

New England States Committee on Electricity

To: ISO-NE
From: NESCOE
Date: August 22, 2012
Subject: State Feedback & Requests In Connection with ISO-NE's *Addressing Gas Dependence Paper*

The New England States Committee on Electricity (NESCOE) appreciates ISO New England's (ISO-NE) continuing work to identify and propose potential solutions in connection with risks to the region's electric system. ISO-NE's July 2012 paper, *Addressing Gas Dependence* (the *Gas Dependence Paper*), which describes the electric sector risks associated with the region's growing dependence on natural gas, is a good example of ISO-NE's effort in this regard.

At the August 3, 2012 Participants Committee meeting, ISO-NE sought preliminary state and market participant feedback on the *Gas Dependence Paper*. A number of state officials expressed points of view at that time. We provide this letter to expand upon that feedback and to emphasize the need for further information and specific analysis.¹

First, in the *Gas Dependence Paper*, ISO-NE anecdotally describes risks to reliable operation of the electric system arising from dependence on natural gas. In order to assess the potential solutions ISO-NE identifies, the states need additional context and quantification of the economic implications on consumers. To that end, NESCOE requests that ISO-NE quantify the reliability risks and provide analytical results through traditional reliability metrics, if possible; through actual and forecasted estimates of resources committed to maintain reliability in response to natural gas fuel supply disruptions; or through other means ISO-NE uses for quantifying the risks of gas dependence. This type of information will help states and market participants to understand the magnitude and frequency of the problem, and thus, to assess what solutions may be appropriate.

¹ The potential solutions ISO-NE identifies in the paper are arguably Major Market Initiatives and thus in need of specific quantitative and qualitative analysis. Whether or not ISO-NE categorizes these proposals as Major Market Initiatives (ISO-NE's approach to such categorization should become transparent at some point soon), states still require details and economic analysis in order to be able to participate in discussions about whether they make sense from electric consumers' perspective.

Additionally, the states need estimates of at least the range of potential economic implications on electricity consumers associated with proposed solutions. For example, ISO-NE suggests that it provide an economic incentive for generators to secure firm access to fuel supply through a supplemental procurement. While NESCOE appreciates that ISO-NE solicited state and market participant input on this preliminary proposal, it is not possible for the states to assess the merits of supplemental procurements without additional information. This includes how the proposal, if implemented, would achieve the objective of ensuring generator performance. The states also request that ISO-NE provide an estimate of the anticipated costs of the proposal to electricity consumers and expected benefits to the electric system. The same need for cost analysis applies to ISO-NE's other proposals, such as any potential change to the timing of the day-ahead electricity market. Even if imprecise and in the form of ranges, states need economic analysis prior to making a judgment about whether these proposals are appropriately tailored to the problem. It would be most useful for ISO-NE to issue such economic analysis early in the region's consideration of these proposals so that states may benefit from market participants' assessment of and comments on ISO-NE's analysis.

Further, given that challenges associated with increasing dependence on natural gas are new for New England, it would be helpful for ISO-NE to identify any limits that may exist within its current authority to execute any of the potential solutions it identifies. At the same time, it would be helpful to hear ISO-NE's views on any other institutions that may have current legal authority to execute any of the proposed solutions.

Ultimately, in sorting out how best to solve issues that result from increased reliance on natural gas, we need to assess the economic impacts to consumers of potential changes in the electric markets and the cost to consumers of potential changes to gas markets that may achieve comparable ends. We understand ISO-NE is not suited to analyze the latter. We do however appreciate ISO-NE's assistance in helping the region understand the costs implications of ISO-NE's electric market solution proposals.