

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

**Transmission Planning Process  
Under Order 890**

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**Docket No. AD 09-8-000**

**COMMENTS OF THE NEW ENGLAND STATES COMMITTEE ON ELECTRICITY  
November 23, 2009**

**I. INTRODUCTION**

The New England States Committee on Electricity (NESCOE), New England’s Regional State Committee, offers these comments in response to the Commission’s October 8, 2009, “Notice of Request for Comments” (Request) in this proceeding regarding transmission planning processes and cost allocation under Order No. 890. New England shares the Commission’s interest in continuing to consider ways to refine the transmission planning process. Similarly, as our ongoing work to develop renewable resources reveals, New England also shares the Commission’s interest in removing barriers to the development and integration of renewable resources into our power system.

We offer general observations on transmission planning and cost allocation and provide answers to a few of the Request’s questions most relevant to New England. In short, New England’s regional transmission planning process has worked to identify needed transmission facilities and to move them from the proposed project stage to approved, in-service facilities. With respect to cost allocation, New England’s method has not impeded investment in transmission needed for reliability.

We also discuss New England’s current efforts to develop renewable resources and associated transmission in and around the region. New England’s work to secure low carbon resources in and around the region is directly relevant to the Request’s planning and cost allocation issues in two central ways.

First, New England will identify the renewable resources and associated transmission that can serve our customers most cost-effectively through competitive markets or processes. It is therefore imperative that planners not, in effect, select renewable resources to serve New England consumers. Selecting resources through planning may be entirely appropriate for regions with different market structures or for those without renewable resource potential. Doing so for New England, however, would seriously interfere with the ability of our competitive markets and processes to identify renewable resources that make the most economic sense for our consumers. It could also have long-term adverse consequences on resource development in the northeast.

Second, because New England will develop available renewable resources located in and around the region, it is essential that our consumers not be required to pay for transmission to renewable resources in other regions that New England does not need to meet reliability or environmental objectives. If New England consumers were allocated the cost of transmission facilities to renewable resources in distant regions, or if distant renewable power was injected into New England's system, it could depress the market value of local renewable resources and impede their development because the fully loaded costs may not be considered. In such an allocation scenario, local renewable resources would be seriously disadvantaged in the market even if the total cost of local renewable resources was lower than the total cost of distant renewable resources because the latter would reflect subsidized transmission.

Ultimately, the Commission's interest in looking for ways to improve transmission planning and in removing barriers to the development of renewable resources aligns with New England's and we look forward to participating in this dialogue and related processes about means to achieve these important objectives.

## **II. REGIONAL TRANSMISSION PLANNING PROCESSES**

### **a. New England's Regional Planning Process Works to Identify Transmission Needed for System Reliability.**

The regional system planning process set forth in Attachment K of ISO-New England's (ISO-NE) Open Access Transmission tariff has, in general terms, served New England well by identifying the need for new resources. The regional planning process also serves the important function of gathering consensus around questions of need and appropriate solutions. Since implemented in 2000, the regional planning process has identified the need for the development of reliability-based transmission infrastructure across the six New England states. Since 2002, New England has placed into service over \$4 billion in transmission investment. These projects reflect major transmission projects in Connecticut, Maine, Massachusetts and Vermont, as well as an interconnection with Canada. About \$5 billion more in transmission investment is now under study, in development, or under construction.

This is not to say there is not room for modifications within ISO-NE's planning process. As one example, the New England states remain concerned about inaccurate transmission project cost estimates that are consistently well below actual costs. Transmission cost estimates that are routinely well below actual costs preclude a meaningful and timely comparison of transmission solutions to other resource solutions. The opportunity for transmission owners to earn a bonus return on equity on cost overruns removes any incentive for transmission owners to manage project costs to their estimated levels. Therefore, the region's stakeholders have begun work to improve cost estimating practices in the transmission planning process. While this and other

areas offer room for improvement that we continue to discuss with ISO-NE, the current planning process has nevertheless worked to identify needed transmission.

In addition, through New England's competitive market mechanisms, the region has developed, permitted, sited, and integrated over 10,000 MW of new efficient generating capacity. That represents more than a third of the region's existing fleet. Additionally, the region's competitive market mechanisms have also brought forth significant demand resources. Almost 3,000MW of demand resources cleared New England's second Forward Capacity Auction for the 2011/2012 delivery year.

Investment in transmission facilities and in generation and demand resources indicate that New England's planning process and competitive market mechanisms work to deliver needed resources. Therefore, in the process of the considering potential modifications to the transmission planning process, it is important to New England that any such modifications not interfere, even inadvertently, with the operation of New England's regional planning process or competitive markets.

**b. New England's Regional Transmission Planning Process Is Intended to Investigate Needs at a Sufficiently Granular Level to Inform the Market About Supply, Demand-Side Resources or Merchant Transmission that Would Satisfy Identified Needs.**

Attachment K of ISO-NE's tariff requires the Regional System Plan to specify the physical characteristics of the physical solutions that can meet the identified needs and include information on market responses that can address them. In addition, ISO-NE is directed by tariff to provide sufficient information to allow market participants to assess the quantity, general locations, operating characteristics and required availability criteria of the type of incremental supply or demand-side resources, or merchant transmission projects, that would satisfy the identified needs or that may serve to modify, offset or defer proposed regulated transmission upgrades. While there is, as always, room to advance the implementation of tariff provisions, this element of New England's planning framework is constructive and provides a solid foundation upon which to build.

**c. New England's Regional Transmission Planning Process Includes Mechanisms to Conduct Analysis in Connection with Renewable Resource and Associated Transmission Infrastructure Development.**

Pursuant to Order 890's enhancements to regional planning processes, Attachment K of ISO-NE's tariff enables transmission analysis that extends beyond system reliability and compliance with planning standards and criteria. Specifically, New England's planning process supports analysis of transmission to integrate the region's renewable resources into the grid. The

analysis, referred to as economic studies, provides valuable economic and environmental data to inform the market and policymakers about potential infrastructure development scenarios.

New England's most recent economic study was conducted pursuant to a joint request of the six New England Governors. The purpose was to obtain environmental and economic data in connection with incremental wind development scenarios in and around New England, ranging from 2,000 MW up to 12,000 MW of on- and off-shore wind, as well as associated transmission. This economic study, referred to as the *Renewable Development Scenario Analysis (RDSA)*, helped identify the significant sources of renewable energy available to New England, the means to reliably distribute them within the region's power grid, and the estimated cost of energy for generation and transmission. The RDSA examined the significant quantity of commercial-scale untapped renewable resources in the New England region, including more than 10,000 MW of on-shore and off-shore wind power potential, and the transmission needed to deliver our low carbon power to our load centers. It also considered the significant renewable and no carbon resources proximate to our northern border in the Eastern Canadian provinces. The RDSA showed that if developed conservatively, New England can meet its renewable energy goals with resources located in and around the region. With more aggressive development, New England could export renewable power to neighboring regions.

The RDSA provided the technical basis for the New England Governor's *Renewable Energy Blueprint (Blueprint)*. The *Blueprint* identifies means to help facilitate development of New England's cost-effective renewable resources, such as coordination of siting for interstate transmission facilities and synchronization of competitive procurement and contracts for renewable resources. The *Blueprint* underscores the New England states' current authority and cooperative inclination to support the development of our renewable resources. Pursuant to a resolution adopted by the Governors in September, 2009, the New England states are continuing work on mechanisms to facilitate development of the region's renewable resources and associated transmission. Ultimately, New England will secure renewable resources that are, when evaluated on equal footing with other like resources identified through existing regional wholesale market mechanisms or through state or regional procurement processes, the most cost-effective way to meet our energy, environmental and energy security objectives.

For this reason, it is essential that any changes to planning processes not interrupt New England's competitive markets or processes to identify the most cost effective resources for our consumers. If transmission plans effectively select the renewable resources to be developed and transported over long distances, it could lead to costly and inefficient results for New England consumers by: 1) disrupting state and regional efforts to develop renewable resources located closer to load through competitive processes; and 2) creating a serious risk that our consumers would overpay for transmission facilities to reach resources they do not need for reliability or to meet environmental objectives.

In addition to its commitment to renewable energy development, the New England states also strongly support increasing both active and passive demand response. Demand response in New England is market based and could be adversely affected if out of region renewable resources were injected into the system.

**Question: Are existing transmission planning processes adequate to identify and evaluate potential solutions to needs affecting the systems of multiple transmission providers?**

**Answer:** Yes. New England's planning process identifies and evaluates solutions to needs affecting systems of multiple transmission providers. One current example that illustrates the point is a transmission project classified by ISO-NE as in the "planned" stage that includes multiple transmission providers and proposed transmission facilities in three of the six New England states. Such a project reaching the "planned" stage evidences that the planning process is adequately structured and implemented to identify transmission projects that involve multiple transmission providers across multiple states.

**Question: Are there adequate opportunities for stakeholders to participate in planning activities that span different regions, including for example those undertaken pursuant to bilateral agreements?**

**Answer:** New England currently has several avenues through which the region can participate in interregional planning. These include the Inter-area Planning Stakeholder Advisory Committee (or IPSAC, a forum for providing stakeholder input into PJM, NYISO, and ISO-NE's Northeast Coordinated System Plan) and the Northeast Power Coordinating Council.

Assuming interconnection-wide planning moves forward as proposed to the Department of Energy (DOE), there will be a new, broad platform to accommodate stakeholder participation in planning analysis across the Eastern Interconnection. Additionally, the DOE's funding to facilitate coordination across the forty states in the eastern interconnection should result in unprecedented levels of interstate communication about analysis that may inform regional plans.

**Question: Will the interconnection-wide processes adopted pursuant to funding opportunities under the American Recovery and Reinvestment Act of 2009 result in an ongoing process for jointly identifying and evaluating alternatives to solutions identified in transmission plans developed through existing sub-regional and regional planning processes? Will the scope and function of these interconnection-wide planning activities be sufficient to help address the concerns identified above? How will planning activities conducted on an interconnection-wide basis be**

**integrated into the development of sub-regional and regional transmission plans and vice versa?**

**Answer:** It is premature to draw definitive conclusions about the interconnection-wide planning that is expected to begin in the near term. That process, which is unprecedented in scale at least at it relates to the Eastern Interconnection, should move forward before we offer an assessment of whether changes should be made to its scope or function.

With respect to integrating analysis across regions, ISO-NE's RDSA, described above, is a useful example of the kind of analysis that is likely to provide interregional value in interconnection-wide planning. Since the RDSA shows New England could export renewable power if its resources were developed aggressively, neighboring regions that are interested in considering options for cost-effective renewable resources might consider the RDSA and successive analysis in their local planning processes. The interconnection-wide planning process should be a constructive forum in which to share this type of analysis among the various regions.

**Question: How are reliability impact studies aligned with economic-based evaluations of sub-regional or regional projects and assessments of projects needed to satisfy renewable energy standards? If not aligned, how can reliability assessments and economic evaluations be aligned in order to better identify options that meet regional needs?**

**Answer:** All transmission projects in New England, whether proposed to meet reliability needs or to satisfy renewable energy goals, will be assessed by ISO-NE and reviewed in the regional stakeholder process. For example, in the RDSA, ISO-NE analyzed multiple conceptual transmission pathways that would be required to integrate incremental levels of renewable resources into New England's system. ISO-NE made clear that any specific transmission project proposed to reach renewable resources - even if similar to one of the conceptual pathways analyzed - will undergo complete system impact studies for all components. The planning process will ensure that ISO-NE and the region's stakeholders assess all proposals in the context of the entire system.

**Question: How should merchant and independent transmission projects be treated for purposes of regional transmission planning?**

**Answer:** All transmission projects, whether regulated solutions or merchant projects, should be reviewed within the regional planning process for system impact analysis.

**Question: Is the interconnection queue process hindering the ability to plan the transmission system to integrate new generation? Would any reforms to the Commission's interconnection procedures support efficient planning of the transmission system?**

**Answer:** New England recently addressed issues associated with its interconnection queue process through collaborative stakeholder efforts. To the extent further issues emerge, we are confident that they can be resolved by a similar means.

**Question: Should there be consistency in the way transmission providers treat demand resources, such as demand response, energy efficiency and distributed storage, in the transmission planning process? Are there preferred methods of modeling or otherwise accounting for demand resources in the planning process? Does the planning process investigate transmission needs at fine enough granularity to identify beneficial demand resource projects?**

**Answer:** Demand plays a key role in effective power markets, and New England's Forward Capacity Market (FCM) continues to support new entry of demand to the benefit of consumers. About 2,937 MW of demand resources cleared New England's second Forward Capacity Auction for the 2011/2012 delivery year. The total demand resources resource capacity is about 9% of the Installed Capacity Requirement. The FCM has succeeded in attracting large amounts of DR and at prices that have reduced overall capacity prices for the region.

From a planning perspective, however, there remains room for progress with regard to the treatment of demand resources. As one example, to meet installed capacity requirements in New England, active demand response values include a 600 MW cap, which is below currently available levels, on the use of emergency generators despite ISO-NE's use of a conservative 90/10 load forecast in its transmission security analysis.

ISO-NE conducted a Demand-Response Reserves Pilot Program to assess whether demand-response resources provide a reserve product functionally equivalent to the type of reserves provided by central generating stations and combustion turbines. The program was also to assess whether demand resources have the capability to provide these reserves. ISO-NE began the initial two-year phase in October 2006 and the second phase in October 2008. It would be helpful if the Commission could see that RTOs share this type of data with each other and stakeholders. This, together with a look at RTO best practices in connection with demand resources in planning processes, would help regional planning processes account for the full benefits of demand resource projects and enable them to serve as alternatives to other resources.

### III. TRANSMISSION COST ALLOCATION

The Request seeks comment on whether existing cost allocation practices may create a disincentive to invest in new transmission and on whether the Commission should pursue generic reform in the area of cost allocation. A discussion follows.

#### **a. The Level of Transmission Facilities Constructed and Proposed in New England Indicates that Sufficient Incentive Exists to Invest in Transmission under Current Cost Allocation Practices.**

New England's cost allocation regionalizes costs for transmission projects needed to maintain reliability and for market efficiency. Costs that are incurred to accommodate aesthetic preferences or state or local requirements are paid by the local transmission owner's customers. Costs to interconnect merchant generation facilities are the responsibility of the merchant generator. Under this mechanism, New England has placed into service over \$4 billion in transmission investment since 2002. This includes major transmission projects in Connecticut, Maine, Massachusetts and Vermont, as well as an interconnection with Canada. About \$5 billion more in transmission investment is now under study, in development, or under construction. This level of recent investment and projects under study indicates there is adequate incentive to invest in new transmission under current cost allocation practices.

Similarly, inter-regional cost allocation has not proved to be a barrier to inter-regional infrastructure development. A Norwalk-Northport underwater cable replacement between Connecticut and Long Island as well as the development of a second 345 kV tie with New Brunswick evidences New England's ability to sort through cost allocation issues and implement inter-regional facilities.

In addition, cost allocation may prove to be no barrier to an international project. The joint project proposed by Northeast Utilities and NSTAR Electric with Hydro Quebec to construct a merchant HVDC line would utilize a long term contract that bundles transmission and energy costs into a combined, delivered-energy product. If the negotiations among the parties yield the results that they have described publicly, and the long term, combined delivered price is competitive with the price of energy alone, this approach would demonstrate that there are circumstances in which transmission cost allocation issues need not presumptively impede new transmission facilities designed to meet objectives other than reliability. This proposal brings several transmission companies together with potential buyers, and enables them to evaluate project economics on a relative basis with other options in the market. The project as contemplated would obviate the complex and often litigious issues identified in the Request, from the notion of whether to recalculate benefits over time to whether and how to account for non-quantifiable benefits and costs. While this proposal is just that - a proposal - it is a conceptual example of any number of projects or different constructs that market participants



may bring forward as New England continues efforts to facilitate development of its significant renewable resources.

**b. New England's Current Efforts to Develop Renewable Resources and Associated Transmission**

The New England Governors' *Renewable Energy Blueprint* described above makes clear the region's interest in, and cooperative inclination toward, developing our renewable resources through competitive markets or processes. We are in the process of working on mechanisms to facilitate such development, including the potential for joint or coordinated competitive solicitations of renewable resources and are establishing a state Renewable Procurement Working Group to this end. The New England Governors have requested the six New England states to report back to them on these issues within the year.<sup>1</sup> Such competitive processes may result in downward price pressure and bring forward other types of innovative proposals, some of which could potentially moderate the need for complicated, contentious and time-consuming debates on cost-allocation.

As this process moves forward, it is critical that our consumers not be required to pay for, or effectively subsidize, distant resources and associated transmission that they do not need and that are likely to be more costly than renewable resources available closer to load. An allocation decision that results in such subsidization would adversely impact our consumers, dampen local resource development, and interrupt our efforts to identify through competitive processes those renewable resources that make the most economic sense. Any cost allocation approach the Commission may consider to meet the needs of other regions should respect New England's efforts to facilitate development of its renewable resources and associated transmission in a way that makes the most sense for our consumers.

**Question: To the extent that a lack of up-front certainty about cost allocation is inhibiting transmission development, describe the relative impact of this concern on specific projects and as it relates to other impediments to development.**

**Answer:** That New England has approved and sited billions of dollars worth of transmission since 2002 and has billions of dollars worth of transmission projects under study indicates that cost allocation has not impeded transmission development. The merchant transmission proposals being considered by market participants in our region illustrate that transmission developers need not necessarily view cost allocation as an impediment to infrastructure development. Looking forward, we believe joint or coordinated procurement is one additional means to help to identify cost-effective renewable resources that will be developed.

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<sup>1</sup> New England Governors' Renewable Energy Blueprint Resolution Adopted September 15, 2009.

**Question: Should processes be established to help stakeholders address cost allocation matters over larger geographic regions? What is an appropriate scope for those regions? Should they align with the regions for which planning is conducted?**

**Answer:** Whether such processes make sense is region-specific. For a region like New England that has cost allocation methods that have worked to move transmission projects from proposed to in-service; experience sorting out allocation for interregional projects; and, the ability to meet environmental objectives with renewable resources and associated transmission in region, there is not a compelling reason to create processes at this time to examine cost-allocation beyond the planning region. When considering projects that cross into neighboring areas (i.e., New York and New England or Canada and New England), establishing “cost causer pays” principles may have value but final allocation rules need to be defined locally.

#### IV. CONCLUSION

The New England states shares the Commission’s interest in continuing to consider ways to improve and refine the transmission planning process. As the New England Governors’ *Renewable Energy Blueprint* reveals, the New England states concur with the Commission’s emphasis on removing barriers to the development and integration of renewable resources into our power system. We look forward to continued dialogue about means to achieve our energy and environmental objectives in a manner that makes the most economic sense for consumers. We respectfully request that the Commission take our views into consideration in this proceeding.

Respectfully Submitted,

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