | |
| Asset Acquisition | <u>10,275.00</u> |
| Total Capital Expenditures | <u>10,275.00</u> |
| Total Expenses | <u>1,463,383.00</u> |

**NESCOE Pro Forma Budget
2014 and Preliminary 2015**

| | 2014 | 2015 |
|--|-------------------------|-------------------------|
| Salaries and Wages | | |
| Salaries | 873,400 | 899,602 |
| Payroll Taxes | 87,340 | 89,960 |
| Health and Other Benefits | 186,165 | 191,750 |
| Retirement §401(k) | <u>30,000</u> | <u>30,900</u> |
| Total, Salaries and Wages | <u>1,176,905</u> | <u>1,212,212</u> |
| Direct Expenses - Consulting | | |
| Technical Analysis | 460,000 | 473,800 |
| Legal (FERC) | <u>125,000</u> | <u>128,750</u> |
| Total, Direct Expenses, Consulting | <u>585,000</u> | <u>602,550</u> |
| General and Administrative | | |
| Rent | 18,025 | 18,566 |
| Utilities | 4,120 | 4,244 |
| Office and Administrative Expenses | 25,500 | 26,265 |
| Professional Services | 71,500 | 73,645 |
| Travel and Lodging | <u>75,000</u> | <u>77,250</u> |
| Total General and Administrative | <u>194,145</u> | <u>199,969</u> |
| Capital Expend. & Contingencies | | |
| Computer Equipment | 5,150 | 5,305 |
| Contingencies | <u>197,221</u> | <u>203,138</u> |
| Capital Expend. & Contingencies | <u>202,371</u> | <u>208,442</u> |
| TOTAL EXPENSES | <u>2,158,421</u> | <u>2,223,174</u> |
| BUDGET | <u>2,184,424</u> | <u>2,249,957</u> |