

Summary of FERC Order 890 on Transmission Planning and ISO-NE Strawman

- Through FERC Order 890, FERC opens its *pro forma* Open Access Transmission Tariff for revision, for the first time in ten years. In framing nine “principles” that must be achieved, Order 890 places a focus on regional transmission planning by Regional Transmission Operators (RTO) such as the Independent System Operator of New England (ISO-NE) and Transmission Owners, (TO) such as Connecticut Light & Power and United Illuminating.
- Order 890 requires ISO-NE and TOs to create a Strawman that describes their proposed transmission planning processes, to which stakeholders can provide feedback. In its Strawman issued on May 29, 2007, ISO-NE asserts that its current planning processes meet the principles outlines in Order 890.
- ISO-NE’s planning process has come a long way. However, significant opportunities remain for ISO-NE to better address FERC’s goal of regional planning processes that are fully integrated with state IRP processes. Improvements to ISO-NE’s planning processes also could better position the CEAB to meet its new statutory responsibilities with respect to integrated resource planning and associated procurements.
- Ideally, the ISO’s regional planning process would:
 1. Allow for the full and timely consideration of non-transmission responses to identified needs, in a way that enables states to pursue important policy objectives (such as cost minimization, consistency with environmental goals and standards); and
 2. Treat the states as full partners, rather than as market participants, in a collaborative effort to address infrastructure planning.
- ISO-NE’s presentation to FERC on June 28th indicated that ISO-NE is considering a method for evaluating “market solutions” (i.e., non-transmission alternatives) that are proposed in response to identified needs. However, the current lack of details makes this an area that is ripe for discussion. The June 28th FERC presentation also indicated that ISO-NE is considering expanding to its PAC process to address local transmission planning issues, but that too is not yet defined.
- CEAB could call for an ISO-administered regional planning process that:
 1. Articulates a suitable framework for interaction and collaboration between ISO-NE and state planning authorities on infrastructure planning issues.
 2. Provides Connecticut (and other states) with information and analyses needed to engage in resource planning to achieve important state objectives, such as cost minimization or environmental goals.
 3. Allows for the routine consideration of demand-side and generation and options to transmission alternatives.
 4. Provides clarity regarding when the CEAB should approach ISO-NE (as compared to UI and/or NU) to resolve issues related to regional transmission plans.
- The suggested questions at the end seek ISO-NE’s input on an improved approach.

MEMORANDUM

July 30, 2007

TO: The Connecticut Energy Advisory Board
FROM: La Capra Associates Project Team
cc: ASWG

SUBJECT: FERC Order 890 and Transmission Planning and ISO-NE's Strawman

In anticipation of the CEAB's meeting with ISO New England (ISO-NE) on August 9, 2007, this memorandum provides background information on ISO-NE's "Strawman" proposal in response to Order 890, which was issued by the Federal Energy Regulatory Commission (FERC) on February 16, 2007. This memorandum is intended to provide a high level review of matters related to ISO-NE's response to Order 890; we would be happy to provide additional details upon request.

In Order 890, FERC seeks to remedy opportunities for undue discrimination by electric bulk transmission system owners¹ and address deficiencies in the *pro forma* Open Access Transmission Tariff (OATT) that have become apparent since Orders 888 and 889 were issued ten years ago. In addition, FERC calls for changes that will enhance openness and coordination and "increase transparency in the rules applicable to planning and use of the transmission system."²

We identify two broad issues within the current regional transmission planning process that impact the CEAB's ability to fulfill its responsibilities.

1. The regional planning process does not encourage the full and timely consideration of non-transmission responses to identified needs; and
2. The regional planning process is structured such that ISO-NE treats the states as market participants, rather than full partners in infrastructure planning.

¹ ISO-NE is the regional transmission owner (RTO) for New England. ISO-NE provides transmission service to transmission users across the region pursuant to its OATT, which is a FERC-approved tariff that contains extensive information regarding the terms and conditions by which ISO-NE provides transmission service on behalf of participating transmission owners across the region (including NU and UI).

² In Order 890, FERC addresses the issue of states' planning processes by stating "The transmission planning processes we require in this Final Rule are not intended in any way to infringe upon state authority with regard to integrated resource planning. Rather, we believe that the transparency provided under an open regional transmission planning process can provide useful information which will help states to coordinate transmission and generation siting decisions, allow consideration of regional resource adequacy requirements, facilitate consideration of demand response and load management programs at the state level, and address other factors states wish to consider."

FERC Order 890 offers a unique opportunity for the CEAB and other stakeholders to raise systemic issues which could lead to a reliable transmission system for New England that also takes advantage of market developments, is lower cost and is more responsive state and regional policy initiatives. ISO-NE and the region's TOs are developing a joint response to Order 890 and on May 29, 2007, ISO-NE and the TOs (including NU and UI) released an initial draft of their Strawman.³

June 28, 2007. FERC held a workshop in Pittsburg at which ISO-NE asserted that its existing regional planning process "follows Order 890 principles."⁴ ISO-NE did suggest some changes to the planning process indicating its intention to:

1. Explain the method for evaluating "market solutions" (i.e., non-transmission alternatives) that are proposed in response to identified needs; and
2. Expand ISO-NE's current planning advisory committee (PAC) process to accommodate local planning issues or state policies.

However, no details on these two items were provided and the Strawman offers little to suggest that ISO-NE will make major improvements to its regional planning process.

CEAB's need for a close and collaborative working relationship with ISO-NE is increasingly critical. Under prior law, the CEAB was responsible for preparing Connecticut's annual energy plan. Today, pursuant to Section 51 of Public Act 07-242, *An Act Concerning Electricity and Energy Efficiency*, the State of Connecticut, through a process including the electric distribution companies, the CEAB and the Department of Public Utility Control, will prepare an Integrated Resource Plan (IRP) and an associated procurement plan. Under that planning process, the State will examine an energy and capacity resource assessment and develop a plan to procure a variety of energy resources to meet projected needs in a way that minimizes the cost of such resources to customers over time and that maximizes customer benefits consistent with the State's environmental goals.

This new CEAB planning responsibility highlights the need for an ongoing and constructive partnership between ISO-NE and TOs and the CEAB in planning processes. Under the current and proposed processes, it is not clear whether and when the CEAB should approach ISO-NE (as compared to UI and/or NU) to resolve issues related to regional transmission plans.

³ The Strawman is available at:

http://www.iso-ne.com/trans/rsp/2007/order_890_planning_Strawman.pdf

⁴ For instance, ISO-NE proposes no changes to the regional planning process to make routine the examination of project economics (e.g., to quantify potential benefits from congestion cost savings, elimination of RMR agreements, etc.). Rather, it states that, under the current OATT, stakeholders "may request studies to address areas of concerns, particularly reliability, economics" The CEAB's experience in the regard is documented in Attachments 2 and 3.

By articulating a suitable framework for interaction between ISO-NE and state planning authorities such as the CEAB, ISO-NE would significantly advance its process in line with the FERC's call for greater coordination, openness, and transparency and information exchange. Similarly, ISO-NE's planning documents should make clear how ISO-NE plans to interact with regional organizations.

Order 890 requires ISO-NE to indicate how participating transmission owners⁵ will comply with planning requirements with respect to local facilities that are not be part of the regional planning process. The TOs (and Cross-Sound Cable Company, LLC) are obligated to respond to Order 890, and currently are working to develop a set of common provisions that would apply to planning at the local level and would be responsive to FERC's requirements. For example, the Strawman states that ISO-NE and the TOs will develop a process for communicating the status of transmission plans for local facilities. The TOs anticipate that their planning document will be submitted as part of a joint ISO-NE/TO filing to FERC but not documents have been issued on this.

This memorandum provides additional detail regarding these issues, and concludes with a number of questions that we recommend the CEAB discuss with ISO-NE at the August 9 workshop.

⁵ These would include NU and UI, but not CMEEC, which does not have transmission facilities.

Briefing Materials on FERC 890 Strawman

Prepared for the Connecticut Energy Advisory Board

By

La Capra Associates

I. Order 890 Overview.

FERC issued Order 890⁶ (all 1,200-plus pages) on February 16, 2007 to amend its *pro forma* open access transmission tariff (OATT) last adopted in Orders 888 and 889 over ten years ago. Among the changes that FERC seeks to implement are improvements to regional planning, as conducted by RTOs, such as ISO-NE, and transmission owners (TOs). FERC Order 890 requires a response of NU and UI, as participating TOs in ISO-NE's OATT, and also of the Cross-Sound Cable Company, LLC. Because CMEEC does not own or operate transmission assets, it has no obligations relative to FERC Order 890 requirements.

The major reforms related to regional planning set out by Order 890 are articulated in nine principles⁷ that RTOs and TOs must meet in their approach to planning. These include the following:

1. Coordination
2. Openness
3. Transparency
4. Information exchange
5. Comparability
6. Dispute resolution
7. Regional participation
8. Economic planning
9. Cost allocation for new projects

FERC Order 890 prescribes that ISO-NE and each transmission owner must post a Strawman proposal for compliance with each of the nine planning principles. FERC encourages consultation with stakeholders in the development of the Strawman proposals. The compliance filings are due to FERC in October.

⁶ FERC Order 890 is available at:
<http://www.ferc.gov/whats-new/comm-meet/2007/021507/E-1.pdf>.

⁷ See Attachment A for details on the nine planning principles.

II. ISO-NE's Strawman.

To comply with Order 890, ISO-NE and the region's TOs are developing a joint response. ISO-NE and the TOs (including NU and UI) released an initial draft of their Strawman⁸ on May 29, 2007. Since then, ISO-NE and TOs have been making related presentations and soliciting input on the draft. The milestones in ISO-NE's schedule are presented below. We observe that this schedule, which ultimately responds to FERC schedule, may be overly aggressive if stakeholders are going to have a meaningful opportunity to review and contribute to the final product.⁹ This would take the form of various amendments to ISO-NE's OATT (i.e., to implement the terms of the Strawman).

ISO-NE established an Order No. 890 Stakeholder Working Group to support the development of its Strawman and the various related filings that it will be making to the FERC. ISO-NE has an established decision process by which potential amendments to its OATT typically must travel through a series of NEPOOL committees before reaching NEPOOL Participants' Committee for a final vote. In this instance, ISO-NE Staff will (after input from the working group) present proposed OATT amendments to NEPOOL Transmission Committee, then to the Participants' Committee and then to FERC. A schedule of related events is as follows:

- May 29 – ISO-NE issued Strawman in response to Order 890
- June 28 – FERC held Workshop on ISO-NE's Strawman
- August 9 – ISO-NE presentation to the CEAB
- August 13 – ISO-NE Working Group finalizes the Strawman-related amendments to ISO-NE's OATT, including tariff Attachment K containing the provisions governing ISO-NE regional system planning process, for presentation to and vote by NEPOOL's Transmission Committee
- August 20 – NEPOOL Transmission Committee vote
- Early September – NEPOOL Participants' Committee vote
- October 11 – ISO-NE and TOs submit their proposed amended OATT to FERC for review and approval
- TBD – FERC proceedings to address the Strawman proposal

⁸ The Strawman is available at:

http://www.iso-ne.com/trans/rsp/2007/order_890_planning_Strawman.pdf

⁹ While the overall schedule for input is four months, states and other stakeholders have only had two months to offer comments before the proposal is considered by the market participants as represented by NEPOOL.

Note that this schedule does not create a convenient opportunity for the states to provide comments to ISO-NE subsequent to the August 9 discussion. Nonetheless, we recommend that the CEAB develop and provide comments to ISO-NE, if it is the Board's desire to do so. Any important concerns related to ISO-NE planning processes likely would best be presented to ISO-NE as soon as is reasonably possible, and in any event in advance of FERC proceedings.

Thus far, ISO-NE's position (as evidenced through its Strawman and related statements) is that its current practices are largely in compliance with the principles described in Order 890. ISO-NE suggests that the TOs may have more work to do to meet FERC's expectations. However, we identify two basic concerns, discussed below, with the planning model described by ISO-NE.

III. Issue One: The regional planning process does not encourage the full and timely consideration of non-transmission responses to identified needs.

This section provides an overview of the planning model that appears to be implicit in the current draft of the Strawman. As is indicated, an issue exists in that the current approach to planning appears to persist in the Strawman. It is not conducive to the exploration and development of non-transmission alternatives to identified needs. Thus, it does not support resource planning with the other objectives (e.g., cost minimization, consistency with environmental goals and standards) that the CEAB will seek to implement under the new legislation.

Some essential features of ISO-NE's planning model are as follows:

1. ISO-NE is responsible for ensuring bulk power system reliability and administering competitive generation markets.
2. Reliability Transmission Upgrades are those necessary to ensure reliability based on established reliability standards (Attn. N at 6618).
3. Market Efficiency Transmission Upgrades are upgrades designed primarily to provide a net reduction in total production costs to supply loads (Attn. N at 6619).
4. ISO-NE, in consultation with the PAC, will identify Market Efficiency Transmission Upgrades. However, if a project is determined to be needed to ensure reliability, then the project is designated as a Reliability Transmission Upgrade (Attn. N at 6621).
5. ISO-NE appears to consider Demand Response programs and Generating Units to be "market responses" that are not routinely considered along side Reliability Transmission Upgrades.

6. ISO-NE appears to draw a bright line between regional planning, which it identifies as its domain, and local planning, which it identifies as the responsibility of the TOs.
7. ISO-NE may remove proposed transmission projects from its plan “if the market responds by developing credible alternative generation projects, demand-side projects, or Merchant Transmission Facilities” (Strawman at 9).
8. Approved transmission projects are eligible for cost recovery and a guaranteed rate of return through the OATT. Generation projects and demand response projects typically are entitled to bid into ISO-NE’s markets in search of revenue streams.
9. ISO-NE works closely with TOs to advance their transmission projects, but maintains an arms-length relationship with generation and demand-response providers because they are “market-based” solutions.

As such, ISO-NE’s planning process seems to favor transmission solutions to identified problems. The timing of the evolution of major transmission projects (e.g., need definition, cost estimation) likely makes it very difficult for market alternatives to compete. Moreover, because economics currently are not part of the calculus in determining which projects to advance, least cost options may not be considered.

ISO-NE’s planning model also may overlook alternative resource solutions because many such solutions (which may include demand-side measures and some generating units) are “local” in nature and thus outside of ISO-NE’s purview. We observe that, in reality, the line between regional and local planning is not always clear – loads, which drive all planning processes, are always “local.”

IV. Issue 2: The regional planning process is structured such that ISO-NE treats the states as market participants, rather than full partners in infrastructure planning.

The overall experience is that the State is not treated as an equal partner in regional planning. Rather, it is invited, along with other market participants, to participate in the PAC process. While both ISO-NE and the CEAB have basic infrastructure planning responsibilities, the CEAB has had difficulty in engaging ISO-NE on a collaborative basis. The CEAB has documented for ISO-NE some of the concerns that it has experienced with ISO-NE planning processes. We see opportunities for state agencies, such as CEAB, to work on a collaborative basis with ISO-NE and TOs on key infrastructure issues. Examples of past concerns are as follows:

1. ISO-NE’s current planning process prevents it from providing Connecticut, and other states, with information needed to engage in resource planning to achieve particular important objectives, such as cost minimization or environmental goals.

Specifically, in the SNETR situation, CEAB requested information regarding the assessment of economic and environmental issues that were not included in ISO-NE's analysis. While acknowledging that the states have a need to consider these factors, ISO-NE stated that this is the state's responsibility and that "the PAC process may not be able to resolve issues that are outside of the ISO's responsibility." ISO-NE did not suggest how the states could do this given that only ISO-NE has the data needed to conduct such analyses.¹⁰

2. In the LICAP proceeding, the CEAB and ISO-NE ended up working in a collaborative fashion, but only after the case went to litigation. Everyone's interests would be better served if the regional transmission planning process prompted collaborative solutions at the outset.
3. ISO-NE has offered limited access to information regarding the anticipated workings of locational markets, and their likely affects on OATT-eligible costs (such as those of RMR must-run units and operating reserve markets).
4. ISO-NE's statements regarding infrastructure requirements in Connecticut have been inconsistent and confusing, undermining transparency and confidence in the results. For example, as noted in previous comments to ISO-NE, its two previous Regional System Plans (i.e., RPS05 and RSP06), offer very different methods and results for establishing operating reserve requirements in Connecticut, with little by way of introduction or explanation.

Other concerns stem from the fact that state recommendations to ISO-NE may or may not be implemented, or even addressed (e.g., CEAB's comments on RSP06). At times, the only way that states can be heard is through FERC litigation, which does not efficiently or effectively address important planning issues, and is not CEAB's preferred path in any event.

Unless ISO-NE's perspective is broadened to allow for consideration of the economic, environmental and other policy-driven factors, the CEAB's ability to issue a viable RFP for alternatives to a Reliability Transmission Upgrade may be impaired. Through the Order 890 process, the CEAB has opportunity to advocate for a regional planning process that holds reliability as a dominant issue, but also allows for consideration of solutions that are least-cost and take into account environmental impacts. These additional considerations are critical to allowing the CEAB to efficiently and effectively meet its statutory obligations.

V. Recommendations

While ISO-NE has made significant progress in recent years in developing its process to support market development, FERC Order 890 offers CEAB a unique opportunity to seek changes that will make the transmission planning process more responsive to ISO-NE's

¹⁰ See Attachments 2 and 3, below.

needs and those of the states. As indicated above, ISO-NE has indicated a willingness to expand its PAC process to include consideration of local planning issues. ISO-NE should be encouraged to use this opportunity to evolve its processes to remove the barriers to non-transmission resources and to collaborative planning processes.

We envision an open, transparent collaborative planning process in which all resources are considered and state planning objectives are accommodated. The planning process would include these features:

1. ISO-NE planning processes would eliminate barriers to non-transmission (i.e., non-TO) alternatives, and could include the following features;
 - a. ISO-NE would develop consistent, dependable methods for identifying future system requirements;
 - b. The economics of all feasible alternatives would be routinely considered; and
 - c. The RSP document could be amended so that all planning matters related to a given state are comprehensively addressed in a single section.
2. The steps that ISO-NE would take to collaborate with state agencies with infrastructure planning responsibilities would be clearly articulated, and could include the following features;
 - a. ISO-NE would state clearly and early in planning processes the likely timing and economic consequences of resource plans being advanced;
 - b. ISO-NE would offer mechanisms to reduce the time/cost commitment that is necessary to engage its planning processes, and should do so in a manner that facilitates participation in local planning processes (e.g., as may be orchestrated by an electric utility); and
 - b. State planning recommendations and state policy preferences, such as those that guide the state's IRP process, would be given a priority in regional system plans.

These steps would enable non-transmission resources to be considered in regional planning processes, and will enable responsible government entities to more effectively address state infrastructure requirements.

VI. Workshop Talking Points and Questions for ISO-NE

1. How can we level the planning playing field for transmission and non-transmission resources in ISO-NE planning studies?

Does ISO-NE see a least-cost bulk power system as the likely result of its planning process? If so, how?

How does the proposed ISO-NE process identify opportunities to advance economic improvements to the grid?

Under what conditions and at what point in the planning process would ISO-NE consider a non-transmission alternative as a substitute for a transmission project?

Will ISO-NE provide planning support (such as interconnection studies) for non-transmission alternatives to transmission projects?

Explain how Demand Response providers receive comparable treatment to the TOs in ISO-NE's planning exercises (i.e., in light of the inequities listed in the above section).

Have NEEWS project costs been published yet? When are firm numbers anticipated? How can non-transmission (and Merchant Transmission) projects hope to compete against transmission options, given that the costs of transmission options often are not revealed until very late in the planning process (and where cost overruns are eligible for automatic recovery through the OATT).

2. How do we achieve collaboration in regional planning processes?

ISO-NE's response to the CEAB's January 15 letter on the SNETR process seemed to reject the CEAB's request for further analyses. Can some accommodation be made on some of these important planning issues?

Is ISO-NE willing to join the CEAB in a collaborative effort to determine the mix future resources that would best meet ISO-NE's and Connecticut's planning objectives?

How will ISO-NE help CEAB implement its new IRP and RFP responsibilities?

3. How do we create an opportunity for state planning objectives (i.e., that are compatible with ISO-NE's reliability mandate) to be introduced to regional planning processes? How do we ensure that effective local solutions, such as the results of CEAB RFPs are considered in regional planning processes?

The Strawman indicates that ISO-NE may remove proposed transmission projects from its plan “if the market responds by developing credible alternative generation projects, demand-side projects, or Merchant Transmission Facilities.” Can you better define the process by which “credible alternatives” would be established and the means by which ISO-NE would judge an alternative to be credible or not?

A key element in the Strawman is the distinction between regional planning (which ISO-NE is responsible for) and local system planning (which the transmission owners are responsible for). However, the boundary between local and regional planning is rarely a clear one. Moreover, it is possible that the “local” attributes of some regional projects will not be determined until planning processes are largely complete. How does ISO-NE view the boundary between regional and local planning? What if local, non-transmission solutions can be identified to eliminate a regional need?

As new transmission projects are developed in response to emergent needs, how can the CEAB determine when to approach ISO-NE (as compared to NU or UI, or ISO-NE and the utility)?

How will ISO-NE ensure that facilities selected through state planning processes are implemented (e.g., if an alternate solution to an identified reliability need)? Would such alternative become part of ISO-NE’s RPS?

ATTACHMENT 1

FERC 890 and Transmission Planning Principles

FERC Order 890 requires transmission providers' planning processes to meet the following nine principles:

- Coordination – to eliminate the potential for undue discrimination in planning by opening appropriate lines of communication between transmission providers, their transmission-providing neighbors, affected state authorities, customers, and other stakeholders. (p 258)
 - Provide for the timely and meaningful input and participation of customers into the development of transmission plans. Customers must be included in early stages of the development of the transmission plan, not merely comment on a developed plan. (p 259)
- Openness – transmission planning meetings must be open to all affected parties (p. 260)
 - Including all transmission and interconnection customers, state commissions and other stakeholders. (p 262)
- Transparency – transmission providers are required to disclose to all customers and other stakeholders the basic criteria, assumptions, and data that underlie transmission system plans, and basic methodology, criteria, and processes used to develop transmission plans. (p 269)
- Information Exchange – network and point-to-point customers required to provide information on their projected loads. (p 276)
- Comparability - all customers concerns must be addressed in a comparable manner. (p 284)
- Dispute Resolution – a DR process is to be used to address procedural and substantive planning issues. (p287)
- Regional Participation – each transmission provider is required to coordinate with interconnected systems to ensure simultaneously feasible and consistent solutions and to identify enhancements to relieve congestion or integrate new resources. (p 300)
- Economic Planning Studies - a primary objective is to ensure that the transmission planning process encompasses more than reliability considerations. (p 310)
 - Planning involves both reliability and economic considerations
 - Planning responsibility is different from construction and cost responsibility (p 311)
 - Each transmission owner required to comply with the economic planning studies principle as to address specific upgrades that could reduce congestion or integrate new resources. (p 317)
- Cost Allocation for New Projects – extends existing cost allocation principles to address cost allocation for regional projects or economic projects identified through the planning process. (p 321)

- Cost allocation should fairly assign costs among participants, provide adequate incentive for new transmission, and should be generally supported by state authorities and participant across the region. (p 321)
- Beneficiaries of economic upgrades or facilities for access to new generation should bear the cost of the upgrades. (p 322)
- Cost allocation issues must be in place up front in the planning process, not relegated to consideration at the time each project is proposed. (p 323)

ATTACHMENT 2

CEAB's January 15, 2007 letter to Steve Rourke, Vice President, System Planning for ISO-NE - NE. Re: Feedback on SNETR Presentations.



TO: Steve Rourke, Vice President, System Planning for ISO New England
Cc: Eric Johnson, External Affairs
Steve Whitley, Senior Vice President and COO
RE: Feedback on SNETR Presentations
FROM: CT Energy Advisory Board: SNETR Subcommittee
DATE: January 15, 2006

Thank you for your presentation on the SNETR needs analysis and transmission project proposals at the CT Energy Advisory Board (CEAB) meeting on January 2, 2006. Connecticut's reliability and transmission infrastructure and your SNETR analysis are of central importance to us. Your effort to keep us apprised of the state of your analysis is appreciated and helpful to assure that the range of solutions are fully defined and analyzed so that the optimal solution can be implemented in a timely way. The intersection between ISO-NE's energy planning activity and the CEAB's obligation to produce an energy plan and to solicit, through Request for Proposals, a broad range of energy solutions to meet identified needs makes this type of ongoing coordination particularly valuable.

We have had an opportunity to consider your presentation and confer with our consultants from La Capra Associates regarding the more extensive presentation you offered at your December 15, 2006 Planning Advisory Committee meeting. While we have not yet conducted an extensive review of the material, we offer this initial feedback and note areas that would benefit from further analysis, including: local operating reserves; economic and environmental assessments; cost assessments; and, non-transmission alternative assessments.

We understand that the transmission proposals being considered to address the needs you have identified will be refined during 2007. We further understand that transmission owners expect to file specific project applications with siting agencies in Connecticut, Rhode Island, and Massachusetts early in 2008. In that context, the significant issues that warrant further analysis to be completed in 2007 include:

1. **Reliability Assessments** – In addition to the reliability studies you have conducted thus far, an assessment of the reliability issues associated with local operating reserves matters a great deal to Connecticut. Section 5 of the 2006 Regional System plan raises important issues in this regard and these implications must be well understood.
2. **Economic and Environmental Assessments** – Your needs assessment is based on system reliability considerations. There are critical economic and environmental implications associated with the proposed transmission projects that must be assessed, as well. In addition, examination of reliability, economics, and environmental issues together may lead to alternative solutions that merit full consideration.
3. **Cost Assessments** – The analysis to date does not provide formal cost estimates. The cost of projects on the scale proposed warrant careful consideration, particularly given Connecticut's cost of power supply. It is imperative that Connecticut have a clear understanding of the projects' expected costs as well as the range of potential costs in the near term.

4. **Non-Transmission Alternatives Assessments** – Plans for transmission projects of the scale proposed must include a thorough assessment of generation, transmission, distribution, and demand-side options in addressing reliability and congestion. Your analysis to date includes very limited consideration of the non-transmission options. A comprehensive understanding of the costs and benefits of the transmission proposals is needed to inform the market and state policy makers on the merits of proposed projects relative to alternative approaches.

We look forward to receiving additional information on the studies you have conducted to date and to receiving your plan for addressing the issues above with associated timeframes scheduled appropriately within the 2007 calendar year.

The CEAB is committed to working with you and the utilities to address these important issues in a timely manner. Please let us know at any time if there is any information we may provide that might be helpful.

Sincerely,

Donald W. Downes, CEAB Chairman

ATTACHMENT 3

Memo from ISO-NE to Connecticut Energy Advisory Board dated March 22, 2007. Subject: Response to Comments on SNETR.

To: Connecticut Energy Advisory Board

From: Stephen Rourke, Vice President, System Planning, ISO New England

Date: March 22, 2007

Subject: Response to Comments on SNETR

Thank you for your comments on the Southern New England Transmission Reinforcement (SNETR) analysis following presentations to New England stakeholders at the Planning Advisory Committee (PAC).

ISO believes that it is important for stakeholders to have a clear understanding of the ISO's roles and responsibilities for regional system planning. This memo is intended to respond to your comments and provide context for the issues raised in your comments.

Your comments identified several areas for further analysis: Economic and Environmental Assessments, Cost Assessments, Non-Transmission Alternatives Assessments, and Reliability Assessments.

Economic and Environmental Assessments

You indicated that there are critical economic and environmental implications for transmission projects that must be assessed in addition to the reliability assessments conducted by the ISO.

The ISO's planning process is intended to address reliability needs of the region. A major part of this reliability assessment is the development of a transmission system plan that, if implemented, would ensure that we meet reliability criteria necessary to "keep the lights on" in New England. This process is not designed to produce an optimal economic or environmental plan for the region. Rather, a robust transmission system serves as a foundation on which to develop resources that meet state and regional economic and environmental objectives. However, the planning process is open to economic and environmental regulators and to developers of supply and demand-side solutions, giving them an opportunity to address these issues with Transmission Owners directly. As you may be aware, the ISO, in conjunction with New England stakeholders, is performing scenario analyses to look at these economic and environmental issues. If there are specific issues that need to be addressed to satisfy regulatory requirements for approval of transmission projects, the PAC may be a forum to raise those issues. Bear in mind, however, that the PAC process may not be able to resolve issues that are outside of the ISO's responsibility. Since your letter did not identify specific economic or environmental assessments, I would be pleased to meet with you to discuss your specific interest and determine whether there are areas where the ISO can provide assistance.

There are several levels of review for transmission projects. The ISO plays an important role in this review, but the ISO is not the only entity involved in the review of transmission projects. At the December PAC, Northeast Utilities and National Grid identified five key criteria that would be used to guide the evaluation of possible SNETR solutions. These criteria specifically include human and natural environment considerations, which are based on their assessments of the siting requirements in each of the affected states. Northeast Utilities and National Grid presented a detailed matrix of how each of the potential SNETR solutions ranks under these criteria. While the ISO reviews transmission projects for reliability, system impacts and cost allocation considerations, transmission siting and permitting, including associated economic and environmental considerations and tradeoffs, ultimately fall under the jurisdiction of the individual states. Transmission Owners are responsible to secure all necessary permits in accordance with applicable laws and regulations, and they should develop transmission plans in accordance with the applicable regulatory requirements in their states. The ISO provides numerous opportunities for stakeholders to discuss their concerns with Transmission Owners; however, some of these concerns may need to be addressed in other forums.

Cost Assessments

You indicated that the SNETR analysis to date does not provide formal cost estimates and that projects of this scale warrant careful consideration.

The ISO agrees that there needs to be careful consideration of transmission costs. The ISO's regional system planning process provides transparency of costs as well as a forum for state officials and regulators to inquire about these costs with Transmission Owners. Northeast Utilities and National Grid presented preliminary SNETR cost estimates at the December PAC meeting.¹ This information will ultimately be incorporated into the Project Listing, which is the list of transmission projects identified in the RSP. The Project Listing is typically updated three times per year, posted and presented to stakeholders through the PAC. Transmission cost projections are estimates provided to the ISO by Transmission Owners and these estimates are continuously refined as projects move from a conceptual stage to approval of a final design. The range of cost estimates at various stages of project evolution is as follows:

- Conceptual project: -50%, +200%
- Proposed Project: -25%, +50%
- Planned (I.3.9 approved): +/-25%
- TCA approved: +/-10%

Finally, the ISO reviews applications to include transmission projects in the regional tariff through an open and transparent stakeholder process. ISO holds open stakeholder meetings when applications are filed for major transmission projects so that stakeholders, including state officials and regulators throughout the region, can review the application and discuss project costs with the Transmission

¹ These presentations are posted on a password-protected Web site: http://www.iso-ne.com/trans/sys_studies/rsp_docs/pres/index.html. To access this information, please contact ISO's Customer Service Department at 413-540-4220.

Owners. The ISO's determinations are typically issued as drafts before they are final, providing further opportunity for stakeholder input.

Non-Transmission Alternatives Assessments

You indicated a need for assessment of generation, transmission and demand-side options.

The ISO believes that a robust power system requires a combination of transmission, generation and demand-side solutions. Competitive wholesale electricity markets require rules that provide clear signals to encourage the best location and type of resources. The ISO develops a regional system plan to identify the needs to ensure future system reliability in New England and the RSP is intended to be a signal for market responses, including non-transmission alternatives, to these needs. The RSP includes a regulated transmission solution as a backstop for reliability to the extent that market solutions are not proposed to address system needs or, if proposed, are not sufficient to meet system needs. While the ISO is not itself a market participant that can propose non-regulated solutions, the ISO develops and administers markets that are capable of supporting non-regulated solutions. For example, the new capacity market has been designed specifically to make demand resources eligible for capacity payments, which increases the types of resources that can address regional needs. The SNETR analysis may not explicitly analyze non-transmission alternative elements to the extent that you suggest, but the ISO's planning process and markets do provide clear paths to develop each of these resource options.

As the transmission provider for New England, ISO is responsible for providing open access to the transmission system. The ISO is also obligated under a federally approved tariff to identify the transmission system requirements necessary to provide Regional Network Service in the region. As noted, the ISO does not develop market solutions (a.k.a. non-transmission alternatives). However, the ISO does provide equitable assistance to prospective developers to aid in the understanding of various studies and concepts documented in the RSP.

The ISO interconnection study queue (the Queue) is a key indicator of the interest in developing non-transmission resources in New England. There are approximately 9,000 MW of new resources in the Queue. Of this amount, 46% is proposed for Connecticut, 33% is proposed for Massachusetts, and 2% is proposed for Rhode Island. The ISO Queue is *transparent* to all stakeholders. ISO provides the queue position, status, unit and fuel type, location and projected in-service date for each project in the Queue, which is updated regularly to reflect new applications.²

As part of the SNETR analysis, and as reported at the December PAC meeting, the ISO performed an assessment of the feasibility of a generation alternative to the transmission projects contemplated under SNETR. Our analysis indicates that additional generation could potentially defer the need for the Interstate and Connecticut East-West components of the SNETR plan. However, this analysis assumes that: (1) there are no generation retirements; (2) reliability problems in Springfield and Rhode Island are mitigated; and (3) some transmission upgrades are completed in Connecticut. While non-transmission alternatives could potentially address near-term needs for the Interstate and Connecticut components of the SNETR plan, the ISO believes that such alternatives only defer the need for transmission as a longer term solution to growing demand for electricity. This analysis also did not show practical or feasible generation alternatives to the transmission projects in Springfield or Rhode Island. ISO must

² http://www.iso-ne.com/genrtion_resrcs/nwgen_inter/status/index.html

follow reliability standards to ensure that the transmission system serving New England can reliably deliver power to customers under a wide range of projected future system conditions.

The ISO does not plan to develop further assessments of non-transmission alternatives. In fact, the ISO is not equipped, nor had it been given authority, to present a full non-transmission alternative to projects identified in the RSP.

Other forums are available for the consideration and review of non-transmission alternatives. The Connecticut siting process, for instance, provides for consideration of alternative solutions when projects are proposed to the Siting Council, at which time the CEAB is required by law to issue a reactive RFP for alternative proposals.

Reliability Assessments

You have raised questions about the impact SNETR will have on Connecticut regarding its obligations under the Locational Forward Reserve Market (LFRM). The interstate component of the SNETR project is currently expected to have a substantial impact on the import capability into the state of Connecticut. This change will improve the ability to move reserve assistance into Connecticut from outside of the state when required. ISO is currently updating its projections of LFRM requirements for inclusion in the 2007 Regional System Plan (RSP07). As these projections become available, the information will be shared with stakeholders through the PAC and included in this year's RSP.

Conclusion

ISO appreciates your active involvement in the regional planning process and input on these issues. ISO anticipates further SNETR updates to New England stakeholders through the PAC and we will keep you apprised of these developments. I would also be pleased to arrange a meeting with ISO staff to discuss these matters further.