UNITED STATES OF AMERICA

BEFORE THE

FEDERAL ENERGY REGULATORY COMMISSION

Transmission Planning and Cost Allocation by	**)**	
Transmission Owning and Operating Public Utilities	**)**	**Docket No. RM10-23-000**

COMMENTS OF THE NEW ENGLAND STATES COMMITTEE ON ELECTRICITY ON NOTICE OF PROPOSED RULEMAKING

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 June 17, 2010 Notice of Proposed Rulemaking regarding transmission planning and cost allocation in the above-captioned docket (the NOPR).[1]

NESCOE shares the Commission's interest in helping to bring to fruition projects and associated transmission that meet state and federal policy objectives. In fact, New England, including NESCOE, stakeholders, regulators, ISO-New England, Inc. (ISO-NE) and New England's Governors have spent considerable time assessing New England's renewable resource potential to meet policy objectives and considering means to facilitate its development, which work is ongoing.

In broad terms and with important conditions intended to make sure that changes to planning: 1) respect and/or complement regional competitive markets and processes; 2) provide

[1] The New England Conference of Public Utility Commissioners (NECPUC) has authorized NESCOE to represent that NECPUC generally concurs with these comments.

mechanisms to ensure that only the most cost-effective projects proposed to meet public policy objectives move forward; and 3) assign appropriate roles to entities in connection with public policy, NESCOE supports some changes to transmission planning.

With regard to cost allocation, NESCOE supports the proposal to require cost allocation agreements between neighboring regions, and appreciates the NOPR's principle that prohibits involuntary assignment of costs of facilities located in other regions. This is critically important to New England's ratepayers who do not need resources from distant markets to meet reliability or public policy objectives and therefore should not pay for transmission to access them. NESCOE requests any final rule preserve flexibility to allow regions to pursue resource and transmission development and associated cost recovery by different means, such as, for example, regionally coordinated renewable procurement or inclusion of transmission to access renewables in the regional system plan. It is also important for FERC to establish a clear process to make certain that transmission costs are reasonably controlled and that only approved, reasonable and prudent costs are allocated. For example, costs incurred to accommodate a local preference for undergrounding electric lines for aesthetic reasons should not be allocated to other regions.

In these comments, NESCOE: 1) offers New England background on some central issues to give context to its comments; 2) explains important conditions and limitations associated with proposed changes in planning; 3) identifies some elements of cost allocation particularly relevant to New England's interest in developing renewable resources located in and around the region that can serve customers cost-effectively; and, 4) requests that regions have the opportunity and time to consider and implement changes as necessary to give effect to the NOPR's principles concerning nonincumbent transmission providers.

II. BACKGROUND: NEW ENGLAND PLANNING-RELATED PROCESSES & EFFORTS TO FACILITATE PROJECTS TO MEET PUBLIC POLICY OBJECTIVES

As the NOPR observes and experience to date in the new interconnection-wide planning activities has underscored, regional transmission planning processes are wide-ranging. So too are various planning regions' proximity to resources that enable compliance with public policy objectives. To give context for the balance of NESCOE's comments, this section provides background information about New England's planning processes and information about the region's efforts to develop resources and associated transmission that would satisfy some of the important public policy objectives indentified in the NOPR.

A. New England's Regional System Planning Process Has Resulted in Billions of Dollars Worth of Transmission Investment in the Region Since 2002.

New England's regional system planning process has been in place since 2000, when the Commission accepted NEPOOL's regional transmission planning and expansion proposal. Through the planning process, ISO-NE produces an annual report referred to as the Regional System Plan (RSP). The RSP is a snapshot in time of New England's continuous cycle of needs assessments, reflecting the dynamic nature of the regional power system and corresponding needs.

The ISO-NE Transmission, Markets and Services Tariff (ISO-NE OATT) identifies various categories of upgrades and assigns the applicable transmission cost allocation mechanism for each upgrade. In order for a transmission project to qualify as a Regional Benefit Upgrade (RBU) and, thus, receive cost recovery through regional rates,[2] a project must be

[2] In addition, upgrades below 115kV and those upgrades of 115kV or above that do not meet the tariff-specific criteria as Pool-Supported Transmission Facilities (PTF) are considered Local Benefit Upgrades with costs not allocated regionally. ISO-NE OATT Schedule 12 § 6.

included in the RSP [3] as either a Reliability Transmission Upgrade (RTU) or a Market Efficiency Transmission Upgrade (METU).

Under ISO-NE's tariff, an RTU is defined as:

> Those additions and upgrades not required by the interconnection of a generator that are nonetheless necessary to ensure the continued reliability of the New England Transmission System, taking into account load growth and known resource changes, and include those upgrades necessary to provide acceptable stability response, short circuit capability and system voltage levels, and those facilities required to provide adequate thermal capability and local voltage levels that cannot otherwise be achieved with reasonable assumptions for certain amounts of generation being unavailable (due to maintenance or forced outages) for purposes of long-term planning studies. Good Utility Practice, applicable reliability principles, guidelines, criteria, rules, procedures and standards of NERC and NPCC and any of their successors, applicable publicly available local reliability criteria, and the ISO System Rules, as they may be amended from time to time, will be used to define the system facilities required to maintain reliability in evaluating proposed Reliability Transmission Upgrades. A Reliability Transmission Upgrade may provide market efficiency benefits as well as reliability benefits to the New England Transmission System.[4]

METUs, on the other hand, are defined as:

> Those additions and upgrades that are not related to the interconnection of a generator, and, in the ISO's determination, are designed to reduce bulk power system costs to load system-wide, where the net present value of the reduction in bulk power system costs to load system-wide exceeds the

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[3] As set forth in the ISO-NE tariff:

> The purpose of the RSP is to identify system reliability and market efficiency needs and types of resources that may satisfy such needs so that Market Participants may provide efficient market solutions (*e.g.*, demand-side projects, distributed generation and/or merchant transmission) to identified needs. The purpose of the RSP is also to assess the ability of proposed market solutions to address identified needs with due cognizance of the operational characteristics of those proposed market solutions and to identify a regulated transmission solution to be built by one or more PTO(s) in the event that market responses do not meet identified needs or that additional transmission infrastructure may be required to facilitate the market.

See, ISO-NE OATT Attachment K.

[4] ISO-NE OATT I.1.2

> net present value of the cost of the transmission addition or upgrade. For purposes of this definition, the term "bulk power system costs to load system-wide" includes, but is not limited to, the costs of energy, capacity, reserves, losses and impacts on bilateral prices for electricity.[5]

Generator owners are obligated to pay all of the costs of those upgrades necessary for the generation resource to meet the applicable interconnection standard.[6] The current cost allocation methodology also provides for Elective Transmission Upgrades, where the upgrade is participant funded (i.e., voluntarily funded by an entity or entities that have agreed to pay for all of the costs of such upgrade).

New England's Planning Advisory Committee (PAC) provides input to ISO-NE on each RSP. The PAC is open to all interested entities and includes representatives from each industry sector, as well as environmental and consumer advocates, and others. The New England states participate in the PAC, conveying individual state views and collective regional points of view, as appropriate.

New England's current regional system planning process has resulted in over $4.3 billion in transmission infrastructure to meet reliability needs since 2002. This includes investment in major transmission projects in Connecticut, Maine, Massachusetts and Vermont, as well as an interconnection with Canada. Another $5 billion in transmission investment for reliability-related projects is now under review, study or construction. To date, no METU has been an approved part of the RSP[7] and no participant-funded project has been built recently within ISO-

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[5] *See id.* Attachment N to the OATT also contains additional information about the standards for identifying RTUs and METUs. Specifically, Attachment N measures net present value in terms of production costs rather than in the price paid by consumers.

[6] ISO-NE OATT Schedule 11.

[7] One general reason cited for the absence of METUs may be that high transmission construction costs in New England make achieving production cost savings sufficient to justify a project on efficiency grounds very difficult.

NE.[8] Many reliability projects have, however, produced significant economic benefits to one or more sub-regions.

The U.S. Department of Energy (DOE) Draft 2009 Congestion Study noted New England's planning process as a factor in congestion reduction in the region. The DOE observed "…the steady efforts of the utilities, ISO, independent generators, regulators, legislators, energy service companies, and customers who have worked together to develop and implement a comprehensive and consistent set of policy, pricing and planning tools."[9] The DOE further stated that "[t]he region (New England) has shown that it can permit, site, finance, cost-allocate and build new generation and transmission, while encouraging new demand-side resources as well.".[10] While there is certainly room to improve New England's planning process in fundamental areas such as properly valuing energy efficiency in the load forecast and more clearly identifying the physical characteristics of the physical solutions that can meet identified needs, which analysis would inform timely consideration of alternatives to regulated backstop transmission solutions, NESCOE agrees with DOE's assessment regarding the reduction in congestion in New England.

[8] The Phase II tie to Quebec, which was built on a participant funded basis, was completed in 1992. The Cross Sound Cable, a merchant transmission line connecting New England to New York, was completed in 2003.

[9] DOE Congestion Study draft at page 57. The Draft Congestion Study can be accessed at the following link: http://www.congestion09.anl.gov/documents/docs/Congestion_Study_2009.pdf

[10] Id. at page 58.

B. New England Participates in Various Long-Standing and in New Interregional Planning Activities

NESCOE supports the Commission's interest in ensuring that planning discussions are happening constructively with neighboring regions. This section describes briefly some of those relevant to New England.

New England-New York Inter-Regional Planning. ISO-NE has in place an interregional planning agreement with the New York Independent System Operator (NYISO) and PJM Interconnection, L.L.C. (PJM). Referred to as the Northeastern ISO/RTO Planning Coordination Protocol (Northeast Protocol), the agreement was executed in 2004 and in large measure conforms to the primary interregional planning aspects of the NOPR.[11] The Northeast Protocol provides for data and information exchange among the regions and outlines procedures for analyzing interconnection requests among other matters.

Through the Northeast Protocol, the Joint ISO/RTO Planning Committee (JIPC) was formed to facilitate coordination among the three RTOs and to undertake reliability and economic analyses. The Northeast Protocol also led to the formation of the Interregional Planning Stakeholder Committee (IPSAC). IPSAC solicits input from the system operators and other stakeholders to develop a Northeast Coordinated System Plan (NCSP) on an annual basis.[12] This year, for example, NESCOE reviewed and offered comment on the NCSP draft plan. ISO-NE also participates in the Northeast Power Coordinating Council's (NPCC) Task Force on

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[11] The Northeast Protocol and its related documents are available at this link: www.interiso.com.

[12] The 2009 Northeast Coordinated System Plan is available online at www.iso ne.com/committees/comm_wkgrps/othr/ipsac/ncsp/2010/ncsp09final.pdf.

Coordinated Planning, which addresses resource adequacy and cross-border transmission reliability issues with neighboring control areas.

Eastern Interconnection Planning Collaborative. As the Commission is aware, New England is participating in the DOE supported eastern interconnection-wide planning process, the Eastern Interconnection Planning Collaborative (EIPC). EIPC is a long-overdue opportunity to improve communications across the interconnection and to obtain objective data about various policy options, with states coordinating policy inputs through the Eastern Interconnection States Planning Collaborative (EISPC). For EISPC purposes, New England and New York is one region. This has created a useful opportunity for increased communications about planning by and between New York and New England state officials and planning authorities.

Given the new resource intense interconnection-wide work now underway that will proceed at least through 2012, NESCOE encourages the Commission to allow that process to move forward without mandating fundamental mid-course changes to regional planning processes that could dilute the ability to give either concerted attention and to establish NOPR compliance dates mindful of the interconnection-wide planning workload.

New England Governors-Eastern Canadian Premiers: New England has a long history of working collaboratively with the Eastern Canadian Provinces on energy and environmental matters. The New England Governors' Conference, Inc. and Eastern Canadian Premiers meet annually to discuss energy and environmental interests. During the year, representatives of the New England states and Eastern Canadian Provinces continue business through the Northeast International Committee on Electricity (NICE), a committee of the New England Governors' Conference, Inc. An example of the type of issue discussed through NICE relates to the *Report to the New England Governors on Coordinated Renewable Procurement*, described below.

Specifically, pursuant to direction from the New England Governors and the Eastern Canadian Premiers, representatives of the states and provinces will have a cross-border dialogue about renewable power procurement, including contract structures and potential terms and conditions associated with regional procurement.[13]

C. New England Has Renewable Resources that Could Satisfy its Public Policy Objectives, Assuming Development of New Transmission Required to Support Them.

The NOPR expresses the Commission's interest in facilitating compliance with state and federal policies, and in particular, with state renewable portfolio standards.[14] The NOPR also emphasizes location-constrained renewable resources located remote from load centers and the need for new transmission facilities that cross several RTO or ISO regions as an issue to be resolved by changes to the transmission planning process.[15]

New England has significant on- shore and off-shore wind power potential.[16] Technical analysis addressing integration of incremental levels of those resources, ranging from 4,000MW to 12,000MW, concluded that New England would require approximately 1,430 circuit miles to 4,320 circuit miles of new transmission to support varying levels of renewable resource integration.[17] New England's renewable resource profile and interest in pursuing competitive mechanisms as identified by the New England Governors narrow some of the complex issues the

[13] The Governors' and Premiers' Resolution is available at this link: http://www.negc.org/documents/Res_33-2.pdf

[14] NOPR at paragraphs 36 and 151.

[15] Id.

[16] ISO-NE Renewable Development Scenario Analysis (RDSA) at page 1. The RDSA can be accessed at this link: http://www.nescoe.com/uploads/2009_Economic_Study_Final_Report.pdf

NOPR describes as impediments to regions achieving policy objectives. For example, renewable resources located in and proximate to New England eliminate the need for New England to cross multiple RTO boundaries to meet its clean energy objectives, provided adequate transmission is available within the region to access them. Importantly, analysis shows that in-region development of renewables and access to renewable energy from neighboring systems appears possible with significantly less capital investment for transmission infrastructure than would be required to import an equivalent quantity of power from more remote, out-of-region sources on new, high-voltage transmission lines.[18]

For important context, NESCOE provides brief background on its efforts to facilitate the development of its cost-effective renewable resources. In September 2009, the New England Governors adopted the *New England Governors' Renewable Energy Blueprint* (Blueprint). The Blueprint, together with associated technical analysis conducted by the ISO-New England, Inc., referred to as the *Renewable Development Scenario Analysis*, describes the significant renewable resource potential in and around New England. The Blueprint also identified means available to the states to facilitate its development.

From a technical perspective, the Blueprint found that New England has a significant quantity of untapped commercial scale renewable resources combined of on-shore and off-shore wind power potential as noted above. This number is exclusive of other renewables supported by New England state programs and policies, such as solar. Developing far less than the maximum potential would enable New England to meet its renewable energy goals and reduce reliance on carbon-emitting generation resources. More aggressive development of generation resources

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[17] RDSA at page 15.

[18] New England Governors Renewable Energy Blueprint at page 7. The Blueprint may be accessed at this link: http://www.nescoe.com/uploads/September_Blueprint_9.14.09_for_release.pdf

with corresponding transmission infrastructure investment would enable New England to export clean power to neighboring regions.

From a policy perspective, the Blueprint observed that New England has the essential elements in place to help bring cost-effective, secure, low-carbon resources to market. Among them are a long history of collaborative working relationships between the New England states and the Eastern Canadian provinces on complex energy and environmental matters; a common interest in carbon reduction; considerable recent experience successfully siting significant transmission facilities; and, substantial authority associated with competitive solicitations and contracts for generating resources. Most of New England also shares aggressive Renewable Portfolio Standards, and a history of programmatic support for renewable resources.

To facilitate development of cost-effective renewable resources, the Blueprint identified two opportunities for enhanced regional coordination: coordinated procurement of renewable power and siting reviews of interstate transmission facilities required to deliver renewable power to New England load centers. Coordinated siting could facilitate development of renewable resources identified through a favorable response to a regionally coordinated competitive procurement for renewable power or regional planning designed to advance generation and transmission projects that would advance public policy objectives.

In July of 2010, NESCOE delivered to the New England Governors, pursuant to their request, a *Report Concerning Coordinated Renewable Procurement* (Coordinated Procurement Report). The Coordinated Procurement Report described coordinated competitive process mechanisms including a model regional Request for Proposals to indentify cost-effective renewable resources. The New England states are currently gathering input from stakeholders and Canadian provinces to inform the next steps in this effort. This approach, while in the early

stages of consideration, presents a promising opportunity to develop renewable resources and related transmission funded on a voluntary basis. However, this is not the only possible approach to developing transmission needed to access the significant quantity of in-region renewables. Another option is including some amount of transmission to access in-region renewables in the RSP. Any final rule in this matter should preserve opportunities for a range of resource development and cost recovery mechanisms.

In sum, any changes to planning processes should not disrupt state and regional efforts to develop renewable resources located relatively closer to load through competitive and/or other processes or put New England consumers at risk of overpaying for transmission facilities to reach resources they do not need for reliability or to meet public policy objectives.

III. WITH IMPORTANT CONDITIONS, NESCOE SUPPORTS SEVERAL OF THE NOPR'S CENTRAL PROPOSALS

A. NESCOE Supports the NOPR's Proposal for All Transmission Providers To Participate in Regional Planning Processes That Conform to Order 890.

The proposed rule would require each public utility transmission provider to participate in a regional transmission planning process that produces a regional transmission plan that conforms to principles established in Order No. 890.

NESCOE agrees. Properly planned transmission infrastructure is central to: 1) maintaining system reliability; 2) efficient operation of New England's electricity markets; and, 3) enabling increased penetration of the region's no-and low-carbon energy resources to meet state energy and environmental policy objectives.

B. Subject to Important Conditions, NESCOE Supports Consideration of Public Policy Requirements in Regional Transmission Analysis

The NOPR addresses "transmission expansion necessary to, for example, integrate renewable generation into the transmission system" and references as an example compliance with state renewable portfolio standards.[19] The Commission preliminarily finds that transmission needs driven by public policy requirements established by state or federal laws or regulations should be taken into account in the transmission planning process.[20] The proposed rule would require each public utility transmission provider to amend its transmission planning process to explicitly provide for consideration of public policy requirements established by state or federal laws or regulations that may drive transmission needs.

The Commission does not propose to identify such public policy requirements. It instead proposes to require each public utility transmission provider to coordinate with its customers and other stakeholders to identify public policy requirements appropriate to include in its transmission planning processes.[21] The Commission also seeks comment on whether and how planning criteria based on public policy requirements should be formulated, including whether flexible criteria or "bright line" metrics are appropriate when determining which projects are to be included in the regional transmission plan.[22]

The New England Governors' Blueprint, described above, identified competitive markets and/or processes as New England's preferred means to identify renewable resource projects able to serve customers most cost-effectively. NESCOE's July 2010 *Report to the Governors on*

[19] NOPR at paragraphs 36 and 59.

[20] NOPR at paragraph 63.

[21] NOPR at paragraph 65.

[22] NOPR at paragraph 70.

Coordinated Renewable Procurement affirmed the region's belief that competitive processes are able to identify cost-effective resources, reflecting New England's common focus on cost to consumers. Coordinated procurement is not, of course, the only possible approach.

NESCOE therefore supports, with important conditions and limitations, the Commission's proposition that regions identify and consider public policy as established by state or federal law or regulation in transmission planning analysis. Although the NOPR emphasizes moving remote renewable power to load centers to enable compliance with state renewable portfolio standards,[23] there are other important state policies codified in law that should influence transmission planning determinations.

For example, in New England, the states uniformly believe that current state energy efficiency programs and their current scheduled ramp-up should be more fully reflected in ISO-NE's load forecast and influence planning determinations relative to other resources. When transmission plans do not properly reflect states' programs that support economically achievable energy efficiency, the plans result in customers funding energy efficiency measures and then paying for new transmission facilities designed around the assumption that the energy efficiency measures do not exist. Accordingly, NESCOE agrees that if properly identified and carefully executed according to specified conditions, consideration of public policy in the transmission planning process may add value for ratepayers.

NESCOE sets forth below conditions that should be associated with modifications to New England's planning process to account for public policy objectives. They are intended to ensure that New England's planning process continues to respect: 1) the region's competitive market structure and the New England Governors' interest as identified in the Blueprint for

[23] NOPR at paragraphs 36 and 59.

resource identification through competitive processes; 2) New England states' commitment to securing the most cost-effective resources that meet public policy objectives; and, 3) the proper roles of entities relative to public policy identification and public policy-related project selection.

1. Consideration of Public Policy in Transmission Analysis Must Be Implemented in a Way That Respects Regional Markets, Rules and Processes.

According to the NOPR, the Commission should not identify the public policy requirements established by state or federal law that should be considered in the regional transmission planning process. NESCOE agrees. Given different market structures and laws across the country, the NOPR correctly recognizes the region's ability to implement such a framework mindful of the potential effects on competitive markets, processes and regional rules.

This is particularly important in regions with competitive markets such as New England. For example, New England's Forward Capacity Market has seen significant growth of demand resources. The forth, most recent forward capacity auction cleared almost 1,300MW of passive demand resources and about 1,960MW of active demand resources. This is an increase from the first auction that cleared about 700MW of passive demand resources and 1,575MW of active demand resources. It is reasonable to expect increased demand resources to emerge in future auctions. Changes to transmission planning processes must be implemented in a way that respects and/or complements such regional market mechanisms.

Stakeholders and states in regions with competitive wholesale markets spend considerable time and effort developing those markets and associated rules. Any policy input into the planning process must be very carefully implemented by those

directly familiar with the markets and associated rules so as to respect and/or complement existing markets.

2. States Should Identify Policies Established in Law and Regulation to be Considered in Transmission Analysis.

States, rather than planning authorities, are the appropriate entities to identify public policies appropriately considered in transmission analysis. The roles of entities in DOE's interconnection-wide planning processes illustrate this point.

As discussed above, the DOE has issued funding awards to increase transmission planning-related communications and analysis across the three interconnections. The awards include two broad topics. "Topic A", referred to in the eastern interconnection as the Eastern Interconnection Planning Collaborative (EIPC), covers interconnection-level analysis by planning authorities such as ISO-NE and stakeholders, including states. "Topic B", referred to in the eastern interconnection as the Eastern Interconnection States Planning Council (EISPC), facilitates dialogue and collaboration among the states to enable more consistent and coordinated policy input to the technical analyses.

The states' input mechanism in EIPC process should inform the mechanisms for and the implications of the consideration of public policy as contemplated by the NOPR. In EIPC, planning authorities and independent market administrators such as ISO-NE conduct technical analysis. They do not identify policy inputs. Nor will planning authorities decide in the EIPC process what projects move forward to construction. Rather, state representatives will provide collective policy input following collaborative work through the EISPC and public officials will ultimately

decide what projects move forward. The roles of planning authorities and public officials must also be properly structured in connection with consideration of policy inputs to the transmission analysis as contemplated by the NOPR.

In the context of the transmission planning process contemplated by the NOPR, the New England states could collectively identify public policy requirements established by state or federal laws or regulations that are appropriate to include in ISO-NE's transmission analysis. In New England's case, there is a significant commonality of policy objectives in the form of Renewable Portfolio Standards, commitments to greenhouse gas reduction through participation in the Regional Greenhouse Gas Initiative (RGGI), and aggressive energy efficiency programs codified in state laws. Indeed, RGGI, a cooperative effort by ten Northeast and Mid-Atlantic states to limit greenhouse gas emissions through a mandatory, market-based CO2 emissions reduction program, is a prime example of the states' ability to work together effectively in furtherance of energy and environmental policies.

The New England states could together prepare on an annual basis a statement of public policy requirements appropriate to include in ISO-NE's analysis. An initial effort between the states would likely be the most significant, followed by annual reviews and updates as appropriate to reflect the evolving nature of state and federal law. A policy statement prepared collaboratively by the states could be submitted to the region's stakeholder process for review and discussion prior to ISO-NE incorporating it into analysis. If properly structured and implemented, inserting policy considerations in the planning analysis could help the states identify the most cost-effective means to achieve the policy objectives.

This collaborative process would be similar to recent work by the New England states to collectively identify policy-driven futures' assumptions for technical studies conducted by ISO-NE. The states together considered and identified policy-related assumptions, then submitted them for review and discussion by New England stakeholders prior to their use in ISO-NE analysis.

Such a process would enable the states to work together in the first instance on policy identification (*i.e.,* ensure a direct nexus between public policy requirements and their impact on the development of the region's transmission grid and the markets) and also provide formal opportunity for the region's stakeholders to consider and question such policy inputs. This stepped process has been constructive in prior studies and is the appropriate way forward to identify public policy in the context of transmission analysis.

3. Particularly in Regions With Significant Resources Able to Meet Public Policy Objectives, Changes to the Planning Process To Consider Public Policy Must Make Certain that Only the Most Cost-Effective Projects Move Forward.

In regions such as New England that have significant renewable resource potential, a wide range of projects could be offered in the planning process that could meet public policy objectives. A project proponent's ability to show public policy benefits from a specific transmission project does not mean there are not less expensive – and more cost-effective – means and/or projects that could achieve the same or similar benefits.[24]

[24] For example, the NOPR contemplates advancing through the transmission planning process policies such as state renewable portfolio standards. Most New England state renewable portfolio standard requirements include an Alternative Compliance Payment (ACP) provision that caps the costs of

In New England, where the transmission planning process does not identify the most cost-effective resource able to meet identified needs and where significant renewable resource potential means a host of transmission projects could advance the same public policy objectives, only those projects that meet public policy objectives most cost-effectively, as determined through competitive processes or through alternative methods, should move forward.

IV. PROVIDED INTERREGIONAL PLANNING CONTINUES TO RESPECT REGIONAL PLANS, NESCOE SUPPORTS INCREASED INTERREGIONAL COORDINATION OF TRANSMISSION PLANNING

The proposed rule would require each public utility transmission provider through the regional transmission planning process to coordinate with the public utility transmission providers in each of its neighboring transmission planning regions – in New England's case, New York - to address transmission planning issues, especially with regard to whether alternative interregional solutions would more efficiently meet the needs identified in the regional transmission plan. Coordination between transmission planning regions must be reflected in an interregional transmission planning agreement that can be tailored to meet the needs of the interconnected regions provided it contains certain elements.

As described above, New England and New York participate in interregional planning processes. Additionally, in the EISPC, New England and New York is a region, which has created new communication opportunity concerning regional planning. New England supports the NOPR's interregional coordination proposal provided that interregional projects will be identified and developed through the current approach that has as its basis each regions'

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compliance. The ACPs embodied in state laws illustrate the states' interest in achieving public policy objectives in way that is sensitive to consumer price impacts.

transmission plan and that interregional transmission projects sponsored by one region will not be imposed involuntarily on another region.

V. NESCOE CONCURS WITH SOME OF THE NOPR'S COST ALLOCATION PRINCIPLES AND PARTICULARLY APPRECIATES THOSE THAT WOULD PRECLUDE INVOLUNTARY ASSIGNMENT OF COSTS OF OUT OF REGION FACILITIES THAT NEW ENGLAND DOES NOT NEED TO MEET RELIABILITY OR PUBLIC POLICY OBJECTIVES.

NESCOE appreciates some of the fundamental cost allocation premises in the NOPR, including those that would: 1) prohibit involuntary assignment of transmission facility costs to a transmission planning region in which the facility is not located; 2) prohibit the involuntary assignment of costs to a region that receives no benefits from the facilities; 3) maintain flexibility to accommodate transmission cost recovery through different means, such as, for example, regional renewable power procurement at an all-in delivered price; and 4) allow regions the first opportunity to establish cost allocation methodologies.

NESCOE offers brief comments below on inter- and intraregional cost allocation primarily relevant to New England's interest in developing cost-effective renewable resources and associated transmission in and around New England and making sure New England consumers are not involuntarily allocated costs to support transmission in other regions that New England consumers do not need to meet reliability or public policy objectives.

Interregional Transmission Facilities

New England has developed interregional projects with neighboring regions and allocated their costs. A Norwalk-Northport underwater cable replacement between Connecticut and Long Island, New York and the development of a second 345 kV tie with New Brunswick evidences New England's ability to sort through some interregional cost allocation issues in order to bring new inter-regional facilities into service.

Other means also exist to pay the costs of interregional facilities. For example, in 2009, the Commission approved a petition for declaratory order that would facilitate a new 1,200 MW interconnection with Hydro Québec. The proposal provided that an affiliate of Hydro Québec would pay the cost of the transmission and receive transmission rights in return.[25] This proposal may or may not come forward for approval as proposed, and may or may not be evaluated favorably if it does, but it suggests the final rule should allow alternative ways to pay for interregional facilities that may emerge over time.

NESCOE generally supports the proposal to require agreements between neighboring control areas containing cost allocation methods for interregional projects, and particularly appreciates the following principle identified in the NOPR:

> Costs allocated for an interregional facility must be assigned only to transmission planning regions in which the facility is located. Costs cannot be assigned involuntarily under this rule to a transmission planning region in which that facility is not located. However, the interregional planning process must identify consequences for other transmission planning regions, such as upgrades that may be required in a third transmission planning region and, if there is an agreement among the transmission providers in the regions in which the facility is located to bear costs associated with such upgrades, then the interregional cost allocation method must include provisions for allocating the costs of the upgrades within the transmission planning regions in which the facility is located. (NOPR at page 174)

This aligns with NESCOE strong view that any allocation method must not transfer costs to New England ratepayers to support development of facilities located outside New England unless New England concludes that development of such facilities are the most cost-effective and environmentally advantageous way for New England to meet its public policy objectives when compared to other options. To this end and in light of the new transmission facilities FERC

[25] See Northeast Utilities Service Company and NSTAR Electric Company, 127 FERC ¶ 61,179 (2009).

is encouraging through the NOPR, FERC should also establish transmission cost control and review mechanisms to assure construction is performed as efficiently as possible and that costs incurred are reasonable.

The NOPR principle noted above is important to make sure that interregional cost allocation mechanisms do not interrupt or artificially depress the value of regional resources. For example, 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 and dampen the development of local renewable resources because the full costs of the distant renewables (the resource plus transmission) may not be apparent. In that case, local renewable resources would be seriously disadvantaged in the market even if their total costs were lower than the total cost of distant renewable resources because the latter would reflect subsidized transmission.

Additionally, any final provision on interregional cost/benefit analysis must recognize that even if a transmission project can show benefits to multiple regions it does not mean that the project is the most cost-effective or environmentally preferred way to achieve those benefits. Even if a build out of extra-high-voltage transmission system from the mid-west to the East Coast could provide some benefits to New England, for example, New England might achieve greater economic and environmental benefits by developing low carbon resources in and around New England.

Consistent with the voluntary nature of the NOPR passage above, NESCOE would support a mechanism that allowed two regions to voluntarily agree to projects in region A that states and stakeholders in Region B desire provided that the two regions agree on the sharing of

costs and benefits and the transmission additions would not cause reliability or congestion problems.

Intraregional Transmission Facilities

With respect to intraregional transmission facilities, the Commission proposes to require that every public utility transmission provider have in place a method, or methods, for allocating the costs of new transmission facilities that are included in the region's transmission plan. NESCOE has no objection to this proposal.

Today, New England's cost allocation methodology provides for determinations about which transmission projects are eligible for cost regionalization. Costs incurred to satisfy aesthetic preferences or to comply with 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. The New England States are not aligned with respect to whether this is the most appropriate cost allocation methodology, however, as discussed above, fully agree that New England's renewable goals can be met by developing the renewable resources in and proximate to the region.

Among other potential ways to enable cost recovery for projects that would meet public policy objectives, New England is in the process of considering coordinated processes as a way to identify and pay for renewable resources and associated transmission. As discussed above, the New England Governors' Blueprint identified the significant renewable resources located in and around New England as well as mechanisms available to facilitate their development. One was the potential for the New England states to coordinate procurement of renewable power, including the potential for an all-in delivered price approach that could serve to resolve the allocation of in-region transmission costs for renewable projects that prevail in a competitive process. Following submission of the *Report to the Governors on Coordinated Renewable*

Procurement in July 2010, New England welcomed preliminary stakeholder input on the subject. The New England states are now deliberating the next step to further inform coordination processes. This may include among other options a process to enable a more granular examination of renewable resource locations and corresponding transmission system needs. As noted, coordinated procurement is not the only possible approach; an additional approach is to include some amount of transmission to access cost-effective renewables in the RSP. NESCOE requests that any final rule preserve the opportunity to pursue coordinated procurement and other approaches to project development and cost recovery.

VI. REGIONS SHOULD HAVE THE OPPORTUNITY AND TIME TO SORT THROUGH ISSUES ASSOCIATED WITH NONINCUMBENT TRANSMISSION DEVELOPERS RIGHTS AND OBLIGATIONS IN LIGHT OF REGIONAL PLANNING PROCESSES.

The NOPR states an interest in eliminating obstacles implicit in tariffs that prevent nonincumbent transmission project developers from participating in regional transmission planning processes. The proposed rule would, among other items, require that a transmission provider's OATT remove any federal right of first refusal for incumbent transmission providers.

In general terms, NESCOE supports the NOPR's policy preference to eliminate undue discrimination that may exist against non-incumbent providers. NESCOE encourages the Commission to allow New England the opportunity and adequate time to sort through what issues require discussion, to identify changes that may be needed and to implement them in a way that conforms to, or at least does not adversely interfere with, the regional planning process.

To the extent non-incumbent transmission developers have rights as contemplated in the NOPR, they should be required to participate in comprehensive transmission solutions to need determinations as part of New England's transmission planning process. This would ensure the

continued development of regional transmission facilities in a coherent manner. Non-incumbent transmission providers should also be required to meet the same eligibility criteria as incumbent providers from a reliability and financial integrity perspective. The NOPR's proposal that each transmission planning region identify qualification criteria makes sense.[26]

A potential benefit to increased participation by non-incumbent transmission providers is increased competitive pressure on incumbent providers to more accurately estimate the cost of proposed transmission projects and to construct them on budget. Recent experience in New England, where many transmission projects have moved from the planning phase to operations, shows actual costs well above project cost-estimates at the time of project approval. This frustrates, or worse, makes impossible a timely comparison of alternative physical solutions that could satisfy or defer the need proposed to be met by a backstop transmission project.

Moreover, the Commission continues as a matter of course to provide transmission owners financial incentives including rate of return on equity (ROE) adders, or bonuses, on the estimated project costs *and* on project cost overruns. While the former should be granted only when proven to be necessary and appropriate rather than as a matter of course, the latter is a direct economic incentive for transmission project sponsors to exceed projected cost estimates. Increased participation in regional project development by non-incumbent transmission owners that may deliver projects on time and on budget could help to mitigate the current economic incentives offered to transmission project sponsors to exceed cost estimates. Increased competition about what entity will build transmission facilities could also help improve project cost control over time and act as a counterweight to the regulatory structure.

[26] NOPR at paragraph 90.

Mechanisms to encourage accurate cost estimates and project cost control are particularly important to New England consumers since the total estimated cost of transmission upgrades proposed, planned, and under construction is approximately $5 billion. Based on annual updates on projected regional network service (RNS) transmission rates, it is possible that New England's RNS transmission rate may increase almost seventy percent (70%) between 2010 and 2014.[27] This is before the potential addition of major new transmission the Commission seeks to encourage.

The NOPR proposes to require that all proposals to be considered in a given transmission planning cycle be submitted by a single, specified date to minimize the opportunity for other entities to propose slight modifications to already submitted projects.[28] As described above, New England's planning process is a continual cycle, which includes ongoing information sharing about emerging system needs and potential solutions being brought forward in response to them. The system proposed by the NOPR whereby incumbent and nonincumbent transmission project sponsors would submit all projects to be considered in the annual planning cycle on a single date does not fit with the ongoing nature of New England's planning process. Additionally, the NOPR's creation of rights associated with being the first to propose a project could place a premium on speed in project proposal development at the expense of well-considered proposal development. Moreover, a single day submittal process could well have the unintended consequence of discouraging discussion of emerging needs and alternative ways to meet them.[29] Any final rule should allow regions to create processes that meet the NOPR

[27] Draft RSP 2010, dated September 8, 2010 at page 4.

[28] NOPR at paragraph 91.

[29] NOPR at paragraphs 91 and 95.

objective to ensure the planning process is fair and open to nonincumbent transmission providers but in a way that conforms with and does no harm to the regional planning processes.

A process that seeks to provide incumbent and nonincumbent transmission providers with similar rights and obligations will raise both substantive and procedural questions, the answers to which will need to be addressed regionally so that they respect differences in the various planning processes. For example, after a determination of need is established, the region would need to consider how projects are selected, whether and by what means alternatives to proposed projects are evaluated and so on. The resolution of these and other issues may differ among planning regions based on their different underlying planning processes. Any final rule on this issue should afford regions the opportunity and adequate time to sort through means of compliance with the principles set forth in the NOPR.

VII. CONCLUSION

NESCOE appreciates the opportunity to provide its views and requests the Commission consider them as it deliberates resolution to the important issues set forth in the NOPR.

Respectfully Submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the service list compiled by the Secretary in this proceeding by electronic service.

Dated at Stratford, Connecticut this 29th day of September 2010.

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