

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

Office of the Chairman

May 29, 2003

The Honorable Elia Germani
Chairman
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Dear Chairman Germani,

On behalf of my fellow Commissioners I would like to thank you for participating in the technical conference on regional New England wholesale electric power market platform issues last week in Boston. Not only was the group representative of every state in the region and every interest group in the process, the discussion was both substantive and informative. I was pleased that we were able to move closer to achieving clarity on a number of important issues.

The following represents our summary of that discussion. We will use the information we gathered at that meeting to plan for the future. Please let me know if this summary conforms to your understanding of the discussion at that meeting.

New England's Wholesale Power Market Platform

The New England region has some form of all of the features described in the Commission's white paper. These include:

- Regional independent grid operation
- Regional transmission planning
- Fair cost allocation for new and existing transmission
- Market monitoring and market power mitigation
- Spot markets (real time and day ahead markets)
- Transparent efficient congestion management (locational marginal pricing)
- Firm transmission rights (financial rights)
- Resource adequacy (capacity obligations and markets)

In the Boston meeting, state representatives and market participants identified a number of areas where changes would be needed to bring New England into full compliance with the white paper. There was general agreement that a filing should be made to adopt these changes in October of 2003. The list of issues below were drawn from the list provided by ISO-NE in Gordon van Welie's presentation, which was used as the focus of discussion.

Issue #1: RTO or ISO status

Parties generally wanted to file for the ISO to become an RTO or a "conforming ISO." The conforming ISO would meet the standards of the FERC white paper, i.e. all Order 2000 RTO standards except for scope. A filing to make these conforming ISO changes would be made in October 2003

Issue #2: Independence

There was agreement to resolve governance issues and file such changes in the October filing. The changes would make the ISO the transmission provider and NEPOOL the advisory stakeholder committee.

On governance, there are still some issues being debated, such as the role of stakeholders in the selection of ISO board members and how 205 rights should be exercised in a manner reflecting stakeholder input. There was some interest in working from the NERTO filing that was withdrawn last year as a starting point. FERC agreed to provide some staff support to help resolve these issues so they could be filed in October.

Issue #3: Independent market monitoring unit

Some changes to the current institutional arrangements are being discussed. Any changes would be resolved and filed in the October filing. There was also discussion of adding rules to ensure the independence of the external market monitor, similar to those used by MISO.

Issue #4: Tariff administration and design

There was general agreement that the ISO should have its own tariff and the right to file under Section 205 of the Federal Power Act. This change would be included in the October filing. The allocation of 205 rights between the ISO and transmission owners is being worked out, and the expectation is that these changes would be outlined in the October filing.

Issue #5: Regional State Committees

The New England Governors Conference (NEGC) and the New England Conference of Public Utilities Commissioners are discussing what changes should be made to the current role that states play in wholesale market design. States are working on structure of RSC in New England. At present, the nature of the RSC is a broad outline, and there is broad support for a role of RSC in resource adequacy and expansion. The NEGC would possibly decide this in September at a meeting and include the changes in the October filing. A key issue in the creation of the RSC is how voting rules will be designed, likely some mix of one-state-one-vote and consumption-based weighted voting.

Issue #6: Export fees

New England and New York state commissions and transmission owners are trying to eliminate inefficient through and out charges, each with the understanding that the neighboring region would reciprocate. The ISOs are helping to facilitate these discussions. FERC encouragement was requested. Canadian and PJM participation was also requested. FERC will contact New York Public Service Commission Chairman William M. Flynn and relevant Canadian and PJM parties.

Issue #7: Liability and indemnification

There is general agreement that FERC's proposed language would be acceptable. There are discussions over specific language. This would be included in the October filing.

Issue #8: Inter-regional coordination

In order to satisfy the white paper's requirement that seams issues must be resolved, the ISO described how it is building on recent progress. They released white paper on regional dispatch on May 19. On virtual regional dispatch, there are working groups in New England and New York that are striving to make the two ISOs act as if they were a single operator, and dispatch across seams in a manner that would be more consistent with dispatch over internal constraints. A meeting is scheduled for May 29, 2003 in Albany, NY with New York Stakeholders. These changes would be included in the October filing.

Issue #9: Cost allocation

The Regional State Committee will try to achieve consensus among the states on a cost allocation plan. If they can agree, consistent with the FERC white paper, this plan would be filed by the ISO. If not, then another cost allocation plan would be filed by the ISO based on NEPOOL decisions. This would be filed before October in compliance with the September and December FERC orders on SMD for New England.

Issue #10: System planning

There are plans underway to modify the current Regional Transmission Expansion Plan (RTEP) – they are going drop the T from RTEP. There are discussions about the role of demand and generation solutions to congestion problems. A plan would be included in the October filing.

Issue #11: Resource adequacy

There are anticipated modifications to the current installed capacity market, including the addition of locational requirements that would send better price signals for the location of generation. A plan would be filed in October. Concurrently, efforts to make Northeast capacity markets more standardized and tradable would be pursued.

I look forward to continued discussion with members of the New England region. I believe that the steps you have taken will serve as a model for other regions in the country.

Best regards,

Pat Wood, III