

NEPOOL Chairman's Comments
NEPOOL IMAPP Meeting
October 6, 2016

Over the last several weeks I have been kicking off our NEPOOL meetings with introductory comments to share with our members and with our stakeholders what this IMAPP Initiative is all about – Integrating Markets and Public Policy, and why I believe it is important for our region, our industry, and thus for NEPOOL.

I have been a strong advocate for this effort because I believe that our markets need to meet the needs of our customers. Our customers are not only market participants as represented by our governance sectors - generators, suppliers, transmission owners, alternative resource providers, public power, and end users. But our customers also include the states in which we operate and ultimately their industries and consumers.

I believe that our NEPOOL process could provide the opportunity to not only preserve the successes we have accomplished to-date, that in so doing our customers would continue to reap the benefits of these wholesale competitive markets: economic efficiency, efficient prices, resource adequacy, system reliability, and new investment coming into the region – over \$1.4 billion in last capacity auction alone. But to incorporate into these very same competitive markets what I understood to be the states' desires and directives to decarbonize our electric sector.

Let me be clear. Our markets are doing a great job of ensuring reliability of the electric system at extraordinarily good values. Are they perfect? No. But, by all

of us working together , we have made significant strides in enhancing the efficiency and competitiveness of our wholesale markets, including most recently improving price formation in the energy market and creating a capacity market that sends appropriate price signals for new entry when and where it is needed, and we have worked together to expand the transmission system virtually eliminating transmission congestion across the region. And we have done all of this with the support of, and close collaboration with all six New England states who set us on this path nearly 20 years ago [because they understood that competition works].

To me, it is clear that there is a growing dichotomy between what we have to sell, and what our customers want to purchase.

Our wholesale markets do not always deliver the resources and outcomes that meet the desires of the states in which we serve. And in some states, our competitive wholesale markets have not delivered the resources and outcomes that are legislatively mandated in those states.

But as is the case in any business and in any industry, if we are not meeting the needs of the customers, our customers will go elsewhere. As we have seen with the recent legislation in CT and MA, as well as in the other NE States, they are doing just that.

In taking on this initiative, I have maintained that if we fail to act, the role that we have as NEPOOL and the role that ISO-NE shares with us “to create and sustain

open, non-discriminatory, competitive, unbundled markets” may very well become less and less relevant.

From a market perspective, we are looking at potentially thousands of megawatts of long term contracts for new resources coming over the next several years as the energy policy of the New England States is executed upon. And given the direction espoused by all of the States, there will continue to be a need to bring even more, new low and zero carbon resources into the region.

Many of us close to the markets believe that the scale and scope of these procurements, when taken together, will have a significant and direct impact on the workings of our existing markets. Some have suggested that the state actions are an existential threat to the markets themselves and by extension to many of our members whose businesses live and die by how effectively our markets function. And some have opined about the potential impact on the role that ISO-NE plays in administering these markets.

If we do not work toward integration, it is a relatively straight line to envision a future construct in which all resources may require their own special arrangements to participate. I believe it was John Rowe at a NECPUC Symposium that commented “we know how to do cost of service, we have learned to do competition, but attempting to do them both at the same time is like adopting the English way of driving on the left – first we start with the trucks.”

While there are many unknowns in the path ahead, what I know as an absolute certainty is that market participants and other regional stakeholders will respond to these externalities, and the market structure will continue to evolve as it reacts to the forces pressing upon it.

So as I said in my memo earlier this week, we have much work to do.

In response to the direction provided by NESCOE in their memo to us, we have amended today's agenda so that we can take the time and focus our attention on the concerns and objectives expressed by the states. And together we can consider the appropriate next steps for NEPOOL as the organization that has provided a guiding hand to our industry for these last forty-five years.