

Presentation to NECPUC Annual Symposium
June 6, 2016

Thank you for inviting me to join you in my role as the Chairman of the New England Power Pool or NEPOOL.

I am not just a little humbled to speak to you today after listening to Commissioners Clark and Kavulla earlier this morning. They provided great insights into the challenges for our industry and hit on many of the topics of that many us will be dealing with for years to come. Frankly, I am a little concerned, after the comments of Commissioner Kavulla that we in this industry tend to speak in an “incomprehensible language” and that we “talk in code”, that my comments today might fall a little bit into that trap. My talk today is on the Evolution of SMD, improvements to LMP, and the LFRM in the context of the transition to FCM PFP. Just kidding.

What I would like to do is talk a little about NEPOOL, who we are, what we do and have done, and what role we play.

NEPOOL is over 440 member companies across six different business sectors. NEPOOL companies own, maintain, and operate over 8,500 miles of transmission lines and over 350 generating stations and are often the largest tax payers in the communities in which they operate. NEPOOL companies include over 170 different electricity and energy trading organizations and almost 60 municipal electric departments. Our members generate nearly 10 million megawatt hours of renewable energy every year. And NEPOOL owns the trading platform which creates and tracks the renewable energy certificates, RECs, needed to support New England’s renewable portfolio standards. We do this for the 15 million citizens of New England who use our products and services day in and day out.

Over the past two years I have had the honor to stand before you on behalf of NEPOOL which is THE stakeholder organization to address all matters relating to New England’s wholesale electricity markets. I have shared its origin following the Great 1965 Northeast Blackout, and its mission to capture

the economic benefits and efficiencies that coordinated transmission planning and least cost dispatch of the generating fleet provides.

You are all well aware that in the late 1990s, five of the six New England states adopted the policy of relying on competitive wholesale electricity markets to deliver reliable energy service at rates that are just and reasonable. And following the legislative mandates across New England, it was NEPOOL that executed on that policy to move the industry from cost-based regulation to competitive wholesale markets for electricity. And it was NEPOOL that created ISO-NE, and then hired it under contract to operate the system and administer the wholesale competitive markets.

Early on, NEPOOL embraced the directive to create competitive markets, and for the past eighteen years has worked continuously to improve upon them and to respond to regional policy objectives. The states policy makers put their faith in competitive markets, and in NEPOOL, when they took the leap in the late 1990's to overturn a regulatory paradigm that was determined at that time, to be suboptimal. Since then, the region has been rewarded with significant new investment and lower emitting, less expensive, and more reliable energy."

Today, our wholesale power markets are at the leading edge of fully functioning, highly efficient competitive electricity markets. One can purchase wholesale electricity today for less money than in 2003. In fact, in 2015 we saw six of the ten lowest priced months since the markets begin. And March of 2016 we saw the lowest average priced month ever at 1.7 cents per kWh. Transmission expansion has resulted in nearly zero congestion across NE - imagine driving through Boston, Providence, and Hartford during rush hour and not slowing for traffic. That is the current state of our transmission system. Emissions from the generating fleet are a small percentage of what they once were and the operating efficiency of that fleet is greatly improved. And on top of all this, our markets have provided a proving ground for demand response, energy efficiency, solar, wind and other new innovative

technologies, by first accommodating them and now through fully integrating them into our market construct.

Now I will admit that the road has not always been straight nor has it always been smooth. It has been said that market design advances one mistake at a time. Achieving reliability through markets did not work at first, resulting in numerous generator company bankruptcies. At one point over a quarter of all generation was operating under reliability contracts. So what have we learned from this experience? That transitioning an industry from a vertically integrated, cost-of-service-based model that developed over an 80 year span, to a new competitive construct is not a piece of cake. But NEPOOL, in partnership with ISO-NE, has proven worthy of the task. And today we have a set of competitive wholesale market rules that are the envy of other regions. At least that is what I tell my counterparts in NY and PJM. But I tell them that with absolute conviction.

And I can't stand here with a straight face and tell you that our NEPOOL stakeholder process, which brings together the diverse interests of our 440 plus members, has always been pretty. We are dealing with large sums of money for an essential product in our society that is highly visible and political, and that is a recipe for creating tension and conflict. There have been disagreements and legal skirmishes, many of which focus on how to divide the pie – but creating markets should not be like two wolves and a sheep voting upon what to eat for dinner. Instead, we should strive for the best market design which levels the competitive playing field and allows competition to work. That has been the charge of NEPOOL and for ISO-NE as well, because we share the same mission: “to create and sustain open, non-discriminatory, competitive, unbundled markets for energy, capacity and ancillary services that are balanced between buyers and sellers.”¹

Restructuring of our industry has produced remarkable results for New England and has affirmed the vision of past policy makers when we started down this path twenty years ago. With over

¹ Second Restated NEPOOL Agreement, Section V; also, Participants Agreement Section 2.3 “Mission of ISO”

\$20 billion dollars flowing into the region from restructuring, and over \$1.3 billion in commitments for new generation from just the last auction alone, the fleet is more reliable, more efficient and cleaner – and all of that done with private investment not backstopped by the New England ratepayer. The region has also invested over \$7 billion in transmission improvements across New England, resulting in a significantly more robust system. Electricity users across most of New England have a choice on their purchase of electricity, by technology type, by price, by term and by supplier. The markets are providing clean, reliable electric service at a reasonable price.

But we all know that competitive markets are messy, they can seem unpredictable, and even at times, they make us uncomfortable. Sometimes it seems as if the invisible hand of Adam Smith slaps you upside the head – as with the polar vortex of 2014 – and makes you wonder whether competition is the right choice. As FERC Commissioner Cheryl LaFleur has commented, “it is more difficult to be an advocate for competitive markets when prices are high.” But other times, generally quieter times, the invisible hand of the market pats us on the back and hands us the lowest energy prices we have seen in over a decade, as just occurred in March.

So notwithstanding that our markets are fulfilling their obligation to provide reliable electric service at a reasonable price. Notwithstanding the competitive marketplace in New England has successfully delivered cheaper, cleaner and more reliable energy, our region now faces great challenges as we consider solutions to achieve evolving state policy to decarbonize our industry over time, and to do so in a way that is compatible with competitive markets. But the markets that the region has developed through NEPOOL’s robust stakeholder process were not designed nor intended to achieve that objective.

To the contrary, the markets were designed to be as fuel neutral as possible, and to find the most economically efficient set of resources to meet the reliability objectives of the region. They have

not been designed to transition the fleet to low carbon resources. But State policy objectives are changing to encourage this transition, and so too must our markets.

NEPOOL is feeling the tension of how best to support the public policy of the states while remaining true to its mission. There are many alternatives to explore. Perhaps we, along with ISO-NE, as market developers, have been too slow on the uptake, but we have a history of working together with ISO-NE and the States to meet the region's challenges. Our experience with well-established cap and trade programs, such as for NO_x and SO₂, highlights that success. These programs work seamlessly in our market design by internalizing their cost allowing resources to include them in their offers prices. The result is that the markets themselves become the arbiter of winners and losers, while simultaneously fulfilling the states' policy goals.

Today, in the push to decarbonize the industry on a timeline spelled out in legislation, our efforts to create and maintain competitive markets feel may out of step with the direction of the states. It feels as if the region may be coming to a cross roads where competitive markets and state mandates could collide. That needs to change.

We, as an industry, need to get back on track and begin a more productive conversation toward finding solutions that better harmonize state public policy objectives with open, transparent and efficient wholesale market design. There is a lot at stake here, and dealing with large sums of money and divergent interests creates tensions, but I believe that the best way to relieve those tensions is on the competitive playing field, and to do that requires good market design. And NEPOOL is where markets have been made for nearly 20 years.

Earlier today Commissioner Clark invited the states to have this dialogue with the FERC. And Commissioner Kavulla accepted that invitation. I would suggest, that in today's restructured electric industry in New England, it is NEPOOL, and our unique stakeholder and governance process that provides the a forum to integrate and balance the needs of all stakeholders, working collaboratively

with each other, with ISO-NE and with the States. We do that through a regulatory construct called the competitive wholesale power markets that are balanced between buyers and sellers. Holding true to those principles, I am confident that NEPOOL, together with ISO-NE and the states, can and will find the solutions that will achieve the policy challenges before us.

NEPOOL as an organization, not just its member Companies, but NEPOOL as an organization, understands the importance of addressing these issues head on, including the need to consider meaningful solutions to achieve state public policy that are compatible with competitive markets. To that end, we have organized our upcoming NEPOOL Summer Meeting later this month to advance this discussion with each of our six NEPOOL Sectors engaging in break-out sessions with the ISO-NE Board, the States' Officials, and with FERC Staff. We have also created a panel discussion to seek input, observations, thoughts and questions about the policy and market challenges. We hope that our work together will set the stage for productive efforts later this year to identify the best path forward for the region.

Registration is still open for the meeting if you would like to attend, and as an additional plug, we have arranged for former NH Commissioner Mike Harrington to lead a guided hike into the White Mountain National Forest.

On behalf of all of NEPOOL, thank you for the opportunity to speak here today. We stand ready to work with you to achieve our mutual goals.