

BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

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IN THE MATTER OF: : Docket No.  
REMEDYING UNDUE DISCRIMINATION THRU : RM01-12-000  
OPEN ACCESS :  
- - - - - x

Boston Marriott Copley Place  
110 Huntington Avenue  
Boston, MA

Thursday, May 20, 2003

The above-entitled matter came on for technical  
conference, pursuant to notice at 10:00 a.m.

APPEARANCES:

PAT WOOD, III, CHAIRMAN PRESIDING  
COMMISSIONER WILLIAM L. MASSEY  
COMMISSIONER NORA MEAD BROWNELL

## P R O C E E D I N G S

CHAIRMAN WOOD: Since this is a quorum of our Commission, I'd like to formally call this meeting of the Federal Energy Regulatory Commission together to consider the matters which have been posted as to time and place. For those of you all who -- on the official notice, we posted it right to every open docket that relates to New England, in addition to our standard RM01-12 docket, which is the standard market design rulemaking docket number. So everything is kind of on the record today, and free game so please don't feel the usual constraint you do and, if you like, you can bring anything up.

I'd like to thank you all for coming. This was probably a bigger turnout than we thought and, of course, with three weeks' notice, we did get the most elegant room design in the entire country.

(Laughter.)

CHAIRMAN WOOD: I had hoped for a nice round table where we could all sit around and talk, but we'll make do with this. I understand that there is a convention for deaf seniors across the way, so they won't be hearing us and we won't be hearing them -

(Laughter.)

CHAIRMAN WOOD: -- so it might be a pretty good matching of - probably has implications for demand response

and rotating of some sort but I'm getting a little off.

I want to say on behalf of my colleagues that we really appreciate the final work that has gone on just in the short 20 months that I - I guess almost two years now that I've been on the Commission, seeing the huge developments in the power markets here in New England, the wholesale power markets, and I just want to say keep your eye on the ball here. We want to do that.

The focus of what we're about today is to really look at what we have learned over the past year and a half, in our rulemaking process, are the features of a workable wholesale market, and just about a month ago came out with a White Paper that encapsulates where the three of us and our staff are on really what are the key features of the wholesale power market and what do we need to do in New England -- which is the charge of the day -- what do we need to do collectively as both Federal and state regulators and as market participants, and as the ISO itself, what do we need to do collectively to make -- to really get to the best practices points that we've identified in our White Paper.

Now I'd just like to, just in the interest of expediting kind of getting to issues today, which is what we've been really trying to be about for this entire rulemaking process is throw a couple of thoughts out there. And this is not only based on the very nice visit that I had

here about two months ago right as you all kicked off the market and I had the opportunity to meet with the ISOs, with my brother and sister regulators and Mr. Denis and the members of the stakeholder groups and really got a good sense of, really quite frankly, that things are in a very good trajectory up here for markets. I know there are some issues, certainly as we looked at the summaries and some infrastructure issues, and some of the financial difficult issues relating to some of the market participants, and we're certainly mindful of those. But, in looking for the longer term, what we want to be about today is focusing on the issues that really remain between where New England is today and what is the ideal wholesale market platform.

I think I would just like to start the panel out with a list. The independence issue, which is the independence, which means the governance of the ISO New England, its relationship with the - the historic relationship with NEPOOL and the market participants, the implications that that has on administration of the tariff for the ISO.

I should add that we just last week issued an order clarifying at least in the PJM area, but implications for everywhere else, called affectionately the Atlantic City remand, for you legal beagles --

(Laughter.)

COMMISSIONER WOOD: -- a clarification of where the Commission is on tariff rights and on filing rights. We basically said that both the transmission owners and the transmission operator, which in that case and in this case, is the ISO, is entitled to 205 rights, and that there are, in PJM at least, with some allocation of vetoes and the like to the Board over some of the actions of the market participants. But by and large that was a response to a legal decision about the Commission's view of 205 that I think may be helpful.

But I know those discussions are happening between the TO's and the ISO and between and among the market participants, the regulators, and the ISO. And we certainly want to hear from all of you today about your thoughts on that and really we want to posture ourselves as what can we at this Commission do to foster a consensual -- if possible but not required -- resolution to these issues that remain between where New England is today and where the ultimate wholesale nirvana would be.

I think these issues on independence of the ISO in the governance of the tariff are resolvable. I know that the NERTO filing that came out of the discussions between New England and New York had a process in place that at least I perceive that have relatively broad buy-ins, but I'd like to hear, and I know we'd all like to hear, about that

today.

The independence of the Board, pure independence versus accountability to the marketplace is, I know, a tension that we have felt across the country in looking at governance issues, and so we are real mindful that that may be tipped a little different here than it may be in the Midwest and that may be different than it is in the Southwest. We think certainly that that balance is one that has to be achieved for the long-term success of the organization. So, again, we'd like to hear about that.

We do know that one of the things we asked for in the White Papers was that there be a clear and predictable pricing policy for regions. I think one of the things that stifled investment in new transmission across the country has been that it's not clear how this -- this more regionally-built transmission will actually be bought and paid for. And I think that we can do ourselves and the market a whole lot of good if we make those decisions.

Now I know the Commission has made some, at least for the short term, because there wasn't really consensus here, and we'll be glad to do that role if we have to, but certainly we do want to continue to defer to the region and defer to our brother and sister regulators on those important policy issues.

Locational ICAP resource adequacy is something

that's primarily developed by the regions but it's really the RTO or the ISO roles, backed up by our Commission to really make it stick. I know that there's been some issues on that even as recently as our order we did on some contracts for debit in Connecticut that really push that. We do have an ICAP requirement so that, as in New York, facilities are built in the places where you need them.

Pancaking issues. There are some between the non-PTF facilities, the HQ - the Quebec facilities that come in. I know we've got a settlement that ends at the end of '03 up here in New England, and we want to kind of be looking ahead to what comes after that, thinking about that.

We do, in the White Paper, kind of raise up on a pedestal the role of the states, and I just want to say, in writing that part of the White Paper, we certainly thought a lot about where it's working well, and I have to say -- and I'm sort of nodding to my colleagues right here on the front couple rows - we liked it. I liked it I saw two months ago. I liked the way you all interact with the management of the committee, and with the leadership of NECRA from NEPOOL and, I guess if there's any improvement on that, it ought to come from you all. I just want to say to you all, the template that we'd like to, quite frankly, see around the country. So if that can work, I'd like to put you all up on

some posterboard and just mail you across the country and say this is the deal, let's go.

RTO versus the ISO. We had said back in '01 that the scope and configuration of the ISO New England was not sufficient to meet the RTO standards, And rather than maybe go through the machinations of - which I kind of it's distasteful to do for me personally, I'm not speaking for my colleagues here - but having to change jurisprudential scope and configuration,

what we did in the White Paper was say look - quite frankly we didn't say it this way, but I'll say it here for you today - we tried a three-way merger in the summer of '01. We tried a two-way merger in the fall, spring and winter of '02. Okay, folks, what we really want is to get rid of these damn seams. And so if we can't do that by putting people in a single organization, let's get there virtually.

And so what the White Paper laid out in it's inclusion of RTOs and ISOs, as far as meeting the August 2000 requirements, plus the additional requirements that we laid out that we've learned since our order 2000 went out, need to be done to handle a - to help the power high-market adequately out, we said look these ISOs are where they are, let's take it and make them as good as they can be, and then let's put a notice on them and work strongly with them to

iron out the seams.

I'm pleased that we have some seniors - active staff here from New York and I'm pleased that we will have one of these as well in New York in the future. But I do sense that that's certainly an area to grow forward. I was also in Canada last month, or early this month, and know that the IMO and even the Maritimes want to certainly integrate with that is going on here and in New York to make sure a kind of NPCC-wide integrated market really develops. So please consider that as part of the broader agenda issues that we're interested in.

But this new option of really having a virtual ISO is something that probably three years ago wasn't a reality but it's been facilitated by new technology, by the type of computer and real-time and communication technology that just wasn't on the shelf, it wasn't out there. So we've gotten a lot more comfortable with that idea; I wouldn't say 100% comfort, but I think we want to make sure that we can, in the near term, try to achieve the gains for the customers in this region as soon as we can in as cost-effective a manner as we possibly can.

I think we've heard from the market monitors, both from New England and New York in the past three weeks at our Commission in open meetings, and three of the issues that kind of come up consistently as far as what I call low

hanging fruit - and probably the final of the big low hanging fruit - for integrating at least the two markets together here, and then I think as we get to New York, they're going to also be interested in how they integrate with PJM.

But I'll just, for today's focus keep it on the New York boundary and hopefully we can also work cooperatively with our Canadian brethren and sisters to get these same issues dealt with there.

The first of which is joint dispatch. Joint dispatch with two independent systems is feasible it's what PJ and MISO are growing toward but there are significant customer savings that we heard both from the ISO New England and from the New York ISO market monitors were achievable if we had joint dispatch along the seams.

Elimination of the transmission rate pancake is certainly something, that has been talked about for a while. I recognize that that that's not anything that perhaps voluntarily erupts from the groups, as it did not in PJM and that will probably have to be initiated by the Commission, our Commission, but we would currently welcome if either the regulators and/or the market participants gave us something that we could say yes to; we would certainly be a lot happier.

And finally, interregional planning with New

York. These are again, the three seam issues that I consider to be pretty strong things that we've heard from the market monitors are the joint dispatch, the rate pancaking and the interregional planning with New York, and, I should also add, with the IMO, as those markets become so fairly integrated.

As we indicated in the White Paper, the Order 2000 regular forms, including the enhanced returns on equity, are available to ISOs who meet the SMD White Paper standard, as well to the RTOs. I know there was some question about the Commission's recently announced proposed pricing policy, and this paper was intended to, in fact, wrap those two together.

At the end of the day, we can talk about kind of where to go from here, but I just wanted to propose at least for the purposes of kicking it off, throw a couple of issues to the wall and see how many of them are sticking by the end of the day. And invite the rest of us today, as we talk through these issues, to let us know what you think.

Again, as I learned when I lived up here in the late-80s, this is probably the most candid part of the country. And in jobs like mine candor is the best thing you can ever hope for. Passive-aggressive behavior is out the window.

(Laughter.)

CHAIRMAN WOOD: So tell us exactly what you think; it helps us make decisions better and it helps us really all so we know where we stand so we can decide how we want to get collectively to where we want to go.

So, welcome, and I would like to ask my ever-helpful colleagues to add anything.

VOICE: We're just delighted to be here.

CHAIRMAN WOOD: All right.

Our first item on the agenda is to visit with our brother and sister commissioners from the region at NECPA, and the chairman of that is Elia Germani from Rhode Island is going to join us up here and I'd like to welcome you, Mr. Chairman, to say anything that's on your mind.

MR. GERMANI: (Inaudible.)

(Laughter.)

MR. GERMANI: People who do know me don't realize I don't have to be told to tell them what I think, their concern is I will tell them what I think on a number of issues.

We're delighted to have you all here - next state over in God's country. You folks may not know that Rhode Island is a very unusual state. We already celebrated our independence from England May 4th. We declared our independence from England two months before the rest of the colonies and we were the last to ratify the Constitution.

As a small state, were always wary of larger states. We still are wary of larger states.

(Laughter.)

New York, are you listening?

(Laughter.)

Actually we're delighted to have the members of FERC here. Frankly, I think that Pat Wood has one of the world's most impossible jobs. And I can see the people are keeping him on a tight budget because I saw that sign out there, which looks like a handmade sign for the meeting.

(Laughter.)

I can't believe that a nation that will spend \$100,000 on a bomb can't spend enough money for a better sign.

(Laughter.)

VOICE: You got here.

MR GERMANI: Yes, that's true. Maybe that's a message to all of us.

I think we've had tremendous strides in New England in getting to where we are today. In large measure, because of my colleagues on the Commission - I don't want to mention anyone in particular, but we've all been joined in one common effort to achieve the best result. I will not talk about the issues that divide us, because they're minimal, but the issues that unite us is we want to see the

Santa Monica design move as quickly as possible and we hope that New England is the template.

Another reason we've made so much progress is because, in the New England and ISO, myself, Gordon Van Weile, his board, are doing a superb job in this area. Now, whether it's because of the Roberto Denis, who runs and chairs NEPOOL; which is like herding cats if you can get anything done in that group, and from David Duke, who is the quintessential diplomatic lawyer. How he can represent that group of such diverse interests is fascinating to me - perhaps he can represent the theologians as they try to debate how many angels there are on a pinhead. No pinhead reference to the NEPOOL.

(Laughter.)

MR. GERMANI: The FERC Commissioners have been tremendously accessible and we'd like to thank them. As a matter of fact, they're even available for conference calls in their homes, and one wonders where they are sitting in the house when they're taking these conference calls since they're accessible 24 hours a day. But it's been just fantastic.

I have to tell a little story quickly. The first time I met Nora Brownell - she may not remember this - I met her at -- as where I was a student. And it was the last night before graduation, we went out for a beer at the local

watering hole. I didn't notice until the last night that we were in there that college bars were where all the good-looking college girls hang out. If I'd have known that earlier, I'd have been there earlier, but I didn't.

(Laughter.)

MR. GERMANI: So I was there with Nora and Fred Butler and someone else and I'd just met Nora, and I said to myself there's a person who's very bright and very political in the best sense of that word and I see a very bright future for her. I didn't have the sense to tell her that at the time, but she has exceeded my expectations and she's got a long way to go and she'll go a long way. So Nora, that's how I met you.

COMMISSIONER BROWNELL: Thank you. In a bar, that's okay.

(Laughter.)

MR. GERMANI: As a matter of fact, the other day I was on a plane and I told the stewardess you know, you're very beautiful. She said that's the nicest thing that's been told to me by a passenger who was sober.

(Laughter.)

MR. GERMANI: What do we need here in New England? What do we still need?

We need flexibility from the Commission, in our view, to build a market that will be cost-effective, viable,

encourage investment, fair cost-sharing - and I won't talk about what fair cost-sharing is - and a stable robust electric market that will benefit all of the citizens of New England. We believe that such a market design must accommodate regional progress and respect the unique aspects of New England. I've already told you what's unique about Rhode Island. One need only visit New England to see how unique. Where can you have in the same region, the People's Republic of Vermont and Rhode Island - it's quite different in many respects. I'll stop there.

(Laughter.)

MR. GERMANI: I want to be politically correct.

We're pleased after seeing the White Paper. And if you read the White Paper - I read it once and, frankly, I read the summary of the White Paper put out by EEEI - that's SMD For Dummies. But they indicated that tremendous flexibility, all the areas in which FERC was listening to the criticism and responding to criticism. And we know that will continue, even without the encouragement of Congress which appears to be determined to -- at least in some quarters - to gut SMD. I always am interested and fascinated by the unusual coalition by the selfish conservatives and the Northwest liberal. Politics does make strange bedfellows.

Our view is that the schedule should be done in

New England without delay. I mean, let's get going on this. We're here to discuss the timetable for addressing wholesale market design issues. We applaud FERC for its continued efforts at framing the parameters of standardized markets and we support a steady hand by FERC in minimizing barriers to electric markets. We ask that the Commission reward our New England initiative and commitment with flexibility.

Probably the primary issue that is of concern to us, and I think the Commission has heard this before, is the issue of independence. We believe firmly this is a New England view, with no dissenting views, that an independent RTO or ISO is critical to the development of a strong market, absolutely critical. We remain convinced that market participants should be given a meaningful opportunity for input which should only play an advisory role. We look forward to the Commission's comments on governance independence today.

Again, I'd like to thank you all for being here. I look forward to a lively exchange of views and ideas and, if it gets deadly, I'm going to have to tell some of my favorite jokes about liberals. I mean, I don't want to offend the liberals in this congregation here. I don't like referring to it as a congregation, although I'm kind of amused when Pat Wood referred to Nivana. I thought that someone from the South would refer it to as Beulahland or

Gloryland. He was trying to show that, when he was at Cambridge in the 1880s - the 1980s, excuse me -

(Laughter.)

MR. GERMANI: -- the 1980s. That he learned from the liberal thinking of Harvard Law School. I've always been amused by the debate between former Derrick Bell who was at Harvard, now is in a school in New York, and he's always advocating diversity on the Harvard Law School faculty and I've always been amused by the irrepressible, humble Alan Gerschwitz. And he said If Harvard Law School is interested in true diversity, you'll have to get a few fascists on it.

Well, with that remark, thank you very much.

(Applause.)

CHAIRMAN WOOD: When I was there the conservatives didn't meet in a phone booth.

It was really heartening for me when I was up here a couple of months ago visiting with everybody that, when I was at the NEPOOL meeting that, not only did the market participants not throw brick bats, insults and complaints to the head of the ISO administration, but they actually presented Gordon a plaque to him and on behalf of the staff to him, thanking him for the successful implementation the week before of the New England SMD. I think that says a lot about the quality of this guy.

I have to just say publicly what I've always said privately: you all and we are lucky to have a guy like Gordon around. And I am speaking to introduce him. Gordon is going to give an overview of the ISO's view on these issues, and so I'll turn it over to Gordon.

MR. VAN WELIE: Good morning, everyone. If you'd just stay bear with me for a second to get the presentation going.

(Pause.)

MR. VAN WELIE: Good morning, everyone, and thank you, Pat, and to the other Commissioners, the FERC staff, everyone, for making it up here to Boston today. This happened in a big hurry, really after a phone call that Pat put through to me after they issued the White Paper and I think this is very timely because, as you all know, we're in the middle of a proceeding out here in New England to determine the future of the ISO. And so thank you to everyone for being here today.

I think I'd like to echo Elia's words, which is that we've done a lot of good work here in the last couple of years and I think we should all be proud of that. I think there's still some work to be done. And really the focus of my presentation is to try and key up the issues as we see it and what do we see as being the work that lies ahead of us up here in New England.

What I've done is there's a presentation that I'll be speaking from. We'll post it on our website. We'll also - we've got some copies available here for anybody who needs a copy of it.

What I'll cover is really, very briefly what have been the major initiatives by ISO New England over the past couple of years. What we've done is a comparison between how we see our status today and the FERC's White Paper and, of course, the question we're posing, which, to some extent, maybe has already been answered, but we'd like to get some clarification on this, is how should we proceed forward as an ISO or an RTO. We'll come to that part at the end.

It's no secret to anyone that we've been busy for the last couple of years with improvements to our market design. On March 31st, we implemented the new standard market design. This was something that had been in the works for a number of years. When we opened the original market in May of '99, it was already recognized at that time that there were some deficiencies in that basic market design which we had to remedy.

In those early days, it had the label "congestion management system and multisettlement," and then it morphed to become standard market design. We went through a very lengthy stakeholder process and the 22-month development by a (inaudible) cycle before we implemented it, and, at this

point, with almost three months of operation under our belt, it seems to be working reasonably well, knock on wood. We've still got the summer to get through, but at this point, things look to be pretty good.

If we - perhaps before I go on to the next slide, I should also mention the other big initiative that we've been working on the last three years is to determine our future. We started back in early 2000 with formulating a RTO filing for New England and filed that in 2001. And, as Pat had said earlier on, we've gone through through several iterations. So from our perspective, we're rather eager to get some certainty going forward, some stability for the organization and to map out a more certain and stable future for ourselves, so that not only do we provide some stability for our employees, but from a business planning point of view, we can plan long-term within the ISO.

MR. VAN WELIE: The next page of this presentation really focuses on the RTO - I've skipped ahead of the one flagged slide here. Let me just go back a step. It's kind of hard to see where I am.

(Slide.)

GORDON\_\_: On the wholesale market platform, in comparison to the White Paper, I think when you look at the White Paper, you can easily see that New England has satisfied all of the major requirements of that White Paper.

So we have the day-ahead and the real-time energy markets, we've got a transparent congestion management method.

One of the things I'd like to mention here is that we have done good work in New England on congestion management, even before we implemented these new markets. So the ISO, working together with generators and transmission owners, put a significant effort into managing and minimizing congestion within New England. We've developed a matrices and actually improved on those matrices over a number of years.

With the implementation of SMD and locational module pricing, of course, we've got a slightly different set of matrices. We've localized the congestion costs. And we're going to continue to refine our outage scheduling and coordination, together with the TOs. In fact, that's one of the discussions that we're having with them as we formulate the TOA agreement.

Looking at next steps on the wholesale market platform, we've got a number of developments in our plans. I'll speak to this in kind of two steps: one is locally within New England, and later on, I'll come to what we're doing in terms of interregional coordination.

Locally within New England, we'd like to put in reserve markets as soon as possible. Locational ICAP, we believe, is something that needs to be worked on

expeditiously and, of course, we've got direction from the FERC on this to get moving on that particular topic.

And in the area of demand response, we have got a series of enhancements that we'd like to see implemented as well. We've had some good experience in demand response. I think there's a slide later on which speaks to the fact that we've seen participation in demand response increase by 50% over last year's sign-up, which is very good and a positive experience. So we seem to be getting some traction in that particular area.

(Slide.)

GORDON\_\_: I had jumped over this slide. Coming back to the RTO initiative, without going through the long history, basically the most recent initiative was the Northeast RTO, the proposed merger with New York. And eventually we decided to withdraw that because of a lot of stakeholder opposition, we saw that there would be extensive litigation. Of course, we were, also seeing some uncertainty in terms of the timing of where the rulemaking, SMD rulemaking was going with the FERC.

Towards the end of last year, after we withdrew the Northeast RTO proposal, we were approached by the transmission owners who essentially put a proposition on the table which was to move forward with creating a New England RTO. We spent a couple of months, December and January,

taking input from stakeholders in New England, and in February of this year our Board gave us direction to work together with the TOs to prepare a joint filing for a New England RTO. And we needed to obviously go through a consultation process with all of the stakeholders in New England.

And that consultation process really involved setting up a number of working groups to discuss governance, transmission and market seams, regional system planning, tariff, a new transmission operating agreement and a market participant service agreements, and these things would fundamentally change the nature of our existing arrangements with NEPOOL. And, of course, there are of many different views on what's right and what's wrong in this area, but we have a process underway and we've had several months' worth of discussion on this and we're really starting to get to the point now within the next month or two where I think we'll start refining or fine-tuning some of those details and have the documents in a position where people can see the complete package and hopefully be able to respond to that complete package.

We've set a target date for filing in October of 2003. We had originally had a more aggressive date of June of this year, but after the last reaction from our participants and from NECPA, we've extended that schedule.

We still plan to try and get - when I say "we" here, because we're doing this together with the transmission owners - we both would like to try and have the complete package ready by around the August time frame.

And the reason for this is to give people enough time to digest the entire package. We are very conscious of the fact that there are linkages between the various issues and so you can't always just deal with an issue in an isolated way, you've got to see the entire picture. And so what we want to do is to give NECPA and to give the participants an opportunity to digest that full package and so are driving to a schedule which would have us have that done by the August time frame.

On some of the subsets of that agreement, like the TOA, we believed that that would be - most of you have a copy of this draft document at the moment, would be looking to trying to finalize that even earlier in the process.

What I'd like to do in the rest of the presentation really is to tee up the issue from an ISOs perspective on where are we now and where do we stand relative to the White Paper in the area of governance, tariff, administration or design, interregional coordination, cost allocation system planning and resource adequacy.

On the third issue - and the numbering here is

our numbering, what we've done is taken the issues in order of what was suggested to us by the FERC - in the area of independence and governance, the White Paper requires all public utilities to join an RTO or an ISO. And as you heard earlier, an ISO has all of the characteristics and functions of an RTO except scope and regional configuration. So at the moment, we view ourselves as a non-compliant ISO, and there is uncertainty in our mind as to whether a New England only ISO could be an RTO.

So we've got a certain proceeding underway in the context of Order 2000 and, absent direction to the contrary, we would obviously want to proceed down this path to try and satisfy RTO requirements. So this is one of the key issues that we'd like to get some direction on today.

(Slide.)

GORDON\_\_ : If we go on to the next slide, the White Paper requires -- let me just make sure I'm - the White Paper requires RTOs and ISOs to meet the independence requirement of Order 2000. At the moment, we don't meet that criteria due to our relationship with NEPOOL and NEPOOL'S 205 rights. We are addressing this issue through this process that I described earlier, where we are developing a stakeholder agreement and finalizing a transmission operating agreement. These new agreements would restructure the governance consistent with FERC's

independence requirements.

One of the other issues under independence and governance is the independent market monitoring unit. The White Paper states that each RTO and ISO must have an independent market monitoring unit pure rules of market participant combat.

The current structure within ISO New England is that we have an internal market monitor headed up by Bob East here, who reports directly to me and to the Board - actually to the Board Markets Committee. We also have an external market advisor in the form of David Patton and his organization, who reports directly to the Board. Of course, both of these agencies have direct access to FERC's Office of Market Oversight. The market rules that we have address market participants conduct, both in terms of physical and economic withholding, the reporting of unit availability, factual accuracy of data submissions, information sharing and cooperation with the market monitor, and the physical feasibility of bid submission for specific units.

The next steps in this area really are to determine whether we need to make any change to those arrangements. From our perspective, the arrangements have been working fairly well. There is, however, debate in certain quarters as to whether there ought to be greater separation of these units.

(Slide.)

MR: VAN WELIE: On the next slide, tariff administration and design, the White Paper requires RTOs and ISOs to administer their own transmission tariffs. At the moment, we don't meet this criterion. We are essentially administering NEPOOL tariff. And, of course, the next step here would be to negotiate a transmission operating agreement, pursuant to which ISO becomes a transmission provider, and assumes responsibility for most of the 205 rights over the tariff. The 205 rights over the transmission revenues is something that the transmission owners would we have those 205 rights.

Under tariff administration and design, the next issue which would be really good to have some direction on - which I suspect is more in the hands of the New England states - is the regional state committee, focus express desire to set up these RSCs, we think it's a good idea. The White Paper says that " the ISOs must provide a forum for state officials to participate in decisionmaking through these regional state committees." The committee structure is to be determined by state officials. And the RSC is responsible for resource adequacy, cost allocation and other transmission decision issues if there is consensual agreement.

Our practice has been that we interface with

NECPA. We kind of treat them as an RSC, although they're not formally in that mode. And of course, what we do have is a fair amount of interaction with other state officials, such as the Attorney Generals of the various states, consumer councils and representatives from the various governors' offices. So we are very active in terms of speaking to all of the public officials in New England. But at this point, there's no official organization with a decisional role. So we'd very much like to secure guidance from the states on the structure of an RSC in New England.

I think that's an area actually where New England can really step forward and be a model for the rest of the country. So I think we've got all the building blocks, we really just need to nudge them into position and create something, and I think we can create something here which can be copied elsewhere.

Once again, under the tariff, the whole issue of export fees, the White Paper says that RTOs and ISOs should eliminate export fees, if there's not a notable trade imbalance. At the moment, we do have through-and-out service charges for trades from New England to New York. The trend, historically, we've been a net importer from New York, but that trend has reversed and the reason it's reversed - or is in the process of reversing is we're starting to develop a really healthy capacity situation

there in New England and so we're starting to see more flow from the opposite direction, although on a day-to-day basis, it's still a wide variability. I think we should expect to see that trend continue in that direction.

This is an area that we can't address on our own, we have to do it together with the TOs and we will very definitely need agreement with the New York PSC and the New York TOs ultimately to solve this. And so we understand we have to address this and we are of a common mind, I think, between ourselves and the transmission owners here in New England, and what we really need to do is to engage New York on this issue. And I think the FERC could be helpful actually in nudging us together so the parties can actually get this discussion going.

The next topic or issue is liability and indemnification. The White Paper states that there would be a limited liability of RTOs and IPOs to direct damages resulting from gross negligence. Our current status is that we are liable to market participants for direct damages from willful misconduct or willful breach. We're indemnified against third-party liability except for gross negligence or willful misconduct. And we'd pretty much like to maintain that situation going forward, so the new contractual and tariff arrangements will maintain protection from loss of load liability and maintain the threshold for liability due

to gross negligence.

This is also a topic of the debate between ourselves and the TOs, something that we feel fairly strongly about and would need to see that, you know, from FERC point of view, that seems to be the direction that you'd like to set at on a national level.

Interregional coordination and seams. The White Paper indicated that the ISOs are not required to meet the scoped and configuration requirement, but must pursue interregional coordination. And we've doing that in a number of different ways, and I'll expand on that as we go forward. What we're trying to do here is develop proposals that would have the effect of a larger RTO or larger scope and configuration without necessarily having to expand our physical footprint.

The first is in the market area, and there's a number of things we're working on. One is this virtual regional dispatch and really what this will do, if you look -- actually, if you look at the interface between New England and New York, you see that sometimes the flows are hardly intuitive. So if the price is, let's say, lower in New England and higher in New York, you'd expect the flow to be from New York to New England, and often the flows will go in the opposite direction. That's a function really of how quickly participants can actually predict what's going to

happen and what the scheduling timeframes are. And we've come to the conclusion that we can probably automate that process and have it much more predictable between the two pools.

And so a proposal on the table, a White Paper on this regional dispatch, which was released on May 19th, is undergoing discussion in the stakeholder meetings and we have a joint meeting with New York stakeholders on May 29th. We're intending to expand this if we can get it to work. The IMOs in New York and the IMO are very interested in setting that up across their border as well. Obviously Hydro. Quebec and New Brunswick don't have markets at the moment, so if they were ever to get there we'd like to extend this proposal across that region as well.

ICAP net obligation proposal within the NPCC is something we'd like to standardize as well, so we're working on that.

I should also mention that, with respect to New Brunswick and Quebec, what we have got is agreements in place with New Brunswick, we're working on something with Quebec, so that, at least in the scheduling arena, we can actually have some conformity in terms of how we dispatch across their seams.

The next topic really is cost allocation and the transmission upgrade cost treatment. The White Paper really

throws this ball to the RSC. It says the RSC may play a role in determining the regional pricing policies and there can be regional flexibility in the choice of cost allocation methodology. What happens at the moment is, in New England we have this RTEP process, Regional Transmission Expansion Plan. We're probably going to change the name to remove the "transmission" element of this. But processwise and resultwise it's not going to change.

We go through a stakeholder process in terms of identifying necessary upgrades, culminating in this regional plan. And the regional plan then drives transmission investment. At the moment, generating interconnections, are half of this has been participant funded. And we, as a result of direction we see from the FERC last year, are working on proposing modifications to the current proposal. And so the next step we've been underway with this process for about five, six months already, and the next step is to file a new proposed cost allocation, reflecting New England's unique characteristics. Let me just say a word on New England's unique characteristics. Relatively speaking, we are quite a small area so we've got six states, but the typography of New England is fairly tight and small and the transmission system is highly interconnected. So this is different to, for example, the Midwest where you've got 26 different control areas, and therefore, a much vaster

transmission system. What happens in New England is when you do something in one area, you can't but help have an impact in the state next door or maybe two states away. So reliability problems in Connecticut, for example, have a very direct impact on the reliability of the transmission system in the bulk power system in Vermont and Maine. And that's because we are a small and highly interconnected network.

And so I think, in developing cost allocation proposals going forward, particularly with respect to the reliability upgrades, we need to recognize that fact. So you have to pinpoint over the 40-year life of a transmission line exactly who the beneficiaries are going to be.

(Applause.)

(Slide.)

GORDON\_\_: On the next slide, on the system planning process, the White Paper says that ISOs have to produce technical assessments of the regional grid. As I've mentioned, we developed this annual system plan, including a consideration of demand response, and we are fine-tuning that system planning process through our RTO development discussions. We are also involved in a discussion within the NPCC to expand the planning process, in terms of creating some form of interregional planning within the NPCC.

New York ISO is underway; they're a couple of years behind us in terms of doing the type of plan that we produced here in New England, but they're underway and I think they'll be in a similar position to where we are and I think that provides a good basis for us to expand that within the NPCC.

In the area of resource adequacy and, more specifically, regional adequacy and locational ICAP, the White Paper states that there be seasonable flexibility to determine appropriate regional adequacy mechanisms with the participation of the RSCs. There's an initiative that's been underway for quite a while where we're working together with PJM and New York ISO stakeholders and their stakeholders to develop a common resource adequacy mechanism for the Northeast and we are also, as I mentioned, developing a locational ICAP feature for implementation during 2004. And the next steps really are to continue to move that effort along and to drive it to implementation.

And really, the very last question that I've teed up which, as I had mentioned earlier we'd like to get direction on, is as we look ahead, do we move forward and try and finish what we started in terms of the RTO in New England effort, what do we call ourselves when we grow up, an RTO or an ISO, and, you know, how important is a label really if we actually go and tackle the characteristics that

have been laid out in the White Paper.

Thank you very much for your attention. I think it's going to be an interesting day. Thank you.

(Applause.)

CHAIRMAN WOOD: And now I would like to turn it over to an old friend who I actually knew in my last job so Roberto Denis from FPL Energy and is head of the stakeholders' group in NEPOOL, which is a long way from Merchant, where you were a leader as well. And I will, just kind of keep it moving, Roberto, and I'll let you introduce your colleagues here and go from there. So this is to get the stakeholders' perspective on these issues.

MR. DENIS: Thank you, Pat, and welcome back. I'll give you honorary citizenship, like they've given me here in New England. It's a long way from Florida. And Commissioners Brownell and Massey, I hope that you can find your way up here, I think you'll find this a very interesting market, talk to the regulators, talk to the ISO personnel in the locations, as I think Pat found. And hopefully you can make it back up here and we can continue the dialogue.

My role this morning is going to be very brief because the real substance of this segment of the presentation lies here to my right with the five participants, sector representatives. But I wanted to

briefly frame what NEPOOL is and what the status quo is at NEPOOL. And then, to my right, the representatives will be discussing how they feel the market should be evolving and it should be changing from where we are.

NEPOOL is a voluntary organization composed of about 220 participants who are represented by about 130 members in the participants' committee, and that is because affiliated entities can only be represented once, one vote. It's comprised of all of the entities participating in the wholesale market activities in New England. And the responsibility, the primary responsibilities for NEPOOL are for approving all of the market rules and also for the NEPOOL tariff, which entails the use of the integrated transmission system as it exists today.

NEPOOL members act through the NEPOOL participants' committee on most matters. The participants' committee for governance purposes is extensively organized into five sectors transmission owners and generators, suppliers, marketers, municipal entities, and end users. Each sector has a 20% vote and it takes two-thirds majority to pass an action, which is then items that are filed as 205 filings with you.

NEPOOL formed ISO New England in 1997 essentially to provide for the short-term reliability, monitoring of the markets, transmission planning, billing and settlement, and

general administration of the markets. At present, as has been noted by Gordon, the ISO New England is a service provider to NEPOOL. And that is the relationship, and that relationship is defined by the interim ISO agreement, which now has been extended and will run through the end of next year.

Under the current structure, New England has successfully transitioned into an LMP standard market design which was launched on March 1st of this year. That market design was overwhelmingly approved by the NEPOOL participants, the participants' committee. And, Pat, I daresay that it appears that New England and its current market system may be the poster child for the rest of the country.

So we're very proud of that, we're very proud of the collaboration that we've had with ISO New England, The collaboration we've had with the regulators in the region, and I think it has resulted in very positive results. It's really been a three-legged stool between the participants being one, the untiring -- and I really mean that, untiring -- efforts of ISO New England -- and you were there when we did award them that plaque for their efforts that they've undertaken -- and really for the very what I'll call tactful input that we've had from the regions regulators. They've been there, but they have not been overwhelming or intrusive

but they have been there to provide their feedback and their input to the process.

We have a lot of work to do to meet the full scope of the White Paper, and hopefully you will hear more on that as we go forward.

Technically I am also, because of how we elect the chairman, I am also the vice-chair of the generation sector, but today I've asked Pete Fuller, who is also in the generation sector, to provide the comments. NEPOOL has not acted on any aspects - officially acted on any aspects of the current deliberations on the transition to an RTO or ISO, so NEPOOL, as an organization and an institution, does not have an official position yet. We're going through the dialogue, the process. Eventually we'll have the debate, then we'll go through the parliamentary process and the governance process approving that. So I did not want to provide those comments myself so that my role as -- my neutral role that I try to play in this process won't be confused with partisan comments that we may have from on the individual sectors.

We have today the first representative will be Pete Fuller - excuse me, will be Peter Flynn from the transmission owners' sector. He will be followed by Pete Fuller for the generation sector; Dan Allegretti in the suppliers' sector; Brian Forshaw for the municipals; and

batting clean-up is Don Sipe for the end-users. And I hope that their comments are insightful and that you listen carefully because we are one part of that stool that is necessary to make this market stand up.

Thank you.

MR. FLYNN: Thank you, Roberto.

I am Peter Flynn with National Grid, although today I really have the opportunity to speak to you on behalf of the seven New England regulated transmission owners: Bangor Hydroelectric, Energy East, Northeast Utilities, ENSTAR, United Illuminating, Velco and National Grid.

And on behalf of the group, I'd first like to begin by saying that we appreciate the Commission caring enough about what we're doing in New England to take the day to spend this time with us. We know that FERC wants to hear back from us on the many issues presented in the Wholesale Power Market Platform White Paper and we're pleased to have that opportunity.

Let me begin by saying the transmission owners are pleased with and support many of the positions that the Commission addressed in the White Paper. And we believe that they're helpful in implementing a competitive energy market in New England, including a regional planning process that will make the construction of transmission easier, not more

complex; no requirement that an RTO or ISO use an IRP process for transmission upgrade; continued recognition that some RTO functions may be performed by an independent transmission company that operates within an RTOs territory; standardized tariff provisions that will limit the liability of RTOs, ISOs and transmission owners that belong to RTOs and ISOs; and acknowledgement that the very positive incentives that the Commission laid out in its White Paper - or in its Policy Paper can be applicable to a conforming ISO, as well as to an RTO.

Today you will hear some agreement and disagreement on the various issues that you've set out in your agenda. As TOs, in our prepared remarks, we really wanted to focus on three points. First, we want to help FERC move forward now, and the emphasis in that statement is on "now." Second, that as transmission owners we recognize that we have a key role to play in constructing, operating, maintaining and planning the transmission system within an RTO or conforming ISO, and we're working with ISO New England on and others a split of responsibilities that will help markets work. And third, we have a fiduciary obligation, of course, to our shareholders that requires that we preserve our rights as asset owners. And this, in particular, gets to the issue about Section 205 rights and the importance that we have as transmission owners for being

able to file rates with the Commission. And we believe this can be accomplished in a way that is consistent with public policy and with market needs. Let me address each of the points if I can in a little bit more detail.

First, we want to help FERC move forward now. I think, as you know, New England does have a long history of working as a region. Roberto and Gordon alluded to the size of our region. Some have quipped that if the country had been settled from East to West - or from West to East, New England would either be a single state or we would be a national park.

(Laughter.)

MR. FLYNN: We are a region where we are close to one another and we need to work closely together. And, in January of 2001, we put forward to the Commission the RTO filing and, as you may recall, FERC found the scope and independence to be key issues that required additional focus.

Since then, we have worked on several RTO proposals, and many aspects of the wholesale market platform have been implemented, including the day-ahead and real-time markets, locational marginal pricing, financial transmission rights. The transmission owners have committed to moving ahead to a fully independent and functioning energy market. We believe that an RTO or conforming ISO filing would

require changes to several fundamental NEPOOL documents, such as the New England Power Pool Open Access Transmission Tariff, the restated NEPOOL agreement and the Interim ISO Agreement.

Early in 2003, as Gordon recounted, the transmission owners and the ISO set a June RTO filing target. When the Chairman was here with us a couple of months ago, we indicated to him that we were intent on meeting that target. This target has since been modified to October to accommodate a full stakeholder process to address the multiple changes that need to be put in place. The transmission owners continue to believe that an RTO/conforming ISO filing in October is achievable, and that it will benefit the region. And we're working hard with the ISO and with other parties to get there.

Second, the transmission owners have a key role to play. For the last four years, we've been through many mediations, negotiations and filings on the subject of RTOs and standard market design. During this process, you have given us significant guidance, and we, of course, read your orders to other parts of the country. Transmission owners today play a key role in transmission operations, in maintenance, in regional planning, and in building transmission when the market fails to address regional needs.

We believe that the split of responsibilities in New England between an RTO or conforming ISO on one hand and transmission owners on the other needs to continue to recognize the key role that transmission owners can play in helping the market to work. We are actively negotiating a transmission operations agreement that documents in great detail the responsibilities that transmission owners would play and that the RTO or conforming ISO would play.

We are also reserving specific rights to future ITCs consistent with the prior Commission rulings. We as TOs have focused on ensuring that the transmission infrastructure that is needed for a competitive market will be available, that it will be safe and that it will be reliable. And while under today's structure, we do certain things, the ISO does certain things, In fact, many of those things are not well documented; they've worked because both parties have wanted them to work. As we create a new structure, both sides have seen an interest in documenting what will each do and having something that's workable, that's consistent with markets working, and that's consistent with an efficient transmission system. And that's what we're about in the TOA, and we are making progress in negotiations at producing a TOA with the hope of filing it with you in October.

Finally, transmission owners must preserve our

rights as asset owners. For decades, transmission owners across the country have had certain rights relative to rate, including revenue requirements, rate design and cost allocation, all subject to the appropriate control and oversight by regulators. Transmission owners are currently working with the New England states and with ISO New England to define a regulatory framework that will continue to work in a new RTO structure. We recognize that public policy concerns must be addressed through a balanced stakeholder process, and that the RTO or conforming ISO must have the right to protect market efficiency on a timely basis.

For our part, transmission owners must be allowed not only to file with you our revenue requirements and possible new incentive structures, we must also have the right to file with you rates that will recover our revenue requirements and incentives. Our filing will provide details on the roles and responsibility of transmission owners, the states and the RTO or conforming ISO on issues related to revenue requirements, rate design and cost allocation. And I will say that this issue has been one that has been much talked about between ourselves and the ISO at the table.

When the Court issued its order in Atlantic City, the transmission owners read the order, but we recognized that ultimately we must come up with something that's

pragmatic with regard to Section 205 rights. That, in a region in which we have both an RTO and transmission owners, to say that everybody has Section 205 - that one party has all the 205 rights doesn't necessarily provide a framework that's workable. Both the TOs and the RTO or conforming ISO have interests. And we recognized the need to develop something that meets the basic needs of transmission owners to our shareholders but the fundamental interest the ISO also has in making sure that rate filings do not create market inefficiencies.

We did not take an extreme position. When you issued your first remand order in Atlantic City, the ISO also did not read that and take an extreme position and say well, okay, now it's all ours and there's nothing left for TOs in Section 205 rights. And, indeed, even before your interlock order last week, we were negotiating something that reflects a split of 205 responsibilities that ultimately meets the interests of both parties.

We read the order last week as indicating an openness on the Commission's part with regard to - an open mind with regard to a Section 205 rights split, that if it works in the region and the transmission owners and the ISO are able to work something out, that you look at it with an open mind. And that's all we ask: Let us finish our negotiations and bring to you in October a filing that

reflects a split of 205 rights in a framework that we think makes sense, and we ask that you look at it with an open mind.

In summary, the transmission owners again want to thank you for the opportunity to express our views on the White Paper, to emphasize that we are working with ISO New England, with NECPAC and NEPOOL to get this done by October of this year, that we recognize that as TOs we have a key role to play in splitting the responsibilities with the RTO or conforming ISO, and that that's critical to properly working markets. And finally, as asset owners we must preserve our rights with regard to rate filings while being responsive to public policy and market needs. And we believe that we can come up with a structure that does all of that.

And now, this is the part of the presentation where my fellow transmission owners get nervous because this is extemporaneous, but I do want to pick up on some of the issues that the Chairman made this morning and I'm sure that the transmission owners will throw rocks at me if I say something that they're uncomfortable with.

But let me direct a couple of issues that were raised. One is transmission rate pancaking with regard to through-or-charges. And I wanted to let you know that the transmission owners in New England recognize that a

reduction or elimination of through-or-out charges is important for addressing the market scene that exists between New England and our neighbors. And we are working at developing a proposal for including it in the October filing that will eliminate or reduce through-or-out charges.

6

I can say that, since National Grid is also on the other side of the border in New York, we are also talking with our fellow transmission owners in New York, and that there is an interest in New York transmission owners of also addressing the through-or-out rate issue on a reciprocal basis. And so work is underway on both sides of the New England / New York border on that issue.

With regard to interregional planning, we could not agree more of the need for interregional planning and, indeed, the New England transmission owners look at our October filing as the target for trying to put down a process that will facilitate interregional planning at a minimum between New York and New England. It's an issue that we care much about and we're looking to try to address that as well in the filing that we make.

And so with that, I will conclude my remarks. Thank you very much for your time and attention, and I look forward to the discussion on the many issues with you.

(Applause.)

MR. FULLER: Good morning. I'd like to start by reiterating many of the comments we've heard, and thank Pat and Nora and Commissioner Massey and the others for being here, for giving us all an opportunity to speak about the issues that are of concern to all of us here in New England as we move forward with markets.

I also observed that, as I listened to each of the speakers, many of the issues that are a part of my remarks and that are very important to the generation asset owners in New England have been brought up, and many of them addressed in ways that give me a lot of comfort and give my colleagues a lot of comfort.

And what I would like to do today is to talk a little bit about, again, emphasizing the importance of where we have come and where we are today and what an important step that has been and emphasize the need to keep going. And I think we've heard that theme as well this morning, that there is much to be done to build on the foundation of the SMD that we've put in place so far. And then I'd like to spend a couple of minutes at the end, talking about one of the key issues that generation asset owners feel is critical moving forward and put a little more meat on the bones of independence and how we think that can be structured in a way that will enable the market to evolve sufficiently and ultimately to produce the kind of robust competition and

consumer benefits that this whole exercise is about.

Let me first say that, again, I'm representing seven organizations or members of the generation sector, so things that I say may not be precisely the way other members of the sector would say it but we have talked a great deal about them and they represent -- the comments represent widely-held views. So with that qualifier, let me begin.

Listening to Peter, and we've had these discussions many times, I am again reminded of the sort of connectedness or the similar issues, where the transmission owners have substantial investment in assets and are a critical piece of reliable and efficient markets and reliable supply of electricity. The owners of generation assets similarly are kind of uniquely situated as people with an awful lot invested here and entities with an awful lot at stake in making sure that these markets work and are sustainable for the long term. And I don't think you'll find any companies - certainly not any more, if there were ever any - that are in this for a quick one. We're here to stay and to make sure that things last for the long term. And so that message of sustainability is one that I think is real important.

Unlike the TOs, we don't have the ready access, if you will, or the presumption of 205 rights and regulated rate design so we're relying on market structures themselves

and it's important to keep emphasizing that the designers of those markets, the regulators of those markets keep in mind that sustainability and a financially healthy supply side to that market ultimately is in the consumers' best interests and needs to be kept in mind.

Many people have said this morning that we've come a long way, we've implemented the standard market design in New England and, as owners of generation, we agree and wholeheartedly have supported that move and are very gratified to Gordon and his staff and all of the parties that helped to implement that market. And that really lays a foundation, both to comply with the White Paper and where the wholesale market platform is going, as well as to provide - there's a lot of detail and additional pieces that need to be filled in there to really make this market work and we want to stay focused on that.

You've heard, I think Gordon already ticked off the project list and we're working actively to keep him moving on that; operating reserve markets, planning reserve or capacity markets, there's an awful lot of definition and additional features to that that need to be put in place to make it a fully workable product and market.

A particular concern to generation asset owners and others is the market rules, the sort of subtle market rules that exist that have the effect of muting price and

the effect of hiding the actual cost at any particular time and the actual value at any particular time. These are things that don't necessarily have the marquee appeal of reserved markets and capacity markets, but, for instance, in the Devon order that you referenced earlier, the recognition that those costs and those prices need to be visible to the market. And there are many examples that are much more subtle but are still meaningful in terms of making sure that markets see the correct price and see a correct result, and ultimately that should lead to better demand response, better investment response, better transmission response and so forth. So I think it's important that we stay focused on those as well.

We've heard talk about the seams issues and we support those as well, as being an effective move toward expanding markets, expanding opportunities for selling power. The out-service charges, the rate pancaking, resolving issues related to tie facilities that are not part of the regional tariff, transparency in scheduling at the borders. Gordon referenced the project underway now for virtual dispatch at the border, and that's one way to get at it. And we need to investigate that and the underlying issues of how market participants get information and how they react to that information to create or to improve efficiency at the borders.

With that as a basis, and again recognizing the huge strides we've made to get to this point, it's the view of the generation owners' sector that those issues of resolving additional internal market design issues, resolving the seams issues is really where our energy ought to be directed and focused. And as enthusiastic participants as we are in the ongoing debates of the RTO, it seems that we could spend more time on the market issues themselves and may want to consider carefully how extensively we resolve the institutional arrangements and the structural arrangements as we become a conforming ISO or an RTO, if that's a possibility.

Moving to, again, trying to put some meat on the independence bones, and maybe spark some debate here today, because I know these - while they are the opinions and positions of the generation owners, we've had many, many conversations along these lines and I know there's a range of viewpoints, shall we say.

Clearly independence and the independence of the system operator and, to the extent that we get there, the system designer, if you will, of markets is critical and is extremely important. And we see the primary vehicle for that independence to be exclusive 205 rights for market rules. That's really an area where NEPOOL has always had some problems coming to grips and coming to closure, and we

think by placing the stakeholders in an advisory role for market rule issues, that we can enhance the independence that I think everyone's looking for and the efficiency, and hopefully, the efficiency of the outcome of markets as well.

In doing that, however, we recognize that there is an inherent tension between independence and accountability. And where the generator owners would like to see this go is to say with those 205 rights to the ISO or RTO, we'd see really three primary means to develop or to maintain accountability of the ISO or RTO to the markets for which they are ultimately a service provider.

The first is a well-structured and clearly understood and meaningful process by which stakeholders, including the State Commissions, other state agencies, market participants and others have the ability to get their input and ideas before the ISO or RTO before decisions are made, and so inform them of commercial implications and hopefully craft truly efficient and commercially reasonable mechanisms.

The second is that stakeholders should have a direct selection role in the board of the ISO/RTO to make sure that, at that policy level, the stakeholders can give direction and can give some guidance to the direction and the decisionmakers of the ISO and RTO so that we can choose good people who we all can have some confidence in and can

trust, and then turn them loose to make the decisions on 205 rights. Much like the way I believe the Commission has approved a structure in PJM, it's a potential model for us to look at.

The third major item is an external market monitoring unit. Again, we have structures that begin to approach that today, with the internal market monitor and the external market advisor, and perhaps with enhancement or some refinements on that, much the way it's structured in the MISO would give us again an additional level of review and oversight for stakeholders, the Commissioners, the regulators to all have a good eye onto what the ISO/RTO is doing.

So I will wrap up there. Again, thank you very much for the opportunity to speak. And it's our sense that, with a structure like this and with focus on the markets today, we can come to - more rapidly than otherwise, we can come to workable and sustainable markets that hopefully will produce the consumer benefits that we started out with people.

Thank you very much.

(Applause.)

MR. ALLEGRETTI: Thank you. I'm Dan Allegretti, speaking on behalf of the NEPOOL suppliers and marketers sector. I will begin with the caveat that the views I'm

about to expressed are based on meaningful consultation with the members of our sector and, while they express a broad viewpoint that is held by us as a group, they are not necessarily the precise views of each and every member of that sector.

I'm also mindful in taking the lectern here of the words of Shakespeare, that "brevity is the soul of wit." And we've got a lot to discuss today, I will try to keep things very crisp. I think Chairman Wood did just an outstanding job of laying out the issues, the major issues that are before us as a region, as a regional wholesale market. And I just want to touch on a few of them that are near and dear to members of the supplier and marketer sector. I think I will start with the same issue that Chairman Wood did, and that's the independence, or as we sometimes call it, governance issue with respect to a regional organization. It's the view from our group that decisions affecting market rules must be made after meaningful input from buyers and sellers in the marketplace, input from participants with practical business experience, people who roll up their sleeves and actually participate in these markets is absolutely essential, and it's served us well to date.

We have what I would call a process of peer review. The Independent System Operator of New England

develops a proposal and it brings it to the NEPOOL Markets Committee, who tears it to shreds. They poke it. They prod it. They point out any shortcoming, anything that isn't right, that doesn't work, that hasn't been thought through. And the ISO takes that back and comes back with what is definitely a better, more fleshed out, more thorough proposal. This peer review process has benefited both of us well. I think it's forced the ISO to be much more effective, much more professional than it would have to be otherwise, and it often produces good ideas that come from stakeholders. It's an ugly process to watch and it's not always well-understood, but I think the outcome is really a productive one.

MR. ALLEGRETTI: It is essential that we preserve this aspect going forward. I also think that accountability -- I think -- we think, as a group, that accountability is absolutely fundamental. There has to be an accountability to market participants. Without some sort of a fiduciary relationship to the participants, the ISO loses its mandate and it's basis for deference. There is a danger in self-perpetuating boards that appoint their own successors. Left without trustees, shareholders or citizenry to hold it accountable by casting their ballots, independence without accountability and fiduciary responsibility can become a recipe for disaster.

We believe that to achieve ISO accountability, market participants must play a decisional role in the selection and appointment of the members of the Board of Directors. The participants in the PJM RTO are permitted to perform this critical function. We think a similar role for NEPOOL participants should be an acceptable option for our regional institutions as well. I'm always struck by the swiftness with which the actual evidence is quickly dismissed. If you look at the ISO board, not only in New England, but in New York and PJM, they're absolutely outstanding boards. I don't know of any meaningful challenge that's ever been made to an individual member of one of those boards with regard to their qualification or their independence. And they were all selected by stakeholders. Stakeholder groups put those boards in place and I think they've shown that they've acquitted that responsibility capably and put outstanding boards in place. And I think that needs to be considered in terms of our institutional structure.

With respect to the matter of stakeholder voting, I think it's a little more challenging. The one aspect on which we are very much agreed and on which we feel strongly is any stakeholder voting structure must achieve a fair and effective balance between the fundamental business interests of those who buy and those who sell. Now self-suppliers

agree with the generators here that the best approach is an advisory-only governance in which the Section 205 rights would reside with the ISO, rather than try to achieve this balance. Others feel that as a matter of accountability, it's absolutely essential that stakeholders continue to vote on certain matters. They all, however, agree that with any voting structure the need for a balance between these fundamental business interests is absolutely critical.

I want to touch on the question of seams, because it really goes to the scope and configuration issue as well, which is one of the critical criteria here. I agree with what's been said, the New England structure is very close to having achieved the Commission's requirements for an RTO, but we do need to do something with respect to the seams.

And we're fully in agreement with what Gordon said, that there is a need for tariff reforms to eliminate pancake rates that inhibit trade across the seams, and we also concur with Gordon that this can't necessarily be accomplished by the ISOs alone. It's going to require some cooperation from the transmission owners. And leadership from the Commission with whatever carrots and sticks they choose to use is going to be, I think, really helpful in this area and we would encourage you to lead in this area.

Also needed is a coordinated process for participants and ISOs to address the market rule and

operational barriers that create the seams between us and our neighboring control areas. We need a forcing mechanism with real deadlines to make meaningful advancement in this area. Some people - some participants have thrown out some suggestions for how subsets of the ISO Boards could coordinate to lead the process, a coordinated group of stakeholders between perhaps New York and New England could work together. But what's really needed is someone to lay down some strict deadlines to force something to get filed with the Commission by a time certain to make some real progress in this area.

I was also encouraged to hear Chairman Wood mention the coordinated interregional dispatch. We think that's a positive thing as well, but we would also throw up a caution flag here. We have seen some proposals to put in place a coordinated dispatch that might result in more buying and selling between ISOs rather than facilitating the buying and selling between participants in the marketplace as is done within the control area. And we would caution that in moving to a coordinated dispatch, it's very important to bear that distinction in mind and to move toward something that will actually promote market liquidity, rather than involving the ISOs in direct participation in the market.

With respect to NEPOOL's market design, again,

our present market design implemented in March of this year is based on the PJM platform and is essentially compliant with the minimum criteria the FERC has set out. There are, however, some important improvements that do need to be made to this market and we need to not overlook them. There are very much needed improvements to ancillary services and the development of reserve markets, as well as the important reforms that have to be made with respect to locational capacity markets.

With respect to transmission, we do have a network access transmission tariff that is essentially along the lines of the wholesale market platform.

One issue, Chairman Wood, that I would add to your list that needs to be addressed is with respect to transmission. The Commission just directed that certain transmission facilities outside of our regional open access transmission tariff which connect to Canada should be included in the pool transmission facilities that are governed by our tariff as part of our regional forums. This needs to be done expeditiously and it needs not to be overlooked.

The last area I'll touch on is market monitoring. This is a very important function. An independent market monitor/advisor is essential to the regional market. The monitor and advisor that is independent from the ISO itself

is free from the institutional biases, the potential conflicts of interest with administrative and operational functions or the resource limitations that might affect or inhibit the ISO from reaching the optimal solution.

In terms of recommendations on market design, a structure that creates an independent market monitor/advisor can help get around this. Now that entity need not perform the day-to-day function of monitoring and mitigating short-term market power or proscribe behavior; these functions can and should remain with the ISO. But an independent market monitor/advisor should be created to report its findings and recommendations directly to the Commission and should have a reporting obligation to the ISO Board as well; we're thinking similar to the relationship that an auditor has to a board audit committee as a good example of how to accomplish that. It should also publish its final reports and findings for the participants and State Commissions to have available to them.

Finally, I'd just like to say that we have at times felt here in New England that because we haven't been in a constant state of crisis we may not have always been the first to get the Commission's attention. And I think it's terrific not only that the first regional technical session that you've held is right here in Boston, but I also want to say that we were thrilled a month or so back to have

Chairman Wood come and participate, actually have a chance to address and visit with us as at the NEPOOL participants committee, and I hope Chairman Denis will extend the same invitation to Commissioners Brownell and Massey as well and that you may find the time to come up here and do that. I think you'll find it very interesting.

Once again, thank you for your time.

(Applause.)

MR. FORSHAW: Good morning. My name is Brian Forshaw, I'm here representing the 39 public power systems that are members of NEPOOL. You know, it's always dangerous following Dan Allegretti on a podium you know, how do you keep the crowd?

But I can't help but think, looking out over this room, thinking back to 1980 when I first started in this industry, my boss told me, okay, I need you to go up to the NEPOOL Executive Committee meeting in a small conference room in the New England Electric System offices up in Westborough and see what's going on there. And now I look today and we've got a jam packed conference room in Boston, we've got video feeds on the Internet, we've got the Federal Commissioners here you know, we've come a long way and I guess we owe you thanks for that.

CHAIRMAN WOOD: You're certainly welcome.

MR. PORSHAW: New England's public power systems

have a continuing obligation to serve all customers within their local communities. We believe that our perspective on the wholesale markets is unique and consistent with the Commission's statutory obligations in terms of assuring on a long-term basis that the rates paid by electric consumers in our community are at levels that are just, reasonable and not unduly discriminatory. We've been active participants in NEPOOL since its inception and we believe that we've played a vital role in assuring that consumer interests are represented in NEPOOL decisions.

We take a great deal of pride in what we've been able to accomplish here in New England. We've had what was perhaps the first region-wide transmission tariff, centralized planning process and centralized unit commitment and dispatch settlement systems in the country. We were the first tight power pool to voluntarily open up its membership to non-traditional utility companies and to incorporate an equally weighted sector voting arrangement to address Commission independence concerns. We implemented bid-based real-time clearing markets back in 1999. And less than three months ago, we implemented the Commission's vision for future electric markets through the New England Standard Market Design.

We think the best way today for us, as vertically-integrated load-serving entities, to contribute

to the proceedings is to try and give you our perspective of the facts on the ground from the perspective of what's the impact going to be on electric consumers. We certainly intend to follow that up with additional, more detailed written comments after this proceeding. We've heard a lot today about RTO formation. Again, let me make some observations about the potential impact that some of these initiatives will have on consumers.

The Commission's transmission pricing policy would allow a higher return on equity for transmission owners that join an RTO, that form an ITC and that build new transmission facilities that are approved by an RTO or an ISO. The 2002 New England Regional Transmission Expansion Plan has already identified \$888 million of new transmission projects to be built over the next five years. Parenthetically I'd note that the current New England transmission investment base is around a billion dollars.

In addition, proposals to eliminate the current through-and-out charges in the NEPOOL open access transmission tariff and roll in the cost of the HVDC transmission interconnections with Canada into the NEPOOL tariff are also going to add to the fixed cost obligation that will need to be supported by electric consumers.

To kind of put some context on this from my company, we've estimated that all of these initiatives are

going to double our annual transmission expenses. And that will necessitate a 2-3% increase in the power supply, power generation and transmission portions of our bills to our members. At this point, we don't have any assurance that those increased costs are going to necessarily result in offsetting reductions in the energy congestion and loss components to our bills.

Another area we wanted to focus on has to do with the capacity markets and resource adequacy. We've been sending locational price signals for less than three months now. And yet we're now faced with calls to implement locational ICAP in very short order. From our perspective, the problems with locational ICAP stem from the fact that the current planning tools require upfront arbitrary designations of the locations that will be subject to a locational requirement. In addition, to make the planning models converge, you need to go in and retire capacity outside of those designated regions. In other words, you've got to reduce the average reliability requirement outside the designated regions in order to make the model come up with the right answer.

We're also extremely concerned that implementation of a locational ICAP regime could exacerbate on-going concerns about concentration of generation ownership in some of the existing load pockets throughout

the region. At the same time, the load-serving entities within these constrained areas are already facing some pretty serious conditions. Under the safe harbor bidding provisions that will be applied to generating resources in these locations, units that sell them run in merit order, the load-serving entities in these areas are going to be appropriately facing higher LMPs, especially during high load periods. Load-serving entities in these areas also have to support the fixed costs associated with reliability must-run contracts.

Finally, we think it's - I think it's important to note that the impact when reliability actions have to be triggered in these areas voltage reductions, customer appeals, pre-contingency load shedding are also going to be localized as a consequence of normal system dispatch operations under SMD. Let me repeat: As long as the New England region as a whole meets the reliability criteria on an unconstrained basis, reliability actions in the constrained areas are not going to impact any other location on the system.

By now, after all you've heard, I'm sure it's clear that any major changes in the wholesale market design will inevitably have complicated and widespread impacts on all aspects of the market. So I wanted to close by emphasizing why we think the NEPOOL ISO New England process

has been so successful to date.

Our country was founded on a system of checks and balances. An independent entity, no matter how well meaning, simply cannot fully comprehend the full impact that a proposed market design change in a business as complicated as our industry will have on all aspects of the market. You've already heard today but we think this is where the current NEPOOL ISO New England decision-making process works well. By the time a market rule change has been proposed by the ISO, makes its way through the Technical Committees, gets approved by the Participants' Committee, and ultimately filed with the Commission, just about all of the significant arguments have been fully vetted, they've been aired, and they've been aired in a setting that really requires that they be addressed.

On the other hand, a consultative process directed by an overly-autocratic institution runs the risk of leaving many potential complications unaddressed. Since we're in Boston, I've got to revert to Colonial analogies: Affected parties will tend to revert to a strategy of keeping their powder dry, saving their best arguments for their protests by the time things get down to the Commission.

In the long run, we believe that it's in the best interest of the New England consumers to have market design

changes fully discussed and vetted within the region before any filings get made. We'd strongly encourage the Commission to make sure that a final rule or approved RTO arrangements maintains to the greatest extent possible the advantages of the current New England governance framework and maximizes the decisional role that all affected parties will have in developing and filing market rule changes.

I just want to close by stating we believe the current NEPOOL arrangements are consistent with the White Paper. But even if you find that elements of our arrangements aren't consistent with the final rule, then the flexibility provided in the White Paper should be retained in order to allow things the retention of something that has been working and we think will continue to work.

Again, we appreciate the opportunity to be here and look forward to continuing the dialogue.

(Applause.)

MR. SIPE: My name is Don Sipe and I'm the Vice-Chair of the End-User Sector for NEPOOL and I'm honored to share the podium here and spend a little bit of time making some remarks on behalf of the consumers of New England. A lot of what was just said at the end of the last remarks by Brian Forshaw I think our sector could pretty well say ditto to, and I know, as close as it is to lunch, that you will all regret that I'm not going to just do that.

I do want to spend my time just talking about a single issue that many of you could address. And that is, in fact, the proper role of independence in the governance of an RTO. Now I know that phrasing -- phrasing of the problem is a little unique. Most people tend to think that if you've got independence, well you've got the problem solved, 'enough said, we're all done, we can go home. But consumers have a little bit different view of independence I think than most of the other market participants.

From the consumers' point of view, we had quite a bit of independence back in the Seventies and Eighties when NEPOOL was a closed society and decisions were made in ways that we didn't understand and often didn't have any input into. It was an independent process; it was certainly independent from us.

Now that's changed, thanks to the leadership of the Commission, and I would like to say thanks for the hard work of a whole lot of consumers who have tried to get involved. I think that, in looking at how independence ought to work, particularly as it relates to market rules, there really perhaps isn't a need to decide many of the other issues or address many of the other issues that are important that people talked about today. In our opinion, if you get independence right and if you get governance right, we can fix the rest of this. We can come back, if we

get it wrong the first time, we have an open architecture and will be heard the second time around and the third time around if it take three times to get it right. But without that, without a structure that is accountable to consumers, without a structure that has a way for consumers not just to be heard but to need to be listened to before everything is decided and before a 205 filing is down at FERC, we're back to independence all right, but it's not the independence we want and it's not what we believe will help us.

There are now almost 30 consumers or consumer representatives in NEPOOL. When I started, there was one, and we came in as a trader because there wasn't even room for us, we didn't have a sector. So we put on a trader's hat and came in as a trader, with a "d," although, I'm sure, the rest of the pool looked at us otherwise at times.

But consumers who have come and joined this pool haven't come to join a debating society. They came because they were persuaded that it mattered that they showed up, that there was going to be a decision that could be made or might be made differently if they were there and not a decision that would be made by someone else. We've always been able to go to FERC for the 205 filing -- for a 206 filing, rather. We've had that degree of independence since I've been in the business before the new NEPOOL arrangements. We don't need more of that. We need more

ability to affect the process and the decisions before they get to the Commission and then to be heard more fully at the Commission.

Now we were happy to see the smoke-filled room of the old NEPOOL go away. The fresh air's been good. We got to come in, we're part of the process. But when we hear some people talk about independence, we're very concerned that that smoke-filled room is now going to be replaced by sort of a rarified ether-filled room where, you know, there's going to be the intellectuals and the folks who don't employ people, don't try to make a living and don't pay the electric rates are going to make decisions with our distant advice from the outside. Well, we don't like the smoke, but ether is not what we breathe either.

Businesses and consumers need to have decisions made in a way that is accountable to the things that they care about and the things that they face every day. Accountability doesn't come because someone says Gee whiz we'll listen to you because you're going to make us sit in the room with you. Accountability comes because you have some ability to make a decision yourself or with other affected parties under certain circumstances.

Now having said all that, I will point out that consumers were the first to recognize, I believe, that the current NEPOOL process, although we have an independent ISO,

we do not have a sufficiently-empowered ISO. Long ago we filed a complaint with the Federal Energy Regulatory Commission, the FERC, these folks sitting here - although it wasn't these folks sitting here at the time. And we requested that the governance of NEPOOL be reformed. It was a lesson in why 206 rights are not enough, because many of the things we proposed and argued for are the same things which finally came out in the RTO rules and which NECPUC has been arguing for. But trying to overcome a 206 hurdle to be heard is legally so difficult and the standard of proof is so high that consumers really are closed out in that setting. It's very difficult to overcome that hurdle, and rightly so. You can't just willy-nilly change tariff rates without some showing, without some priority.

So we recognize that there needs to be some adjustment. In our opinion, we share Brian Forshaw's view that probably the current situation is compliant. But we'd like to see some improvement. What we would like to see is an increased ability for the ISO to move forward with 205 filings conditioned on a very robust stakeholder process which requires them, before making a filing, to follow explicit due process procedures that ensure that they don't move forward until they've at least given us a chance to wave our hands and go through some of the process that Mr. Allegretti and Mr. Porshaw both outlined actually works very

well.

At the end of that process, a specified process which doesn't lead to interminable delay, we believe they need to be free to move forward and make a filing whether the participants like it or not. We think that's a reasonable requirement and that is independence. But we also believe that we're stakeholders and by stakeholders, participants, that means us, that means consumers. When we're in the room, we do okay. That where we can agree among ourselves to disagree with the ISO and that perhaps some other way of, you know, slicing this baby is the way to go. There ought to be a way for participants also to make a filing with the FERC in conjunction with an ISO filing which does not have to overcome a 206 rule, but which the Commission has to consider on equal footing with the ISO filing and make it's best judgment about what is the best out of those two or what part of each is the best. But to put us back in a situation after all this work where we are back outside of the rooms filing 206 filings, would be, at least in our view, a sad retreat from what we believe is the right kind of independence for an RTO to have.

I thank you for your time and I would like to have Mary Healey come up on behalf of the Consumer Council of Connecticut and make a few closing remarks for the end users.

Thank you.

(Applause.)

MS. HEALEY: Good morning. My name is Mary Healey and I'm delighted to be here to also welcome the FERC Commissioners and to thank you very much for being here to hear our inputs.

I think that there's a lot of thinking on the same page as far as the overarching principles of what an RTO should be. And, to use one of Chairman Wood's comments like was down -- with Masvoka visiting him like a duck on a Junebug. I looked at the White Paper to see Well, what's the end result for an RTO, that's what we're all about here. And I would like to commend to you that the end result of an RTO should be stated, its core mission should be articulated, and on the first page of the White Paper is the articulation of the FERC core mission, which I would commend to you to have reflect the RTOs mission. And if we stay true to what that mission is, which is to achieve wholesale electricity markets that produce just and reasonable prices that work for customers, we won't go wrong, whatever sector we reside in. And believe me, there's enough votes in the bag for everybody. And I would like to just say if we keep true to the overarching principles, everybody will have a fair share and the investors will profit, the ratepayers -- whom I try to represent up here in NEPOOL - will have just

and reasonable rates, we will all have reliable electricity and we will all win.

And I thank you for listening to that aspect of an RTO. Thank you.

(Applause.)

CHAIRMAN WOOD: Well, that was a pretty mean morning, not the usual kind of conference pablum that we're all used to is it? But I want to say a special word of thanks to Sarah McKinley and Ed Meyers from our office - where's Ed? There you are, right here in the front. Deborah Sweickert from our office as well that helped coordinate this. And I will let Sarah tell us what the game plan is for lunch.

MS. MC KINLEY: I just have a couple of housekeeping items here. Our box lunches, for those of you who ordered them, are here. Those of you who preordered them, in order to get them, you have to have a ticket. So if you haven't already picked up your ticket, you need to see Debbie from ISO New England. Also, they have about 20 left to sell.

Now we only have an hour. There are a lot of restaurants here. For those of you who didn't get a box lunch, I would just caution you that we are going to start the program back up promptly at 1:00 because we have an important discussion with state regulators this afternoon.

So we'll see you then.

(Whereupon, the technical conference was recessed  
for lunch, to reconvene at 1:00 p.m.)

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## AFTERNOON SESSION

(1:00 p.m.)

CHAIRMAN WOOD: Okay. We will come back together for our afternoon panel today. Our first afternoon panel is a discussion with two of the commissioner leaders up here in New England on the development of the New England Regional State committee, which is as you may remember, from the white paper -- from the NOPAR, the decisionmaking consultatory oversight body of state commissioners in each region of each RTO, which of course here would be the six New England states. And leading that discussion will be my colleagues, Bob Keating, from the Mass Department of Telecommunications and Energy, and David O'Connor, from the DER of Mass.

So who's first? Bob? David? David, you're first.

MR. O'CONNOR: Good afternoon. Thank you, Mr. Chairman, and members of the Commission. We are happy to be here today, and thank you for the opportunity to provide you with an update on the work that we're doing here on formation of a regional state committee.

Let me begin by just saying that this certainly is a matter which is very much a work in progress. In fact, just yesterday, at a meeting of the New England Governors' Conference, power planning and environment committees,

significant work was done on this issue but it is far from complete. So we want to really essentially -- Commissioner Keating and I want to take this opportunity to provide you with a bit of a progress report on how far we've come and how we envision this process going forward here.

First of all, I think, though, let me say it goes without saying that we very much appreciate the fact that in the Notice of Proposed Rulemaking you proffered the idea of formation of a regional state committee because, from our point of view, it actually answers an important felt need which hasn't really been addressed adequately really since the inception of wholesale market competition and structures here in New England. And therefore, we very much want to take advantage of the opportunity that you have offered. And we noticed immediately upon reading the rulemaking that this was a rather striking and a significant offer for the states to take up new responsibilities related to the regional market, and that was only further reinforced by the publication of your white paper and appendix because you were even more clear there that the scope and potential importance of this structure is growing over time.

And if you'll bear with me, I just want to mention a few of the things that appeared in the white paper with respect to this committee so that the audience is aware of what we're talking about here. The Commission indicated

that this committee, if formed and properly constituted and approved, would have responsibilities for such things as determining whether participant funding would be used within the region to enhance transmission, whether the region would use license plate or postage stamp rates for producing of tariffs. Where in our case we do use locational marginal pricing, this committee would be responsible for determining how FTRs are allocated, whether directly to customers or whether they should be auctioned.

And addition, it had already indicated in the Notice of Proposed Rulemaking that this committee would be charged with responsibility for determining the region's methodology for determining resource adequacy, and after the long arduous painful process we've had dealing with ICAP here in New England, that's a very significant concept to consider taking on. And in general what the transmission planning and expansion process should look like, or, I should say, really how it should be ultimately administered.

So this is a very significant set of potential responsibilities and we take the offer quite seriously. Early on, we, I think came to a conclusion that a good venue for discussing this committee was the structure provided by the Northern Governors' Conference. It had a power planning committee comprised of public utility commissioners, energy office directors, and it has an environment committee

comprised of the environmental secretaries in the states, and it seemed to us, looking at potentially the range of issues and the importance of having a comprehensive state picture, that this was a good venue for consideration of what the form of this committee might be. And so the Governors' conference and its two committees formed a work group comprised of representatives of the commissions, the energy offices and the environmental secretariats, and we have been hard at work for several months now and have developed a preliminary framework or concept for how this committee would operate.

And yesterday, I'm happy to report that that preliminary framework was conditionally approved by the members of those committees and will be, in the near future, forwarded to the governors for their review. And the question for the governors, essentially, will be does this general framework for this committee appear like a good direction for us to go, will you authorize us to proceed to develop more details and ultimately review a final proposal at your meeting when the governors meet in September. That will be the message to them. There's an annual meeting of the New England Governors' Conference, all six governors of the states will be together in September and we imagine this being a proposal that they will consider and act on at that time.

So there is the broad outline of a process for coming up with this proposal and the shape of it is at least broadly, I think, becoming clear. And let me say a couple of things about it. First, the issues, at a minimum, I think there is broad support for the committee taking on responsibilities for establishing policy on resource adequacy for the region and on establishing a policy for the transmission planning and expansion program that we may -- that we will certainly need and that will at times potentially require significant decisions about cost allocation for transmission upgrades.

There is a third issue or topic on which the Commission is quite -- I should say the members of this work group are quite interested in pursuing, and that has to do with the potential role this entity might play in the siting of multistate transmission facilities. You will recall that in the Notice of Proposed Rulemaking, you alluded to the work having been done by the National Governors' Association on the creation of multistate entities and the potential for an entity like that to ultimately be given authority to address siting issues, which really do legitimately go beyond the boundaries of any one state. And we believe that transmission siting is an important issue and do want to pursue that further, and I'm going to defer further comment on that for Commissioner

Keating, who is going to say a bit more about that issue. But that is also one that is on our agenda, at least for further work.

We have also begun to work through the issues of how would this body makes decisions, and, in fairly simple terms at this point, I think I can say that we have an understanding that in some fashion or other we will devise a voting mechanism that's going to take kind of two different principles, one principle being a one state one vote model, which is to say that of the six states in New England a certain number would be needed for a motion to move forward, and then, in addition, some reflection of consumption in the region of electricity, which varies very -- or quite widely across the states. And there would be some of -- weighted voting procedure relative to the amount of consumption in those states I think consumption being thought of in part as a reasonably good proxy for the amount ratepayers are actually contributing to the system.

That work, that is to say, the effort to reconcile those different approaches for voting, is going on as we speak. Nothing has been finalized. We have ideas for the governors to consider. We're reasonably optimistic we're going to find a mechanism that will be acceptable to the states. I think our primary concern, in addition to, you know, recognizing kind of the fair claims on influence

within this committee, there's also an important need not to have the committee be essentially unable to do anything; it's got to be able to actually act and make decisions if it's going to be a useful participant in the regional process.

So we've got more work to do, but I think we've made quite a bit of progress, but we do want the governors to consider the question should we do this, and we're recommending that we do it, and then secondly ask them to consider the scope of the issues we've suggested at least at the outset for this committee and then to take a look at the allocation of voting weight.

The process, as I said, from here is to once given authorization by the governors to proceed, we will further develop this proposal and, as I said, have it reviewed by the governors in September.

So that's where we are in our work on the formation of a regional state committee. We're hard at it and we look forward optimistically to having a very well-thought-through proposal for you this fall. Thank you.

(Applause.)

MR. KEATING: Good afternoon. My name's Bob Keating, I'm a commissioner with the Massachusetts Department of Telecommunications and Energy. I want to thank, first of all, the Commission for taking time out of

their busy schedule to travel to Boston to be here with us. We appreciate it. I also want to thank David O'Connor for all of the work he has done in working on this RSC concept.

I just want to take a minute to add a little bit more to what David said about our planning committee, because I believe there's -- quite frankly, I wasn't expecting such a large crowd and diverse group of people, but I think perhaps a number of you people may not fully understand what we're referring to. Power planning committee is a group that was appointed by the New England governors through the New England Governors' Conference. It's been around in years past and it was traditionally made up usually, when there were state energy offices, of a state energy office and a public utility commission. I know I saw Sue Tammeay earlier, I know she worked very closely in her capacity both as commissioner and secretary of vital affairs on transmission issues years ago, with that committee.

Anyway, the governors, in meeting with the National Governors' Associations over the past year when subject of SMD has come up, they have -- the New England governors, that is, have traditionally had presentations by Carpenter and Whitley and Steve Windham and others at their meetings in Washington, D.C. They've been following the issue of SMD and electricity restructuring as one would expect they would, and the subject of multistate entities

has come to their attention and they expressed concern about well, what's going to be done on this issue, and thus the power planning committee has taken the subject up to look into the matter of establishing a regional state committee.

Now the current committee has Commissioner Don Downes, chairman from Rhode Island serves as chair of the power planning committee this year. His governor is the chair of the New England Governors' Conference. And Chairman Dworkin is on the committee. I'm on the committee for Massachusetts. I think actually Tom Hearn from Rhode Island is formerly on the committee representing the PUC. And Tom Getz, I believe, Chairman Getz has been appointed to the committee, and in Maine there was somebody formerly through the governor's office, but Tom Welsh has been involved, who is chairman of the Maine Commission. Then there are other representatives from either the governor's office or the state energy office that are involved. So that -- just by a little more expansive background.

As David mentioned, I was asked to speak to an issue that I have kind of been pushing from my perspective, and I must give my friend Don Downes a little comment here. He told me that the devil's in the details, he's concerned about the details so I presume he's making me devil in this. We have an issue in interstate transmission sitting where I think we agree on the goal, but how that can be done is one

of complexity. So I just wanted to explain the vision and tell you what we're currently thinking of, and as David has indicated, this is a work in process.

The vision is rather simple, if we just take the given facts that interstate transmission siting has been identified by the FERC as the most persistent and costly problem to deal with in the nation's wholesale electric power. And that's pretty much of a quote from one of their many papers. I don't read them all but I read many of them.

Over the last 15 years here in New England, interstate transmission -- very little interstate transmission has been installed, even though electricity demand has increased by 25%. Those numbers thanks to our ISO. You can see I'm using everybody else's data here, you can't blame me for anything.

Individual state siting laws, this is where we get a little dicey now, and processes can create obstacles to installing immediate interstate transmission facilities. Large multistate transmission projects may be the optimal solution, but such projects can be delayed or prevented altogether by a single state's political pressure. So in first rulemaking, one of the things they encouraged was the creation of multistate entities.

Now the New England region, in my view and others' view, is uniquely suited to take advantage to

develop a regional state committee which can address a number of issues. David addressed the -- focused on the issues of resource adequacy planning and transmission expansion and things of that nature. Those can be done under a certain structure and under guidance and under the proposals put forth by FERC and others.

The issue of interstate transmission sitting, however, as I said, becomes very dicey. So the current thinking is that interstate transmission sitting could take advantage of the regional committee if such committee had such authority to approve interstate transmission expansions. Such authority would have to be narrowly defined after we implement it, primarily by -- limited to the resolution of interstate transmission sitting cases. An effort to vest authority over interstate transmission sitting with a regional committee would be complex and politically ambitious, and as such we recognize that. However, the current thinking is at least to identify the fact that such an issue should be considered by the governors, they are after all the principals of the six New England states, to explore such an approach from the very beginning in the formation of a regional state committee. That does not mean to suggest, however, that the initial functions, such as resource adequacy and plans and system planning, should not go forward immediately, because any

effort to establish an interstate authority over transmission siting would take time. It could take the approach of an interstate compact. There have been interstate compacts in New England such as the interstate water pollution control commission that was established many years ago to deal with river pollution between and among states. So there is a basis for that.

Also instructive is the regional energy service committee that was proposed in one of the drafts of the energy legislation that's currently being discussed in Washington. I realize that that section of the Senate draft, the Senate staff draft, has been removed from the energy legislation, but there are a number of elements in that write-up that could be instructive, as we move in the future, if it is decided by the principals that there is value to developing an interstate compact approach to provide limited authority to deal with the transmission siting of interstate facilities.

Now at the same time, I would stress that such a design would take I'm sure take in -- and the details again have to be worked out, but such a design would certainly recognize all the state siting laws and all the existing environmental laws of all of the existing states. We expect the states, the individual states, to do their job and such a committee would only get involved in a situation where a

serious issue or a problem arose to address, perhaps an impasse.

Again, that is the current thinking, it's a little unique in the sense of -- from the political standpoint, but it's one of the issues we expect to at least bring to the governors' attention through this committee.

With that, I'll end it and turn it over to questions. Thank you very much.

(Applause.)

CHAIRMAN WOOD: Let me just say I think when -- while we've got focus on the RSC issue, you know, really the multistate entity as well -- did you want to add something?

MR. O'CONNOR: Could I just -- I feel I was remiss in not noting how we envisioned this committee interacting with ISO New England in the future and I think it's important to know that at this point we do not see a regional state committee taking over any of the technical analysis or other operational issues now administered by ISO New England. The vision for this committee is that it would establish policy, really, at the highest level, but the technical analysis that would inform that policymaking would continue to be done by the regional operator, the administration of decisions made would be carried out as it is now by the regional operator.

So we would not attempt to duplicate, if you

will, or even take on any of the functions that are currently being performed by the regional operator; those would continue as they are now. But presumably this would provide the opportunity for the states to have -- consider issues which ultimately are not technical in nature but really are political and allocative.

Thank you.

CHAIRMAN WOOD: While they're in the middle of formulation now, I thought -- we thought this would be a good opportunity for anybody in the audience to raise any questions or any input or feedback you might want to raise here. We've got a couple of walking-around microphones if anyone would like to use them.

The gentleman over here.

MR. MONHARE: Thank you, Rich Monhare, National Rural Intercooperative Association. Certainly I think everyone appreciates the significant flexibility and imagination the commissioners showed in terms of offering these committees to the states. Certainly that will result in greater regional coordination and add significant legitimacy to the overall process.

I guess our concern or question -- and the question that others have I've discussed this question with is this. When this -- figures were presented just a moment ago, they were talking about the committee being responsible

for determining certain things or establishing policy. Does the committee that's going to form envision or does FERC envision the fact -- the simply accepting the rubber-stamping, the recommendations that are made, or does the Commission envision making a normal de novo determination, in effect like it normally would? To my knowledge, the Commission has not yet contemplated any formal delegation of authority to the states, or is that something you're actually considering?

CHAIRMAN WOOD: This issue came up in a telephone conference call we had with regulators from the southern side of this time zone last week. And what we said there in the white paper is different than we have done in the past. But it does require for a consensus to be built among the members of the regional state committee.

For example, on the allocation of the cost issues, we say, and I should probably read it specifically out of the white paper, but we say if the RSC reaches consensus -- and I think that the issues on how the voting works that David talked about are going to be pretty important here -- then that will be what the RTO files. The Commission then reviews that, per normal.

But it has a significant impact and I don't think it's any surprise to say that we certainly do, as we do in orders, we've got an order going out today on issues in the

neighboring ISO that are very important, we do look at where the stakeholder groups that are called upon to be advisory or to be -- in some cases still, they're fully participatory. We do look at what those -- that input is in weighing and balancing what we say is either just and reasonable or not.

So looking at the RTO regional state committee group, which are a lot of the folks that are up here, where they weigh in is going to be -- I won't say dispositive, but it's certainly something that we would defer to highly. And that's why we set it up in the type of language that we put into the white paper.

Is that fair?

COMMISSIONER BROWNELL: You know, I would just add that one of the issues that was discussed a lot after the initial SMD, the draft, was in fact that the state commissioners are very close to the stakeholders, and the customer groups that need to be represented. So if your concern is that somehow this will preclude you and your members, who are very important to us as you know, from being part of the discussion, we don't envision that at all.

22

Both through the stakeholder process that I think we'll hear more about over the next couple of months and through the very, very close contacts that the state

commissioners have in their communities, I think that you'll find the role enhanced. What they will do is be the eyes and ears on the ground to kind of synthesize that information in a meaningful way. It may in the end, one would hope, be more efficient and more representative.

COMMISSIONER MASSEY: Rich, I think you ask a very good question. The way I see what we have proposed here is it's really beyond deference. We cannot say that the recommendation would be dispositive, because we have the ultimate responsibility under the Federal Power Act to make a decision. But I do think that we are granting a measure of respect for that process that is well beyond deference.

CHAIRMAN WOOD: Any other questions about the formation of the regional state committee or anything related to that that may be useful while we've got Bob and David up here?

MR. DENIS: It's Roberto Denis again. I think it was mentioned this morning that ISO, here currently in New England, has identified through the latest -- the regional transition planning process the need for about \$800 million worth of investments throughout New England. And perhaps that is also investment which is necessary to keep the markets from stifling and having more trade happening on the wholesale system.

And maybe it's a question to David or Bob and

ultimately to you, the commissioners, how long will this process take? Because if the debate between the states as to cost allocation is going to take place, it's something that's protracted, and therefore no ultimate decision is made on expansion of the system because there is continuing active dialogue between states.

How do we ensure, as market participants, that indeed the development of the transmission system will proceed on a timely basis while this debate is taking place, so that we can continue the momentum that we have a on this market?

MR. O'CONNOR: Well, it's certainly a good question because we are alert to the fact that this would create a level, a layer, if you will, of decisionmaking we don't now have. And I think that we're mindful of that, so we would clearly attempt to institute this mechanism, if the governors authorize it, in a manner that would be -- include representatives who are highly knowledgeable about these issues and who are paying close attention to them and who are interacting with ISO New England regularly as -- and the stakeholders, for that matter, as the process unfolds. So that we would not envision this being a lengthy, you know, kind of de novo consideration of all the issues from ground zero. This would be an attempt -- we would attempt in every way to make it a kind of ultimate authorization kind of

mechanism.

So other than that, I don't think we've yet even broached the question of whether there should be time limits for it to make decisions and so forth. We've not gotten to the issue of what happens if we're at an impasse and can't make a decision, what happens then and so forth. There are a great many issues along these lines about how this would work that we have yet to really get to. So I don't really want to suggest to you that we've got answers to that question yet. I'm sure that, I know from my colleagues, we would all be very concerned about having any undue delay.

VOICE: I just want to echo David's comments. The section that I spoke to, the interstate transmission sitting authority, that would take time because if it were an interstate compact, it would require agreement on the legislature, by Congress and so forth and so on. I would envision that if that process were to go forward, that it would not at all interfere with any of the projects that are currently in the pipeline at this time. Because one couldn't, one wouldn't want to stop such efforts, and I would certainly argue that point from my perspective.

VOICE: I just wanted to both add a really strong note of the value of such a process but also perhaps a cautionary comment, that the affirmation of the value -- may be helpful if I for a moment take off my hat as a chairman

of a state utility regulatory commission and put on my hat as the chairman of the state planning commission. Which is that when we have something brought to us under Section 248 of Vermont law, an affirmation by a credible nonindustry multistate body that there is real net value to the system as a whole, of which we're an important part, would aid greatly in our sitting decisions, it would be relevant, it would be material, it would be helpful. It would be the kind of thing that we look to as significant, credible advice).

The caution is that ascent the change in state law, it can't be dispositive because it isn't a dispositive factor under existing state law. And the other caution is that we do have six governors, five of whom are newly elected, many of whom have been coping with many new issues, and I think, some are beginning to grapple with this issue, and the, you know, recommendations that are being put together are really tremendously valuable for focusing their mind and attention on this. But I, at least, am a little uncertain as to what's going to come out of the process after all the pieces are fit into the sausage that we all know policymaking can be.

So I go into it with the hope that we'll not only -- with an expectation that we'll achieve a body that can give very legitimate credible advice that really helps

things move forward. And we have perhaps the hope of getting more but not an expectation of getting more, within the time frame of at least the current cycle of projects. But I may be being unduly cautious, but I at least feel a need to flag that question.

What I want to focus it though is the real affirmation of the value of FERC's having said that, I guess it was RTOs, have to have a place to plug in that kind of state function, if the states want to take advantage of it. I think it greatly strengthens the overall process they've put in place.

VOICE: Just a final follow, Roberto's question, in addition to what's been said. You know, we do have, I think in the context of rehearing the SMD approval order, which was, I think December 20th order from last year, made some filings as to specific upgrades that will be needed to -- kind of in the pre-LOB market that were needed anyway. Without being too artful about it, grandfathered in effect those under the prior socialized approach. Recognizing, I think, as you and others have pointed out today, that's a pretty big chunk of dollars. But then in both the original order and reaffirmed in that order, 70, would like the ISO here, and with its stakeholders, to come forth with a prospective approach.

So we've got, I think, nailed down an approach

for the current projects. I don't know everybody would agree with that, but we've nailed down an approach for the ones that are coming in the pipeline, but we have asked for what's going to be going on prospectively, that that rate design, that cost allocation issue be determined, if possible, consensually here in the region, so we don't have to do it. But we really want the RSC to solve that, but, you know, ultimately we've got to do it because if it's not an answered question, I think as you point out, Roberto, then we just stall, we don't get the full infrastructure, whatever brand, G, T or D, that's needed to DR, to make it an effective marketplace.

So committed to having an answer, I think there's one place -- I'm just remembering what we voted on several months ago -- there is one in place and we've asked for a prospective -- either a reaffirmation of a socialized -- socialization or some form of divvying up amongst the benefiting belongs to military regions or something to direct participant funding or in between. But we really do think in the interest of just what you find out is near and dear -- and that that needs to be decided and be firm and be locked down that this is how it works in New England from here until some future time when we change it, if ever. But it's not that clear right now. I think it is as to existing projects in the pipeline, but we can discuss that later. Is

that fair enough?

CHAIRMAN WOOD: Any other questions for  
-- yes, Ma'am?

MS. WISMULSKI: Liz Wismulski with -- David and Michelle Kegan. I had a question about the committee. There is alternatives to transmission in solving our area's problems, generation, low response. I was wondering if the committee is going to be considering these alternatives in developing any policy process and how to consider alternatives to handling issues. If you could speak to that issue.

VOICE: Yes. Yesterday there was a meeting of the power planning committee of the Governors' Conference and we also had a joint -- yesterday we had a meeting of the power planning committee of the Governors' Conference in which there was also a joint committee meeting for several hours with the environmental committees for the New England governors which represented six New England states. And we discussed that aspect with them. They will be providing some guidance and input, the subject of -- under resource adequacy, whether energy conservation measures and renewables and things of that nature, would that come into consideration of -- on at least deliberation. Yes, it would, that would certainly be covered under resource adequacy. So we would expect --

CHAIRMAN WOOD: Anyone else on the RSC issue?

All right. This is just a weird room, folks -- you just -- my neck's been hurting for two weeks.

(Laughter.)

CHAIRMAN WOOD: We want to thank you all for that, and please let us know if we can help support you in that effort. We appreciate the -- I would say just so the parties know, the Midwest folks, who we're having a hearing in a couple of weeks, are pursuing a similar approach where you've got a unified organization that does both, with the kind of FERC-related issues like the ones we put in the white paper, as well as the state issues like sitting, multistate sitting and resource adequacy. And I think it will help them as they're -- to let them know that you all are really pursuing a similar approach, and it's great to hear.

So I think, A, that's efficient. And B, that really puts people -- because these issues are bifurcated because of the way our legal system is set up. But they're all part of the same seamless, important industry that we love so dearly, but it's good to have it in the same organization. I applaud you for taking that approach.

All right. We're going to shift now, seamlessly, to our dear friends who chair the state commissions. And I wanted to say that they're here, but so are a lot of other

commissioners from all the state agencies, and we want to just again say thanks to all you all for coming. This is such a great region. You all -- with the hardest-working commissioners in the country and I hope your customers and ratepayers appreciate you enough. So please know your brother and sister regulators do as well.

What we'd like to do -- Gordon, where are you? Can you come restart this? Because I think what we'd like to do is follow up -- is just take the issues starting, for those of you that have Gordon's handout, we're going to start with page 9, which is the first of several slides that go through a handful of issues that he identified.

What we'd like to do is I'd like to ask our commissioners up here from NECPUC states to kind of weigh in with their thoughts, and we'll just try to moderate your conversation, and ask Bill and Nora if they've got any issues to weigh in as well. And we'll go through this stuff -- I think what I'd like to do and keep this as formal as we can, but at the end of the day we're going to decide kind of who's going to do what, to kind of get these wrapped up. I mean, that's really the -- and certainly make sure that we've got the correct list of issues. I think that's always the right first question to ask -- is that it?

Okay. The first one is really one that we've got to get some weigh-in on, and I don't know if we're going to

be able to do that today. This was page 9, issue one under independence of governance was RTO or ISO. I think the answer -- we'd like to make sure that from the Commission's side we give you all here in New England a good feedback before you file as to RTO or, what was the word, complaint, what was the other good word? Confirming, ISO. And we'll land with you all on that and help communicate that to -- so as to the first issue, we'll kind of -- if there's any feedback on that now, that's great, I would love it, but do know we've got the big independence issue right now.

So Steve, if you want to take the first one or the second one or both.

MR. DIAMOND: I'm prepared to talk about independence, if that's --

CHAIRMAN WOOD: Great. Let me hop into this slide number 10 of Gordon's handout, which is issue number two, independence. Under Gordon's handout, it said next steps are to develop state POLAR agreement and finalize the TOA, new agreements will restructure governments consistent with FERC's independence requirements. I think we probably heard a lot about this in the morning, you know, from the market participants, and I think it would be helpful to hear commissioner feedback, and I know, Steve, you've been kind of leader on this, so jump right in.

MR. DIAMOND: Yeah, I appreciate that. Let me

say I'm from Maine, I'm not a commission chair. Tom Welch is the chair of the bank commission on which the committee is having its annual lunch today. As a former prominent Boston statesman once said, all politics are awful, and Tom has said that's the way it should be -- committee in May, but I know what I'm about to say he agrees with, as do my colleagues up here.

I also want to join others in really welcoming the FERC commissioners for coming. I think their attendance here really shows their commitment to making this work in a fair and open fashion, and I think that's important to us.

Just one other quick preface. For those of you who may have noticed that the NECPUC commissioners were missing during lunch, I don't want people to read anything nefarious or antisocial into any of that. A \$45 lunch is not consistent with most of our current state budgets, and there was a proposal to have NECPUC pick up the cost of our lunch, but unfortunately Maine and Connecticut couldn't agree on how to allocate the cost.

(Laughter.)

MR. DIAMOND: So we had to go around the corner for our lunch.

I have been asked to speak about governance. I actually came with no notes, so I will say speaking about governance reminds me of a saying I learned when I worked

briefly in Washington -- which was the only thing I learned when I worked in Washington -- which is that it's not over when everything has been said, it's over when everyone has said it. When it comes to me speaking about governance, it's over when everyone has said it at least a dozen times.

6

But that may reflect how important this issue is and how difficult it has been to come to grips with this. Because so much emphasis was put on the issue this morning, let me just briefly -- and I think I can say in one sentence what the NECPUC decision is. We've held this position all along, and if we ever build a building it will be in the cornerstone of our building. And that is our view is that those with a financial interest in the outcome should not formulate the market rules nor select those who do. I mean, it's a complicated issue, but for us it boils down to a very simple principle when you get down to it.

That's both for the substantive reasons in terms of how we believe the market should be operating, but it's also for appearance reasons. And when we have the day when things go terribly wrong and the impact is on ratepayers, we want to be able to point to a process that's disinterested, and that -- say that what got us to this process, and regardless of what the outcome is, were decisions by people who were sworn or otherwise obliged to do the public

interest. And I think that that is critical from our perspective.

I think Dan Alibretti keyed the issue -- unlike Brian, who said he doesn't like to speak after Dan -- I like to speak after Dan, because I think Dan keys the issues up beautifully, it's his clothes that he screws up.

(Laughter.)

MR. DIAMOND: That is it is about having a fiduciary duty. I agree with him 1000% that the ISO board has the fiduciary duty. I think that -- and Michael has been really our lead spokesperson on trying to actually get that written into some of the governing documents. Our view, however, is that the fiduciary duty is really to the public interest, that the market participants -- as much as some, like Don Sipe, have worked to try to broaden who the market participants are, the reality is that the general public is still, if you will, under represented really in the process and has to look to the ISO board to protect its interests and to FERC. And because that's really to whom it's answerable, it's critical that we structure the board in that fashion. And so I agree with Dan that there's a fiduciary duty, I just think that he defines it too narrowly.

Now I understand and we understand that accountability is the other side of this issue. Even though

I'm tempted to say to Dan's argument over what a great ISO board we have -- to ask Dan the question of why he doesn't want to accept their proposal for selecting a perpetuating ISO board and why he doesn't trust them to fill vacancies --

I won't raise that question here today --

(Laughter.)

MR. DIAMOND: -- but it is one that did occur to me during his remarks.

But accountability is a real issue, and we acknowledge that. Our answer really comes down to FERC. That basically the way we perceive it if there are serious problems -- and first of all, we think that the ISO -- we agree with Dan's premise that it really is a terrific board, by and large.

But we -- should there be problems, should there be difficulties going forward, our view is one looks to FERC to really solve those problems. And what we need in this region, whether we are market participants, whether we are state regulators or anyone else, is basically the ability to complain to FERC and to make sure that FERC is attentive and has the power to take remedial action if it comes down to that.

It's the same position we think should govern with respect to the external monitor. I'm happy to go into that, but I may be straying a little bit too far. But

basically we have proposed, just in a nutshell, that the external monitor be under the joint control of the ISO board and FERC and perhaps its office of market oversight. Specifically so as to build in this protection that if, for some reason, there's a fear of corrupting the external monitor, FERC will have the authority to basically make sure the monitor is not removed, to make sure, unjustly, to make sure the salary isn't diminished or any of the other concerns that have been raised. And so we really think the question comes down to FERC because it, ultimately really as the representative of the public interest at the federal level, should be where we all look if there really are serious problems with the ISO board. But we don't have to compromise the principle of independence in order to make sure that there is accountability both by the board and by the external monitor. I think that basically really captures our view on the defense issue.

Let me just make a few other quick points and then I'll turn it over to others. One is, while we were not totally happy with the proposal that was advanced during the RGO formation for the larger RGO by the board, we think it probably is as good a compromise as one will formulate, and we indicated to the ISO board that there were certain things we would change if it were ours to design totally. But we were willing to accept that and we really do urge that as

sort of a compromise that we would hope everyone ultimately in getting this issue closed could agree to.

The second point I would like to make is I do think that Don Sipe has put forth, along with others, what I think is a creative way to deal with at least one part of this conundrum. And where I am sympathetic to the view is the concern that when an issue gets to FERC -- because particularly since we hold FERC out as really where the ultimate public interest and fair resolution will be made -- that when the issue gets to FERC, FERC should be totally capable of considering all viable alternatives.

And I do agree with the concern that if the market participants don't have 205 filing rights and the ISO makes the filing and the market participants, by some significant majority as has been proposed really feel it's misguided and that there's a better alternative, that the market participants under those circumstances -- and I would hope under some circumstances the states, as well, but I won't throw that into the mix right now -- would have the ability to have an alternative put before FERC and FERC would have the power to choose the best alternative, that you wouldn't have to prove that it's unjust or unreasonable under those circumstances.

I think it's one way to continue to have an independent entity running the system, but to make sure that

if the oversight body that we look to at that entity for some reason fails in carrying out its responsibilities, that that oversight body, being the FERC, can step in with the right answer. And so I really would -- you know, John has spent a lot of time explaining it to us in Maine and I really think it's a proposal that really has the makings of a good middle ground on the market rulings. So I think if it doesn't compromise independence but it means there's a real meaningful remedy when there is a serious difference of opinion between ISO and some significant percentage of the market participants. So I go in by way of trying to put forth -- having stated our principle -- sort of practical solutions.

I think the compromise that the ISO board came up with on board selection, while not perfect for us, is really workable, and I think that the compromise that Don is suggesting by way of dealing with the market rules and -- I also would agree with the rest of Don's proposal, which is that there be a well-defined orderly process for input that has to be followed before any nonemergency filing could be made. But in addition to that, I think the second leg of his proposal -- which is to say we get a jump before FERC if the market participants by some significant number disagree with the ISO board -- really is the way to make sure that process is meaningful.

So I appreciate those of you who've heard me say this the previous five times -- this is, I guess, my half a dozen -- but, you know, I respect the people who I disagree with over the years on these issues. I think NECPUC has been open to the kind of compromise suggestions that I've mentioned here today and I hope we can bring it to a resolution. So I thank you.

CHAIRMAN WOOD: Any other thoughts on that from -  
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MR. DOWNES: Well, independence is a good topic here in Boston, it's the cradle of independence, notwithstanding our claims.

(Laughter.)

MR. DOWNES: Sorry, but if team -- didn't notice, I don't see where it matters.

(Laughter.)

VOICE: Oh, god knows.

(Laughter.)

MR. DOWNES: This is the time to get -- we have time here in the room to get this right in terms of independence and market structure and oversight. And really I think what we need to focus on here is the evolution of the market oversight model here in New England. And sorry to pile it on Dan, but you drew first blood.

The argument is that the past system was

sufficient, therefore, there's no need to improve it or get better as we go forward. That's rarely a good argument against evolution.

What we're moving from is we're moving from a structure in which the ISO was an agent of NEPOOL. Under that structure, it was appropriate for NEPOOL to have a say in market rules and in board selection or the stakeholders to have the role that they had before. And in fact they did a very good job and if they want to hear us say the grateful nation thanks you for your service, the grateful nation thanks you for your service, but it's time to move on from this.

The new model that we're moving to, that we're evolving to is an improved one, one in which they're an enhanced instrument of the market oversight or the ISO. And to be consistent with that model, that structure that we're moving towards, we need a structure for market rules and board selection that is consistent with that model. You don't want to retain the -- NEPOOL features as we move forward into the new world, not just for the substantive reasons but also for the perception reasons that Steve mentioned and did it very eloquently.

And I agree that there is some accommodation to be made on this to give a meaningful role, and even a well-defined advisory role for market participants on both market

rules and on board selection. And Steve mentioned a couple of creative solutions and we would be open to more creative solutions other than just -- this is the way we did it in the past and that's the way we can continue doing it in the forward.

And I would just add one addendum onto Steve's rule that everything's been said when everybody has said it. And that is everything's been said really when the FERC has said it. And I want to point out and this is important, that the FERC has said this once before, that NEPOOL needs to evolve into an advisory role. And they said this in the context of the original RGO filing that was made a couple of years ago in 2001, when they sacrificed what I think was a really good RGO filing on the altar of footprint -- and Pat said to be candid, so I'm going to be candid on that, I think that was a mistake to -- that was a real good filing and it's really a shame that we lost it because of footprint concerns that were then also left by the wayside.

But a very important statement in that original order by the FERC rejecting the RGO filing was the statement that they agreed with the New England regulators that NEPOOL needed to move to an advisory structure. And as long as that's happening, then the question is how do we get there best and how do we get there most creatively.

CHAIRMAN WOOD: Clearly that's a core issue, the

issue of New England's October filing. I guess I want to ascertain from you all and from Roberto, probably -- someone else --

MR. VAN WEILE: I'll try it.

CHAIRMAN WOOD: Oh, good.

There are clearly -- elements for a number of different reasons and two that come to mind -- the Commission from ISO and TJM. There are different shades of this independence flag that pass muster with us, and I think fundamentally do the job. You could do one here that -- the FERC might do one that's like the others, and I think, again, I don't know that I'd say agnostic because it is the core issue. Once there's independence, everything that emanates from that is supportive of a good market direction that I think we all want.

Is this in the right form or are we kind of at a standstill now? Can we or someone from our agency provide some mediation service for this that can, either -- again, there's so many different moving parts here I think there's an optimization that you could probably reach that may not have been hit yet.

But I heard some of the things that John mentioned at the end of the last panel that Steve you responded to, that I haven't heard from ISO Staff when I met with the board members when they were here last time that

seem to be, you know, sort of tug-of-war, kind of a multilevel pull. And if we could just pull the, you know, the ball right through the middle of the court you could get a win for everybody.

I don't sense that we're there yet. October comes pretty quick; that's four months away. I think the plan was to have documents up here to review by August. And this would encompass this relationship as well, right?

VOICE: Right.

CHAIRMAN WOOD: I don't know. I see -- and I --

VOICE: You're -- Dave.

VOICE: At the risk of saying, what we were hoping today was to hear from FERC as to what its position is on the governance issue.

CHAIRMAN WOOD: Well, here's one-third of FERC and the other ten were here as well. We did say two years ago that we wanted to see the relationship move to where the stakeholders' committee is advisory to the decisions. We were pretty open after that as to what type of roles or speed bumps jump-balls, I don't know what the other two-word phrases there were -- but that could be put in there that give accountability and I think -- I don't want to call it comfort, but that's kind of where -- I mean, you all are kind of the front of the pack here in the country, and what got you here is a bifurcated system that we acknowledge is

not optimal, but you are from a pack, so I don't want to kind of denigrate this, that that's what got New England to where they are today. You have to have some merging to this, clearly. But we also know that as we evolve we've got to look to something that may be a little bit different.

So, that having been said, the tug-of-war on the detail between where the 205 rights go, how the board is picked, how the board is evaluated, how the board is renewed, how the board and the advisory function interact, what role will the state commissioners have in more input in advisory to the substantive market rules. And you mentioned the moving parts that I think would be good in every part of the country, and I can see probably at least half a dozen permutations of that, that at least from my perspective, would satisfy the independence from government requirements. So that's not a very specific answer but I certainly didn't want to come up here and shove it down your throat, so I could do one --

(Laughter.)

CHAIRMAN WOOD: -- I mean, I was born on the 4th of July. I've got an independence thing here somewhere. But, I don't know, Nora and Bill, thoughts?

COMMISSIONER BROWNELL: Well, I probably feel more strongly and have been noisier about the independence issue than others and I'm not quite so agnostic, I confess.

I think the issue of stakeholders having a role -- because it is largely their businesses and their customers who are being served -- is important, but has to be very clearly defined. I do not like self-perpetuating boards. I think we should look at the lessons that we have learned throughout the American marketplace in the last year, and recognize quite clearly what role boards play or do not play in fulfilling their fiduciary numbers and responsibilities. We might, as I suggested before, look at some of the government's rules that have been proposed by the New York Stock Exchange, which sadly it turns out not following themselves, so that's a little bit of a problem.

I put forth a couple of times the idea of an RGO report card whereby a judge would set a criteria -- limited, I might add -- you don't need to do the regulatory let's have a metric system that includes 400 measurements. Eight to ten measurements by which an RGO and, therefore, by association its boards and its management are evaluated each year. It's a public document. It's done in such a way that people can understand it. I think that is all the sum measure of certainty that whether we are here or not, that there is going to be a clear understanding of what's expected in the marketplace and how the marketplace is going to be evaluated. I think it also prevents, as often happens, and I'm not suggesting it has, but it makes more

difficult co-option of the board by a management team as we saw in the corporate world this year.

So I think there's some structural construal issues we can deal with. I think there are performance issues we can deal with, and while we certainly have learned in loud and clarion terms that each region is different, I don't know why we have to get real fancy here. I think this is some pretty straightforward organizational and rules issues that can be dealt with. And I think if you have too many variations on the theme, you end up not being able to effectively measure or oversee the governance of an organization and the performance of an organization.

So while I think we can be flexible and open and creative and all that kind of stuff, I think that there are other places where that is more needed than it is in the area of governance.

COMMISSIONER MASSEY: Well, Steve, Diane said that the fiduciary obligations is to the public interest and not to any particular segment. And I think that is ultimately where I will come out on this important question of governance. What I believe is that on a day-to-day basis, the governing board should base its decisionmaking on its fiduciary obligation to the public and FERC.

Now I think that in New England, you know, having looked at what MISO has done and what PJM has done with

respect to the selection process of the board and other board features, and perhaps come up with something that meets your own needs but that takes what has been done elsewhere and that has been, you know, approved as an independent board and relies on that substantially. That doesn't mean that you have to choose precisely the same approach but I do think it's important to look at what they've done.

But fundamentally I think where I will come out on this is I need to have confidence that on a day-to-day basis that the board directors can function independently of the particular segment of the industry.

VOICE: First, I wanted to say I guess I took a certain comfort from most of what I heard, although obviously it's not quite as definitive as you might need to actually resolve things. I do want to stress a few extra points, but I want to put them in the context of agreeing totally with what Steve and Paul said. So if you hear in what I say any difference.

But I want to focus on the functions that an RGO or an ISO has to perform. And there are four I want to note. And one of them is the dispatch function, the operational issue on a day-to-day basis. Another one that seems essentially different but we've found that in practice it's inextricably

intertwined, are the market rules and the operation of changes to the rules, interpretation of the rules, application of the rules, predictions about the rules and evaluation of the rules. There's two others, system planning, and there's resource backup if nobody else provides it. They're really essential.

So I want to come back, first and foremost, to the market rules. As to that function, the ISO is essentially carrying out its delegated function from FERC, which really has the primary responsibility to either adjust at a reasonable rate through -- service, or to have just and reasonable rates through effectively functioning markets.

And if you're relying -- I mean you, FERC, are relying on the ISOs to have just and reasonable rates through effectively functioning markets, we need to be sure that those rates are interpreted to meet the general public's needs, not just the needs of active participants, and having that concept in a set of articles of incorporation that each board member actually affirmatively says that they will honor when they become a member of a board. Having that as the step that is the starting point of the scorecard that Nora -- that you evaluate them against matters -- having them as criteria for who decides how you get their attention matters. It may even matter more if you think about retention of the original boards.

And in each case, the role of the market participants should be advisory, consultative, expert, but it should not be dispositive. And there is, we think, a pretty gray line there, and there's a lot of moving parts, there are a lot of spectrum pieces, but I don't think that mediation alone is going to move us forward that gray line. I think at some point you just have to draw the line and stand by it.

There are plenty of rooms for -- 205, to look at the spectrum, which 1-N did, the revenue requirements of the providers and owners of the transmission. At the other end of the spectrum is market rules, and you can give the revenue requirements to the people that own the hardware and you can give the market rules to the ISO. You probably want some fuzzy line to the great design, which is somewhere in the middle of that section. But if you've had the ideals at both ends, you'd probably get a pretty consistent separation, and decide the hard cases in the middle.

You can draw some lessons -- I think there are some very real lessons for us -- the Wall Street settlement two weeks ago -- but the lesson I draw in part is that self-regulating organizations have real weaknesses. It isn't just that corporate boards have the weaknesses, but it is at the Exchange has weaknesses. There are problems with having the people who have the stakes there, the financial stake in

a result of the rules, deciding who makes the rules. And you just don't want that.

So that while there's plenty of wiggle room about the specific details of how the board members, what their terms are, and we think, frankly, the latest proposal strikes a reasonable balance, if not a perfect one.

On the core issue that the people who play in the markets should not pick the people who manage the markets, we really have, I think, a pretty bright line test that we want you to support.

MR. DIAMOND: I just want to respond to a couple of Nora's comments and maybe it's 11-1/2 years as a Securities regulator that compels me to do it, but I don't think the corporate board analogy works for a couple of reasons. And I think you're right to be worried about them being captive of management as corporate boards could be.

But that doesn't work for two reasons: one is because your analogy assumes that the market participants are the shareholders, and our view is that the general public is the shareholders. And that there can be a conflict between a lot of the market participants and the general public, and to make the market participants those able to then, if you will, enforce accountability is taking only a relatively -- potentially relatively minor segment and leaving out the others.

The second is a corporate board does not work under the aegis of a Federal regulatory agency, in this case, to Michael's point. As we see the board, the ISO is ultimately your agent at the regional level. Hopefully a good enough agent that you don't have to be very active at the regional level, but with you being really there to enforce the accountability, if problems exist, so I don't really think that it works there. Looking at the New York Stock Exchange model -- actually the more instructive one might be the NASD model. If you look at what happened with the NASD, it had a board selected by its members. The NASD had some terrible scandals. Warren Rudman, who was a distinguished senator from one of our neighboring states here, was appointed to chair a commission to look into the NASD situation. The result of that was to actually bifurcate the NASD into two entities with two separate boards: a regulatory board, which was separate from member control; and then the business board, which was under member control. And what their experience was that, for the protecting the public type role of the Board, that you really needed the separation.

So I think if you look hard at the corporate/Securities analogy, it actually does not militate in favor of having the stakeholders actually have decisionmaking roles in the process. It militate in favor

of them having all the input in the world, and a well-defined and well-structured input, but ultimately not giving them control. As the Securities markets have found out, public confidence is also a critical element in how you structure that.

VOICE: You all might want to write this down, because I'm about to announce that Steve Diamond and I actually share a position on something. But at the end of the day, I really kind want to come at this a slightly different way. A little bit earlier Chairman Wood said Gee, you know, maybe there's a role here that we can play, and I would respectfully suggest that's a great idea.

My perception of the situation is kind of as follows. As Steve, who led this off, indicated while we all stand rock hard on the basic principles here, I think we all also are more than willing to listen to a variety of different solutions. And it seems to me that there are a number of compromises that may, in fact, be possible without compromising on the basic underlying principles.

I would commend to you the effort that was run by our good friend and colleague Steve Whitley and the fine people over at ISO who reached into that horrible issue that we aren't going to discuss today, and ran a number of workshops for the express purpose of bringing the various parties together for the exchange of ideas, which, not

surprisingly, resulted in narrowing those down considerably. And I respectfully suggest that it is unlikely that we are ever going to get unanimity on this. We will undoubtedly have outliers on both ends of the spectrum, if you'd like to look at it that way.

But I also happen to think that there is a very large potential group in the center who could, I think with a little -- with a very small amount of effort, could come to a series of understandings that would resolve the issue.

Finally, by the way, to my friend Bob Keating, we are in merger negotiations with Rhode Island, but so far haven't been successful.

(Laughter.)

VOICE: That's just because you want Long Island back, though.

(Laughter.)

VOICE: Yes.

CHAIRMAN WOOD: There's Nancy. Hey, Nancy, I hadn't seen you there. Welcome.

MS. HARNICK: I'm not speaking on behalf of NEPCO. I don't know that what I'm about to say is inconsistent with the position we've taken all along. But I just guess what I want to do is highlight an issue that, although I have been having to go in and out of the room some this session and may have missed, but I have not heard

discussed very frequently or in as much depth as some of these questions, and one that I think, particularly as we move decisionmaking focus to the ISO and if we use the model of the ISO, delege of FERC, the agent of FERC, will become more and more prominent. Actually, there are two parts to it. One is what is the process of the ISO made its decisions. And I think part of the stakeholder process that was proposed by the IECG and I believe that said warm and fuzzy things about.

I think part -- I imagine part of this focus is to ensure that it won't be an ivory tower decision made by people with no accountability, so that if -- they're not about to get run out of town on a rail if they do something bone-headed. And so there's this whole process just from a technical point of view of putting information in.

But then I think you get to the other question of the legitimacy of the decisions and decisions made behind closed doors by people that you have no control over are easier to attack for being illegitimate or made by people who don't know what they're talking about. So where will the ISO get its legitimacy? If they're the agent of FERC, they get it from you. And then that leads me to my second point, which is -- and, again, I'm speaking for myself -- you guys have got to make a lot more decisions, not just be going to kick and scream about the big bad FERC from the

federal government coming down and taking away our hard-won states rights. If you leave us in limbo, it could be worse, because then who do we fight against, for one thing, if we don't like the decision.

(Laughter.)

MS. HARNICK: But seriously, there are some issues that molder and fester if somebody doesn't make a decision. And that somebody is going to have to be you guys.

Some of the things which -- thank God, we don't have some of the problems that some of the other regions have, which are storage problems and so forth. But those are actually some tremendously important -- in any regions. Ours are not as big in magnitude as the West, but the ones we've got have got to be dealt with. And as we come out of the shakedown cruise for SMD, there are going to be a budget and review board, and there will be more and more issues that you've -- we've damped down for a while now but they're going to come back.

I can think of things like cost allocation and some of the planning questions, you guys have got to come out there with a position at least to shoot against or what's our best alternative to a negotiated agreement. Because if you don't, we may, in effect, get limbo which drags on for a long time, plus which we don't have anybody

to complain to if we don't like the decisions, and we really need that, because that's the democratic way, you know. And we can then hold your feet to the fire if we don't like what your decision is. At least somebody is taking responsibility of making a decision, however palatable.

If we go down this path towards an independent board, you really will have to step up and insist that they take opinions before they make a decision. And you have to step up and be willing to pull the trigger on some of these dispute, and get your hands dirty and all that. Otherwise, I think it will collapse.

COMMISSIONER BROWNELL: Nancy, thank you. I know there have been tough days lately, where we wondered what our purpose in life is, and to be the guy you go to and yell at is probably as useful as anything.

(Laughter.)

CHAIRMAN WOOD: I would just -- I thought that Bill had something to say -- that that is one of the regions we'd actually like a vibrant independent board, active stakeholder relationship, however that can be defined, at what level of detail. But by and large, those are going to be the same people who come back and file a protest with us when the ISO files them. So I'd like to know that their concerns got better and thought-through and balanced the first time so that we don't have to do that de novo and be

ivory tower.

Because we were dealing with an issue yesterday from New York and I thought God, it would have been nice if they sat down and talked through all this with the stakeholders, just like we're doing for how you're going to decide your market today before the old ex parte curtain drops down and we can't do anything but, you know, read smoke signals through your lawyer's briefs. And that's not -- that's not an effective way to do our job, but it's the way that the law is set up. So our preference is that there is a lot of that consultation going on before, where everybody can get vetted back and forth and where people kind of have to be at least listened to, I think I was hearing John say that earlier. You know, we want to be listened to and we want you to be listened to, too, because I don't want to have to listen to you the second time because they didn't listen to you the first time.

(Laughter.)

CHAIRMAN WOOD: I mean, that's the cop-out answer but it's the true one because we live in that way.

Bill.

COMMISSIONER MASSEY: Now I'm just sitting here thinking, when I go back to Washington, what can I do and what can the Commission do that will help resolve this question. Have our pronouncements up until this point been

clear enough to provide the kind of guidance so that New England can resolve this itself and make a good filing that's likely to be approved by the Commission with respect to the independence issue, or do you need more from us?

And certainly what's been said from the table today may be helpful, but not -- at least what Nora said and I've said and Pat said -- it's probably not dispositive of this issue of what do you need to file in terms of independence, how pure do you have to be to pass muster.

So my question is what do you need, what additional guidance do you need from FERC on this point? And when?

CHAIRMAN WOOD: This is an open question to -- Ben?

MR. BILUS: I would offer a suggestion. Much as I would love to answer Paul and Steve tit for tat, I have my shot and they have theirs. Folks who know me at NEPOOL know that I have a tendency to focus on process. And I think it's actually been very instructive to sit here and listen the last half hour or so, because we've been having discussions in the governance working group between the ISO and the NEPOOL participants about some structures that might be useful in moving this forward, and we certainly had staff representation from NECPUC there.

There are two things that we need to come to

grips with very quickly. One is the Section 205 rights -- and I think it's very encouraging to hear Steve Diamond saying that he thinks that the IECG proposal that Don Sipe put forward is a useful construct and one that the NECPUC might get comfortable with. I think it's getting the same reception among the NEPOOL participants. And so I think that might be viable middle ground on that issue where we could perhaps come to closure.

On the issue of board election, I think there are also middle grounds. There have been at least some discussions within our group about a proposed nominating committee made up of both participants and board members. It will produce a single slate to be voted up or down by the participants and then ratified by the board, so that there are, again, important roles for both the board and the participants in that process.

What I think is important, though, is that, number one, if we're going to find that middle ground between where NECPUC is and where the participants are. I think we both have to be willing to come together and look for that. And a message from the Commission that you'd better find that middle ground or we're going to find it for you and no one is going to like it might be a helpful message.

The other thing I think would be tremendously

helpful is it is very difficult and I think puts NECPUC staff in a very awkward position to try and negotiate on behalf of six individual commissions in a roomful of participants. And we could actually get some -- and I know their time is precious and scarce, but if we could actually get -- sit down directly with some of the commissioners as we are today and really try to negotiate to find that middle ground within a limited time frame and perhaps even with some oversight from FERC Staff, I'm optimistic that we might be able to find that middle ground.

If the exercise is each side trying to convert the other to its religion, I think it's going to be hopeless. But I think -- my sense of the NEPOOL participants is that they're willing to find that middle ground. And I would put the question directly to NECPUC. Would you like to engage directly with us and see if we can, in fact, find that middle ground within a time frame -- the Commission helps us to find?

MR. DIAMOND: Let me say, yes, the answer to your question is yes. But I - you know, I don't want to squabble over the past, but I think we've devoted a lot of time in the past to try to find the middle ground on a variety of issues.

To be very - I think one of the problems we've had is that the market participants have not been in

agreement, and we've had some issues where we've gone in - the market monitoring one is a good one - where Roberto and I spent a lot of time ahead of time setting it up. We spent a lot of time in negotiations. Some of the participants agreed with us -- in fact, I think a significant number agreed with us, but there were some who genuinely disagreed. And NEPOOL, well, we can't get agreement among ourselves and that's it. So it facilitates it for us, quite candidly, as far as NEPOOL can sort of get internally, you know -- and then sit down with us, that may be helpful.

One of the problems is we sometimes have a bit of a feeling that different sides may use us for their own purposes. I know that's shocking to hear but. And so it becomes a little bit awkward for us.

So the answer is that we have spent a huge amount on these issues, so, I mean, if there's a process that would require the investment, and I mean at the Commission level, of you know a modest amount of additional time, I mean, it is investment well spent at this point, if you could do it. But I think it's got to get pretty structured and pretty focused to really make it have some promise.

COMMISSIONER MASSEY: I think I would like to add one comment. There's an inherent issue that we're conscious of in the role that we're judges all the time. But you always like the parties to agree and then it's easier to say

yes. But sometimes the reason they come to a dispute resolution agency is they have a dispute that needs to be resolved. And at some point, as we heard before, the anticipation of what the decision would be matters as much as just hoping people will agree.

There's some value sometimes in the right answer, not just a consensus. All the consensus in the world it seems to me standing on the beach what's going to happen if, you know, trying to figure out where the tide is going to roll back as much as one group is able to meet a timetable. We don't want to be in a process in which we just keep talking until both sides run out of steam. There are more people who can go and are paid to come to those meetings on one side and not the other. FERC ultimately has to be able, I think, to say there is a break line that will be enforced. We think that line is the line between a process to channel it and a dispositive role. And I think that, although we can talk at length about ways of having to trust this honored input of this participant, ultimately there has to be an end point at which you just don't say what is mine is mine, it's done, and now let's renegotiate. At some point, there is a break line and you - we have to suspend it, not just go on and on until it is eventually reached.

There are issues like -

MR. BERRY: Pat, I have something.

CHAIRMAN WOOD: Yes. The president of the board.

MR. BERRY: I've been sitting here listening to you all talk about me -

(Laughter.)

MR. BERRY: -- and you've said some nice things -

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(Laughter.)

MR. BERRY: First of all, the New England board is the best board I've ever served on. I have served on about 12 corporate boards, all of whom were self-perpetuating. All. And out of that, 24 boards, all of which were self-perpetuating. This board is better than any of them, and I'm proud to be associated with this. But it - before it ever -- was subjected to election by the participant committee for 33 years, you would not have the quality, the details. And whatever compromises had been tossed around -- Steve mentioned one that he had worked on. Some of them were some new ideas, and I certainly will recommend. I think the reason he won't go all the way, as I -- and I certainly would take the position, as we just pointed out, we can only compromise so far. We think that filing unknown complications that we have and we feel we are accountable to FERC. If we can't do our job, then we're not going to compromise our way.

I believe we can make a good filing, one that

would be -- accommodate a lot of theses interests, but probably not all of them. I think -- I'm not sure your FERC is instructed -- I think the idea of a report card is good. We prepare a report card on ourselves each year, just a few confidential items, and we could probably share that with everybody, so we don't find these measures --

(Laughter.)

CHAIRMAN WOOD: Do you -

MR. NUGENT: Thank you, Mr. Chairman. I'm Bill Nugent; I'm a Commissioner in Maine. First of all, the participation of the stakeholders is absolutely critical, and we have to understand the fact that that we're out there, kind of, we've had a close working relationship with them over time and it's been very productive. I think this board has done an outstanding job, and I understand the Chairman's suggestion that there may be models throughout the country that we might be mediating -- quote, unquote - that would be useful for governing incentive programs, but I think it's only for governing the enterprises that it's currently as good as it is. I think the discussion this afternoon has touched on independence and it's also touched on regional state committees. The regional state committee discussion exists because we had divided jurisdiction in this area. If we're to start to work on those teams, I think you have to establish a much heightened level of

confidence across the entire body politic, among the 17 million people who are not here. And that requires, it seems to me, a higher level of attention to the governance issue as my colleagues here have pointed out.

CHAIRMAN WOOD: Would anyone else in the audience like to contribute before we go into the next --

MR. DENIS: May I?

CHAIRMAN WOOD: Roberto.

MR. DENIS: Yeah, before we move on, I just wanted to bring perhaps some closure and not leave this ball up in the air. I want to pick up on some of Dan's comments and then some of the response by Steve.

Steve is correct; we did take this on last year when we were talking about -- we were trying to move the ball forward and not everybody in the end could agree. But I think if we do have an engagement with -- on this issue and have either a mediator or some FERC Staff that could ultimately then report to you what the settlement judge ordered as to what the decisions are, it would help your piece, in the end, in your decision -- because it seems like there may be a range of answers that may be acceptable to you based on what you've approved throughout the country. And if we engage in that dialogue and then you have this third party -- which is your staff or, you know, we could work into making a report to you -- ultimately if we do end

up not agreeing as we didn't do before, which I think is a big possibility, at least you would have some input, a third input to you, which is more than a position on the right and a position on the left, and help you with that decisionmaking and so on. I do think that having that process and having your facilitation would be helpful.

CHAIRMAN WOOD: Bill?

COMMISSIONER WERNER: I just wanted to say, having seen this issue both, you know, at Mecklenburg for the first time, when we did have the stakeholders central process down in North Carolina -I mean, one of the reasons, just so you all know, one of the reasons that has driven not only my own change of opinion but our agency's strategy about this, it does evolve back to the California process, which is very good from the looks we've gotten here, but nonetheless, when you have a stakeholder board that, when the going got really, really hot, was unable to act, because it did have a majority requirement and a real bunch of bad situations coming over the horizon, and that paralysis really didn't cost them a whole lot of money.

Now, their issues intervened and certainly weighed in, but inability of the board to be very proactive and independent, really didn't enable them to just address the problem.

We will be here. We'll be back, and we'll work

with you on that critical issue, because I know that probably -- which brings us to - Steve mentioned this one a moment ago. This did just change, didn't it?

STEVE: Yes.

COMMISSIONER WERNER: The market-monitoring unit. Now I just don't understand, first and foremost -- let me ask you, Gordon, since it might be best to put the framing of the -- the way it currently is is you've got Bob that works for you and Tom that answers to you and to the Board; right?

MR. VAN WELIE: That's right, so actually to you and -- so really what happens here is they have Bob who sort of reports to me and reports to the board; and David Patton has official oversight and then reports directly to the Board.

CHAIRMAN WOOD: And then, Steve, to paraphrase, your concern was that it was the external auditor's power directed by the Board, that would make them happy? Or what is -

MR. DIAMOND: Yeah, actually I think probably that's the concern of some market participants. We, I think, have been more or less happy or satisfied with what ISO has proposed in that area. My sense of the market participant concern is that the external markets should be more independent of the ISO Board than that proposal would

establish it to be, so that, frankly, it's in a position to be critical of some of the steps the board has taken. We understand that concern.

What we proposed alternatively was - well, let me tell you what our concern was with that response. Our concern with that response was that we were afraid that the monitor could then become an alternative decisionmaking body or individual, if you will, in the region, almost like an intermediate court of appeals, that participants bring their concerns to the ISO and to the board and they don't prevail at the board, rather than going to FERC -- which is where we would feel the process should work -- they would then have the monitor to go to and argue that no, the board is not functioning properly in some fundamental way and we relitigate it, if you will, now in front of the monitor, and then we all go to FERC, because if there's really a lot of disagreement or a lot of money involved it's headed in your direction anyway.

And so we were concerned about having -- and we have a bit of a history -- as selfcongratulatory as we've been today about how professional we've been together, we've had a history of having processes which have not always functioned that expeditiously in this region, and this struck us as being one that had that potential.

So our suggestion was - the concern for the

monitor, as I understood them, were power to hire, power to fire, power to basically set the budget - and I guess part of that might be the salary as well. And what we thought would be a workable solution would be to put the monitor under the joint control of the ISO Board and FERC, perhaps having you operate - carry that out through your Office of Market Oversight.

Because as we understood from the very beginning, you envision the monitor to basically interact with that office, because that office has a sort of a more distant monitoring role. And so we thought that that was a middle ground - again, Roberto, I may be stepping on some of your lines here but there was some support for that - but there's also some opposition among the participants so it never did get resolved. But I guess we would still put that forth for people's consideration as something we think might work.

And we don't have a problem with it, you know, there being annual audits by some outside auditor brought in every so often; if there's something like that, that would be factored in as well. But that's my understanding of where the parties were last week. I want to turn this over to Roberto; I think that was the case.

CHAIRMAN WOOD: Well, does that cross the map, Roberto, or anyone else from the NEPOOL panel this morning or -- Peter?

MR. FLYNN: I think that does sum it up, Steve, pretty well, and I think we agreed, I think, last year, and I think we probably do agree that the issue is the proper balance of that external independence, if you will, from the independent board with some of the concerns that were raised as far as additional decisionmaking, additional FERC appeals and so forth. And those were very valid concerns.

I think - a couple of things come to mind vis- - vis that we'll keep in mind this week and we'll get this process going forward. I think today many of us have come to the position that, as it currently exists with this market monitor reporting directly to the board and serving at the pleasure of the board, while not ideal, at least is workable in the context wherein meaningful is still making market rule decisions. What -- part of the change that's on its way here is that the board becomes more directly involved in the market rule decisions. And again the tension, if you will, between that independence and the external review of those rules becomes more critical then because, having made the rules, is the board still in a position to sit back objectively or is there -- effectively, and in a position to sit back and say is that the right way to be doing it, is this the best we can do.

And so there is the sense that, at least minimally, in certain provisions that you approved with

regard to budget issues and fire approval vehicle and so forth and make sure that the contractual terms are adequate and provide that separation in independent -- you know, like minimally provide the kind of comfort that the participants need. There's still a proposal on the table -- last year for what's been known as the Independent Oversight Committee, which would be not really a subcommittee of the board but really several appointees of the board that would literally act as a buffer between this external market monitor and the board, and that oversees some of those functions and does not have the direct relationship back to -- that's a discussion that's still underway in the working group on this topic. And I think we get minimally the concern when we get into contractual issues and FERC involvement such that the external market monitor has the freedom to be objective without fear of retribution.

CHAIRMAN WOOD: And just so that we can put a face - Joey, why don't you stand up? Joey is from our Office of Market Oversight and she works a lot with the Northeastern issues. I just want you all to know Joey. And she's got a team behind her back in our shop that for now we're engaged with this particular marketplace and we appreciate Joey coming up today as well. Also, on the rulemaking side -- where's Ross -- Ross Brasco and David Patton -- where's David - are from the market, tariffs and

rate side which deal with the filings when they come in the door and these folks work together. They're a working team in our agency as you all are in your businesses. The key thing is that the market oversight and the prospective market rule folks work together, so I want you all to put faces with names on that.

I think you pointed out a good point, Peter, that you did look at all this and I think you all have got a pretty -- I mean, compared to where some other folks are in the country, you've got an internal group and you've got this external group who made a nice presentation -- both of whom had a nice presentation to our Commission in the past three weeks on these and other markets. From our perspective, it is ten times better than it's been in the past, so I hope you all feel the comfort as market participants up here that we're a lot more plugged in than we have been before, and will continue to be plugged in.

I'll just assume that that issue doesn't need a whole lot of -- from us, so I'll move on to the tariff administration issue, issue number four, which we touched on a bit when we talked about the independence issue. It is an issue that was pointed out in the June '01 order - July '01 order about the administration of the tariff. And I guess I want to ask -- concerns issues that will help up here while these are being negotiated out, or --

VOICE: I can make a relatively short and relatively low-key comment. I think this issue is being worked and being worked well. As I said, there is a spectrum between the 205 issues that involve a revenue requirement and the ones that involve market rules. And along that spectrum, the middle may not be as great a line as we'd like, but I think there's general conceptual agreement and I think the chances of getting a division that's reasonable are reasonably good.

The thing I would add, I guess, is that to make it stick means getting a good government structure. If you don't get it perfect at the beginning, and I doubt we will, a healthy government structure means a tendency to improve it over time. If we don't get it right at the beginning, an unhealthy government structure means a tendency to degrade it over time. So there's a feedback there.

The other thing that's worth noting is that I referred previously to the line between the operational role of the ISOs and the role - department management role. There are a lot of operational issues that can't quite properly be addressed by contracts. And whether they are at a liability or negligence or gross negligence level, whether they are a degree of notice -- there's hundreds of contract issues and anybody who has done major contract issues -- but the NECPUC people have been, within the last couple of

months, actively involved, sitting in on several long detailed meetings on it, which has been a positive development compared to a past where I think we've felt a little bit out of the loop.

Quite frankly, having us there is more a comfort factor that people are working it well than a dispositive factor, because it seems like the ISO is operating in a healthy way in negotiations with the market participants and they're responding in a very good version of what I guess they'd call role reversal, where they try to imagine how it would look if they were sitting on the other side of the table. There are plenty of issues at the mid-level of difficulty, but to me at least that's been getting a fair amount of attention.

CHAIRMAN WOOD: I guess talking to the ISO through the market participants -- is there anything that you want to add to what Mike had to say?

MR. DENIS: I agree with the other participants that we've been making some progress in this area. The biggest issues like the potential cost allocation. Does that reside with the TOs in the end, or is that something that resides with the ISO or RSG, so I think that whole issue in terms of the 205 rights and the tariff keeps holding things back.

In terms of the split between 205 rights to the

ISOs -- and the market designed the market rules 205 rights to the TOs of the -- that theory of I think there seems to be general --

CHAIRMAN WOOD: Just that one issue you raised about us -- a TO can certainly legally file something as links to their own, but when you're talking about particularly the cost to meet the settlements, for example, say that there was more than one utility service area, and therefore more than one discrete set of customers, the fact that you have some of our postage stamp approach here for at least some facilities, if not all, if that doesn't automatically beg the ISO -- and that's why we particularly picked that issue up in the RSC to-do list is, we want to know how you all want to deal with this --

MR. DENIS: It's so complicated that people want to throw it out. And then you think that it's a controversial issue. It's tough to be on the end of trying to come up with solutions here. Our view had been that it needed to be in a neutral spot, and from a lack of interplay that you are -- ISO -- I think with the transmission owners in this area, this linked to their view that they won't have compliance. And so in that sense, it has not yet been resolved, it's a full-blown issue. And so we're narrowing down -- in this process we're narrowing down the discussion between ourselves and the transmission owners to a fairly

finite list of five or six items. This is one of them.

So I'm hopeful that, within the next two or three weeks, we can go to close out both of the remaining issues, and on this particular issue, I think that the issue of the cost allocation would be in a neutral spot only needs to be a process which makes it pretty transparent, so I think if you use the example in the market rule where all transparency checks and balances, and make sure that every proposal gets a pretty thorough ending, perhaps a similar process could be utilized in the area of cost allocation. So I think where we are right now is the TOs have the action come back to you with a proposal that might work.

We've got a meeting between ourselves and the NECPUC commissioners and the TOs and the executive group on June 5th. And then we'll have an opportunity to discuss this topic again.

I guess I'd like to add a comment to put this in a larger context. Although, first let me say this: I am quite comfortable with everything Gordon said. The larger context is that sometimes the most important things in life are the ones you don't see at all. I think the most important thing here is that most of us here are comfortable with the idea of an ISO or an RGO for the New England region. Unlike most other groups in half a dozen states around the country, we moved readily to that point.

But if one of the reasons why is because of our feelings - which is similar to the feeling Gordon said this morning about what a tight-knit, interwoven, communal grid we have had for 40 years, and the fact that the ISO offers opportunities to try to figure out what should and shouldn't be pooled, is one of the reasons to feel comfortable about having a multi-state ISO instead of a bunch of state-by-state decisionmakers.

So that it's -- I don't want to start a fight about what the decision would be that is made; we can talk about that separately, but I want to make clear that this is the opportunity to have a body that can decide whether things should be pooled, and that has a mechanism for collecting the money for things that should be pooled and is one of the big advantages of having an ISO at all.

VOICE: We've got that on tape for the other parts of the country.

(Laughter.)

MR. DENIS: I'll happily say it for the other parts of the country. Just as I've said that, although I am emotionally attracted to it, some folks in the Western states say we should tell FERC to just plain butt out. In fact, there's a small state next to big states so I know that there's a need for an umpire for services to avoid too much piling on. We all know that that is part of the

function, which is more than just having you around to yell at, but to have you around to --

CHAIRMAN WOOD: Well, if it makes you feel better, I came from a big state next to a small state and we love the fact that -- we have at FERC. So we've won and lost about even but it was nice to go somewhere to get matches.

From the TO side on this, does Peter or anyone on the first panel, second panel -- anything to add, Peter, on what you've heard from Gordon and from Mike on this 205 issue?

MR. FLYNN: I think the cost allocation issue sometimes gets -- a non-issue, but this is only a concern -- and very concerned about the rate design, and an example of rate design -- let's separate it out to cost allocation. You know, if we all agree that transmission owners need to collect \$10, and somebody has a rate design, and you have a senior grade, and someone says well, I think that the demand in the region is going to be 5. So divide 10 by 5 and get the rate of \$2 per -- and somebody else says well, you know, I think that it is 1 and so you divide 10 by 1 and you get \$10 per -- we both agreed on the \$10 but we ended up with very, very different results. So to that degree the revenues that the transmission owners get caught. And counties that have revenue requirements mean absolutely

nothing as far as the transmission owners are concerned if you don't get to divide the rest of the rate.

Another issue is cost allocation, and I think we can agree that cost allocation is an issue where there are interests that everybody shares. Transmission owners have traditionally had that under Section 205. We recognize regional rate does work if each owner has its own rights, that even though transmission owners -- and that suggests that, New England, the rate design we have today because transmission owners originally agreed on it. And indeed the fight that's occurred in the regional block here has been one that was precipitated by other parties. The transmission owners had a pretty clear vision as to what we think worked in the region for owners getting transmission bills -- having said that, we recognize the need to negotiate a new cost allocation that makes sense. And that -- and Warren is absolutely right that the subject is on the table in our discussions and we're confident that we're going to continue to hammer away until we get a solution with NECPUC and try to work at something that meets the respect of the different parties, so it's on the table and it's in our discussions.

CHAIRMAN WOOD: And again a two- to three-week time frame is what we're looking for on that issue, that hard work.

VOICE: We're hoping to resolve many of them but if I'm an optimist, I'd say -- but preferably there may be one or two open, so we'll try to close the gap on some of these issues.

CHAIRMAN WOOD: Okie-doke. Issue filed with the regional FERC committees, we already heard from that. And I'm thinking we have a timeline on that that Bob and David told about. I don't think the FERC probably needs to add to this one, unless Bob -- unless some of the other members, colleagues, members?

(No response.)

CHAIRMAN WOOD: All right. Number 6 -- we're past halfway -- the export fees. I think, Kenny, I'm going to call on you all, so I'm going to warn you. The export fee issue, in New England, is really focused on ISO New York. The issue of exports is something that we have talked about in our Commission. Tom, did you have any thoughts on this issue?

TOM\_\_: Only to add that exports to and from Canada are 3 to 5 times as high as between New England and New York and to focus on -- shouldn't mean a walk to the --

CHAIRMAN WOOD: Who are the people billed for that, the utilities directly or the provincial regulators?

VOICE: My sense - and I'll happily defer to almost anybody else in this room - is that the impact of the

regulatory authorities -- that rule, and, you know -- is the active player. And that that's largely true in Maritimes is not quite as fully true. But there are plenty of people in this room that have done live negotiations that can talk about it better than me.

CHAIRMAN WOOD: The export fee --

VOICE: An announcement will be read also that  
PJM New York --

CHAIRMAN WOOD: -- any feed from New York, yes.

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... for now and then we can have a settlement judge do that, or would you prefer a more informal approach for a while? I talked to Bill Friend about that when we were in New York, and he had just visited Steve with Tom Welch, I think, the day before. I was in New York last month about maybe we could bring you something because there's no real right answer here, but there's probably a lot of good transitional answers that'll work.

FEMALE VOICE: Whatever gets us to the table, gets us to the table -- is why we're here.

MALE VOICE: Okay.

FEMALE VOICE: I don't think that would be telling you which way of going. I think the real issue is to have sticking power?

CHAIRMAN WOOD: Any other feedback on that?

MALE VOICE: Yesterday as Bob Keating, my colleague from Massachusetts mentioned, the New England Governors Conference, Power Planning and Environment Committees got together. And we were fortunate enough to have with us Chairman Bill Flynn from the Public Service Commission of New York and also Commissioner Erin Crotty, who is the Commissioner of Environmental Protection. And they had come to visit with us for the purpose of opening a dialogue on a variety of different issues, primarily having to do with carbon dioxide levels and renewable portfolio

standards and a variety of related issues.

I think we're all mindful of the exercise that we went through with the NERTO situation, and it is my impression at least that one of the reasons that that process eventually came to an impasse was a question of the benefits that came from the removal of the seams and some successful way to allocate those benefits. And in my mind I guess -- and again, I speak strictly for myself -- but in my mind, I guess one of the reasons that that broke down ultimately was because there were no other elements to be included in some sort of a settlement.

At the end of the day, simply removing the seams is only a piece of the solution, at least in my opinion. Even here in New England we have definitions that made the very same set of electrons be considered green in one state and brown in another and black in yet another. And this creates real havoc in terms of trying to trade, particularly across larger areas.

So I for one would be in the mode of suggesting that perhaps a broader conversation that wasn't necessarily limited solely to the question of the mechanical issue of removing the seams, and by the way, whatever financial effects occur, I would think that a broader arrangement would give a real opportunity for an actual solution that would allow various parties to advance some ideas that they

believe would be of benefit to them, and frankly, to find some tradeoffs in some places in order to make some of these solutions work a little better.

In any event, I guess I should say we are in fact in the earliest stages of that kind of an interregional dialogue and in fact have invited the folks from New York to come and join us with the Global Climate Change Action Plan, the New England Governors Conference and begin a specific dialogue on interregional issues.

So that would be my suggestion.

CHAIRMAN WOOD: What do you think of a timeline for -- we need to be kind of focused on our issues, but, I guess, that's what we're supposed to. The export issue, export fee issue, the virtual -- I think we're coming on that one in a minute aren't we? The virtual regional dispatches, issue Number 8. Are those kind of collectively things that you say are in the tradable mix there? Is that what we're talking about?

MALE VOICE: That certainly is my perspective on it. I'd like to try and raise a number of those kinds of issues in that kind of a forum and see if we can't find some possibility of putting it together. And I think it's going to be pretty apparent after the first conversation or two whether or not there is interest and whether or not there is in fact room to move. So I don't necessarily think this has

to be an extended kind of a process. I think one of two things is going to be true.

Either the parties will sit down and see that there is the basis in fact for a resolution using these various issues as the base or there is not. And if there's not, then I suspect that we're back to a more traditional model of okay, folks, let's just concentrate on the seams issues, and if the parties get there in some reasonably short period of time, fine. And if not, then I think FERC has to be prepared to say, well, fine. We'll put our very own favorite solution in place. I would think that would be a strong motivator to move people toward resolution.

CHAIRMAN WOOD: Well, if that's what's needed.

MALE VOICE: I guess I'd like to really announce what for me this change of position -- I'd urge you to move quickly on the seams issues and even more quickly on interregional dispatch. And the change takes place for two reasons.

For a long time, I thought that the seams issues by the time you netted them out just were not all that financially significant and didn't deserve the attention that they were getting. But I have now come to the conclusion that the best way to put them in perspective, deal with them and get them off the table so we don't pay a lot of attention on them, is just to come up with a decent

solution and move on. If they still hang fire forever, we'll be dealing with them forever with a lot of energy, whether or not the dollars net out.

The second reason is why I think it's particularly important to get interregional dispatch in place, that there just turn out that are times and places when interregional dispatch can come up with a solution to a problem that will be extraordinarily expensive to cure within a single state. We're looking at the issues of the burnout of the (inaudible) Vermont in Northwest Vermont now. Obviously, you've got people on both sides of the border trying to come up with a common least cost solution. And when there's no way of coming up with common communication for dispatch, you've constrained your ability to get the cheapest solution.

Those situations are not unique, and they are not trivial. So getting an interregional dispatch answer to reliability problems is something that needs to be in place swiftly and quickly. Getting a seams response that let's the finances be treated as routine rather than, you know, emergency response, is something of some value, at least at the comfort level, even if the total net dollars don't wind up different from where they have been for years.

CHAIRMAN WOOD: And they may or they may not. I guess it depends -- what's the timing on this form you're

thinking about, Don? Did you and Bill kind of talk through that?

MALE VOICE ("DON"): Not in any great detail. The Eastern Canadian Premiers and New England Governors have a meeting coming up shortly I believe in June, if my memory serves me, for the Climate Change Action Plan. I think that's in Fredericton. The plan is to begin an earnest effort there to actually start putting the cards on the table and see what elements are available for a resolution.

CHAIRMAN WOOD: Wasn't that what Gus was talking about as well?

MALE VOICE ("DON"): Yes. He and Governor Rolland exchanged letters on this matter, and both expressed an interest in the willingness to have their regions discuss this with each other and to attempt to find a resolution.

CHAIRMAN WOOD: That's coming up in June.

MALE VOICE ("BOB"): Just a point of clarification, Don. That's not actually a meeting of the Governors. That's their committees, their environmental regulators.

MALE VOICE ("DON"): Yes. Thank you, Bob, you're right. This is the designees for the various governors and premiers.

CHAIRMAN WOOD: I'd like to visit with Chairman Flynn about -- from New York's perspective because it's

clear they've got to work and see what we can do with our counterparts in Canada. Don, could you keep the three of us abreast on what comes out of that visit later in June?

MALE VOICE ("DON"): Yes, sir, I certainly will.

CHAIRMAN WOOD: If it's a fruitful forum, then we certainly would like to piggyback that. And if it looks like it's not going to go, just kind of the old think of show us the front end here, then as I think Mike urges, we should go ahead and get moving.

MALE VOICE: Right and I'll go a little bit further, and perhaps our friends from New York would like to comment perhaps more accurately, but both Chairman Flynn and Commissioner Krotie indicated that it was their intention to also approach the states that are participants in PJM and perhaps some others as well to look at these questions. Again, starting with the issues primarily of carbon dioxide and emissions. But I think behind that is a deeper set of interests and a longer possible list of resolutions. And that's apparently going on at the same time, Mr. Chairman.

CHAIRMAN WOOD: Any other feedback from anyone else in the audience on this issue of the export fees? We've actually covered a lot of Issue Number 8 as well.

(No response.)

CHAIRMAN WOOD: All right. If not, we'll move on to the Liability Indemnification Issue, Issue 7, which from

the sound of it, sounded a lot like Gordon, what we had put out in the White Paper. How do you perceive it's different?

MR. VAN WEILE: I think the position that we've taken from my circumstances is consistent with what you have in the White Paper which is that this isn't one of the gaps that we haven't even closed for the TOs. We essentially are faced with whether the standard should be gross negligence or negligence. And there's some cost stratifications involved in terms of procuring additional insurance and so forth, how good it would be to just stay with the standard that we have at the moment. And I'm hopeful we'll close this particular discussion in the next two to three weeks. So I'm hopeful that we'll be able to get a solution there.

CHAIRMAN WOOD: From you or from anyone else, is there anything that the three of us can add to help on that at all?

MR. VAN WEILE: Well, perhaps it would be useful to us and the TOs if you want to add anything to what I just said.

CHAIRMAN WOOD: I'll look to Peter, but if there's another TO that --

MALE VOICE: I think we're both in agreement actually under one standard of customers which they talk about in the White Paper. There are issues of indemnification back and forth between the TOs and the ISO.

But I think we have some issues worked out. I'm not sure that's any help for not signing at this point, even on those issues.

CHAIRMAN WOOD: Okay. Before we move on -- all right. Issue Number 8 was really kind of what we talked about. I don't -- let me just make sure 8 and 9 together. I think I might just say that we've dealt with that with Don and the larger region group talking about perhaps a global addressing of these, and if not that then we go back to Plan B, which is dealing with that here.

This issue did roll over the two sides. Actually it still is a -- am I on the right one?

(Pause.)

Earlier in the day -- I guess before we move off of virtual regional dispatch, earlier in the day, Gordon, you or somebody made a comment on this ICAP net obligation issue, standardizing that within NPCC. Is that going on its own track or --

GORDON: It's going on its own track. First of all, the three ISOs have taken the -- are trying to go with the proposal here. I wouldn't go so far as to say that we're trying to ensure absolute standardization, but we try to have a common approach to this problem amongst the three Northeast ISOs. And there's a stakeholder involved. The group is publishing papers I've been given an opportunity to

weigh in on this.

So it's proceeding forward. Actually, as one of the items, if you'll recall, that you asked us before on -- seams. This is one of the items that the three ISOs have been working on. So this is proceeding forward with its own momentum, and I think we will be continuing to report back to you in the context of those quarterly reports.

CHAIRMAN WOOD: One thing that sounds like it might be useful is when that meeting happens on May 29th -- getting Don the info on that. Are you going to be at that, Don, or is it another member of --

DON: I believe I will be.

GORDON: Actually, the May 29th meeting I believe is -- is Dave here? That's on the virtual regional dispatch.

CHAIRMAN WOOD: That's on the virtual? All right. Again, that, collectively, from what I think I heard, was collectively the regional issues, some primarily environmental, some related to energy, are the potential items that would be kind of a global resolution potential at the Eastern Canadian Northeast U.S. solution. So if there's some drafting of what you all work into, that may be, at least, may be information for that. I think the timing would work out real good. Is that going to be held here, the joint meeting with New York?

MALE VOICE: I believe that's in Albany.

CHAIRMAN WOOD: Okay.

MR. VAN WEILE: I suspect the controversial issue here is going to be that it's for the philosophical you either allow the market to try and arbitrage the price differences, and we have seen that that's not working too well at the moment, or do you come up with some way of automating it and then moving some transparency to that automation process, and really lean towards the latter approach right now. You actually will find a way of actually making sure the transaction is going in the right direction.

And so I suspect that some of what you will see in discussion around this topic is invaluable.

CHAIRMAN WOOD: And what Gordon's referring to, we got a nice presentation from a market monitor from -- I think David was here -- there's David. He works here but he also works in New York, which actually is a great seams resolution item on its own.

(Laughter.)

CHAIRMAN WOOD: The presentation sure pointed out that there might be a perception that that is different. But we asked, actually at, the time in New York, for example, there's kind of a large seam right in the middle of the state, and the ISO kind of manages to work across that

as if it were a foreign boundary, and people don't seem to have an issue with that.

So I just want to urge folks before we get philosophical about virtual regional dispatch to really think that how much of it actually is going on right now today and see what we can work around there.

There just seem to be a lot of -- from what we heard from our market monitors last week, David, but not just David, but Joe from PJM, and then Bobby two weeks before that, was there's a lot of potential savings for everybody on the table that are just not being met because we don't have an optimized system.

I mean, that's our agenda. Just so you all know, if you haven't figured that out. Just trying to grab as many of those dollars as we can for the customer and get them back. I know there's an outfitting issue maybe perhaps between New England and New York that I do think black box settlements are always welcome for purposes like that. But, you know, we just want to make sure those dollars get grabbed sometime in our lifetime so that they go to the customer instead of just nowhere.

MALE VOICE: I had one concept there. I think we'd be in danger if we have a situation where we create an economic incentive for brinkmanship, and if we have something that allows mutual compensation for emergency

response to reliability, that no mutual compensation for any action short of that event, would create an incentive for brinkmanship. As we move that way, we need to be careful.

CHAIRMAN WOOD: We create an incentive for brinkmanship by?

MALE VOICE: I hate to go into detail, but maybe I have to give you an example. Northwest Vermont's connection to New York is highly constrained right now because of equipment failure and will be for a year. There are various solutions to that, and there's no problem at all when demand is low. When the demand is high, there's a serious problem.

Some of the cures could involve affecting the flows from Quebec to New England as a whole. And you might think that therefore when you go that way, you might want to pool the cure throughout all New England.

Some of the other cures might involve New York lowering its demand in the Saranac region on its side of where the equipment broke down, and you might think it would be nice for New York to pay for that or for Vermont to. What you don't want is a situation where we cool it off if you don't do anything till the last minute. But if you do something before the last minute, you assign all the costs to one spot.

CHAIRMAN WOOD: I get it. I get it.

MALE VOICE: That creates an incentive to wait till the last minute, which isn't healthy for anybody.

CHAIRMAN WOOD: Got it. Any other thoughts on Issue Number 8 up here? Anyone in the audience?

(No response.)

CHAIRMAN WOOD: Nine. All righty.

(Laughter.)

CHAIRMAN WOOD: This is one of the hard ones. Transmission Outbreak Cost Treatment, for those who can't see the board. As we deal with the issues, do our state colleagues have anything to weigh in on here?

MALE VOICE: We had sort of discussed among ourselves the wisdom of not going into the substance of the arguments on this, unless you want to hear them for the twelfth time.

(Laughter.)

MALE VOICE: So I won't do that. We've obviously got among the states a rather fundamental difference of opinion as to how to resolve this, although I will say that we've all been -- but not all of us, but at least I think most of us have -- weighed in somewhat with the ISO Board, and there are some variations and positions that are emerging.

And my hope would be that maybe there is some room for a compromise on it. I would say on behalf of

myself and I think my colleagues in Maine, that, you know, we've now devoted so much time and effort and resources to this issue to no particular benefit at this point that I think we would like to take at least one last shot at seeing if we can resolve it among the states, which of course is just one component of it.

But that's really where we're at. I think if we don't resolve it, we may have made the mistake of allowing principle to inject itself into what probably should be a financial issue and always makes one less flexible than one might otherwise be. And if we can rid ourselves of that curse, perhaps we actually will have a basis for moving forward.

(Laughter.)

MALE VOICE: But we'll have to see how that works. If not, there's a process in place, which Gordon outlined, and it will come to you. And people who disagree with what ISO proposes will take their shots and you will decide it, and we will live with the decision. By "we" I think I mean of all of us, depending on whoever wins, whoever loses, however it comes out.

So beyond that, I don't know what to say other than just to express a commitment to taking, you know, at least one more good, hard look at whether there might be some way to work this out, and perhaps being somewhat more

pragmatic than we have been in the past. But if not, as I say, I don't have a problem with the process moving on expeditiously and it being resolved in the final analysis by the Commission, and then, you know, we'll all move forward.

It certainly should not hold things up. I think Roberto made a good point that, you know, we've got an obligation to have a robust system in this region, and there's no reason, since this issue has to be resolved one way or another, why this should hold it up.

CHAIRMAN WOOD: Let me just ask a process question. Because this is one of the specific issues we did carve out and say this is an RSC issue. Can we view that the process here basically is that there may not be -- or there are two options, the RSC, which I would say would be you six and your colleagues, as you're currently constituted -- cannot agree on the issue, then -- cannot agree on a uniform approach for New England, then the ISO calls their best shot and then we deal with it. And as Nancy says, then we can just make a decision, and you all can be mad at us.

Or the second alternative, which, ever hopeful, that you all say here's a good proposal, and you all basically agree and then you tell the ISO that's what you filed. That's what our White Paper says.

MALE VOICE: I think what I heard you say a little while ago was that the regional state RSC issue would

apply to the things that aren't already in the pipeline, and the things that are already in the pipeline would come in under an existing pattern of pooling Btf. And broadly speaking, if we're already in the pipeline, we agree with that model. If we're not, we don't.

(Laughter.)

MALE VOICE: Broadly speaking?

(Laughter.)

MALE VOICE: Colloquially speaking, I think.

MALE VOICE: As I read what you said before where you said Connecticut and folks like it and cited a paragraph of the RTFF, which only had one other folk like it, which was us, we thought that was us and we were in. And that would answer, can we move to a different process in the future.

But I have to stress the importance of the issue. I don't want to make today the debate. I can probably say two things that I strongly agree with. There's lots of things we agree on, this is only one area of difference. And the other is, as Roberto said and then Steve echoed, we need an answer clearly enough to allow investors to feel comfortable at a pace which will make sure that the stuff gets built when it's needed.

We thought that the planning issues, which frankly I think are better in New England than anywhere else

in the country, but still need significant enhancements -- so we'll look at system improvements as much as transmission, are important to giving credibility to that answer. But you need to recognize, and I have to say, if I say nothing else in this platform that sticks in your head, but for us, it's such a huge investment for such a small number of people that uncertainty about it is extraordinarily dangerous and has very high cost when it's allowed to persist for too long. You have a substantive position, but that's beyond that.

CHAIRMAN WOOD: Okay. I hear what --

MALE VOICE: We had an agreement on the NECPUC Commission that we were going to discuss -- we were not going to discuss details of what the differences were, and Mike promised he'd do that. But that's okay. Actually, Paula Vassington came up with a template which I think was actually drafted by Sheila Renna, which makes sense. All you have to do is work out the numbers.

I think we have a potentiality of getting this resolved, even though I think, without going into details -- I won't go into details -- but I think we can, because I think half a loaf is better than none. And quite frankly, many of us are afraid what you guys might decide. The cure might be worse than the disease. We'd better solve it ourselves.

(Laughter.)

MALE VOICE: I'm always interested when I hear people talk about ideology, confusing massive use. I went to a seminar recently sponsored by the American Gas Association where one of our colleagues from the Northwest, state of Washington, spoke against FERC's position. And she spoke in ideological terms how this was based upon states' rights and what have you, and I remarked that I would prefer that she would not talk in terms of ideology, because the fact of the matter is, she wants to keep it a cheap power, and we'd like to have some of that cheap power. So it's not the ideology, but where you stand or where you sit vice versa.

So that's the end of my speech.

(Laughter.)

MALE VOICE: Well, I thought we were going to express the intensity.

CHAIRMAN WOOD: I wandered deep into that cave yesterday.

MALE VOICE: Mr. Chairman, if I could bring this back to process on this, which is one of the questions you've been asking. We have currently -- as indicated on this slide, it is our intent to vote on this process in June. I'm not sure that the state commissioners are aware, but I think they are, that we have a meeting scheduled for

the 25th of June where we will, hopefully, if the commissions are able to reach some form of agreement, they will tell NEPOOL of that before the 25th so that we're going into a vote with knowledge of something that the commissions have been able to agree on.

But in the meantime, we are working hard to try and document the ISO's proposal and to work that through the NEPOOL process. If we vote on the 25th and it's successful, which at the moment indications are it would be, we would have something for you in ten business days thereafter or thereabouts. So we're looking at getting something to you in early July.

CHAIRMAN WOOD: And this will be in response to the December '02 order that asked for that in advance of, really, the October?

MALE VOICE: The order didn't have a time commitment line.

CHAIRMAN WOOD: Yes.

MALE VOICE: But, yes, that is the process that was started in response to that.

CHAIRMAN WOOD: Good. Great.

MALE VOICE: And I think that's in fact what Commissioner (inaudible) is referring to as well.

CHAIRMAN WOOD: That would certainly solve it. All right. Ten is a related issue, ISO System Planning

Process. I'm sorry. Did I skip? I'm sorry. Please.

MS. FINK: This is a process question as well. My name is Lisa Fink from the Maine Energy Board Commission. It's a process question that you may not want to answer or perhaps it's obvious from the discussion we had. I think it might be helpful just for folks to get a sense of how FERC will rule on this.

From what we've said, it sounds as though FERC will not rule on the order, the request for rehearing until after either a NEPOOL proposal or an ISO proposal or both are submitted. But I think it would be helpful to get a sense of whether that's where FERC is going right now.

CHAIRMAN WOOD: A rehearing on the December 20th order that asked for this proposal to come forward?

MS. FINK: Yes. There are a number of issues raised in the request for the rehearing of the December 20th order on what perspective means and what are the other issues that are tied up probably with what the -- you know, what the various proposals will be. So I guess my question is, is FERC waiting for ISO and NEPOOL, or will there be an intervening order?

CHAIRMAN WOOD: It's our intention to, particularly in light of this timeframe, to wait to do the rehearing until we -- so we don't have to do a rehearing of that. It would be nice to just be done with that order,

wouldn't it? Thanks for bringing that up.

Okay. Item 10 was also dealing with transmission and other system issues with regard to the upgrades. And, Gordon, if you could kind of help refresh my memory on this.

MR. VAN WEILE: We have a process that produces, it's a public process to inform participants, stakeholders, a public meeting, a board meeting and the end result is something that up until now has been called the Regional Transmission Expansion Plan. We produced two of these so far. We're in the process of producing the third.

We're likely to remove the transmission out of the title, because it is much broader than just transmission. It's really a system adequacy assessment, and we use it as a basis for trying to stimulate a response from the marketplace to define needs or weaknesses within the power system.

Obviously, if we don't get a lot of response, we work with the transmission owners to bring forward solutions from the transmission perspective. In that very last comment has been a fair amount of debate as to whether there is sufficient balance in the process.

I think based on what I've heard over several months, people are generally happy with the process as it exists. They're looking for refinements, and some of the refinements are in the area of how we deal with issues like

resource parity and so on.

So I think those refinements also will be discussed, and a separate process that Steve Woodley Chief Operating Officer is taking the opportunity and taking a look at how do we accommodate some of those concerns from third parties.

So I'd like to encourage people to -- if you see a different need. I think in general people seem to be satisfied they'd be producing product which is useful to the marketplace and which becomes a really strong -- here in New England. And what we're really talking about is fine tuning and tweaking some of the --

CHAIRMAN WOOD: Do our clients have anything to add on Issue Number 10?

MALE VOICE: No.

CHAIRMAN WOOD: Any of the market reps? Yes, sir, Mike?

MALE VOICE: Not at length. But you've spoken a lot about the consistency of resource choice. We think it grants legitimacy to the totality of what's pooled and offers at least the prospect of keeping costs from ballooning because they get past that port. But we have not said don't pick transmission, because we've said pick something that has a high probability of fixing the problem on a timely basis, and there's a lot of different ways of

doing that. It would probably make sense to have something in the process that at least looks upon this part of the package, so that you don't pick the expensive solution if the cheap one should be chosen.

Having said that, I meant what I said about the RCAP being better than any regional plan I've seen from anywhere else in the country. It still makes sense to open the door to improving it.

CHAIRMAN WOOD: I didn't hear Gordon say today that the tea is going to come out of our tap. So I think that was more than just superficial. We did say in the White Paper that one of the items that we wanted the Regional State Committee to provide guidance to the RTO/ISO on was the role of generation, transmission, energy efficiency and demand response and the overall resource adequacy of the region. So it's not an ICAP issue but really something a little more broad as to the planning.

So I think that those values that you all have should be imbued into that process. And I do think it will probably be different in each part of the country, but I think hopefully that will be something that can come out of -- and again, this would be something in the October filing. Is this where this would ultimately go?

MR. VAN WEILE: You're referring now to broadening the scope of the planning process or -- the

regional scope?

CHAIRMAN WOOD: Correct.

MR. VAN WEILE: We're working together with New York, and the transmission owners are supporting this, to try and broaden that scope. We're doing it under the umbrella of the MPCC. Steve, remind me, what is the timeframe? Do we see this as being resolved before we make the finding? Yes.

CHAIRMAN WOOD: And this issue of scope also on a more substantive basis as opposed to geographical, that will include system issues that may be something other than transmission. Where is the state of play on that?

MR. VAN WEILE: I think where we're headed at least, from an ISO perspective, is to try and separate the issue in the first instance of identification of need and to make very clear that that signal that we send out there is like a request for proposal to the marketplace. And then, as a second step, deal with how do we go forward with planning transmission solutions.

The real issue really becomes one of do other resources deserve the same regulated rate of return treatment as transmission? And that, from an ISO perspective, is something that we've steered away from, thinking that the return there really ought to be market-based return and unregulated rate of return.

So I think that's where the debate has been. Our response has been to say I think the needs assessment part of this planning process needs to be neutral, and that we're getting to the next stage of it, which is has the market responded. Then from our perspective, we're looking at kind of a backstop approach to the transmission situation.

CHAIRMAN WOOD: Yes, sir?

MR. CASTLE: I think, like Gordon said, I appreciate your mentioning the race for parity issue is the other aspect of the scope that is currently being debated. And I think one of the tensions is, certainly one that -- I'm sorry. I forgot to introduce myself. Tom Castle from Calpine.

One of the concerns that we have in these discussions is that we too want nonwire solutions to deal with the fee based on the market signals. The question is, if the market signals are not fully reflective, does the absence of the nonwire solution in the market mean that that solution is not cost-efficient, or does it mean that we need a feedback and something that identifies whether or not the markets are working to their full effectiveness?

Getting back to the report card issue, and hence, are we at this point, do we still need to consider a broader spectrum of solutions, including generation data response. We're not looking at that to be regulated or want it to be,

we want the markets to work. However, you don't know that it's going to work unless you include those solutions. If they only show up at the end of the process, then I think it raises a big question of why and invites some correction in the market process.

CHAIRMAN WOOD: There's a few gray hairs that have Devon written on them. Just to let you know, none of this stuff is easy. Thank you for that.

MR. VAN WEILE: I think on this issue is one of those philosophical issues once again, which is I think comes right in the market design has to send the right signals to incent investment of all the different sectors and categories. Obviously, when you're weighing the transmission solution, you create -- there's a domino effect in the market when you do that.

And so the issue has been, do you then achieve some parity there with other pieceholders. From our perspective, our feeling is it's a very slippery slope. Once you walk down the slope on saying and now what we'll do is give generation and demand response and all these other resources a regulated rate of return, even though we know the regulator, we're fearful on what that might mean to the state of the markets.

CHAIRMAN WOOD: Of course, the other approach is then a lot of the transmission then becomes supported by

individual customers as opposed to being socialized. And so that's one way to get parity, which is what's being discussed in the South, is put all that on the participant side of the fence and let that be the cost.

Yes, sir?

MALE VOICE: Afford them the ability to regulate rate of return, but why not give other options the opportunity to bid competitively for the right to provide service?

CHAIRMAN WOOD: You say there's a need for this much capacity transfer between A and B? How do you want to solve that market?

MALE VOICE: Or there's a need for capacity, delivery capacity, how and what would be the best way to solve the problem? Transmission is one solution; incremental generation is another solution.

CHAIRMAN WOOD: Does the fact that the public process that the RTAP come RF is going to be done, that that sends the signal about where it ought to be?

MALE VOICE: It may send the signal for a need, but it may not send the appropriate signal to encourage new generation.

CHAIRMAN WOOD: Because it would be borne by the investor and not by the marketplace?

MALE VOICE: Correct.

CHAIRMAN WOOD: From other regulated marketers.

MALE VOICE: So why not compete for the right to provide the service?

CHAIRMAN WOOD: So that then gets you out of providing ROE, you're just saying lowest cost solution to this problem. Is that kind of generally where you've been on that?

MALE VOICE: In fact, what we have suggested is a bid for lowest cost solution to the problem that's resource-neutral in terms of what the solution is, but it's tested against timing and probability of success and price.

In that context, I think that's similar to what you're suggesting. It gets around the issue of a regulated return entirely and just makes you pick the lowest cost provider, assuming that you can come up with some criteria that reasonably tests if it's going to solve the problem. Nobody wants that.

The other thing it avoids is the fear that we're in a world that by definition is market failure because nobody has come forward. And we now announce that we're going to carefully analyze all the possible solutions of the market failure, but we will only pay for one of them. In that world, it's fairly obvious that the people who won't get paid won't come forward and make their best case, and you won't really get the best analysis you can.

CHAIRMAN WOOD: David? Paul?

PAUL: I had hoped we were going to not air our disagreements on this, but it's already out there. The Connecticut Commission and Massachusetts Commission recently sent a letter to the ISO endorsing the concept of the RTAC planning process itself being in effect the request for a solution, strongly opposed using this process to try to drag us back into IRP. Especially for those states of us who moved past that and moved into a market-based world, we'd strongly urge you not to use this process in a way that drags us back to where we've been and where we're trying to move from.

This isn't just a least cost issue between transmission and generation and demand response. Transmission is a regulated monopoly service, except to the extent that there's Merchant, and Jose, don't jump on me now. Wait till later.

(Laughter.)

PAUL: Generation and demand response are not. We've moved to market-based approaches for those. And there's a couple of good reasons for that. One is transmission you know is going to work. I'm not sure throwing the same amount of dollars or even a little bit less dollars at a demand response solution on the grounds that it's projected to be least cost has the kind of

certainty that you get with the transmission.

And the second issue is, the reason we socialize some transmission investment is because it provides benefits across the entire grid. You can't say that about other solutions in the same way. And so we would come out against that kind of approach, and again, just would strongly urge you not to pull us back to where we moved from.

CHAIRMAN WOOD: Any other thoughts? Yes, sir?

MR. LA SILVA: Fred M. LaSilva, FPL Energy.

Along the same theme, I believe that, when we think of using generation as a substitute for transmission, that it's very important to find out what we are trying to either preserve or change to.

If we want to preserve the markets as we have undertaken with SMD, that is with -- that is determined on a regionwide basis, based on the resources are available in that area or zone or node, we then have to evaluate what we are really testing as the price of transmission as we compare it to what a generator solution would produce in the way of LMPs.

And if that is a gas turbine, that may be lower cost than the transmission from a capital point of view. But if that now produces an LMP, that may be greater than what you otherwise would have if you build transmission instead. If you want to preserve the LMP method, then you

will calculate the cost to the market based on the new LMP that the gas turbine will produce.

If you want to compare strictly on the basis of cost to build, but you now bastardize the calculation of LMP by putting that new gas turbine as a regulated or RMR resource that now carves out a piece of the generation market, then you get a different evaluation.

And what I believe that should be strived for is to preserve the standard market design concept and keep generation as the unregulated arm of the three-legged stool, and transmission as the regulated arm. Otherwise, you are never going to get the assessment of how do we move forward to an SMD environment if you mix the two.

CHAIRMAN WOOD: Thank you. I'll just now note that it's 4:00, and I'm going to try to end relatively on time. We do have one last item here. Let me just finish up this Item 10. This is something that will be in the October filing?

MR. VAN WEILE: Yes.

CHAIRMAN WOOD: The last issue I know is one that came up -- I think, Brian, you brought that up. But we had also brought it up in some orders, too. It's the locational ICAP issue and the general question of regional adequacy, which probably flanges up a little bit to what we just talked about but has a little bit different flavor of issue.

Did the Commissioners have any thoughts on this Issue 11, this last slide on resource adequacy?

MALE VOICE: The only thing I would observe is that our guru on this, Tom Welch, is working on a solution to the problem which I may never understand but he tells me will solve the problem.

(Laughter.)

MALE VOICE: But I can't give you a date for when he's going to solve the problem, but only that he will.

(Laughter.)

MALE VOICE: And whether it will be acceptable to others or not, I don't yet know. But I know he is diligently struggling with this. So there will be a proposal from at least Tom coming forward, and hopefully from a broader-based group than that.

CHAIRMAN WOOD: Well, good. And one of the things Gordon had pointed out was that trying to coordinate this with PJM and New York, and I will just announce that we did put out an order today in New York, a demand curve for capacity to replace their existing ICAP program, which we accepted in substantial part.

But that will start to create some different approaches in this region which aren't necessarily seams issues in my mind, but are maybe alternatives for people to make a more attractive market for capacity. So maybe we

ought to be still at least a thousand hours limit on ICAP, but I'm not totally there yet. I do hope that a more regional approach to that is in the offing, although it may not be a requirement.

But you're right, Tom is the guru not only since my first week on the job, this job. And he is one of us, so we hope we hear from him on that. Any thoughts on that?

(No response.)

CHAIRMAN WOOD: I know Brian you brought that up earlier today. I know it's flagged, and appreciate your doing that.

The last issue is one I think we need to give some thought to between the three of us, and we will. And what I'd like to do in closing is say the next step, from my perspective, is to, I think the three of us, just to get it out. I'll probably sign it myself, but consult with the three of us and our staff that were here today, but kind of just record what we heard, send it back to our co-conveners here -- Roberto of NEPOOL, Gordon at ISO New England, and Ilia with NETCOOK, and then make it certainly a public thing that everybody can see, but just kind of record what we heard and what we heard the next steps to be, so if there's kind of a clinch item, this is actually probably compared to the other regions we're doing a relatively short list of items.

And again, I tip my hat sincerely and thoughtfully to all of you who have built what is an outstanding wholesale power market. I think your customers are so lucky to have the kind of cooperation that I've seen not only today but since I've been on the job. And I appreciate and, please, encourage you to continue that among the participants, the regulators and the fine staff that operate the ISO as well as our good board, who I've been honored to meet with Chairman Barry, but all his good colleagues that are on the board as well.

I'm real pleased, again, personally and professionally on behalf of our Commission, with the progress that's been made in New England on power markets. We do want to kind of, from our perspective, close out that transition to being there and actually get there. It looks like the October filing is clearly a seminal document, and we will adjust our administrative process accordingly so we can get you a thorough, quick answer back.

But my hope is, with this type of process, that we can be so much there with you all the way before you even file that the filing and approval is almost a perfunctory exercise.

So we do want to be involved in your process as you go forward. We'll have our staff here. Certainly that one issue, this core issue of the governance that I know the

stakeholders and the Commissioners feel very strongly about. And again, I would just say I think there's some win-win solutions there that I think keep everybody on track, and I want to really endeavor toward that. And we'll instruct whoever we send up here with you all that that's our expectation.

Thank you for your hospitality. Thank you for this nice turnout. I can't say thanks for the nice room, but we're glad to have it.

(Laughter.)

CHAIRMAN WOOD: It was actually nice. It was nice and quiet. So now I want to close by thanking you, Sarah, for pulling it off almost on time.

SARAH: Well, thank you. And I just have a couple of quick housekeeping announcements. First of all, I have a telephone message for David McNeil before you go home, if he's sitting in the audience.

The second is that we removed some of your luggage at the side of the room in order to bring in some more chairs. We put your luggage behind the registration desk. And also we've got a box out there if you want to recycle your name badges. We'll use them for, you know, the Midwest meeting on June 11th.

(Laughter.)

SARAH: Thank you so much. We really appreciate

it.

(Applause.)

(Whereupon, the meeting was adjourned.)