



To: VELCO Operating Committee

From: Frank Etori, Director of NEPOOL/ISO-NE Relations and Power Accounting

Date: March 20, 2014

Re: Update on ISO-New England issues

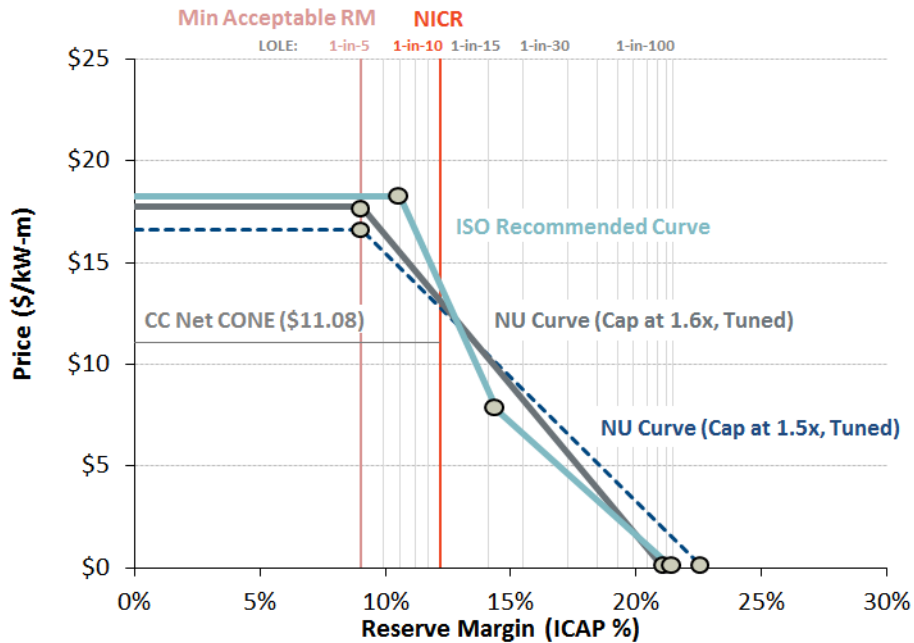
Forward Capacity Markets

The hottest New England topic is the redesign of the Forward capacity market. In January, FERC ordered New England to develop a capacity demand curve for our region. Other regions like NY and PJM have had slopping capacity demand curves for years. FERC also ordered a very aggressive schedule with a compliance filing required by April 2014. Based on that order, ISO-NE, with the help of the Brattle Group, has developed a curve with parameters they will believe will incite new generation to be built. The ISO also developed a new Net Cost of New Entry (CONE). The ISO proposed CONE value is based on the installation of a new combined cycle generator. Historically, the CONE was based on the installation of a combustion turbine. The ISO proposal has a CONE value of \$11.08/kw-month.

NESCOE is advocating for a renewable exemption from the capacity market. The renewable exemption would allow for up to 225MW to be exempted from the capacity market. NESCOE hopes to provide a balance between competitive efficient markets and also allow for states to pursue other state policy objectives. VELCO plans on supporting this amendment.

Massachusetts Municipal Wholesale Electric Company or MMWEC, is proposing an amendment to allow public power entities the ability to self-schedule new capacity resources to exempt them from the capacity auction. VELCO approached MMWEC to modify their proposal for inclusion of all vertically integrated utilities. MMWEC thought, expanding the definition might create more agita from the generator and supplier sector, and were therefore unwilling to expand the definition. VELCO still intends on supporting this motion since several Vermont utilities can still benefit from this amendment.

NESCOE, state representatives, NETOs, and end users are collaborating to see if a compromise can be reached to provide at a minimum a "jump ball" amendment. The greater hope is that this larger body can persuade ISO-NE to modify their curve slightly and see if we can find common ground with ISO support. The below graphic represents the 3 curves being considered, the ISO recommended curve, the broader load serving entity group (NU curve cap at 1.5) and the potential compromise curve labeled (NU curve cap at 1.6).



All three curves result in an average capacity cost of just above \$4.4B. This forecast is well above the most recent capacity auction that cleared at an all-time high of \$3.05B, and well above the previous range of \$1.06B to \$1.77B. NESCOE, state representatives, NETOS, Public Power, and end users would be willing to yield on reducing the renewable exemption cap to 200MW and providing a “use it or lose it” unused capacity provision if ISO was willing to compromise on their recommended curve.

NE States ask ISO-NE for help to secure additional electric and natural gas deliveries

On March 7th, NESCOE presented their initial rollout to NEPOOL stakeholders for the states initiatives to invest in two infrastructure projects: 1) electric transmission designed to deliver 1200-3600 MW of hydro/wind; and, 2) natural gas pipeline capacity to deliver an additional 1000 mmcf/day. In preparation for the participants committee meeting, NESCOE reached out to VELCO and we organized a conference call with the New England Transmission Owners (NETOs) and NESCOE to receive a preview of the presentation. At the Participants committee meeting the generators expressed grave concern with what the states actions would due to price suppression in the New England marketplace. Surprisingly enough, Gordon Van Welie, expressed support and accolades for the states initiative, siting without the states involvement, the gas constraints are unlikely to get resolved. The NETOs seem to have common concern about paying for gas pipeline infrastructure on the backs of electric ratepayers, and if necessary, perhaps a tariff change should be made to develop another mechanism beyond regional network service (RNS) or Real Time Load Obligation (RTLO).

ISO-New England capacity zone modeling

ISO-New England recently made notice that Vermont, New Hampshire, and Western Massachusetts would not be modeled as a separate capacity zone. This change comes as somewhat of a relief with the departure of Vermont Yankee from the generation fleet in Vermont. There was some concern that Vermont would become a binding constraint and creates a capacity

deficiency requiring additional generation. With ISO's announcement that Vermont will be part of NH and Western Massachusetts, this ensures Vermont's local capacity needs will be tempered. There was significant stakeholder feedback on the study ISO used to conduct this analysis. The study assumed the Highgate Converter was a tie line and not a generator. That assumption results in a better outcome for our capacity needs. However, based on the feedback ISO received, they are going to take another look at that assumption and bring it back to the reliability committee.