Con•sen•sus:
the judgment arrived at by most of those concerned

Col•lab•o•rate:
to work with another person or group in order to achieve or do something

– Merriam-Webster Dictionary
Coming together is a beginning.

Keeping together is progress.

Working together is success.

– Henry Ford

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NEPOOL turned 43 years old this year. That might be considered firmly ensconced in middle age – the period of life between young adulthood and old age. But the changes NEPOOL has undergone, from its founding in 1971 to its restructuring in the late 1990s to the robust organization it is today, belies such a simple characterization. What NEPOOL is, what NEPOOL stands for and what NEPOOL does makes it timeless. NEPOOL is not only the forum for views to be exchanged, considered and debated, but provides the structure to achieve mutual understanding, collaboration and consensus.

An Old Parable
There is an old parable in which six people are brought into a dark room where an elephant awaits them. Each is asked to approach the animal and to describe it based on only their touch. Each one feels a different part of the elephant, and each therefore has a different perspective of what an elephant is.

The one touching the leg likens an elephant to a tree.
The one holding the tail says the elephant is like a rope.
A third at the elephant’s side perceives the elephant as an immovable wall.
The one who holds the tusk compares it to a spear.
Another thinks the trunk is a snake.
And the last, at the ear, a giant fan.

Each of them is accurate in describing the elephant given their limited perspective, but individually, none can accurately describe the elephant because they don’t have all they need to get to the truth. Like these six people, each of the NEPOOL participants and stakeholders bring to the table their own unique perspective and experience, and with them, their limited piece of the truth. The timeless elegance of NEPOOL is that with discussion, discourse, and debate, we are all educated and informed, and thus brought closer to the truth that a broader perspective provides.

Public Policy, Physics and Economics
Our electric industry is influenced by three primary factors: public policy, laws of physics and economic realities. Public policy is determined from within each of the six New England states and through the federal government and its agencies. It is public policy that brought NEPOOL into existence in 1971, drove restructuring in 1996 and will guide us into the future.

The physical realities of operating a bulk power system must also be considered. It is the role of the ISO in operating and planning the transmission system to adhere to those laws sometimes bounding desires of public policy objectives.

And finally, there are the economic realities when overlaying public policy onto the physical power grid. It is these economics, these cost considerations, that have historically provided the scale upon which public policy proposals are weighed and measured, keeping in mind the costs that would be borne by the ratepayers of New England. Implementing public policy requires investments in transmission lines, distribution systems, natural gas pipelines, load management, and all types of generating resources.

Collaboration and Consensus
In today’s restructured markets, it is NEPOOL, and its unique stakeholder and governance structure, that is the scale upon which to find that balance. We accomplish this by bringing to the table the experience and wisdom of many stakeholders with very different perspectives to address the ever-evolving market, reliability, public policy and other strategic challenges. Most often the exchange of individual views produces collaboration and consensus with the ISO. Other times finding that balance is elusive and cannot be reconciled, but in the NEPOOL tradition, it is not for want of effort.

This Annual Report recounts more than 100 separate meetings in 2014 in which this process came to life. And that is the core strength of NEPOOL that keeps it timeless in its purpose – as the organization that provides the forum to integrate and balance the needs, desires and wants of all the stakeholders of the electric industry in New England – from the state’s regulators, NECPUC, consumer advocates, energy offices, NESCOE, private advocacy groups, and trade organizations to state and federal agencies to the market participants of NEPOOL who compete to earn their livelihoods on the playing field we create: 171 suppliers, 68 generators, 26 transmission owners, 57 public power entities, 47 alternative resource providers and 60 end users.

The appropriate response to the challenges we face is effective communications and collaboration. I am proud of and grateful for our members’ ability to work through issues, their commitment to seek common ground, and their diligent efforts when there is disagreement to disagree without being disagreeable.

As Charles Darwin said, “In the long history of humankind … those who learned to collaborate and improvise most effectively have prevailed.” As an institution 43 years strong, NEPOOL exemplifies the spirit of those words. It has been my privilege to work with each and every NEPOOL participant over this past year on the many challenges facing NEPOOL, the ISO and the region, and I look forward to another successful year in 2015. Thank you.

Joel S. Gordon
Chairman, NEPOOL Participants Committee
NEPOOL at a Glance

VOLUNTARY ASSOCIATION
ORGANIZED 1971

442 MEMBERS
261 VOTING MEMBERS

39 NEW MEMBERS
- 1 Generation
- 23 Supplier
- 8 AR
- 3 End User
- 3 Provisional Members

End User 60
AR 47
Publicly Owned 57

6 SECTORS
Generation 68
Transmission 26
Supplier 171

4 PRINCIPAL COMMITTEES
- PARTICIPANTS COMMITTEE (NPC)
- MARKETS COMMITTEE (MC)
- RELIABILITY COMMITTEE (RC)
- TRANSMISSION COMMITTEE (TC)

MEETING DAYS
- 17 NPC
- 33 MC
- 14 RC
- 12 TC

270 LEGAL PROCEEDINGS
- 130 NPC
56 MC 96 RC 12 TC
Participated in or actively monitored

NPC MEETING DAYS
- 230 since inaugural meeting held June 11, 1999
NEPOOL Elected Officers

Joel S. Gordon (Chair, Supplier Sector representative)
Joel Gordon is the 2014 Chairman of the Participants Committee and serves as a representative of the Supplier Sector, whose 171 Participant members are engaged in, or authorized to engage in, power marketing, virtual trading, power brokerage, or load aggregation within the New England Control Area. Joel serves as the representative for the PSEG companies within the NEPOOL stakeholder process. He has held similar positions over the past 15 years with other generators in NEPOOL, including NRG Energy and PSEG National Energy Group, representing almost 30% of the total installed generation in New England - more than 75 different generation assets operating across the entire dispatch range of the power pool. Before that, Joel was Financial Vice President for independent energy development firms EcoGen Technologies and Bio Development Corporation. He began in the industry as a commercial banker with State Street Bank in Boston. As Vice President in the bank's project finance group he focused on lending to alternative energy generation projects, including hydro, wind, wood and gas-fired cogeneration, and also managed the bank's portfolio of gas distribution and water utilities. Joel holds a BA in Economics from Brandeis University and an MBA from Babson College.

Timothy J. Brennan (Vice-Chair, Transmission Sector representative)
Tim Brennan serves as a representative of the Transmission Sector, whose 26 Participant members own Pool Transmission Facilities and Local Networks in the New England Control Area. Tim is Director of Market Policy and Strategy for National Grid. He has worked for National Grid companies for more than 25 years since graduating from Tufts University with a degree in mechanical engineering. His career has included responsibilities in the areas of power plant engineering, wholesale market trading, energy supply procurement, and transmission strategy. For more than 15 years, he has represented National Grid and its customers in the New England stakeholder process, promoting the development and enhancement of competitive wholesale electricity markets and a cost-effective and reliable grid for New England.

Brian E. Forshaw (Vice-Chair, Publicly Owned Entity Sector representative)
Brian Forshaw serves as a representative of the Publicly Owned Entity Sector, whose 57 Participant members are municipalities, agencies, or New England public corporations that own electric generation, transmission or distribution facilities. Brian is Chief Regulatory and Risk Officer for the Connecticut Municipal Electric Energy Cooperative (CMEEC), where he has worked for more than 34 years. CMEEC is a Connecticut joint-action power supply agency organized to secure reliable and low-cost power supplies for municipal electric utilities. Additional responsibilities at CMEEC include long-term resource planning, strategic planning, resource procurement and contract negotiations. Brian served as the Participants Committee Chairman for 2010 and 2011 and is the longest continually serving Participant officer.

August Fromuth (Vice-Chair, End User Sector representative)
Gus Fromuth serves as a representative of the End User Sector, whose 60 Participant members are New England consumers that purchase (and/or generate) electricity primarily for their own consumption, or non-profit groups representing such consumers, including New England agencies and municipalities (that are not Publicly Owned Entities). Gus is Managing Director of Freedom Energy Logistics, which specializes in supporting direct End User participation in NEPOOL and the New England Markets, and provides customers with high-end energy management services that facilitate direct electric power services at wholesale prices. Along with colleagues, Gus pioneered direct End User participation in the wholesale markets, successfully working through the NEPOOL stakeholder process to design and refine the ground rules for that participation. Gus is also an executive of Halfax American Energy Company and Power New England, licensed retail energy providers in New England reselling wholesale electricity directly to end users.

Douglas Hurley (Vice-Chair, AR Sector representative)
Doug Hurley serves as a representative of the Alternative Resources (AR) Sector, whose 47 Participant members are Renewable Generation, Distributed Generation, and Demand Response and Energy Efficiency Providers in the New England Control Area. Doug is a Principal Associate with Synapse Energy Economics, where he represents the interests of consumer advocate, environmental and renewable resource clients at numerous NEPOOL stakeholder meetings. He was the lead client representative for three members of the AR Sector in the FCM settlement conferences that, with help from other parties, successfully included demand response and energy efficiency in the FCM design. Doug has been the AR Sector’s Participants Committee Vice-Chair since mid-2009.

Thomas W. Kaslow (Vice-Chair, Generation Sector representative)
Thomas Kaslow serves as a representative of the Generation Sector, whose 68 Participant members own generation facilities operating, authorized to operate, or having a Capacity Supply Obligation, in the New England Control Area. Tom is Director of Market Design and Policy – Northeast for GDF SUEZ Energy North America, Inc. and has previously worked forSigma Consultants, Calpine Corporation, PG&E National Energy Group, and New England Power Company. Tom has actively participated in the NEPOOL stakeholder process since the late 1990s, serving as a NEPOOL witness for the original competitive markets filing before FERC, and in various leadership roles, including 2004 Cold Snap Task Force co-chair, Review Board Liaison Committee chairman and Markets Committee Vice-Chair (2010-2012).
Seeking Consensus

Introduction

As emphasized in the Chairman’s message, the NEPOOL Participant Processes facilitate the broadening of perspective leading to the formation of consensus through the discussion, collaboration and deliberation among NEPOOL members, the ISO, the six New England states and other interested regional stakeholders.

Through the years, consensus has been achieved on most matters while agreement on a limited number of other matters has proven elusive. In 2014, NEPOOL and the ISO worked closely, effectively, and cooperatively together to identify and jointly file a number of Tariff changes. Among those changes were joint NEPOOL/ISO filings that established a New England-wide downward-sloping demand curve in the Forward Capacity Market (FCM) and a Winter 2014/15 Reliability Program to address regional winter reliability concerns. Both jointly-supported Market Rule changes demonstrated how effective NEPOOL and the ISO can be in working collaboratively with each other and seeking consensus to solve problems. In contrast was the ISO’s proposal to reform New England’s capacity market through its performance incentives (PI) construct. That proposal, which prompted a heavily litigated “jump ball” proceeding before the FERC, went from a positively received concept to a final ISO compliance effort over the summer that not one single NEPOOL member supported.

All three examples, as discussed on pages 13 to 17 of this Annual Report, highlight the importance of effective communications and collaboration with the ISO, with state regulators and among industry participants to address ever-evolving regional challenges.

1. System-Wide Demand Curve

Following a decade of debate and discussion, collaborative effort, hard work, and direct prodding by the FERC, in 2014 NEPOOL and the ISO jointly filed revisions to the FCM rules to establish a downward-sloping system-wide demand curve (Demand Curve Changes). The Demand Curve Changes define the shape of a system-wide sloped demand curve designed to moderate capacity price volatility as supply enters and exits the New England capacity market (see curve above). In addition to establishing a downward-sloping, system-wide demand curve, the Demand Curve Changes: (1) extend the period during which a Market Participant may “lock in” the capacity price for a new resource from five to seven years; (2) establish a limited exemption from the ISO’s buyer-side market mitigation rules for certain renewable resources that are built to advance state policy objectives; and (3) eliminate, at the system-wide level, the administrative pricing rules that were necessary in certain market conditions under the vertical demand curve construct. On an issue of such import and controversy, regional stakeholders and the ISO worked closely together to achieve consensus. The region is now embarking on efforts to accomplish similar consensus with regard to the development of zonal demand curves.
2. Winter Reliability Programs

For Winter 2013/14, the ISO implemented a Winter Reliability Program for the months of December 2013 through February 2014. This program was developed and supported through the Participant Processes, and from all reports, was a success and achieved its objective of supporting the region’s ability to maintain reliability during the “polar vortex” of Winter 2013/14.

Given the success and importance of the Winter 2013/14 Reliability Program, NEPOOL, the ISO and state regulators worked together to develop a revised reliability program for Winter 2014/15. The Participants Committee overwhelmingly supported the Winter 2014/15 Reliability Program at its 2014 Summer Meeting, which led to a joint ISO/NEPOOL filing and subsequent FERC approval. The 2014/15 program creates additional incentives for generators to firm up their fuel supply by increasing oil and liquefied natural gas (LNG) inventories. It also provides for additional compensation opportunities for demand response services.

In late 2014, per FERC’s guidance, the ISO and NEPOOL initiated another process to pursue collaborative efforts among stakeholders to develop a proposal to address reliability concerns for the 2015/16 winter and future winters, as necessary.
In January 2014, unable to come together to resolve fundamental differences of opinion and philosophy regarding the best way to improve the market incentives for resource performance in New England, the ISO and NEPOOL submitted two alternative versions of Market Rule changes pursuant to the “jump ball” provision of the Participants Agreement — the “ISO Proposal” and the “NEPOOL Proposal”. The filing is referred to as a “jump ball” filing because both proposals were presented to the FERC on equal legal footing. Both proposals sought to further address existing reliability, investment and resource performance challenges in New England, but each offered fundamentally different approaches.

Although consensus was not achieved between NEPOOL and the ISO, the stakeholder processes ensured that NEPOOL’s interests were well-defined and understood, and accurately and successfully communicated to regulators and policy makers.

In late May, after months of heavy litigation, including multiple rounds of pleadings submitted by various regional entities, the FERC issued an order in response to the jump ball filing. The outcome of this proceeding illustrates well the constant challenge of maintaining a collaborative environment that encourages the ISO and all stakeholders to work toward consensus. Here, the ISO elected to chart its own path, resulting in much more emphasis and energy by all directed away from collaboration and seeking common ground and toward posturing and litigation. The stakes to both reliability and economics for the region associated with the reformed FCM are and will remain very high. Regulators have spoken. Moving forward, NEPOOL leadership remains dedicated to restoring the collaborative problem-solving and consensus-building environment that has long been a hallmark of New England’s stakeholder process.

3. Performance Incentives Jump Ball Proceeding

Seeking Consensus Key Documents:

1. Demand Curve
   FERC Order on Joint ISO/NEPOOL FCM Demand Curve Filing: http://www.ferc.gov/CalendarFiles/20140530161324-ER14-1639-000.pdf
   NEPOOL Committee materials, ISO filings and FERC orders related to FCM Sloped Demand Curve Project: http://www.iso-ne.com/committees/key-projects/fcm-sloped-demand-curve

2. Winter Reliability Programs

3. Performance Incentives Project
As the principal governing body of NEPOOL, the Participants Committee provides a final opportunity for regional collaboration to refine, balance, and cement consensus around changes to the New England wholesale power and transmission arrangements. Every one of the more than 440 members is entitled to participate on this Committee (current Participants are listed on pages 42 to 43 of this Annual Report, and members are all identified at http://nepool.com/Existing_Members.php). The Participants Committee, either directly or by delegation, votes on ISO and Participant proposals to change the ISO Tariff; the annual budgets of the ISO, NESCOE and NEPOOL; and the slate of candidates for the ISO Board of Directors.

To carry out its responsibilities in 2014, the Participants Committee held 17 days of meetings, either in person or by teleconference. The Committee’s three-day Summer Meeting in June was in Ogunquit, Maine, with other monthly meetings held in Boston, Massachusetts; Stowe, Vermont; and Providence, Rhode Island. Participants Committee meetings are widely attended across all industry sectors, with more than 80 members and alternates routinely represented at such meetings, many with authority to vote for multiple Participants.

The Participants Committee also serves as a vehicle for direct communications with the ISO Board. The Committee in separate sector meetings met twice with the ISO Board in 2014. During those meetings, individual sectors raised and discussed matters of specific interest to their sectors. The Participants Committee is the Committee with the right to represent NEPOOL’s interest in proceedings before federal and state regulators. In 2014, the Participants Committee participated in or actively monitored more than 270 legal proceedings involving New England matters, including the FCM changes described more fully elsewhere in this Annual Report and FERC proceedings addressing energy market offer timing and flexibility, Winter 2014/15 reliability, price-responsive demand participation in the Reserve Market, and revisions to the Regulation Market. Those proceedings are identified on pages 36 to 39 of this Annual Report.
Markets Committee

The NEPOOL Markets Committee is one of three standing Technical Committees under the NEPOOL arrangements. In 2014, the Markets Committee was chaired by Allison DiGrande of the ISO, and the members elected Stacy Dinou to serve his first term as a Vice-Chair. As the NEPOOL committee charged with advising the ISO and the Participants on the design and operation of the region’s wholesale electric markets, the Markets Committee worked hard in 2014, considering for recommendation numerous changes to the regional markets. To accomplish its responsibilities, the Markets Committee held 20 meetings over 31 days through November, with at least two more days of meetings planned for the remainder of 2014.

As in past years, much of the Committee’s 2014 efforts focused on various aspects of the Forward Capacity Market. Earlier in the year, while NEPOOL and the ISO were debating fundamental changes to FCM before the FERC, the Markets Committee was engaged in discussions to establish a down-sloping demand curve for the next Forward Capacity Auction (FCA), and successfully identified a proposal that was supported by ISO and the Participants Committee and later approved by the FERC. The Markets Committee then explored demand curves to be implemented at the zonal level. Throughout the year, the Committee also considered numerous other FCM changes, including:

- Revisions to capacity offer prices below which the market monitor must verify, which are referred to as the Offer Review Trigger Prices (ORTP);
- Shortening to 15 calendar days before a FCA the latest time by which a resource that sought to retire but is needed for reliability in permitted to elect not to retire;
- Changes to the rules for establishing capacity prices if there is Inadequate Supply or Insufficient Capacity in a FCA;
- Modifications to the Shortage Event Competition offer tests within the market mitigation rules;
- Relaxation of the Market Rules to permit entities with a Capacity Supply Obligation (CSO) associated with a Net Capacity Resource a one-year deferral of that Obligation if certain pre-conditions are satisfied;
- FCM performance incentives changes to comply with FERC directives;
- Proposed modifications to the FCM Peak Energy Rent mechanism;
- Revisions to the rules for potentially mitigating New Import Capacity Resources;
- Changes related to the new triggers for modeling Capacity Zones in the FCM;
- Participant-sponsored proposal to adjust, in instances in which a resource is rejected for a local reliability need, the FCA clearing price to mitigate price suppression from such resources;
- Participant-sponsored proposal for reducing the price impacts of multi-year capacity payments by implementing a "shadow" de-list bid mechanism within the FCA for Existing Capacity Resources that accepted a multi-year capacity clearing price in the FCM, and
- FCM enhancements to allow bilateral trading of CSOs across Capacity Zones and External Interfaces.

This year, as in 2013, the Markets Committee also considered and recommended support for a set of changes to address regional winter reliability concerns. Those changes include an out-of-market program for the 2014-15 winter period focused on creating incentives for: (i) increased dual-fuel resource participation; (ii) resources to fill their oil tanks at the beginning of the winter capability period; (iii) Market Participants to form up their right to LNG; and (iv) providing compensation for demand response services. The Committee also recommended for approval Information Policy changes to permit the confidential sharing of confidential reliability-related generator-specific data between the ISO and interstate natural gas pipeline operators.

The energy market was also changed in 2014 with key changes planned for implementation in early December 2014 to permit hourly intraday offers of energy. Such changes include a modified fuel-price adjustment verification process in the market mitigation scheme for resource's submitting hourly offers, a series of Internal Market Monitor (IMM) related changes and related Manual changes to conform to the offer flexibility Market Rule provisions, and other conforming cost allocation changes required to support the corresponding Net Commitment Period Compensation (NCPC) payments structure. Other Market Rule changes recommended by the Markets Committee include the following (1) modifications to the new Regulation Market design to address issues and guidance provided by the FERC concerning Order 755 implementation; (2) changes to enable Demand Response (DR) Resources to provide Operating Reserve and participate in the Forward Reserve Market coincident with the planned June 1, 2017 effective date for full integration of price responsive demand (PRD) in the energy/reserves markets; (3) improvements to reserve accounting for Real-Time reserve and pumped storage resources; (4) revisions to address DR baseline accuracy during scheduled and unplanned demand curtailments of DR assets; and (5) various other conformance changes, clarifications and clean up of provisions in the Market Rules and related Manuals.
Reliability Committee

With the many proposed improvements and upgrades to the region’s transmission facilities, the NEPOOL Reliability Committee was busy in 2014 considering for recommendation to the ISO and the Participants Committee numerous changes to the system rules and standards needed for system operations. The Reliability Committee is tasked with considering all such changes. Under New England’s arrangements, no NEPOOL member can make material changes to its bulk power facilities unless it first notifies the ISO and receives confirmation that the proposed changes will not significantly affect the reliability or operations of the bulk power system. Those changes are all considered and voted on by the Reliability Committee. The Reliability Committee also reviews and provides advisory input on all proposed substantive changes to Operating Procedures, Transmission Cost Allocation applications, and Installed Capacity Requirements (ICR) and related values. In 2014 the Reliability Committee continued to help shape and administer the FCM, including by providing input on the use of a demand curve to calculate the ICR.

To accomplish these and other responsibilities of the Reliability Committee, the Committee held 14 meetings in 2014, and received input from a variety of task forces and subcommittees such as the Voltage Task Force, the Stability Task Force, the Transmission Task Force, and the Power Supply Planning Committee. The Reliability Committee provided NEPOOL advisory input to the ISO and recommendations to the Participants Committee on numerous proposed plan applications and proposed delists of capacity resources, as well as recommendations on revisions to Operating and Planning Procedures, ICR-related values, and approximately $300 million worth of Transmission Cost Allocation applications.

Transmission Committee

The NEPOOL Transmission Committee has responsibility for, among other things, providing advisory input on all proposed changes to the Open Access Transmission Tariff (OATT), which is Section II of the ISO Tariff. The Transmission Committee met 12 times in 2014. Some of the Committee’s time was spent on normal review of FERC-mandated compliance changes to the OATT, including addressing FERC requirements to modify the OATT regarding integration of variable energy resources and small interconnection rules. However, a significant portion of the Committee’s time was devoted to providing collaborative input into energy infrastructure-related proposals – the Governors’ Infrastructure Initiative to expand transmission and gas pipelines into the region and the ISO’s Elective Transmission Upgrade proposal to consider transmission projects that were deemed desirable for economic reasons but not essential to reliability. These two energy infrastructure proposals and NEPOOL’s collaborative input are discussed in more detail on pages 28 to 29 of this Annual Report.

Budget & Finance Subcommittee

The Budget & Finance Subcommittee’s work focused primarily on fine-tuning the ISO New England Financial Assurance Policy and reviewing the 2015 budgets for the ISO, NEPOOL, and the New England States Committee on Electricity (NESCOE). The changes to the Financial Assurance Policy included simplifying the process for filing risk management policies of Market Participants in the Financial Transmission Rights (FTR) market, revising the form security agreement to better align with the process used for cash deposits, and revising the Policy related to deferrals of Capacity Supply Obligations. As the year winds down, the Subcommittee is slated to review changes to the minimum capitalization standards in the Policy and to resume its deliberation of third-party clearing of long-term FTR markets. The Budget & Finance Subcommittee reviewed carefully and fully the ISO’s proposal for its 2015 operating and capital budgets. It also reviewed the proposal for the 2015 budgets of NEPOOL and NESCOE. Input on all of those budgets was submitted to the Participants Committee, and NEPOOL endorsed the proposed 2015 budgets.

The Subcommittee recommended the following NEPOOL budget for 2015 (with the 2014 budget included for comparison):

<table>
<thead>
<tr>
<th>Category</th>
<th>2015 (PROPOSED)</th>
<th>2014 (BUDGET)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Expenses</td>
<td>$6,303</td>
<td>$6,008</td>
</tr>
<tr>
<td>Revenue</td>
<td>($3,484)</td>
<td>($3,315)</td>
</tr>
<tr>
<td>Net Participant Expenses</td>
<td>$2,819</td>
<td>$2,693</td>
</tr>
</tbody>
</table>

Peter D. Fuller
Chair
_Expense Committee Chair

William S. Fowler
(Vice-Chair)
Participant-Selected
Reliability Committee

Donald L. Gates
(Vice-Chair)
ISO-Appointed
Reliability Committee

José A. Rotger
(Vice-Chair)
Participant-Selected
Transmission Committee

Expenses in Thousands of Dollars

EXPRESSED IN THOUSANDS OF DOLLARS

2015 (PROPOSED) | 2014 (BUDGET)

Operating Expenses | $6,303 | $6,008
Revenue | ($3,484) | ($3,315)
Net Participant Expenses | $2,819 | $2,693

NEW ENGLAND POWER POOL • 2014

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Membership Subcommittee

For the third consecutive year, overall membership numbers held steady, ending 2014 at roughly the same number as 2013, or 442 members. Underneath the constant overall membership numbers was a continuous turnover of individual Participants. In 2014, 39 new members joined NEPOOL while 32 members left the Pool.

To consider applications to join or end NEPOOL membership, the Membership Subcommittee, chaired by Michael J. Lynch, met 13 times. The Subcommittee has the delegated authority from the Participants Committee to approve applications for membership in, and to approve terminations of membership from, NEPOOL. Monthly actions taken by the Subcommittee are posted on the NEPOOL website at http://nepool.com/Memb_Subcomm.php. The NEPOOL website also provides instructions for becoming a member, changing a Participant name and terminating a membership.

Continuing a trend from 2013, nearly two-thirds of the new members joining NEPOOL in 2014 became, or are represented by, Supplier Sector members, resulting in seven additional voting members in that Sector. Eight new members joined the Alternative Resources Sector, with four members joining the Renewable and Distributed Generation Sub-Sectors. Two voting members were added to the End User Sector and three members became Provisional Members. Terminations in 2014 were again concentrated in the End User and Supplier Sectors. Five individual voting members from the End User Sector (representing 10 members) terminated their membership, as did 12 members of the Supplier Sector. Among the reasons reported to be driving these withdrawals were Energy Market price volatility, particularly during Winter 2013/14; mergers and acquisitions; and further consolidation of activities under Related Persons that remain Participants.

The Membership Subcommittee also developed an updated chart that remains Participants.

Terminations in 2014 were again concentrated in the End User and Supplier Sectors. Five individual voting members from the End User Sector (representing 10 members) terminated their membership, as did 12 members of the Supplier Sector. Among the reasons reported to be driving these withdrawals were Energy Market price volatility, particularly during Winter 2013/14; mergers and acquisitions; and further consolidation of activities under Related Persons that remain Participants.

The Membership Subcommittee also developed an updated chart that remains Participants.

Review Board and Review Board Liaison Committee

The Review Board is an independent board tasked with considering any appeals by NEPOOL members of NEPOOL’s actions or failures to act. The Board is required to act on appeals within 35 business days. There were no appeals filed in 2014.

In 2014, the following members served on the Board:

- **Jon (Jack) Lotis** (Chair) – Former FERC Administrative Law Judge and now active arbitrator of energy industry disputes
- **Jacob Feinstein** – Former officer of a utility and a generation project developer
- **William Museler** – Former CEO of the New York Independent System Operator and current board member of the Ontario Independent Electric System Operator

The Review Board Liaison Committee, which is chaired by Stacy Dimou and has members from each of the Sectors, met with the Review Board twice in 2014. Those meetings were to discuss administrative issues associated with the Board functions and to apprise the Review Board generally of NEPOOL matters, in support of the Board’s efforts to remain prepared to act expeditiously on matters that might come before it. Additional information concerning the Review Board can be found at: http://nepool.com/RB_Home.php

NEPOOL Audit Management Subcommittee

Under the Participants Agreement, NEPOOL has the right to conduct a performance (or operations) audit of the ISO no more than once every three years. The NEPOOL Audit Management Subcommittee (NAMS) was initially formed in 2003 for the purpose of considering how NEPOOL would exercise that right in light of the fact that the ISO has an ongoing self-review program performed by its external auditors or by its Internal Audit Department under the supervision of external auditors, which is completed in accordance with a predefined plan. Through NAMS, NEPOOL has provided input into the ISO’s 2003, 2007 and 2010/11 audits. NAMS was resurrected when the audit right was once again triggered this year. The Subcommittee has been meeting regularly to seek Participant input on audit topics and recommended approaches to the audit process, and is recommending a course of action to the Participants Committee. NAMS expects to implement its recommended audit plan, which is similar to the approach taken with respect to previous operations audits, beginning in early 2015.
The NEPOOL Generation Information System (GIS) creates and manages electronic certificates representing the fuel source, emissions and other attributes of all the power settled in the ISO New England market settlement system, as well as attributes for certain behind-the-meter generators and conservation resources that are not settled regionally and certain renewable generators that import power into New England. These certificates form the basis for retail bill disclosures, renewable and alternative energy portfolio standard compliance, environmental trading, and investment incentives in the New England States. The GIS is owned by NEPOOL and is operated and administered by APX, Inc. The GIS Operating Rules Working Group, which reports to the Markets Committee, addresses changes to the GIS and related Operating Rules.

In 2014, this Working Group reviewed and recommended changes to the GIS Operating Rules to conform those Rules to evolving state requirements. Additionally, NEPOOL, through its counsel, participates in periodic meetings with representatives of the other renewable energy credit tracking systems in the United States to explore best practices and common issues. The tracking systems across the country are now considering whether their systems might help in tracking compliance with the U.S. Environmental Protection Agency’s new Rule 111(d) regulations. Also, NEPOOL and APX have been requested by government officials from New England and the eastern Canadian provinces to consider tracking imports of hydroelectric power from those provinces into New England.

The GIS now has 1,188 active accounts, with 240 of those accounts added in 2014. Generator registrations number 9,824, with 4,533 of those registrations from new generators joining in 2014 (many of which were smaller distributed generation units that participate in state renewable energy programs). The GIS created and managed 119,339,777 certificates from the third quarter of 2013 through the second quarter of 2014.

The Variable Resource Working Group (VRWG) was formed in 2014 to provide a forum for the exchange of information and ideas on issues relevant to Variable Resource (e.g., wind, solar, run-of-river hydro resource) participation in the New England Markets. Participation in the VRWG is open to all NEPOOL Participants, representatives of the ISO, New England state representatives and officials, and providers of software, equipment, technology, and other services to Participant members of the VRWG. The VRWG held its inaugural meeting in April and a second meeting in the third quarter. The VRWG discussed operational topics of particular interest and applicability to variable resources, and, at the request of the Markets Committee, considered and provided feedback to the ISO on potential implementation issues with respect to the “Do Not Exceed” dispatch methodology.
NEPOOL’s Collaboration With Others

Introduction
The challenges facing New England, particularly as the region’s generation continues to shift toward greater reliance on natural gas and continued development of intermittent renewables, necessarily require collaboration both within and beyond the NEPOOL processes. Perhaps the best illustration of this fact is the New England Governors’ Infrastructure Initiative (Governors’ Initiative) proposal, which was first introduced to NEPOOL by NESCOE in December 2013. The Governors’ Initiative proposes expansion of both the natural gas pipeline and transmission infrastructure for importing gas and power into New England. Both of those proposals have benefited to date from the particular perspectives brought to the table by NEPOOL Participants expressing themselves individually and collectively through broadly collaborative processes that included not only NEPOOL members and the ISO, but also the natural gas industry and NESCOE.

NESCOE presented to NEPOOL on the Governors’ Initiative in early 2014, and actively sought NEPOOL input on the Governors’ Initiative during the spring and summer of 2014. In March and April, each of the NEPOOL Sectors met separately with NESCOE representatives to provide such input on the two proposals contained in the Governors’ Initiative. Work on both elements continued.

Collaboration on Natural Gas Infrastructure Issues
NEPOOL and the ISO recognized several years ago the challenges facing New England because of its increasing dependence on natural gas as a generation fuel, which was contributing to significant pipeline capacity constraints into the region. Solutions to those challenges require the active involvement of the gas industry and the support of the States. Thus, the genesis in 2012 of the New England Gas-Electric Focus Group (Focus Group), which was formed as an ad hoc regional forum where members from the gas and electric industries, state officials, ISO representatives, and other interested stakeholders worked collaboratively to understand and discuss the impact of these challenges on reliability and economics for the region.

In March, several months following the New England Governors’ December 2013 Statement in connection with the Governors’ Initiative, the Focus Group issued its Final Report (Focus Group Report). On the gas side, the Focus Group Report explained that the New England Governors requested the ISO’s assistance in presenting to the FERC a proposal for electric customers in New England to pay for the cost of firm gas pipeline capacity that would provide up to an additional Bcf/day above 2013 levels.

Since the release of the Focus Group Report, NEPOOL has been collaborating with NESCOE in exploring potential mechanisms to facilitate gas infrastructure development that might enhance reliability and address the price effects resulting from constrained natural gas transportation into New England. Beginning in May, the NEPOOL Transmission Committee began discussing potential changes to the ISO Tariff that would be necessary if the costs of new pipeline infrastructure were to be recovered from electric transmission customers, as contemplated by the Governors’ Initiative. Before completing those efforts, NESCOE asked NEPOOL to pause its schedule while Massachusetts, in particular, reconsidered the way forward in light of legislative inaction on an enabling bill.

While waiting on that reconsideration, recently, at NESCOE’s request, a meeting of the Focus Group has been scheduled to update stakeholders on developments since the Focus Group Report. Those developments will include recent tariff changes that may impact New England’s gas-electric challenges, public proposals to expand the region’s existing natural gas infrastructure, and Market Rule changes that might provide incentives for market participants to procure firm gas pipeline capacity.

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Collaboration on Transmission Infrastructure Issues

The transmission proposal in the Governors’ Initiative required focus on how to facilitate transmission infrastructure to support expanded reliance on renewable resources inside and outside New England. Most transmission infrastructure accomplished to date in New England has been upgrades needed for reliability where issues of cost allocation, development procedures and processes are clearly spelled out in the Tariff and well understood.

Late in the summer, the ISO introduced to the Transmission Committee a proposal to provide rules for development of Elective Transmission Upgrades (ETUs). ETUs are voluntary, participant-funded transmission upgrades that are not developed through the Regional System Planning process and are not paid for through regional rates. Since then, the Transmission Committee, in which NESCOE participated, has considered and provided input on the ISO’s proposal for new ETU rules, including input on how ETUs might be treated in the capacity Network Model and for purposes of tie benefits. Recognizing that the ETU proposal also has market and transmission tariff implications, the Reliability Committee and Markets Committee are also considering the ETU proposal. Comprehensive collaboration helps to ensure that all concerns and alternatives are identified and considered. NEPOOL is working to ensure such collaboration ahead of finalizing the ETU proposal, thereby increasing the understanding and potential success of the final ETU proposal.

Success with the ETU proposal will help consideration of the transmission proposal sought by the Governors’ Initiative.

‘Through active outreach and collaboration on the Governors’ Initiative, not only within NEPOOL and with the ISO, but also with the gas industry and the States, the “elephant” being confronted by the New England region is better defined and understood. While these various collaborative efforts might not achieve consensus on solutions, they will most certainly ensure that any future recommendations are far better informed and understood.

Collaboration Key Documents:
- Regional Infrastructure materials: http://www.nescoe.com/Regional_Infrastructure.html
Important energy legislation was passed in all six New England states during the 2014 legislative session. Each New England state passed legislation aimed at increasing the development of renewable energy resources, and states also passed legislation regarding consumer protection, long-term energy contracts, energy efficiency measures, transparency for electric utility customers, transmission infrastructure, and net metering. The most significant new legislation is described briefly below, and a full summary, including a link to the text of each statute, is available on the NEPOOL website at http://www.nepool.com/uploads/Legislative_Update_20140910.pdf.

**Connecticut**

An Act Concerning Electric Customer Protection (Public Act No. 14-75) creates a host of new consumer protection measures for residential competitive supply customers, including requirements for competitive suppliers regarding switching, rates, and customer notices.

An Act Concerning Connecticut’s Recycling and Materials Management Strategy, the Underground Damage Prevention Program, and Revisions to the Energy and Environmental Statutes (Public Act No. 14-94) revises a variety of existing energy statutes to include the following: a requirement that 60 percent of the energy purchased for state operations must be from Class II wind-energy facilities; creation of the Connecticut Green Bank; expansion of the state’s commercial sustainable energy program to include microgrids; extension of the required in-service date for certain Project 150 projects; and dissolution of the Connecticut Energy Advisory Board.

An Act to Support Solar Energy Development in Maine (Public Law No. 2014, ch. 562) establishes goals for annually by the Public Utilities Commission to each investor-owned transmission and distribution utility in the state.

An Act Relative to Credit for Thermal Energy Generated with Renewable Fuels (Ch. 251, the Acts of 2014) expands eligible resources that qualify for the Alternative Energy Portfolio Standard and increases the state’s solar net metering caps.

**Massachusetts**

An Act Relating to Self-generation and Net Metering (2014 Act No. 99) expands Vermont’s net metering program, including raising the state’s net metering cap from 4 percent of a utility’s peak load to 15 percent.

An Act Establishing a Committee to Study Offshore Wind Energy and the Development of Other Ocean Power Technology (Public Act No. 14-2457) establishes a committee to study offshore wind energy and other ocean power technology development.

**New Hampshire**


An Act Relative to Information Provided to Electric Utility Customers (Public Act No. 14-0449) requires the New Hampshire Public Utilities Commission (PUC) to determine, with the electric utilities, the most effective and appropriate means to provide customers with information explaining the system benefits charge, the renewable portfolio standard requirements and the Regional Greenhouse Gas Initiative (RGGI).

An Act Relating to the Siting of Energy Facilities (Public Act No. 14-2866) overhauls the state’s Site Evaluation Committee (SEC) for energy facilities, including reducing the size of the SEC, adding two public members to the panel and requiring a finding of “public interest” for new energy siting projects.

**Rhode Island**

An Act Relative to the Siting of Energy Facilities – The Distributed Generation Growth Program (Public Act No. 14-2703) permits the PUC to allocate a small portion of the funds raised through the sale of RGGI allowances to entities managing certain comprehensive energy efficiency programs.

**Vermont**


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Legal Proceedings & Appeals

The fruits of New England’s comprehensive collaboration and efforts to cement consensus around the operational, policy, and economically driven changes to the region’s wholesale power and transmission Tariff arrangements are weighed in the balance by the FERC and, in some cases, the federal courts. In 2014, there were more than 270 active FERC proceedings involving regional New England matters, marked by a continuing focus on refinement and longer-term modifications to New England’s Forward Capacity Market, energy market offer timing and flexibility, Winter 2014/15 reliability, price-responsive demand participation in the Reserve Market, revisions to the Regulation Market, and other market issues and improvements. 2014’s legal proceedings highlight that, working collegially and collaboratively through the NEPOOL stakeholder process, the level of contested regulatory involvement can be markedly reduced when Tariff changes enjoy the joint support of NEPOOL and the ISO, and where applicable, transmission owners and others with affected filing rights. Even where regional consensus is elusive, and the final balance is to be set by the FERC, the FERC’s direction is informed by, and made more efficient as a result of, the systematic, purposeful, and collaborative course and comments produced by the Participant Processes. FERC action on New England matters continued to be guided and clarified by the broader perspective illuminated through the Participant Processes.

NEPOOL counsel summarizes for members each month the legal proceedings relating to New England matters and developments in those proceedings for the prior month. Those reports, as well as a brief summary of the developments since the last posted report, are available in the NEPOOL website’s library at http://nepool.com/Litigation_Reports.php. A full listing of the legal proceedings that were active in 2014 is included at pages 36 to 39 of this Annual Report.

Appeals

U.S. Court of Appeals for the D.C. Circuit (unless otherwise noted)

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Coming Together  Keeping Together  Working Together
NEPOOL Chairmen Through the Years

In this photo: Cal Bowie, Joel Gordon, Pete Fuller, Dan Sipe, Dan Allegretti, Roberto Denis, Bob Stein, and Brian Forshaw (missing from this photo: Dick Chapman, first NEPOOL Chair post restructuring).

“The ultimate goal of NEPOOL as the stand alone stakeholder organization is to provide the necessary checks and balances in the development of our markets. When we come together with one voice we have the momentum to keep moving forward.”

“It was the collaborative ePort, not only between the NEPOOL Participants, but with the ISO, that was responsible for the highly successful launch of the standard market design.”
– Roberto R. Denis, NEPOOL Chair, 2002-2003 (Aug)

“In this photo: Cal Bowie, Joel Gordon, Pete Fuller, Dan Sipe, Dan Allegretti, Roberto Denis, Bob Stein, and Brian Forshaw (missing from this photo: Dick Chapman, first NEPOOL Chair post restructuring).

“A Tradition of Consensus and Collaboration

“I am convinced that if you force a lot of people to discuss something face to face, and maybe even get to know one another; empathy and decency begin to loom larger in the calculus, for we are wired that way.”
– Donald J. Sipe, NEPOOL Chair, 2004-2005

“NEPOOL has proven to be very effective at finding workable compromises ... and we must continue to strive for the constructive engagement and dialogue that lead to consensus outcomes.”
– Peter D. Fuller, NEPOOL Chair, 2006-2007

“...[C]hange in our region comes about by stakeholders working together to achieve a consensus during the process of review and comment.”
– Robert de R. Stein, NEPOOL Chair, 2008-2009

“Working together has made, and will continue to make, all the difference.”
– Brian E. Forshaw, NEPOOL Chair, 2010-2011

“Through NEPOOL, all of New England’s stakeholders come together with ISO New England to identify problems and improvements, to explore solutions, and ultimately to build and communicate consensus, whenever possible.”
– Calvin A. Bowie, NEPOOL Chair, 2012-2013

“What NEPOOL is, what NEPOOL stands for and what NEPOOL does makes it timeless. NEPOOL ... provides the structure to achieve mutual understanding, collaboration and consensus.”
– Joel S. Gordon, NEPOOL Chair, 2014
WHEREAS, the Parties desire Participant Processes that ... Facilitate the formation of consensus positions that have both practical and legal significance.

WHEREAS, the Parties desire to establish a collaborative process for receiving input from and responding to the concerns of, among others, Governance Participants and government officials ...

— NEPOOL Participants Agreement