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June 7, 2012

Debra Morrell  
Bureau of Energy and Technology Policy  
Connecticut Department of Energy & Environmental Protection  
10 Franklin Square  
New Britain, CT 06051

Dear Ms. Morrell:

The New England Power Generators Association, Inc. (NEPGA) appreciates the opportunity to submit these comments regarding the Department of Energy and Environmental Protection's (DEEP) draft study regarding the impact of the Regional System Operator on the New England state and wholesale electric power markets (ISO-NE Draft Study).<sup>1</sup>

### **Introduction**

NEPGA is the largest trade association representing competitive electric generating companies in New England. NEPGA's member companies represent approximately 27,000 megawatts (MW) – or nearly 84 percent – of generating capacity throughout New England. In Connecticut, NEPGA members operate over 7,300 MW of generation, representing the vast majority of the state's electric generating capacity, which provide more than 1,500 well-paying and skilled in-state manufacturing jobs. NEPGA's mission is to promote sound energy policies which will further economic development, jobs and balanced environmental policy.

### **NEPGA's General Perspective on the Draft ISO-NE Study**

The DEEP draft study released on May 25 represents a strong foundation for the continued evaluation of Connecticut's role in, and the relationship with the ISO-NE. NEPGA strongly supports the conclusion reached that Connecticut is best advantaged by staying in the ISO-NE and working within this framework for any necessary improvements. This is a strong statement of the state's continued commitment to competitive wholesale electric markets. One of the core tenets of the competitive

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<sup>1</sup> The comments expressed herein represent those of NEPGA as an organization, but not necessarily the position of any particular member.

wholesale markets in New England is the use of the Uniform Clearing Price (UCP) auction process. NEPGA appreciates the opportunity to provide support for the value of this well-established market mechanism which provides the best price for consumers and the best signal for investment. As addressed in our comments below, NEPGA also supports the recommendation that Connecticut work with other regional stakeholders to seek additional areas for greater transparency within the ISO-NE governance process and to remain diligent on many key pressing regional policy issues such as the implementation of FERC's Order 1000.

### ***Value of Remaining in the ISO-NE Framework***

NEPGA strongly supports the recommendation that Connecticut stay within the ISO-NE. As NEPGA testified before the Legislature in 2011, the decision to even explore the possibility of the state's electric distribution companies leaving ISO-NE is an enormous undertaking and should not be made lightly without a great deal of consideration of what this process would entail and the impact of such an exploration on the potential incentives for investment during the period that the study is underway. Sending a clear signal of the state's intention to continue participating in the regional market provides needed certainty. NEPGA applauds the DEEP for this step in lieu of a protracted process.

As noted in the Draft ISO-NE Report, the State of Maine considered the same question a few years ago and the state's Public Utilities Commission (MPUC) spent a great deal of time and resources in its analysis and ultimately opted to keep the status quo. When the Maine Legislature asked the MPUC to consider this question, the Commission opened a docket that spanned over 15 months and included at least 15 interveners, and required the Commission to hire consultants and commission studies of possible options. This process created a great deal of expense for the State of Maine and the many parties to the proceeding. The final Order in the Maine docket concluded:

*"We are convinced after the exhaustive process that has lead us to today's decision, that staying in ISO-NE and pressing for further reforms remains the State's best option to fulfill its energy objectives at this turning point in the State's, and the nation's, energy future."*

NEPGA is pleased that the DEEP recognized the enormous amount of resources that would be involved in a similar docket that would lead ultimately to the same result and chose instead to focus on areas of potential reform. It is clear that competitive markets have produced significant savings to ratepayers in Connecticut and throughout New England. Wholesale electricity markets have also led to large reductions of emissions, increased efficiency and availability, all of which were achieved with financial risks incurred solely by merchant generators and their shareholders, not consumers.

### ***The Benefits of the Uniform Clearing Price (UCP)***

While DEEP is expected to conduct a separate review of ISO-NE's Market Rule 1 and the various tariff elements included there, it is important to recognize some of the core structures that help contribute to the benefits Connecticut has realized from continued participation in ISO-NE. The UCP is universally acknowledged by economists and market operators as providing the basis for a cost-effective, efficient and vibrant electric market.<sup>2</sup> The UCP provides competitive pressures on all suppliers to bid as low as possible in order to increase the likelihood of being chosen to operate and sends a signal to power generation developers regarding what type of future investment is needed on the electric grid.

The transparency of the UCP clearing price sends a signal to the market to invest in lower-cost resources which can produce electricity for less than the prevailing market clearing price. As less expensive resources enter the market, more expensive price-setting resources are displaced. Without the transparent UCP, the recovery of capital costs to support investments in more efficient generation sources would rely on less efficient trading markets with fewer incentives for cost-efficiency. All these incentives work together to drive down the ultimate costs paid by the region's consumers and businesses.

The New England electric markets are not alone in the use of the UCP. All other sophisticated, organized electric markets in the country use the UCP model such as the Regional Transmission Organizations (RTOs) in New York, the Mid-Atlantic, the Midwest, the Southwest, Texas and California. Since the ISO-NE was created in 1997 and the UCP auction structure was embraced, the availability of generators to produce electricity has increased. Since the late 1990s, the amount of time that power plants are not available in the region has been reduced by 45% – enough to power an additional 1.96 million homes without new generation investment. The UCP model produced the correct incentives for generators to become more efficient and available, benefitting the region as a whole.

### ***ISO Governance Issues***

NEPGA and many of its members actively participate in the NEPOOL stakeholder process and as such, interact on a regular basis with the ISO-NE. The ISO-NE has pursued important initiatives over the past few years to add more transparency to the ISO governance process including: the ability for NEPOOL members to meet and discuss market issues with the ISO-NE Board at least twice a year; the creation of the

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<sup>2</sup> See Sue Tierney and Todd Shatzki, *Uniform-Pricing versus Pay as Bid in Wholesale Electricity Markets*, March 2008 and ISO-NE, *The Benefits of Uniform Clearing-Price Auctions for Pricing Electricity*, March 2006.

Consumer Liaison Group (CLG) for communication between the ISO-NE and its stakeholders, with a focus on electric consumers, consumer advocates and state government regulators; and a summary by the ISO-NE at the monthly NEPOOL Participants Committee meetings of recent ISO-NE Board and Board committee meetings. These initiatives have been positively received by the region's stakeholders and have advanced the goal of more transparent communication with the ISO-NE and its Board.

While respectfully acknowledging the DEEP's concerns with ISO-NE governance, and not opposing an ongoing stakeholder dialogue on this issue, it is important to also acknowledge the significant level of influence states do enjoy within the stakeholder process. State entities such as the Connecticut Office of Consumer Counsel (OCC) have a vote in the NEPOOL stakeholder process just as other stakeholders including members of the generation community, large end-users, transmission companies and public power vote within the stakeholder process. NESCOE and its full-time staff of six, a respected and important representative for state interests, is in fact fully funded through ISO-NE's tariff. Often, state regulators enjoy access to the ISO and its Board not afforded to other stakeholders. All stakeholders – whether the states, generation owners, public power, transmission companies or end-users – benefit from ongoing engagement on ISO-NE governance issues. However, additional recommendations such as allowing a single stakeholder group among many – state regulators– to sit on the purposely-independent ISO-NE Board is not a policy course of action that NEPGA believes to be appropriate.

### ***FERC Order 1000 Implementation***

NEPGA supports the DEEP's recommendation to remain diligent regarding the implementation of FERC Order 1000 at the regional level. Currently NEPOOL's Tariff Committee is reviewing proposed changes to Attachment K, *The Regional System Planning Process*, of the ISO-NE Tariff. These changes, which are being advanced by the region's transmission owners, create a "Public Policy Transmission Upgrade" section as a new category of transmission projects that would be eligible for cost-of-service rate recovery across New England. NEPGA believes this approach may well be beyond FERC's intent to have public utility transmission owners, in consultation with stakeholders, amend their tariffs to describe procedures that would provide for the consideration of transmission needs driven by public policy requirements in the local and regional transmission planning processes. NEPGA further believes that FERC, in asking for consideration of public policy issues in the transmission planning process, does not necessarily mean requiring transmission infrastructure to be built exclusively to fulfill this policy goal. NEPGA agrees with Connecticut that more stakeholder attention needs to be focused on FERC's intent regarding its Order 1000, impacts on state policy goals and the proper implementation within the region.

**Conclusion**

NEPGA appreciates the opportunity to offer these policy considerations to the DEEP as it pursues its examination of the relationship between Connecticut and the ISO-NE, and the impacts on the state and region's electricity consumers. Our comments provide the unique perspective of the competitive generation community on many key issues – the value of Connecticut's role within the ISO-NE framework, the benefits to Connecticut and the region from the UCP, ISO governance issues and FERC Order 1000 implementation. NEPGA looks forward to actively participating in the review of the Draft ISO-NE Study over the coming months and providing the important perspective of the market entities that provide many of the resources critical to a reliable and secure energy future for Connecticut.

We appreciate your consideration of our comments and encourage you to contact us should you have additional questions.

Sincerely,



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Dan Dolan  
President  
New England Power Generators Association