

123 FERC ¶ 61,300
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Sudeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellingshoff.

ISO New England Inc. and New England Power Pool Docket No. ER08-920-000
Participants Committee

ORDER ACCEPTING TARIFF REVISIONS

(Issued June 24, 2008)

1. On May 2, 2008, ISO New England Inc. (ISO-NE) and New England Power Pool (NEPOOL) Participants Committee submitted under section 205 of the Federal Power Act (FPA)¹ revisions to Schedule 2 - Reactive Supply and Voltage Control from Qualified Reactive Resources Service - of the ISO's Open Access Transmission Tariff (ISO OATT). ISO-NE and NEPOOL state that the purpose of the proposed revisions is to revise the current methodology for allocating the variable cost components of the Schedule 2 rate. As discussed below, the Commission accepts the revisions, effective July 2, 2008.

I. ISO-NE and NEPOOL Participants Committee's Proposed Revisions

2. ISO-NE's current cost allocation methodology under Schedule 2 consists of the same elements first implemented in 1999 through a Commission-approved settlement agreement.² That methodology consists of four cost components: the fixed Capacity Cost (CC), the variable Lost Opportunity Cost (LOC), the variable Cost of Energy Consumed (CEC), and the variable Cost of Energy Produced (CEP). The settlement agreement established a methodology that is still in place in which the costs for providing VAR Service are shared by all regional Transmission Customers on a pro rata basis according to their shares of load and reserved transmission capacity.

¹ 16 U.S.C. § 824d (2000).

² See *New England Power Pool*, 88 FERC ¶ 61,140 (1999); *ISO New England Inc.*, 118 FERC ¶ 61,163 (2007)

3. ISO-NE and NEPOOL Participants Committee jointly filed revisions to Schedule 2 – Reactive Supply and Voltage Control from Qualified Reactive Resources Service – of ISO’s Open Access Transmission Tariff referred to as VAR Cost Allocation Amendments. The VAR Cost Allocation Amendments revise Schedule 2 to allocate the variable costs incurred for providing steady-state voltage control during high voltage conditions to the Transmission Customers receiving Regional Network Service (RNS) in the Reliability Region(s) in which the high voltage condition exists. The amendments further provide that when VAR Service is being provided to address high voltage conditions in multiple specific Reliability Regions, the variable costs will be split equally among the affected Reliability Regions and allocated to the respective Transmission Customers. Schedule 2 variable costs related to providing steady state and postcontingency voltage control during low voltage conditions and for dynamic voltage control capability, however, will be allocated in the same manner as such costs are allocated today (i.e., to all Transmission Customers taking RNS and Through or Out Service).

4. ISO-NE and NEPOOL Participants Committee state that a localization of the costs of controlling high voltage will send the proper signal to the transmission owners in the Reliability Regions at issue to address the problem by adopting alternative operating practices and/or installing the voltage control devices necessary to maintain proper voltages under these high voltages and low load conditions. In contrast, ISO-NE and NEPOOL Participants Committee believe that the VAR Cost Allocation Amendments maintain the current region-wide cost allocation of variable costs that relate to low voltage problems, which are generally not amenable to mitigation by individual transmission owners; therefore the continuation of the current cost allocation for such costs is appropriate.

5. ISO-NE and NEPOOL Participants Committee state that the VAR Cost Allocation Amendments are just and reasonable because the amendments recognize the distinction between system-wide variable costs and localized costs in a manner that should encourage proper economic decisions and ultimately result in lower costs. ISO-NE and NEPOOL Participants Committee state that ISO-NE needs steady state and post-contingency voltage control during low voltage conditions to protect the entire bulk-power system from a cascading voltage collapse, and the ISO-NE needs steady state voltage control during high voltage conditions primarily to protect equipment at the specific location or locations that might otherwise experience high voltage levels sufficient to cause equipment damage. ISO-NE and NEPOOL Participants Committee believe that the VAR Cost Allocation Amendments allocate the Schedule 2 variable costs in a manner that recognizes this distinction between voltage control support for the entire bulk-power system and more localized protection, and provides the proper incentive to the entities in the best position to take action which will reduce the costs of maintaining proper voltages over the long run. The VAR Cost Allocation Amendments were supported by 76.68 percent of the NEPOOL Participants Committee.

II. Notice of Filing and Responsive Pleadings

6. Notice of ISO-NE's filing was published in the *Federal Register*, 73 Fed. Reg. 31,847 (2008), with interventions and protests due on or before May 23, 2008. The New England Conference of Public Utilities Commissioners; Northeast Utilities Service Company, The Connecticut Light and Power Company, Western Massachusetts Electric Company, and Public Service Company of New Hampshire; BG Energy Merchants, LLC, BG Dighton Power, LLC, Lake Road Generating, L.P. and MassPower; Constellation Energy Commodities Group, Inc. and Constellation New Energy, Inc.; Dynegy Power Marketing, Inc., Casco Bay Energy Co., and Bridgeport Energy, LLC; Exelon Corporation, Commonwealth Edison Company, and PECO Energy Company; and NSTAR Electric Company all filed motions to intervene. The Maine Public Utilities Commission (MPUC) filed a notice of intervention and comments and the Massachusetts Attorney General (MassAG) filed a motion to intervene and comments. The Connecticut Department of Public Utility Control and the Massachusetts Department of Public Utilities filed notices of intervention, and the New Hampshire Public Utilities Commission filed a notice of intervention and joinder in the comments of the MPUC.

A. MPUC's Comments

7. MPUC tells us ISO-NE's proposed revisions to the OATT derive from the amended complaint of the MPUC in Docket No. EL07-38-000, in which the MPUC sought modifications of two components of Schedule 2 of ISO-NE's OATT. First, the MPUC sought implementation of the Reliability Region Cost Allocation methodology for the Cost of Energy Produced (PC). The Complaint asserted that socialization of the costs of uplift for local voltage support was unreasonable because it muted price signals and was inconsistent with causation principles. Second, the MPUC proposed the replacement of the capital cost (CC) component of the Schedule 2 rate with a CC Rate Deadband proposal in order to eliminate "double recovery" by generators receiving capital cost compensation from two revenue streams: (1) transition period and later auction revenues resulting from the Forward Capacity Market (FCM) settlement and (2) revenues from the Schedule 2 CC Rate.

8. The MPUC notes that although ISO-NE's and NEPOOL's proposal does not fully implement the Reliability Region Cost Allocation proposal advocated by the MPUC in Docket No. EL07-38-000, the proposed cost allocation revisions to Schedule 2 will be a significant move in the right direction. Further, MPUC commends ISO-NE for taking an active role in working with stakeholders and regulators to develop a compromise proposal that promotes a supportable rate design. Accordingly, if the proposed revisions are adopted as filed, the MPUC states it will amend its complaint in Docket No. EL07-38-000 to remove the cost allocation issue.

B. MassAG's Comments

9. The MassAG says that since the MPUC says it will withdraw the cost allocation issue from its complaint in Docket EL07-38-000 if the filed revisions are accepted, the MassAG also supports the revisions. However, the MassAG makes several suggestions. First, it says that since certain transmission customers, such as local electric distribution companies, are subject to regulation by state commissions, their state regulatory authorities should be apprised of the root causes for these VAR charges incurred, so that they can determine whether those companies have acted prudently. The MassAG next recommends that the reports to the Reliability Committee be formalized and made more prominent on the agenda so that stakeholders are adequately apprised of the effects of their actions on the incurrence of localized VAR charges. This way, argues the MassAG, the stakeholders will judge whether the cost of their system improvements are economically justified.

9. Finally, the MassAG suggests that the Commission should direct stakeholders to develop a process to ensure that system upgrades to address high voltage, low load, static VAR requirements, if cost-effective for transmission customers, can be prioritized and constructed in a timely manner. The MassAG argues that although ISO-NE has raised cost causation principles as a driver to provide a proper incentive to parties who are in the best position to act to make economically efficient investment decisions, the system planning process is primarily a stakeholder driven process. According to the MassAG, if a transmission customer determines that a transmission upgrade is more cost-effective than continuing to pay for VAR service, there currently is no established procedure to prioritize the study and approval of such transmission upgrades to ensure that a response to the VAR cost signal will be timely. The MassAG also notes that construction lead-time also depends upon availability of equipment and materials either of which may be in short supply or unavailable.

III. Discussion

A. Procedural Matters

11. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2007), the notices of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

B. Commission Determination

12. The MassAG's suggestion that state regulatory authorities should be apprised of the root causes for VAR charges incurred by transmission customers regulated by state regulatory authorities appears to be a state regulatory issue outside of the Commission's

jurisdiction. Additionally, the MassAG's suggestions that the Commission order both formal Reliability Committee reports and a process for increasing the efficiency of system upgrades would involve the Commission in determining appropriate or acceptable procedures for the stakeholder process. The Commission, however, has stated that it does not wish to micromanage how an ISO conducts its stakeholder discussions,³ and it will not do so here. Moreover, the NEPOOL Transmission Committee has already established a VAR Working Group to review the rules in New England governing the provision of VAR Service including its use, compensation, and cost service. The Commission, therefore, rejects MassAG's proposals.

13. As for the proposal itself, the Commission finds that the proposed revisions to the ISO-NE's OATT are just and reasonable and should encourage proper economic decisions. The revisions are, therefore, accepted to become effective July 2, 2008.⁴

The Commission orders:

The tariff revisions are accepted effective July 2, 2008, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

³ *California Independent System Operator Corp.*, 90 FERC ¶ 61,345, at 62,141 (2000), *reh'g denied*, 101 FERC ¶ 61,007 (2002).

⁴ Although ISO-NE and NEPOOL Participants Committee request a July 1, 2008 effective date, absent waiver, July 2, 2008 is the earliest date that the proposed rate changes can be made effective (i.e., after 60 days' notice or on the 61st day after filing). *See Utah Power & Light Co.*, 30 FERC ¶ 61,015, at 61,024 n.9 (1985) (stating that proposed changes in rates, terms, and conditions cannot become effective (absent waiver) earlier than 60 days' notice to the Commission and that the 60-day notice period required by the Commission's regulations starts to run the first day after the date of the filing); *Central Hudson Gas & Electric Co.*, 60 FERC ¶ 61,106, *reh'g denied*, 61 FERC ¶ 61,089 (1992); *Prior Notice Filing Requirements Under Part II of the Federal Power Act*, 64 FERC ¶ 61,139, *clarified*, 65 FERC ¶ 61,081 (1993).