

To: Heather Hunt, New England States Committee on Electricity

From: Anne George

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Subject: Comments on the New England States Committee on Electricity's 2010 Report to the New England Governors on Coordinated Renewable Procurement

I am writing in response to the New England States Committee on Electricity's (NESCOE) solicitation for input on its *2010 Report to the New England Governors on Coordinated Renewable Procurement*.

ISO New England (ISO) believes that NESCOE's Report offers valuable information and perspective to the wholesale electricity marketplace about the collective and individual objectives of the states in facilitating the development of renewable resources. In particular, the Report makes it very clear that the overall goal of the states is to develop cost-effective renewable resources – and that this goal will ultimately guide the mechanisms, terms and conditions and regulatory processes to be used in any kind of joint or coordinated procurement.

ISO New England believes that this is an important goal for the region and offers the following comments to further enhance the ability of the states to determine the most cost-effective renewable resources. These comments also suggest options to enable resource development consistent with risk management principles – and expedite the current pace of renewable integration in the region.

Background

At present, the New England power system has a limited ability to accommodate the interconnection of certain utility scale renewable energy projects, due largely to the fact that many of the new projects are being proposed in areas remote from customer load that, in turn, are some of the weakest parts of the transmission system. In addition, ISO New England has conducted a number of economic studies that indicate it is unlikely that significant transmission investments to integrate renewable resources in these remote areas will be economically justified, particularly given current wholesale market conditions.

The result is that the region will proceed with an incremental approach to interconnecting renewable resources. Progress will be constrained by market economics including the costs associated with renewable resource interconnections which may continue to rise as they present reliability risks or significantly increase operational complexity. This incremental approach to renewable and transmission development is likely to be the most economic approach in the short run. Over the longer term, ISO can manage interconnections in this manner, however, it should be recognized that while this approach may control costs in the short run, this approach may also result in slower growth of renewable resources than is necessary if policy makers want to transition the power system to a cleaner energy footprint in a timeframe necessary to meet policy goals.

Coordinated Procurement May Justify Transmission Investment

NESCOE's Report outlines several benefits associated with a coordinated approach to procuring renewable resources including that the buying power of the states may be enhanced by aggregating the region's demand for renewable power, the renewable power market may be stimulated, and project developers may benefit from the creation of more certain revenue streams. In addition to these benefits, the ISO views coordinated procurement as an opportunity to achieve sufficient economies of scale to justify a robust investment in transmission and promote more rapid development of renewable resources consistent with state and federal policy objectives.

Consider a Regional Request for Proposal (RFP) in multiple phases

ISO New England believes that the Report's proposal for a model regional Request for Proposal (RFP) based on terms and conditions developed, and agreed to by the states, is a sound mechanism for pursuing a coordinated approach to renewable project development.

While there are many ways to structure such a regional RFP, one option is for the states to consider a process that would consist of a series of RFPs over an extended period (e.g. an RFP every three to four years over a ten to twenty year period), each for a defined amount of renewable energy. This approach reduces risk and offers the states flexibility to defer or adjust future RFPs based on changed circumstances.

Additionally, to facilitate effective evaluation of project proposals submitted through a regional RFP, states should consider requiring that project developers provide pricing information on both a bundled ("all in" energy price, including all the necessary transmission to deliver the renewable energy to the New England hub) and an unbundled basis (price for renewable energy delivered at the closest point of interconnection with the bulk transmission system, with a separate price for transmission to deliver the energy to the New England hub). This will provide important insight, based on actual project proposals, into the magnitude and split between the cost of the renewable resource and the required transmission infrastructure. It can also be used to seek information to aid the states in determining the cost and benefit allocation among the contracting parties.

Consider a Request for Information (RFI) as Initial Step

In order to prepare for the development of a regional RFP, ISO suggests the states consider issuing a Request for Information (RFI) to the industry. We see several advantages to this approach because an RFI can assist in:

- Collecting the necessary information to produce a high quality RFP, without committing the states to a purchase.
- Gathering both technical and economic information. In particular, the RFI should seek to establish where the most economic projects are likely to be located.
- Refining the scope and magnitude of the RFP based on preliminary cost information.
- Guiding the ISO's transmission planning work and allowing for input on reliability constraints at the scoping stage of the RFP.

ISO also offers additional detail on the kind of information that may be helpful to pursue through an RFI in Attachment A to this memo.

Conclusion

ISO New England appreciates the opportunity to provide comments on NESCOE's 2010 *Report to the New England Governors on Coordinated Renewable Procurement* and is prepared to assist the states in their ongoing efforts to evaluate the development of renewable resources in the region.

We believe the region's primary goal of procuring cost-effective resources for consumers can be met through coordinated procurement. This will provide the basis for achieving the scale necessary to justify the transmission investments that will be needed to assure reliability and deliverability of the renewable energy. We also recognize that accelerated integration of variable renewable energy is likely to require enhancements to the wholesale market and we are committed to working with our stakeholders to ensure that the market design is well coordinated with public policy efforts. Finally, a coordinated procurement approach can position the region favorably in the context of the ongoing national energy debate.

ATTACHMENT A – Suggested Guidelines for Proposed RFI

In order for an RFI to solicit the appropriate level of information, the ISO recommends the following guidelines for the states to consider:

- NESCOE should specify an intended scope of procurement that will allow economies of scale to be achieved on the transmission investment (e.g. project developers should provide proposals to satisfy an intended procurement requirement of up to 2000MW of state Renewable Portfolio Standard compliant renewable resources).
- Developers should describe the project and regional benefits associated with the project in detail, including specifying how the renewable energy will be delivered to the New England hub.
- Developers should provide the following price/cost information.
 - Bundled prices – delivered price of energy to the NE hub, including any transmission investments that are required.
 - Unbundled prices – price(s) for energy delivered at the point of interconnection to transmission system and separate price(s) for the transmission investments required to deliver the energy to the NE hub.
- To the extent that the specified requirement is met through the aggregation of multiple projects, the developers should specify the location and size of the individual projects, to demonstrate the relative commercial viability of various renewable energy zones in the region.
- Developers should also specify whether they have secured right of way for any proposed transmission developments.
- Developers should identify any issues that are of concern to them in responding to a RFP.