

New England States
Committee on Electricity

To: ISO-NE & NEPOOL
From: NESCOE
Date: August 27, 2011
Subject: Process Issues: Order 1000

The New England States Committee on Electricity (NESCOE) provides this preliminary assessment of some aspects of the process for considering public policy in transmission planning and the identification of transmission needs that may be driven by such public policy. We look forward to beginning to discuss these and other issues at the Order 1000 meeting on August 30, 2011.

IDENTIFICATION OF PUBLIC POLICY TO BE CONSIDERED IN TRANSMISSION PLANNING

Pursuant to Order 1000, ISO-NE has to coordinate with stakeholders to identify public policy requirements established by state or federal laws or regulations that are appropriate to include in local and regional transmission planning processes and establish procedures under which New England will identify those transmission needs driven by public policy requirements for which potential transmission solutions will be evaluated.

At the outset of the process, NESCOE intends to provide to ISO-NE and stakeholders the states' collective view of those public policies embodied in law and regulation that should be considered in New England's transmission planning process. Preliminarily, we believe the identification of such public policies will require an initial comprehensive assessment of - and judgment about - whether any, and if so what, laws and regulations are appropriate to consider in transmission planning. Thereafter, it is likely that annual re-assessments of laws and regulations may consist of a review of changes or anticipated changes to laws or regulations that could modify, in any number of directions, the extent to which transmission may be needed to help meet public policy requirements.

To assist the states' assessment of laws and regulations appropriate to consider in regional transmission planning, we intend to conduct a process to solicit stakeholder views. In this context, we intend to solicit views from New England market participants and others, such as, for example, public officials. This stakeholder input opportunity may be at the beginning of our process and/or in response to our preliminary identification of those laws and regulations appropriate to consider in transmission planning. This stakeholder input process is intended to enhance our consideration of the issues; it is not intended to supplant any other stakeholder process ISO-NE may conduct at a later point in the process.

With the benefit of stakeholder input, we intend to submit to ISO-NE the states' collective view about whether any, and if so what, laws and regulations are appropriate to consider in New England's transmission planning process. We anticipate articulating the rationale for those laws and regulations that should be considered and why others should not be.

Similarly, we intend to identify as appropriate any transmission needs we believe are driven by public policy requirements. We also intend to comment on proposals offered by others regarding any transmission needs they believe are driven by public policy requirements. This will include our view on which transmission needs driven by public policy requirements, including requirements to examine effective alternatives to transmission solutions, should be evaluated for potential solutions in the transmission planning process, as well as an explanation of why other suggested transmission needs do not merit evaluation. The states' primary interest is in meeting public policy objectives in the most cost-effective way and so our views in this area may be informed by, for example, information obtained in any competitive process that identifies those projects able to advance public policy objectives at the lowest all-in delivered cost to consumers.

EVALUATION OF SOLUTIONS TO TRANSMISSION NEEDS DRIVEN BY PUBLIC POLICY

With regard to the evaluation of potential solutions to the identified transmission needs that may be driven by public policy requirements, FERC noted in Order 1000 that there are many ways potential upgrades to the transmission system can be evaluated, ranging from the use of scenario analyses to production cost or power flow simulations. ISO-NE has historically conducted various kinds of analysis including, for example, scenario analysis in the context of Economic Studies that have provided valuable information for policymakers and others about the potential implications of various policy options and system configurations. The states are interested in discussing the kind of analysis best suited to policymakers' evaluation of solutions proposed to meet public policy requirements.

As noted, ultimately, the states are interested in identifying means to serve consumers at the lowest overall or all-in delivered cost. Accordingly, we anticipate that an essential part of our evaluation of any proposed public policy project(s) will be information that identifies those that could help meet public policy objectives most cost-effectively and at the lowest overall cost to consumers. The states look forward to discussing with ISO-NE and stakeholders means to obtain such analysis, whether from ISO-NE, through analysis conducted by the states' and/or derived from information obtained through competitive process(es).

Cost Allocation

In Order 1000, FERC noted that agreements among states with respect to cost allocation may be particularly important for transmission facilities designed to meet transmission needs driven by public policy requirements. We agree, particularly in light of the states' authority to determine whether, when and where proposed transmission

facilities are sited. FERC further observed that states could pursue such agreements in various forms, including a committee of state regulators or through a compact among states that receives appropriate approval from Congress. Consistent with the principle that costs will not be assigned to those that receive no benefit from new transmission facilities, either at present or in a likely future scenario, we anticipate that agreement in this context will be achieved by consensus of the six New England states. It is early in the process, and the states, of course, require considerable discussion about issues associated with cost allocation in relation to projects proposed to meet public policy objectives, including, for example, what consensus means in connection with such a proposed project and means to achieve final determinations related to a project proposed to meet state laws and regulations. Any cost allocation tariff modification should preserve the opportunity to pursue coordinated competitive procurement and other approaches to develop and pay for those projects able to serve customers at the lowest all-in cost.