

3. NEPOOL and Hydro Quebec, a Canadian utility, once had a contractual relationship. This contractual relationship ceased in 2001. But the HQ Interconnection continues to provide a reliability benefit to New England. So the HQICC values have to be established every Power Year, pursuant to the Restated NEPOOL Agreement. The Applicants now are seeking Commission approval of their 2003/2004 Power Year values.

4. In its April 30 Order,³ the Commission directed that the HQICC values established, based on the benefit provided by the HQ Interconnection, for the 2003/2004 Power Year be filed pursuant to Section 205 of the FPA, before June 1, 2003, subject to refund, along with the tie reliability benefits study performed by ISO-NE for the 2003/2004 Power Year (since the study is the basis for the HQICC). Also, the Commission defined the summer period for these calculations as April through November and the winter period as December through March.⁴ For the 2002/2003 Power Year, the Commission assigned HQICCs of 1200 MW in the summer period and 269 MW for the winter period.⁵

II. Applicants' Filing

5. On May 29, 2003, Applicants filed a tie reliability benefits study that identifies the HQICC values for the 2003/2004 Power Year. On June 9, 2003, the Commission's Office of Markets, Tariffs, and Rates issued a deficiency letter finding the May 29, 2003, submittal deficient. It required NEPOOL to identify the potential generation resources available through the HQ Interconnection in each month of the 2003/2004 Power Year and to explain how this data deviates from the tie reliability benefit data in the May 29 filing. The deficiency letter pointed out that the filing assigns no benefits to the HQ Interconnection from October 2003 through May 2004 and a value of 1100 MW from June 2003 through September 2003. On June 16, the Applicants supplemented their May 29 filing.

6. In establishing HQICC values for each of the last several Power Years, ISO-NE has performed a tie reliability benefits study for each year. The study is designed to determine the amount of energy that Hydro Quebec could make available to NEPOOL in the event of a capacity deficiency or other emergency within NEPOOL and is the basis for the HQICC values.

³See *NSTAR Electric & Gas Corp. v. New England Power Pool*, 103 FERC & 61,093 (2003) (April 30 Order).

⁴See *id.* at P. 10.

⁵See *id.*

7. Applicants assert that the methodology and computer modeling used in the 2003 study are the same as those used in the 2002 study. However, they argue that because of changes in the bulk power system since the 2002 study, the 2003 study shows HQICC values of 1100 MW/month for the summer period and 0 MW/month for the winter period. The difference is the expected system conditions for the 2003/2004 Power Year compared to conditions studied for the previous year. Applicants state that changes in expected system conditions, including changes in local and bulk power facilities and changes in both NEPOOL and Hydro Quebec's load and capacity conditions, produce different study results.

8. In their response to the June 9, 2003, deficiency letter, Applicants provide raw estimates of the amount of generating capacity Hydro Quebec could make available throughout the 2003/2004 Power Year. Applicants claim that they do not know to what extent Hydro Quebec capacity is under contract to other control areas to meet their reliability needs. They supply more generation availability data which, given the short response time, is based on simplified and conservative assumptions as to Hydro Quebec's load, generator forced outage rates, and external sales. Applicants request that if the Commission sets the proceeding for hearing, a technical conference be convened with Staff and other interested parties to discuss these issues and resolve the dispute.

III. Notice, Interventions, and Protests

9. Notice of the original NEPOOL filing was published in the Federal Register, 68 Fed. Reg. 35,396 (2003), with comments, interventions, and protests due on or before June 19, 2003. Notice of NEPOOL's filing in response to the Deficiency Letter was published in the Federal Register, 68 Fed. Reg. 38,321 (2003), with comments, interventions, and protests due on or before July 7, 2003. Dominion Resources, Inc., Dominion Energy Marketing, Inc., Dominion Retail, Inc., Dominion Nuclear Connecticut, Inc., Virginia Electric & Power Company (collectively, the Dominion Companies), Hydro Quebec Energy Services (US) Inc. (HQUS), Northeast Utilities Service Company (NUSCO), Select Energy, Inc., NSTAR Electric & Gas Corporation (NSTAR), USGen New England, Inc. (USGen), and IRH Management Committee filed timely motions to intervene and protests.

10. HQUS supports the Applicants' filing. It argues that the proposed HQICC values for the 2003/2004 Power Year were calculated in the same manner upheld by the Commission for the 2002/2003 Power Year. The Commission based the 2002/2003 Power Year HQICC values solely on the results of that year's tie line reliability benefits study and should do so again this year.

11. HQUS agrees with Applicants that conditions in NEPOOL have changed since last year, leading to different study results. It points out that NEPOOL originally had

adjusted last year's 2002 study results based on an assessment of how much power would be needed from the HQ Interconnection, resulting in a proposed winter reliability benefit reduction from 269 MW to 0 MW for last year; this was rejected by the Commission. Nevertheless, HQUS contends that there is neither evidence of any flaw in this year's study nor of any effort to steer the results; instead, the assumptions simply changed. It also argues that the Commission should not base HQICCs on potential generation resources available data. The Applicants provided the information required by the deficiency letter, but this data does not accurately reflect the reliability benefits of the HQ Interconnection and should not be used to set the HQICCs.

12. HQUS also contends that the Commission should uphold the June to September summer period and the October to May winter period. The 2003 study found that each of the eight winter months had similar power and supply demand characteristics that were distinct from those of the four summer months. HQUS asserts that the four month winter period used before was a vestige of the firm energy contract between the IRHs and Hydro Quebec that expired in 2001 and that for all other purposes, the summer ICAP season in NEPOOL was limited to the June to September period. The same seasons should apply to all ICAP resources, including HQICCs. HQUS believes that the proposed HQICC values are an appropriate short-term solution for assigning ICAP value, until the line is rolled in.⁶

13. On the other hand, the Dominion Companies request that the Commission schedule a technical conference with Commission Staff so that all parties can discuss the complex technical matters that are at issue. They are concerned about the issues raised in the June 9 deficiency letter. Specifically, the Dominion Companies assert that unlike the 2002 study, the 2003 study did not identify potential emergency assistance available from Hydro Quebec in the non-summer months. Further, the Dominion Companies emphasize that 0 MW tie reliability benefits from Hydro Quebec does not mean that the capacity available from Hydro Quebec has no value. They point out that all capacity contracted for by New England customers from Hydro Quebec and committed to NEPOOL receives capacity credits in accordance with NEPOOL's market rules applicable to external ICAP transactions. But the filing does not provide similar treatment for the generation available for reliability purposes.

14. The IRH Management Committee argues that the filing violates the prior HQICC orders by changing the summer period and thereby reducing the HQICC values for the months of April, May, October and November to zero. It says that the 2003 study did not

⁶Rolling-in refers to the consolidation of HQ Interconnection costs into a single regional tariff, consistent with the treatment of other ties in NEPOOL. The Commission has called for the acceleration of this consolidation of costs. See *NSTAR Electric & Gas Corp., et al., v. New England Power Pool*, 102 FERC ¶ 61,107 (2003).

use the same methodology as the 2002 study. Hydro Quebec is a winter peaking system and therefore resources available to NEPOOL from Quebec are limited during the four winter months.

15. The IRH Management Committee disagrees with NEPOOL's claim that NEPOOL set the HQICC values equal to the reliability benefits determined by the 2003 study. It points out that the 2003 study does not even attempt to assess the amount of emergency assistance that could be available to NEPOOL over the HQ Interconnection. Rather, it argues that the study estimates whether capacity from Quebec is expected to be needed—exactly the opposite of what the April 30 Order required. The methodology compares the minimum number of MW required to bring NEPOOL to the reliability threshold⁷ with the minimum number of internal MW available. The methodology projects that NEPOOL has sufficient internal generation to satisfy its minimum reliability criterion during the winter period of Power Year 2004 and therefore NEPOOL will not need any of the Hydro Quebec resources. As a result, the IRH Management Committee contends that the 2003 study methodology improperly does not recognize any of the Hydro Quebec resources that could be available.

16. The IRH Management Committee contends that the 2003 study does not treat the capacity value of the HQ Interconnection comparably to generation inside NEPOOL, as the April 30 Order requires. Rather, it gives preference to internal generation. Due to the addition of 3200 MW of internal generation, ISO-NE estimates that NEPOOL will meet its minimum reliability threshold of one day in ten years. However, all internal generation is assigned capacity value whether or not the generation is dispatched or called upon. The IRH Management Committee argues that the HQ Interconnection should receive equal treatment.

17. NSTAR states that, in NEPOOL, 98 percent of the annual risk of loss of load occurs June through September. As a result, NEPOOL typically needs little outside assistance during those eight months, and the tie benefits determined by the study can be near zero while the availability of outside assistance could be much greater than zero. Therefore, NSTAR asserts that the need for outside resources determined by the study is more accurately described as an incremental need.

18. NSTAR states that the 2002 study results were capped at the amount the HQ Interconnection actually contributed to meeting NEPOOL's reliability criteria, and the study improperly recognized no value for the additional amounts HQ could have provided. The Commission held in the April 30 Order that availability of capacity over the HQ Interconnection (not need for the capacity) should dictate HQICC levels.

⁷A Loss of Load Expectation (LOLE) average of 1 day of outage in every 10 years.

NSTAR notes that the 2003 study methodology gives no credit for the availability of ties or for the reliability improvement beyond the 1 day in 10 year LOLE that such availability provides.

19. NSTAR points out that for each month in the 2004 Power Year, except December 2003 through February 2004, resources are potentially available from the HQ Interconnection. These should result in positive HQICC values for the 2004 Power Year, with the exception of those three months. NSTAR states that in identifying the resources that HQ could make available to NEPOOL, the Applicants use load projections that are too high, skewing downward the amount of MWs potentially available over the tie. NSTAR points out that the Applicants' forecast assumes equal probabilities of over- and under-forecasting actual loads and asserts that this is appropriate for setting HQICCs too.

20. USGen contends that the Applicants' June 16 response to the deficiency letter fails to provide the information requested or to address the deficiencies in the original filing. Therefore, USGen urges the Commission to reject the HQICC proposal, to direct NEPOOL to correct the 2003/2004 study, and to order ISO-NE to resubmit HQICC and Objective Capability (OC) values⁸ consistent with such corrected study. In the interim, USGen believes that HQICC and OC values previously determined and approved for the 2002/2003 Power Year should continue to be used.

21. USGen states that on June 16, the Applicants filed what they characterized as an effort to identify Hydro Quebec capacity that could be surplus to Hydro Quebec's own needs and existing long-term contractual commitments. However, the June 16 filing disclaimed both the relevance and the accuracy of the data provided. Additionally, USGen argues that NEPOOL's GE MARS software⁹ failed to detect an improvement in the system's LOLE resulting from the HQ Interconnection.

22. USGen complains that the values presented in the June 16 filing bear no relation to the methodology used in prior tie benefit studies and described in the 2003/2004 Power Year study. They are based exclusively on assumptions regarding Quebec's internal generation and load characteristics, the validity of which is dubious. Additionally,

⁸Objective Capability, as defined by Section 1.64 of the Restated NEPOOL Agreement, is the minimum NEPOOL Installed Capability (ICAP), set by the NEPOOL Participants Committee, required for any year or period during a year in order to meet the reliability standards established by the NEPOOL Participants Committee pursuant to Section 7.5(e) of the Restated NEPOOL Agreement.

⁹GE MARS is the General Electric Multi-Area Reliability Simulation. The HQICC for the 2003/2004 Power Year was determined with a series of studies using this model.

USGen argues that the June 16 filing carries forward the assumption that the maximum capacity of the HQ Interconnection tie lines is 1500 MW. However, USGen contends that nowhere in the initial filing or deficiency filing is the use of the 1500 MW rating value clearly explained or justified.

23. USGen argues that the HQ Interconnection should be recognized on equal terms with internal generation for purposes of assessing OC, establishing ICAP requirements and determining HQICC values. USGen complains that by refusing to do this, NEPOOL and ISO-NE undervalue the reliability benefit associated with the HQ Interconnection, and thus, the HQICCs to be allocated among the IRHs.

24. USGen argues that the use of an 8-month winter and 4-month summer to evaluate resources potentially available from Quebec does not reflect the actual availability of resources in the region.¹⁰ Additionally, USGen contends that to provide parties with immediate relief and to prevent a troubling pattern of delay on the part of NEPOOL, which effectively denies supporters of the HQ Interconnection compensation for the benefit that the tie provides, the Commission should suspend implementation of the existing HQICC values effective with the next ICAP auction after it issues an order in this proceeding.

IV. Applicants' Reply

25. In their July 7, 2003, reply to the IRH Committee, the Applicants reiterate their explanation of the methodology employed for computation of the HQICC values. The IRH Management Committee endorsed this methodology in a prior proceeding. The Applicants maintain that the 2003 Study uses the same methodology utilized in the prior proceeding.

26. Additionally, in their July 21, 2003, reply to NSTAR's and USGEN's pleadings, the Applicants largely mirror the arguments outlined in their May 29 filing. However, the Applicants now argue that neither NSTAR nor USGEN disagree with the use of the GE MARS model or the computing methodology. Instead, they assert that NSTAR and USGEN are dissatisfied with the results.

¹⁰See Exhibit A, Affidavit of Kenneth J. Slater, In Motion to Intervene and Protest of USGen New England, Inc., filed July 7, 2003, in Docket Nos. ER03-894-000 and ER03-894-001.

V. Discussion

A. Procedural Matters

27. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,¹¹ the timely unopposed motions to intervene serve to make those who filed parties to this proceeding.

28. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure¹² prohibits an answer to a protest, an answer to a rehearing request, or an answer to an answer unless otherwise permitted by the decisional authority. We are not persuaded to allow NEPOOL's reply to the IRH Committee, and therefore will reject it.

B. Substantive Matters

29. The Applicants chose to use need for the HQ Interconnection in their filing for the 2003/2004 Power Year values, in spite of clear direction from the Commission to use availability as the basis for these computations. This is a fundamental error in the Applicants proposed HQICC values, making the values unusable. Failure to comply with the Commission's instructions for the HQICC value computations makes their use unjust and unreasonable. Therefore, we reject the Applicants' filing.

30. NSTAR offers its own proposal for the HQICC values. However, NSTAR has not provided adequate support for its values. Therefore, in the absence of appropriately derived HQICC values, we are compelled to establish HQICC based on the record data in this proceeding. The Applicant filed supplemental information on June 16, 2003 providing estimates of the amount of generating capacity Hydro Quebec could make available throughout the 2003/2004 Power Year. The record also indicates that the HQ Interconnection has a transfer capability of 1500 MW capacity which, therefore, becomes the limiting factor for any values that we establish. Applying the physical limitation of 1500 MW of the HQ Interconnection to the available generation set forth in the Applicant's June 16 response, produces the following HQICC values:

Months	HQICC Values (MW)
October	1500

¹¹18 C.F.R. ' 385.214 (2003).

¹²Id. at 385.213(a)(2).

Months	HQICC Values (MW)
November	641
December	0
January	0
February	0
March	535
April	243
May	1500

31. It is necessary to establish HQICC values now to ensure that market participants will have sufficient information to make sound decisions concerning the acquisition of resources to meet their ICAP obligations. Providing certainty regarding appropriate HQICC values helps ensure continued system reliability.

32. We also instruct parties to develop a standard methodology that can be used in the future to avoid future hearings and to provide greater certainty to market participants. We are troubled by the Applicants' disregard of the Commission's directions for establishing the 2003/2004 Power Year values and do not want a recurrence in future Power Years. The collaboratively-established methodology shall be consistent with all Commission orders regarding the HQ Interconnection and shall be filed with Commission by December 31, 2003. This collaborative process renders the requests for technical conferences moot.

The Commission orders:

(A) The Applicants' proposed HQICC values are hereby rejected for filing, as discussed in the body of this order.

(B) The Commission hereby orders use of the HQICC values provided in the body of this order.

(C) The Commission orders NEPOOL, ISO-NE, interested parties, and stakeholders to collaboratively establish a clear methodology for computation of future HQICC values that is consistent with all previous Commission orders on the issue. NEPOOL and ISO-NE shall file this methodology with the Commission no later than December 31, 2003.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.