

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
Nora Mead Brownell, Joseph T. Kelliher,
and Suedeen G. Kelly.

New England Power Pool

Docket No. ER04-358-000

ORDER ACCEPTING COMPLIANCE FILING

(Issued February 27, 2004)

I. Introduction

1. This order accepts for filing: (1) New England Power Pool's (NEPOOL) and New England Independent System Operator, Inc.'s (ISO-NE) (collectively, Applicants) Hydro-Quebec Interconnection Capacity Credits (HQICC) values developed for the 2004/2005 Power Year;¹ and (2) a proposed "procedural methodology" to be applied via the stakeholder process to develop values for subsequent Power Years.² Customers benefit from this order because it sets HQICC values for the 2004/2005 Power Year and provides an enhanced role for stakeholders in the development of future HQICC values.

II. Background

A. HQ Interconnection

2. The HQ Interconnection was constructed in two phases in the 1980s and has been used for energy purchases under contracts and for emergency energy transactions between NEPOOL and Hydro-Quebec.

¹ The Power Year begins June 1 and ends May 31 each year.

² New England Power Pool, 104 FERC ¶ 61,204 (2003) (August 15 Order).

3. The companies who own the HQ Interconnection recover the costs of operating it through Support Agreements with Interconnection Rights Holders (IRHs).³ The Support Agreements obligate IRHs to pay annual support expenses to maintain the HQ Interconnection. In return for their financial support, the IRHs have exclusive physical rights to the transmission capacity of the HQ Interconnection in proportion to their respective financial support obligations. NEPOOL, in recognition of the reliability benefits of the HQ Interconnection (because it gives New England access to additional capacity), allocates HQ credits to the IRHs every year for their support of the HQ Interconnection.

B. August 15 Order

4. In the August 15 Order, the Commission rejected the Applicants' proposed HQICC values for the 2003/2004 Power Year. Our prior orders had found that the HQ Interconnection increases reliability in NEPOOL because it allows access to additional capacity from Hydro Quebec if NEPOOL is deficient. Thus, the reliability benefits are based on availability of capacity, not whether that capacity is actually needed in a particular year. We rejected the Applicants' values for 2003/4 because the Applicants used "need" as the basis, in direct contravention of the Commission's direction that they use "availability."⁴ The Commission determined that this made the HQICC values unusable. The Commission also determined that an intervenor's alternative proposed HQICC values were not adequately supported. Consequently, in light of the necessity to establish HQICC values without delay, the Commission looked to record evidence and established the HQICC values for 2003/4 in order to help ensure continued system reliability.⁵

5. The Commission also directed the parties to develop a standard methodology that can be used to avoid future hearings and to provide greater certainty to market participants. The order stated that this collaboratively-established methodology must be

³ The New England Electric Transmission Corporation, the Vermont Electric Transmission Company, the New England Hydro-Transmission Company, Inc., and the New England Hydro Transmission Corporation own the HQ Interconnection (collectively, Asset Owners). The Asset Owners and the various public utilities and non-jurisdictional utilities that are collectively known as the IRHs.

⁴ See August 15 Order, 104 FERC ¶ 61,204 at P 29.

⁵ See id. at P 30-31.

consistent with all Commission orders regarding the HQ interconnection and must be filed with the Commission not later than December 31, 2003.⁶

C. Notice, Interventions, and Comments

6. Notice of the filing was published in the Federal Register, 68 Fed. Reg. 2,587 (2004), with comments, interventions, and protests due on or before January 21, 2004.

7. TransCanada Power Marketing LTD.; Dominion Resources, Inc., Dominion Energy Marketing, Inc.; and Dominion Nuclear Connecticut, Inc. (collectively, Dominion Companies);⁷ National Grid USA; H.Q. Energy Services (U.S.), Inc.; Unitil Power Corporation and Fitchburg Gas and Electric Company; and Long Island Power Authority filed timely motions to intervene without substantive comments. Certain Northeast Utilities Companies and Select Energy, Inc.; and ISO-NE submitted timely motions to intervene in support of the filing.⁸

8. IRH Management Committee⁹ filed a timely motion to intervene with comments concerning NEPOOL's characterization of simulated IRH Management Committee votes.

⁶ See id. at P 32.

⁷ On January 22, 2004, Dominion Companies filed an amended and corrected motion to intervene.

⁸ The Northeast Utilities companies are: The Connecticut Light and Power Company, Western Massachusetts Electric Company, and Public Service Company of New Hampshire.

⁹ In addition to the Support Agreements, the use of the HQ Interconnection and the rights and obligations of the IRHs are governed by the Third Amended and Restated Agreement with Respect to the Use of the Quebec Interconnection (RUA). The RUA describes the rights and responsibilities that allow the IRHs to govern the use of their individual rights over the assets that comprise the HQ Interconnection. The IRH Management Committee is the committee that has been formed under the RUA to further the collective interests of IRHs.

III. Discussion

A. Procedural Matter

9. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2003), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

B. Analysis

10. With regard to the specific HQICC values filed here for Power Year 2004/2005, we note that they were developed through a collaborative stakeholder process generally consistent with our objective to use “availability” of generation resources over the HQ Interconnection as the basis for establishing HQICC values rather than “need.” Moreover, those values have the broad support of market participants, as evidenced by the 96.67 percent vote of the NEPOOL Participants Committee in favor of the proposal. Therefore, we will accept them.

11. With regard to the “procedural methodology” filed for use in future years, Applicants state that they were unable to agree on an actual substantive methodology. However, they did file a widely supported procedural methodology – a series of steps to be taken in future years to come up with HQICC values that are within a “zone of reasonableness” and that “can be supported using a deterministic model with reasonable assumptions...”¹⁰ We will accept that methodology because it will help the parties reach a consensus for each future Power Year, thus avoiding the repeated complaints that have occurred in the past. The complaint process is not a good way to establish HQICC values because it does not allow us to resolve issues in time for the parties to procure power supplies when they need them. Moreover, as discussed below, we can take further action if the procedure fails to achieve a consensus for the next Power Year.

12. In its transmittal letter, NEPOOL mentions that due to concerns raised by some stakeholders (such as the potential effect of ISO-NE’s Regional Transmission Organization filing in Docket Nos. RT04-2-000 and ER04-116-000 and of Locational Installed Capacity , which is scheduled to be implemented in June 2004), the parties are not certain about achieving a similar level of consensus for establishing the 2005/2006 Power Year HQICC values. We recognize the difficulty of balancing the interests of all industry segments on such a complex issue, and the consensus reached on the HQICC values for the 2004/2005 Power Year is a significant improvement from previous power

¹⁰ Applicants’ filing at p. 9.

years. However, if the parties are unable to agree on HQICC values for the 2005/2006 Power Year, NEPOOL is directed to file supporting studies and details no later than October 30, 2004.¹¹ We will then determine the process needed to resolve any outstanding issues.¹²

The Commission Orders:

(A) The Commission accepts the filing, as discussed in the body of this order.

(B) NEPOOL and ISO-NE are hereby directed, if necessary, to make a compliance filing consistent with this order no later than October 30, 2004.

By the Commission.

(S E A L)

Linda Mitry,
Acting Secretary.

¹¹ We note that procedures in the stakeholder process state that NEPOOL will make a filing no later December 31 of each year that includes supporting studies regardless of whether a consensus is reached (a vote of 66.67 percent is required for passing a resolution) on the HQICC values.

¹² We recognize that the IRH Management Committee took no formal action with respect to the instant filing and we do not base our decision here on any perceived approval by that committee of the proposed filing. See IRH Management Committee Motion to Intervene at 5-6.