

NECA & CPES
2013 New England Energy Conference & Exposition

***Emerging Government Energy Policies:
Are We There Yet?***

New England States Committee on Electricity

May 21, 2013

NESCOE

New England's Regional State Committee governed by a Board of Managers appointed by each of the New England Governors to represent the collective views of the 6 New England states on regional electricity matters

- **Focus:** Resource Adequacy, System Planning & Expansion
- **Resources:** 6 full-time staff with diverse disciplines & experience. Consultants, primarily for transmission engineering & independent studies
- **More information:** including all filings & comments at www.nescoe.com & on Facebook

Overview

- Gas-Electric Study conducted by Black & Veatch
 - Policy Questions, Study Overview, Solutions to be Studied
- Status: Coordinated Renewable Power Procurement
- Order 1000: Preliminary Reaction to Friday's Order

Some Policy Questions The Study Seeks to Answer

Study Purpose: 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

Provide analysis about:

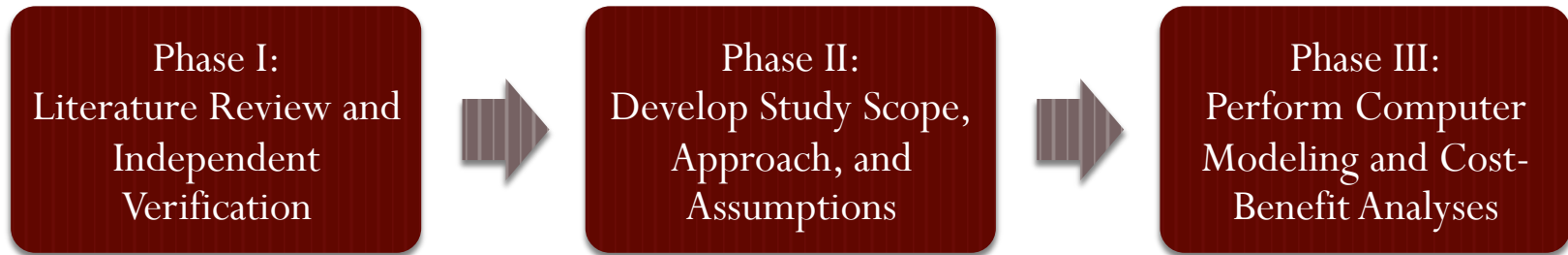
- The extent & duration of current & future natural gas pipeline congestion
- The relative economic costs & benefits of various approaches to address natural gas pipeline congestion

Ancillary benefit of studying gas - electric market interaction:

Provide a view of the long-term capacity utilization & economics associated with states' demand-side management policies - study compares high & low demand cases.

All else equal (such as economy) study will provide insight
of the magnitude of state policy impacts over time

Gas-Electric Study Overview



- **Phase I:** Black & Veatch concluded that the New England natural gas infrastructure will be increasingly under pressure from demand growth from the power sector
- In **Phase II**, Black & Veatch has:
 - Analyzed historical gas demand in New England by sector
 - Projected growth requirements by sector for the next 15 years
 - Summarized announced pipeline expansion projects and generic infrastructure options and provided high level cost estimates for infrastructure options
 - Identified demand and power side response
 - Identified scenarios and sensitivities for further analysis
- In **Phase III**, Black & Veatch will:
 - Refine cost estimates associated with potential solutions
 - Perform computer simulations to estimate benefits of potential solutions

Initial Study Observations

- *Black & Veatch*: natural gas infrastructure serving New England will become increasingly stressed as regional demand for natural gas grows
- For the 14 New England sub-regions analyzed, 11 will exceed the constraint capacity level by more than 30 days/year under current infrastructure
- *Black & Veatch*: The **most appropriate primary solutions to study*** to alleviate infrastructure constraints:
 - incremental natural gas pipeline capacity
 - incremental LNG imports
 - electric transmission that enables imports from outside the region - particularly to reach the substantial, diverse supply resources north of, and proximate to, New England

**The decision to study these solutions does not reflect any state determination in connection with any particular solution*

Phase III: Scenarios & Sensitivities (15)

High Gas Demand

- Pipeline
- LNG Import
- Imported Canadian Electricity
- Colder Weather (Design Day)

Base Case

- Pipeline
- LNG Import
- Imported Canadian Electricity
- Dual Fuel and Demand Response

Low Gas Demand

- LNG Peak Shaving
- Imported Canadian Electricity
- Dual Fuel & Demand Response
- Negative Growth

One Solution: Incremental Imported Canadian Electricity

- Increased Canadian Imports – a solution to natural gas congestion worth exploring under all 3 demand scenarios
 - Considering some gas & some electric solutions in all scenarios
 - Evaluating the costs/benefits of all
 - Looking at aggregate impact on electric sector demand for natural gas
- Increased Canadian imports analysis will provide policymakers with information on a carbon-free solution that would increase fuel diversity
- Study will assume new transmission will enable incremental hydro imports
 - Will compare cost to serve loads before & after increased imports ~ economic benefits from reduced cost to serve load

Further Gas Study Information

For additional information:

www.nescoe.com/Gas_Supply_Study.html

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Coordinated Competitive Renewable Power Procurement

OBJECTIVE: To consider identifying, through joint or separate but coordinated **competitive processes**, those resources that have the greatest potential to help meet the region's renewable energy goals at the **lowest “all-in” delivered cost to consumers** – the cost of generation & transmission combined

Look Back at Related Work

2009 *New England Governors' Renewable Energy Blueprint* prepared by NESCOE & associated technical analysis (2009 Economic Study) prepared by ISO-NE at the request of the Governors

Governors' Resolution



2010 *Report to the New England Governors on Coordinated Procurement*

2011 *Request for Information* from renewable developers & others including transmission owners

Governors' Resolution



2012 *Renewable Supply Curve Analysis* provided directionally indicative, relative cost information of on & off-shore wind resources in 2016, 2020

July 2012 New England Governors' Resolution

Governors directed NESCOE to develop *Work Plan* to execute CP

Identified goal of issuing RFP by end of 2013



August 2012: NESCOE issued draft *Work Plan*

Requested & considered stakeholder input



November 2012: NESCOE adopted final *Work Plan*

December 2012: Began Implementation of *Work Plan*

Coordinated Procurement Work Plan

- **Identified activities & illustrative timeframes toward state regulatory proceedings to consider long-term contracts**
 - All states committed to participate in crafting & issuing RFP, scoring criteria & illustrative PPA
 - In most states, EDCs bring proposed contract to PUC after final contract negotiation
 - No state commitment to procure until PUC considers whether project makes sense for consumers

- **Identifies issues to be addressed in advance of solicitation, such as**
 - Eligible resource type
 - Contract duration
 - Preferred products (capacity, energy and/or RECs)
 - Potential volumes
 - Evaluation criteria: price & non-price; relative weight & non-price criteria

Implementation Teams

Procurement Team

- ✓ Populated by states (no-PUC decision-maker), EDCs & NESCOE
- ✓ Developed project, bid & evaluation criteria
- ✓ Created draft RFP & PPA,
- ✓ Consider stakeholder input as appropriate & finalize
- ✓ Issue RFP, identify short list bidders & preferred projects (EDCs select final & negotiate contract)
 - ✓ Coordinator: Jeff Bentz

Legal Subteam

- ✓ Supports PT
- ✓ Provides legal guidance on substantive & procedural issues
- ✓ Populated by lawyers from each state with procurement experience & state statutory expertise
 - ✓ Coordinator: Jason Marshall

Progress to Date

- **PT progressed to near-final RFP, scoring criteria & illustrative PPA before pausing in February**
 - Tremendous collaborative approach by PT
 - States' approach to PT - flexibility & recognition of complexity - reflected seriousness of purpose in connection with regional collaboration
- **Legal Sub-team worked through most details of coordinating mechanics & informed PT work**
 - Mechanics adaptable based on specifics of solicitation
 - *Coordinated procurement mechanics valuable to states in variety of future scenarios & power system-related needs that could be used for other products or infrastructure*

What's Next

- **Ready to Roll**
- **Remaining steps prior to releasing solicitation**
 - Anticipate final Legal Subteam & EDC legal review of solicitation-related documents
 - Anticipate stakeholder input opportunity
 - Finalize solicitation-related documents
- **Six states current plan is to issue solicitation late summer/fall**

Intervening Issue: Expiration of Federal Tax Credits for Wind Created Interest in Additional Near-Term State Action

- Post Governors' Resolution, extension of federal tax credit for wind, with expiration at end of 2013
- In attempt to capture tax credit benefits, some state interest in additional expedited, near-term procurement
 - Massachusetts moving quickly with 1st of 2 required 83A procurement rounds
 - One or more other states may also elect to move rapidly with a limited, near-term solicitation – talking now about whether a rapid-fire, near-term RFP would be best as a NESCOE procurement or single state effort
 - Given high stakes of tax credit & corresponding need for speed, states may conclude their 'tried & true' single state process for fast-track RFP may be preferable to 1st time coordinated process

Order 1000: Preliminary Thoughts on FERC's May 17th Compliance Order

FERC Issued Order at Close of Business on Friday May 17, 2013

Preliminary reactions presented here reflect reaction based on prior NESCOE positions & FERC filings; more to follow over Summer 2013

Positive Steps Toward Meaningful Competition

- FERC found, by a split decision, that TOs' Right of First Refusal (ROFR)—right to build transmission projects—cannot withstand scrutiny under “public interest” standard
- Maintaining ROFR would “severely harm the public interest”
 - “Reflects monopoly power” and “economic self-interest . . .in excluding competition”
 - Removing barriers to entry essential to meeting demands of evolving electric industry, such as shifting generation mix and significant build-out of transmission grid
 - Consumer harm by limiting proposals that may be more efficient or cost-effective solutions
- A narrowly tailored exception for immediate need reliability projects acceptable, but 5 years not justified
 - Exception permitted for projects needed within 3 years to solve reliability violation; however, criteria established to place “reasonable bounds on ISO-NE’s discretion”
- Directed other changes to removed potential barriers to entry (e.g., qualification criteria, right-of-way language)
- Needs Assessment Study Groups opened to technically-qualified staff of market participants and other stakeholders, including non-incumbent transmission developers
 - Information critical to participating in early stages of transmission planning process

Public Policy in Planning

- Appreciate FERC's appropriate deferral to states on public policy identification process
 - Key - recognition of central role of states as proper jurisdictional entities to identify state public policies appropriate to consider in planning
- However, FERC finding of non-compliance relative to evaluation of potential solutions and project selection contrary to states' position*
 - Implementation of state policies rests with states; not ISO-NE, not FERC, not market participants
 - How is an ISO-NE transmission engineer/wholesale market administrator qualified or authorized to make judgments on a state's behalf about execution of its state policies?
 - State-led evaluation and selection should be primary, not complementary process
- FERC striking down cost allocation proposal raises similarly at odds with states' position
 - How would pre-defined cost allocation work in the case of a state that has already fully satisfied its policies through prior investments?
 - Would that state's consumers be required to subsidize costs related to *other* states achieving their own state public policies?
 - Is that just and reasonable?

* "States' view" in this context excludes Maine

Thanks.

More Information about NESCOE at www.nescoe.com