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More Transmission is not always the best answer. In New England, stakeholders worked for 3 years to change the name from RTEP to RSP. This was a victory which recognized that load and reliability can be served interchangeably by Transmission, Generation or - my personal favorite: Demand Resources, which includes EE, Conservation, small local generation - like wind and solar, Demand Response, and other Technologies that provide clean, inexpensive solutions distributed throughout the system that have the potential to defer large disruptive infrastructure. ***Therefore, a good Transmission Planning process must recognize and be able to conclude that less is better.***

Vermont regulators believe the ISO-NE's Attachment K is a good product that requires work in a few key areas. I am pleased to report that ISO-NE has agreed to address many – but not all, of our concerns. We are also mindful that Transmission Owners recently filed for a 16% rate increase, which looks like the tip of the proverbial iceberg, and my remarks will reflect that concern.

Exhibit 1

October 2007 Changes, *Con't.*

Reliability Project Counts and Aggregated Cost Estimates by Project Stage with Applied Accuracy Ranges (1)

Project Stage (Status)	Project Count	Estimate Range Minimum	Estimate Range Maximum	Estimated Costs ($millions)	Range Minimum ($millions)	Range Maximum ($millions)
Concept	81	-50%	200%	442	221	1326
Proposed	164 (2)	-25%	50%	1238	928	1856
Planned	62	-25%	25%	358	269	448
Under Construction	47	-10%	10%	2347	2113	2582
Total October 2007 Plan	**354**			(3) **4385**	**3531**	**6212**
In-Service	7	-10%	10%	4	3	4
Cancelled	2			3.4		

(1) All costs provided by Transmission Owners

(2) 115 projects are in advanced stages of studies. (NEEWS, Greater Rhode Island Transmission Reinforcements, Springfield 115 kV Reinforcements, New Hampshire Seacoast Area Reliability, Merrimack Valley/North Shore, Rumford-Woodstock-Kimball Road Corridor, Auburn Area, and Central/Western Massachusetts Projects)

(3) Not included here is the cost of 120 reliability projects for which no estimates have been provided. Estimates for these projects are noted as TBD in the Project Listing

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Principle 1: Coordination

ISO's need to perform and promote more inter-area (NPCC wide) planning that results in selection of most cost effective projects

- Distinguish between coordinate and plan
- That may mean a project in NY may improve conditions in New England more cost effectively

I share William Hogan's view which he emphasized during FERC's Northeast Seams Conference. He felt communication and coordination – "chatting" if you will, among the ISO's is helpful and necessary. But that is not enough. Like me, he objects to mandating projects and urges FERC to aver.

- Hogan promotes the Argentine model (a "beneficiaries pays" model) represents a solution in his opinion:

i. get the prices right
ii. define the property rights
iii. establish a decision making process for small and large projects
iv. do the best studies and assign costs and benefits
v. then place the cost burden on the beneficiaries based on iv.
vi. members must approve by 70/30 rule

Principle 5: Comparability

TOs have an advantage in proposing solutions that other resources don't enjoy. TOs have a well established planning infrastructure paid for by ratepayers. This is a legacy from pre-market days. To achieve comparability ISOs needs to facilitate planning and provide the same - *Correction* MORE, technical support to other solutions like Demand Resources than they do for transmission solutions in the development of their regional system plans. We need alternatives to the growing queue unwanted transmission projects.

Transmission is a single purpose reliability solution. It promotes additional supply on supply competition. What we need is a new dimension – we need to create demand and supply flexibility.

Principle 3 & 8: Transparency and Economic Planning Studies

ISO's should determine if there are lower cost alternatives to Transmission. If a DR solution qualifies as a legitimate alternative to transmission for reliability purposes, fund it in a manner similar to a common asset (a PTF solution if you will):

- Assume two $100 solutions present themselves. One is transmission focused and one DR based. Transmission is regulated and by the magic of the load ratio share agreement costs VT customers only $4. DR may be a market solution, or provided by utilities. It costs VT customers the full $100. If you lived in VT, the pressure is to adopt the $4 solution regardless of the potential long-range benefits of the DR.

Transmission costs are a market signal that must be shared. As you can see from Exhibit 1 billions of dollars of Transmission Projects have no associated costs. Entering TBD (to be determined) as a placeholder for transmission costs withholds important price signals from competitive suppliers and may delay alternative solutions and impair their viability

Principle 9: <u>Cost Allocation</u>

Concerning the FERC approved 100-basis-point adder which serves as an incentive to build new transmission facilities. We are experiencing unprecedented cost increases and overruns which most Transmission Owners state are beyond their control. You often hear that China is driving up the commodity prices and that we are forced to pay Boston labor scale for projects in the North Woods because there is so much demand.

- With this back-drop, it is inappropriate and imprudent to pay the “100 BP incentive adder” on costs which exceed the amount of the original project cost without a justified scope change. The current policy unintentionally promotes inflation in a staggering way. Too many projects have come in 100% to 300% over budget and are rewarded with an incentive on an inflated amount which the TO claims it has no control over.

- ISOs need to promote / enhance cost control measures to:
  - send correct market signals
  - enhance cost overrun avoidance
  - promote selection of least cost TO projects

Thank you for your attention and I await your questions. Hopefully we can continue this dialogue. Perhaps, at the first ***Regional System Planning Workshop***.