

137 FERC ¶ 61,237
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
and Cheryl A. LaFleur.

ISO New England Inc.

Docket No. ER12-229-000

ORDER CONDITIONALLY ACCEPTING TARIFF REVISIONS

(Issued December 28, 2011)

1. On October 28, 2011, ISO New England, Inc. (ISO-NE) submitted proposed revisions to its Open Access Transmission Tariff (OATT), Schedule 2 – Reactive Supply and Voltage Support Service, proposing to continue the current Base Capacity Cost (CC) rate used to calculate the capacity cost component paid to Qualified Reactive Resources for the capability that is needed to provide reactive supply and voltage support (VAR Service) to the New England transmission system (October 28 Filing). In this order, the Commission accepts the proposed revisions, subject to condition, effective January 1, 2012, as requested.

I. Background

2. Schedule 2 of ISO-NE's OATT provides the methodology for allocating costs associated with the provision of VAR service to the New England transmission system, as well as the rules to receive compensation and payments for VAR service.¹ The fixed Base CC component for compensation under Schedule 2 compensates qualified reactive resources (i.e., a generating or non-generating dynamic reactive resource that meets the criteria established in Schedule 2) for the fixed capital costs associated with the

¹ See ISO New England Inc. and New England Power Pool Participants (NEPOOL) Committee, Amendments to Schedule 2 – Reactive Power Supply and Voltage Control of the ISO New England Inc. Open Access Transmission Tariff, Docket No. ER07-397-000 (filed Dec. 29, 2006) (“Schedule 2 Amendments”). See *ISO New England Inc. and NEPOOL Participants Committee*, 118 FERC ¶ 61,163 (2007) (accepting Schedule 2 Amendments).

installation and maintenance of the capability or equipment needed to provide VAR service.²

3. In 2007, the Commission accepted and suspended for a nominal period, and made effective subject to refund, ISO-NE and NEPOOL's proposed amendments to Schedule 2 of ISO-NE's OATT, and established hearing and settlement judge procedures.³ The Commission found that ISO-NE had not shown that the proposed Base CC rate of \$2.32/kVAR-year was just and reasonable.⁴ The Commission explained that the proposal relied on cost data of certain generating facilities located in PJM Interconnection, L.L.C. (PJM) to support the proposed Base CC rate without demonstrating that: (1) reliable cost data for the ISO-NE units were unavailable; and (2) the units chosen by ISO-NE and NEPOOL were an appropriate proxy for the recently built generator and non-generator reactive power resources in New England.⁵

4. On September 17, 2007, ISO-NE and NEPOOL submitted an uncontested settlement (Settlement), which was approved by the Commission and resulted in the currently-applicable Base CC rate of \$2.19/kVAR-year, effective June 1, 2007 through December 31, 2011.⁶ The Settlement also contained a requirement that the negotiated Base CC rate be re-examined within five years, i.e., by July 1, 2011.⁷

II. Proposed Tariff Revisions

5. ISO-NE states that, based on the conclusion of its examination of the current, negotiated Base CC rate called for in Section IV.A.4 of Schedule 2, the proposed tariff revisions maintain the current Base CC rate used to calculate the capacity cost component paid to qualified reactive resources under Schedule 2 for the capability that is needed to

² The Base CC component does not compensate for actual performance to provide VAR service. Compensation for actual VAR service is based on a formula rate that, on an annual basis, calculates an Adjusted CC rate component, derived by applying leading and lagging factors to the Base CC rate, in accordance with the procedures in the ISO-NE OATT. See ISO-NE OATT, Schedule 2 at § IV.A.5 and Schedule 2 VAR Payment Implementation Rule.

³ *ISO New England Inc.*, 118 FERC ¶ 61,163 (2007), *order denying reh'g*, 126 FERC ¶ 61,212 (2009).

⁴ *Id.* P 27.

⁵ *Id.*

⁶ *ISO New England Inc.*, 122 FERC ¶ 61,056, *order on reh'g*, 123 FERC ¶ 61,294 (2008).

⁷ October 28 Filing at 5.

provide VAR service to the New England transmission system.⁸ Specifically, ISO-NE has inserted a January 1, 2012 effective date to replace a June 1, 2007 effective date in section IV.A.4 of Schedule 2 to reflect its conclusion that the Base CC rate of \$2.19/kVAR-year is still appropriate and need not be changed at this time. ISO-NE also proposes to remove language that required the July 2011 re-examination of the Base CC rate, as well as make minor editorial changes and corrections to certain outdated references.

6. ISO-NE states that, in accordance with the Settlement, it began its review of the Base CC rate in late 2010. ISO-NE explains that, as an initial step, it worked through its stakeholder process and requested market participants to provide cost data associated with the capability that is necessary to provide VAR service. Because market participants did not provide any New England-specific cost data in response to this informal request, ISO-NE initiated a formal survey requesting cost data from New England generator and non-generator dynamic resources. ISO-NE states that, although it received 131 timely and 27 late responses from generators, it received limited cost data. According to ISO-NE, only 19 generators provided data on the costs they incur in providing VAR service, which, as set forth in testimony accompanying ISO-NE's filing, represents approximately 12 percent of New England's generation capacity.⁹ ISO-NE states that it annualized the submitted capital and operating and maintenance cost data for each resource that provided data (except for two resources that did not provide the cost data as requested), and determined that, on average, the annual compensation under the current Base CC rate was adequate to compensate for those costs.¹⁰

7. To further assess the appropriateness of the current rate, ISO-NE states that it examined certain conditions or assumptions that prevailed during the 2006-07 Base CC rate development negotiations to see whether any significant changes had occurred. ISO-NE states that it found that the generation mix in New England and the predominant type of resource built remain essentially the same as in 2006-07. ISO-NE states that it also reviewed the Commission-accepted cost-based filings made by generators in PJM and Midwest Independent Transmission System Operator, Inc. (MISO) for reactive capability compensation between 2006 and 2011. According to ISO-NE, the average rate for VAR service in those filings is higher than the current Base CC rate in New England because these are individual cost-of-service filings for newer resources, whereas the Base CC rate in New England is a proxy rate that applies to all qualified reactive resources.

⁸ *Id.* at 1.

⁹ October 28 Filing, Joint Testimony of Robert G. Ethier and Aleksandra Mitreski on behalf of ISO New England Inc. at 8.

¹⁰ *Id.* at 8-9.

8. Based on these examinations, ISO-NE concludes that the current negotiated Base CC rate of \$2.19/kVAR-year is still appropriate and should be continued. ISO-NE contends that the main conditions that prevailed during the Base CC rate development and negotiations in 2006-07 have not significantly changed, and, based on the limited cost data provided for New England generators, that the annual compensation under the current, negotiated Base CC rate appears to be sufficient to cover reported capital and operating and maintenance costs of providing VAR service, as described above.

9. ISO-NE requests an effective date for the proposed revisions of January 1, 2012.¹¹

III. Notice of Filing and Responsive Pleadings

10. Notice of ISO-NE's filing was published in the *Federal Register*, 76 Fed. Reg. 69258 (2011), with interventions and protests due on or before November 18, 2011. The following parties filed timely motions to intervene: Exelon Corporation, Casco Bay Energy Company, GenOn Parties, Long Island Power Authority, Constellation Energy Commodities Group, Inc. and Constellation NewEnergy, Inc., Northeast Utilities Service Company, New England Power Pool Participants Committee, and the NRG Companies. The New England Power Generators Association, Inc. (NEPGA) filed a timely motion to intervene and protest. The New England States Committee on Electricity (NESCOE) filed a timely motion to intervene and supportive comments. The Maine Public Utilities Commission (Maine Commission) filed a notice of intervention and supportive comments.

11. NEPGA argues that ISO-NE's proposed revisions to Schedule 2 are unjust and unreasonable and should be rejected. NEPGA contends that the Base CC rate was settled with the presumption that, upon its review in 2011, it would be increased to reflect more accurately the costs for providing VAR service at the end of the settlement term by taking into account the costs for all VAR-capable units at that time. NEPGA urges the Commission to direct ISO-NE to implement an escalator that would reflect inflationary adjustments. Specifically, NEPGA suggests the use of an escalator proposed in an amendment by EquiPower that would adjust the 2012 Base CC rate in accordance with the Producer Price Index – Electric Power Generation Series published by the U.S. Bureau of Labor Statistics. Moreover, NEPGA argues that, by maintaining the 2006 Base CC rate, the proposed tariff revisions fails to reflect new generation that has come on-line and older units that have retired since the Base CC rate was settled.

12. In addition, NEPGA comments that, because many generators do not track the specific costs underlying the Base CC rate, only limited unit-specific data will ever be available but that does not constitute evidence that costs to provide VAR service have not

¹¹ October 28 Filing at 2.

changed since 2006. Finally, NEPGA points out that ISO-NE's proposed Base CC rate is lower than the Commission-approved compensation for VAR service in New York Independent System Operator, Inc. (NYISO) and PJM.¹²

13. By contrast, NESCOE states that it concurs with ISO-NE's decision not to change the Base CC rate because there is no factual basis for modifying the rate from the level that was determined through the parties' lengthy settlement negotiations. In addition, NESCOE states that ISO-NE was correct not to give any weight to the Commission's approval of the higher cost-based compensation in effect in PJM and MISO. NESCOE points out that the Commission noted in its 2007 order rejecting ISO-NE's prior Base CC rate proposal that it did not appear that ISO-NE had a sufficient factual basis for using PJM and MISO units as proxies for New England resources. Absent New England-specific cost data showing that the current Base CC rate does not provide adequate compensation to generators, NESCOE states that the current rate should be maintained.¹³

14. The Maine Commission agrees with NESCOE and ISO-NE that no factual basis exists for modifying the Base CC rate from the current level, which resulted from a lengthy settlement negotiation.¹⁴

IV. Commission Determination

A. Procedural Issues

15. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,¹⁵ the notice of intervention and the timely, uncontested motions to intervene serve to make the entities that filed them parties to this proceeding.

16. We note that, on December 5, 2011, ISO-NE submitted an answer to the protest. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2011), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We are not persuaded to accept ISO-NE's answer and will, therefore, reject it.

¹² NEPGA states that the VAR compensation rate under the NYISO and PJM OATTs are \$3.919/kVAR-year and \$3.65/kVAR-year respectively.

¹³ *Id.* at 3.

¹⁴ Maine Commission Comments at 2.

¹⁵ 18 C.F.R. § 385.214 (2011).

B. Discussion

17. We will accept, subject to condition, ISO-NE's proposed tariff revisions, to become effective January 1, 2012, as requested. We find that, consistent with the terms of its settlement, ISO-NE conducted a thorough re-evaluation of the Base CC rate that included an informal request for information, a formal data request, a review of generation mix within ISO-NE, and a review of the cost-based filings made by generators in PJM and MISO for recovery of similar costs. Although ISO-NE received cost data from only 19 generators, ISO-NE's analysis of that data indicates that the existing Base CC rate is sufficient to cover reported capital and operating and maintenance costs of providing VAR service. Moreover, as ISO-NE points out, the generation mix within ISO-NE has not changed significantly since 2007. Thus, based on the record before us, we agree with ISO-NE, and the supporting commenters, that there is not sufficient factual evidence to support modifying the current Base CC rate, and that the current Base CC rate is just and reasonable.

18. While NEPGA argues that the Settlement includes the presumption that the Base CC rate would be increased at the end of the Settlement term, the Settlement only requires, in pertinent part, that ISO-NE re-examine the Base CC rate.¹⁶ The Settlement does not require that the rate be increased, and, indeed, it leaves open the possibility that the rate could be decreased.

19. We are not persuaded by NEPGA's suggestion that the use of an escalator would provide an appropriate adjustment to the Base CC rate, particularly because the current Base CC rate to which the escalator would be applied resulted from lengthy settlement negotiations, resulting in a Commission-approved Settlement that does not provide for use of such an escalator. Further, we disagree with NEPGA's argument that, just because many generators do not track costs related to providing VAR service, that the cost of providing that service should be assumed to have changed since 2006. Further, NEPGA's remaining arguments concerning comparison with the level of VAR compensation in NYISO and PJM are inapplicable here because, although limited, ISO-NE obtained cost data for ISO-NE units and there is no evidence that the VAR service rates in effect in NYISO and PJM represent an appropriate proxy for qualified reactive resources in ISO-NE.¹⁷

20. Although we are accepting continuation of the current Base CC rate at this time, we see merit in re-examining the rate, as was provided for in the Settlement.

¹⁶ See Section IV.A.4 of Schedule 2, Settlement at p 78, filed in Docket No. ER07-397-000, September 17, 2007.

¹⁷ See *ISO New England*, 118 FERC ¶ 61,163 at P 27.

Accordingly, we will direct ISO-NE to complete a re-examination of the Base CC rate no later than July 1, 2016. Such examination shall determine whether the Base CC rate is still appropriate or whether it should be changed commencing January 1, 2017.

The Commission orders:

(A) ISO-NE's proposed tariff revisions are hereby accepted for filing, subject to condition, effective January 1, 2012, as discussed in the body of this order.

(B) ISO-NE is hereby directed to complete a re-examination of the Base Capacity Cost Rate no later than July 1, 2016, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.