# NECPUC State Agencies' Questions to ISO-NE regarding 2023 Budget

1) Please provide a link to the latest copy of ISO-NE's FERC Form 1.

   Electronic pdf version is attached.

2) Please provide a link to the most recent copy of ISO-NE's Form 990.

   Electronic pdf version is attached.

3) Metrics. Refer to the metrics identified in the 2021 FERC Common Metrics Staff Report in Docket No. AD19-16-000. For each of the metrics identified in that report, explain how ISO-NE uses the metric to measure its progress, the goals, if any, it is looking to achieve regarding the metric, and the expected net benefit of achieving the goals. In particular, address each of the following sets of metrics:

   a) Group 1 Administrative and Descriptive Metrics (7 metrics);
   b) Group 2 Energy Market Metrics (12 metrics); and
   c) Group 3 Capacity Market Metrics (10 metrics).

   The FERC Common Metrics Staff Report (Docket No. AD19-16-000) is a tool that FERC uses to examine the performance and benefits of ISOs/RTOs, specifically in response to a Government Accountability Office report recommending that FERC develop measures to track performance of RTO/ISO operations and markets. Those metrics were designed to assist FERC in carrying out its mission and were not specifically designed to measure ISO-NE; accordingly, ISO-NE does not use the metrics as a primary means of measuring its own performance. Instead, as explained in response to Question 5 below, ISO-NE believes the most effective metrics to evaluate our performance are more specifically tailored to our mission and the New England markets. Therefore, ISO-NE uses the metrics reflected in Appendix 4 of the *ISO-NE England Proposed 2023 Operating and Capital Budgets* presentation (the "Budget Presentation") presented to the states on August 12, 2022 (the "ISO-NE Metrics") to evaluate our performance.[1]

   Specifically, the topics covered by Group 1 metrics in the FERC Common Metrics Staff Report are covered by similar, but not identical, system reliability metrics identified in Appendix 4 of the Budget Presentation. These metrics assess the system's reliability and can help identify areas for improved operational tools and procedures. Many of the topics in Groups 2 and 3 are addressed by the annual market reports by the Internal Market Monitor and External Market Monitor. These metrics assess the performance of the wholesale markets and can help identify areas for enhancements to the market rules.

[1] The ISO-NE Metrics reflected in Appendix 4 of the Budget Presentation are similar (with some additional details provided) to those reflected in ISO-NE's response to the State Agencies' 2022 Budget questions (available at https://www.iso-ne.com/static-assets/documents/2021/08/6_states_2022_budget_questions_08_2021.pdf).

4) Metrics. What metrics does ISO-NE use to determine/track the relative cost effectiveness of its transmission fixes? For each of these metrics, describe the expected impact of:

a) Identifying transmission needs sooner;
b) Requiring a competitive process for transmission fixes when and where possible; and
c) Allowing non-transmission fixes to compete with transmission fixes.

Explain the process ISO-NE uses to ensure that these impacts on metrics are consider when determining how best to improve the cost effectiveness of transmission fixes.

In most cases, ISO-NE selects transmission projects based on the lowest estimated installed cost, so the metric used is project costs. Under the solution process, alternative approaches to addressing transmission needs are developed. The preferred solution is selected among the alternatives, with cost generally being the most important factor. Other considerations, such as operability and flexibility, are also important, but for a given performance standard, cost is the primary criteria. Moving forward, stakeholders have indicated that they would like to consider expected future transmission needs (e.g., those identified in the 2050 Transmission Study) when identifying and selecting solutions. ISO-NE supports this approach.

While identifying system concerns earlier would be beneficial from a number of perspectives, it is not clear that this would have a material impact on the cost effectiveness of solutions that are implemented. Earlier identification would be expected to allow solutions to be placed in service sooner, increasing reliability and, in some cases, providing an immediate increase in transfer capability, which works to reduce congestion and reliance on local resources. However, most transmission reliability needs in the recent past have been driven by sudden changes in assumptions typically prompted by resource retirements. Under the current process, ISO-NE cannot prepare the system for an upcoming resource retirement until a delist bid is submitted in the Forward Capacity Market. Therefore, there is not a means of "getting ahead" of these significant needs triggers. ISO-NE has recognized the desire of many stakeholders for more forward-looking planning and has been responding. As a result of the Transmission Planning for the Clean Energy Transition effort, ISO-NE has developed a method of looking forward to address "minimum load" system concerns based on forecasted energy efficiency and photovoltaic resources. Additionally, at the August 2022 Planning Advisory Committee meeting, ISO-NE will be proposing to consider the retirement of resources greater than 50 years old, one at a time, in Needs Assessments.

While ISO-NE has run only one competitive transmission solicitation to date (the two most important selection criteria were cost and in-service date), the selected solution was developed by the incumbent transmission owners. There is no way of knowing what would have happened if the competitive transmission development process had not been used, but there is nothing that would have prevented this same solution from being developed through ISO-NE working with the same incumbent transmission owners. There also is no way to know what the costs would have been under the Solutions Study process. ISO-NE follows its FERC-accepted tariff when determining whether to use the competitive transmission development process. In cases where the timing of solution development is not critical, such as the longer-term transmission planning process, ISO-NE has previously indicated to the

New England States Committee on Electricity ("NESCOE") that it will support the use of the competitive transmission process.

Non-transmission fixes are already considered in ISO-NE's planning process, and, in fact, are given preference over the development of transmission solutions. Under Attachment K of the ISO-NE Open Access Transmission Tariff, ISO-NE accounts for all existing resources and all future resources that have an obligation either through the Forward Capacity Market or a contract. In addition, up until the point where a solution has been placed in service, ISO-NE can terminate transmission solution development based on updated assumptions resulting from non-transmission alternatives. There have already been examples where ISO-NE has cancelled reliability-based upgrades which were part of the Regional System Plan. Finally, the Storage as a Transmission-Only Asset (SATOA) project will enable the building of storage projects to address certain transmission needs.

Going forward, the majority of transmission investment is expected to be needed to meet state-defined public policy goals. As described in our recent FERC filing, we (and NESCOE) are advocating for the states to have decisional roles in determining the public policy need, the most cost effective transmission paths, the cost allocation method for the various investments, and the means for procuring the transmission (competitive or not). We see ISO-NE's role as being a technical specialist supporting state decision making. We look forward to working with the states to develop the decision making process and associated criteria.

5) Metrics/Best Practices. What specific steps does ISO-NE take to identify/determine the metrics it should use and the best practices it should pursue across the range of its responsibilities to ensure that it is prudently fulfilling those responsibilities?

There are several different frameworks that ISO-NE uses when determining what metrics to use to measure our effectiveness in fulfilling our responsibilities. First, ISO-NE believes that for the ISO-NE Metrics to be a useful evaluation tool, they must either: (1) measure performance against achieving our strategic goals; (2) measure risk tolerance for identified risks in light of available resources; or (3) measure compliance with various regulatory requirements.

ISO-NE uses a "balanced scorecard framework" to translate its strategic goals into performance metrics. Generally, the "balanced scorecard framework" uses four different perspectives to measure performance: (1) financial; (2) customer satisfaction; (3) internal business processes; and (4) learning and growth.[2] These four perspectives are reflected in various ISO-NE metrics. For example, financial indicators are covered by budget accuracy metrics (addressing elements of the Operational Excellence strategic goal). Customer satisfaction (i.e., stakeholder satisfaction) is reflected in several metrics such as the New England Power Pool ("NEPOOL") stakeholder process, including the annual work plan and annual regional system planning processes (addressing elements of the Stakeholder

[2] *See, e.g.*, Balanced Scorecard Basics Overview, available at https://balancedscorecard.org/bsc-basics-overview/; Robert S. Kaplan and David P. Norton, *Putting the Balanced Scorecard to Work*, Harvard Business Review (September – October 1993).

Engagement strategic goal). Internal business processes is covered by metrics such as cyber security audits and reporting, North American Electric Reliability Corporation ("NERC") compliance measurements, wholesale electricity markets reports, and forecasting accuracy results (addressing elements of the Responsive Market Designs, Progress and Innovation, and Operational Excellence strategic goals). Finally, learning and growth is covered by metrics measuring employee training requirements (addressing elements of the Attract, Develop, and Retain Talent strategic goal).

As noted in response to the State Agencies' 2022 Budget questions, ISO-NE annually develops a work plan (published in the fall and updated in the spring), which outlines major priorities and activities for the year that are designed to improve upon existing ISO-NE systems, practices, and services to New England. The work plan is a result of ISO-NE planning and engagement with stakeholders; ISO-NE seeks stakeholder input on its work plan by sharing and discussing it with the NEPOOL Participants Committee and representatives of the New England states through the New England Conference of Public Utilities Commissioners ("NECPUC") and NESCOE. Although the work plan specifies priorities and activities, ISO-NE necessarily maintains some flexibility to take on additional assignments or reprioritize previously identified initiatives.

Because the work plan involves the prioritization of resources and ISO-NE's commitment to spending integrity, ISO-NE is purposeful when determining goals and objectives, and which "best-practices" to pursue. As noted above, we use the "balanced scorecard" methodology to measure performance. To ensure we maintain an appropriate risk tolerance, ISO-NE maintains a risk register that includes measures of risk and mitigation that management and ISO-NE's Board of Directors use for situational analysis and when reviewing the ISO-NE strategic plan. Finally, ISO-NE maintains a compliance management system that tracks over 5000 compliance obligations and related measures.