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Board of Managers &
Heather Hunt
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ENE Comments on NESCOE Draft,
Non-Transmission Analysis: A Regional Framework Template

Dear NESCOE Managers and Ms. Hunt:

ENE would like to thank NESCOE for its leadership in thinking through how to better evaluate non-transmission alternative (NTA) solutions in the reliability planning process, especially between now and when any market or planning changes are made regionally (http://www.nescoe.com/uploads/NTA_Framework_May_2012.pdf). The following are some high level comments on the draft framework.

ENE supports many of the ideas in, and the general direction of, the NESCOE and LaCapra draft presentation, including:

- Requiring analysis of non-transmission alternatives to transmission development;
- NTA analysis early in the planning process;
- More uniform analysis across the region;
- Having an NTA analysis that is open and transparent;
- The use of demand-side resource achievable potential studies;
- Examination of transmission, NTA, and importantly hybrid solutions; and,
- Comprehensive cost-benefit analysis for both the state and the region.

Our primary concern with the proposal is the role of the transmission owners (TOs) in the NTA analysis. TOs currently operate in a system where the rules and financial incentives are aligned to maximize transmission investment over other resource choices. Transmission investment offers a rate of return that is higher than any other capital investment opportunity and at a very low risk given the structure of rates. In comparison, in the vast majority of instances the TOs cannot provide NTAs. They are barred from owning cost of service or regulated generation in much of the region. For demand side resources, there is no established mechanism for cost recovery and the return -- even if they were running programs -- is significantly lower (i.e. less than 5% vs. 13%). Essentially, this is a situation where a company has every financial reason to choose the transmission solution over the NTA and yet is in charge of conducting analysis and choosing assumptions. This is not a recipe for an objective, fair and balanced assessment of options.

However, we recognize that at least for an interim period in the current transmission planning process, the TOs will likely have a significant role. Some modifications to the proposal could significantly improve the process and the quality of the analysis completed.

- 1) ISO New England should have more of a leadership role in the analysis. While its history and expertise is more transmission oriented, its ability to secure expert and independent advice makes it well suited to the role of completing this kind of analysis. ISO's early involvement in the process would also facilitate some limited cost-benefit and economic estimates to be completed earlier, rather than waiting until the final state siting review stage.
- 2) In the case of energy efficiency as an NTA, entities responsible for state efficiency program planning should be consulted in the development of assumptions. These include efficiency program administrators (PAs – utilities in 4 states, third party entities in Maine and Vermont) with the corresponding state stakeholder efficiency oversight boards/councils. The PAs may in some cases be part of the same company as the TO, but energy efficiency staff have important expertise and should be consulted. The efficiency oversight boards/councils represent a neutral body with their own statutory mandates for planning, budgets and goals, with access to consultant expertise to help inform the process.
- 3) In the case of hybrid solutions, which might be preferred in many cases, it will be important to require collaboration between involved parties like the TO, ISO, and efficiency oversight boards/councils to ensure a sensible range of hybrid solutions are considered.
- 4) It would be helpful to clarify that the analysis of reliability solutions – whether transmission or NTAs – would be funded by the TO, even if others like ISO or the efficiency oversight boards/councils were involved in the process.
- 5) It would be helpful to highlight that there may be near-term differences between the outcome of analyses related to regional (RNS) vs. local projects. For local projects, where NTA or hybrid solutions prove more cost-effective, a state may have more incentive to select those options. For regional projects, until cost-allocation or market changes are made, a state is unlikely to choose the NTA or hybrid solution, given having to pay 100% of the NTA portion versus a fraction of the transmission solution.
- 6) There should be greater focus and commitment to stakeholder participation outlined in the framework. Although this would likely vary by state, NESCOE could propose best practices or more specific recommendations in this area.

We strongly encourage NESCOE and the state utility commissioners to develop a process that reduces the role and influence of the TOs in order to ensure the analysis is fair and balanced. Along those lines, we recommend that, in addition to interactions between the TOs and ISO as outlined in the draft process, NESCOE and state commissioners should formally consult with a broader group of stakeholders who are generally engaged, concerned or affected by these issues.

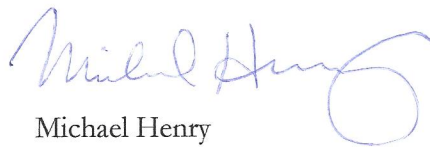
Please let us know if you have any questions and again we appreciate your leadership and attention to this important issue.

Sincerely,



Derek Murrow

Energy & Climate Policy Director



Michael Henry

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Project