

MMWEC actions target rising transmission costs; \$100m/year savings possible

With New England's electric transmission costs expected to double by 2015, MMWEC is taking several actions to ensure that municipal utility consumers are not overpaying for transmission service.

MMWEC has joined with other parties in asking the Federal Energy Regulatory Commission (FERC) to reduce the profits and incentives that transmission owners are allowed to recover on their investments in transmission facilities. The two separate FERC filings have the potential to reduce consumers' transmission costs by well over \$100 million per year.

Base ROE Complaint

MMWEC joined the Massachusetts Attorney General and others in a Sept. 30 complaint to the FERC seeking to reduce the rates charged by New England transmission owners by more than \$100 million a year.

The complaint seeks a reduction in the FERC-approved base Return on Equity (ROE) or profit that transmission owners

are allowed to earn on their investments in transmission facilities. The current base ROE, set in 2006, allows transmission owners to earn 11.14 percent on their investments, a rate that is inconsistent with today's economic conditions. The complaint provides evidence supporting a base ROE of 9.2 percent, which would reduce consumer costs by \$113 million in 2011 and by more than \$215 million in 2015.

"When today's lower cost of capital is plugged into the regulatory formula for determining the return on equity for transmission owners, the need for change is clear," said MMWEC CEO Ronald C. DeCurzio. "The transmission owners' current rate of return on equity is excessive, which results in consumers being overcharged for transmission service by more than \$100 million per year, an amount that escalates rapidly as the investment in transmission increases."

The complaint says the base ROE is applied to a transmission investment base of approximately \$6.3 billion in 2011, an amount expected to escalate to \$11.5 billion in 2015 as additional transmission facilities

are constructed.

The base ROE is used in calculating formula rates for transmission service under ISO New England's open access transmission tariff. The base ROE does not change each year with changing economic conditions and can only be changed by the FERC.

In addition to the base rate, the FERC has authorized numerous incentives to promote transmission development, including adders to the base ROE that bring the total return for some transmission owners to more than 13 percent. The base ROE complaint does not address the need for such incentives, which are the subject of a separate FERC proceeding.

Massachusetts Attorney General Martha Coakley said the base ROE needs to be reduced because economic conditions have worsened and interest rates have declined, reducing the cost of capital for transmission owners.

"Electric transmission companies in New England have enjoyed the benefits of higher returns that were set when eco-

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Attendees at a recent Municipal Electric Association of Massachusetts (MEAM) Communications & Energy Services conference, above, toured the Berkshire Wind Power Project on Brodie Mountain.

Project Spotlight

Berkshire Wind reaches full capacity in strong fall winds

Stronger fall winds and high availability enabled the Berkshire Wind Power Project to operate at or near full capacity during many October hours, confirming the project's Brodie Mountain home as one of the best inland wind sites in Massachusetts.

Berkshire Wind started commercial operation on May 28, 2011, taking its place as the Commonwealth's first and largest utility-scale wind farm. During the project's dedication ceremony, Massachusetts Governor Deval Patrick called the project "a beacon of our clean energy future" and praised the cooperative efforts of municipal utilities in making the project a reality.

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MMWEC targets transmission costscontinued from Page 1

conomic conditions were much better,” Coakley said. “It is now time for the federal government to set rates at an appropriate level in order to give ratepayers relief from the current rates,” she said.

Incentive Rate Filing

In a Sept. 12 filing with the Federal Energy Regulatory Commission (FERC), MMWEC is seeking changes in a federal policy that provides a variety of financial incentives for the development of transmission facilities. In addition to MMWEC, the filing parties include attorneys general, utility regulatory commissions and consumer advocate agencies representing all of the New England states as well as Delaware and Illinois.

While recognizing the need for and benefits of adequate transmission, MMWEC and the other filing parties “have deep reservations about the manner in which (the policy) has been implemented.”

To date, the FERC-administered incentives policy has resulted in New England consumers being “unfairly burdened by costly incentive rates added onto the already tremendous price tag for building those facilities – often in circumstances where the inducements were probably unnecessary and therefore wasteful,” the filing states.

The joint filing reinforces MMWEC’s concern, expressed in numerous incentive rate cases before the FERC, that the seemingly routine approval of return on equity (ROE) incentives is unnecessary to induce transmission construction, particularly in New England where mechanisms already exist to reduce construction risks and ensure recovery of transmission investments.

The FERC invited comments on its implementation of the incentives policy through a formal Notice of Inquiry, which MMWEC believes gives the FERC an important opportunity to revise the policy by establishing criteria that focus on the identification and mitigation of true risks for transmission owners and the containment of costs to consumers.

Separately, MMWEC and the New Hampshire Electric Cooperative (NHEC) filed comments urging the FERC to make better use of the incentive policy to pro-

mote diversified ownership of transmission facilities.

The benefits of diversified transmission ownership are substantial and have been recognized by the FERC in previous orders, including an order in which the commission states it would “look favorably” on requests for incentives that include public power joint ownership of transmission facilities.



MMWEC and NHEC argue that this approach is not capturing the benefits of joint ownership and has not been effective in promoting diversified transmission ownership.

“In fact, by making transmission investment more profitable and less risky for individual transmission owners, existing policy may well undermine any impetus to complete joint ownership arrangements,” the filing states.

To address this issue, MMWEC and NHEC argue that the FERC should require

applicants for incentives who claim there are risks associated with their projects to demonstrate that they have sought to mitigate those risks by making investment opportunities available to other entities on a comparable, nondiscriminatory basis.

In addition, a bipartisan group of U.S. Senators, including Sen. John Kerry, stated in a letter to the FERC that they “are concerned that the Commission’s administration of the transmission incentive program has diverged from Congress’ intent” in enacting the policy.

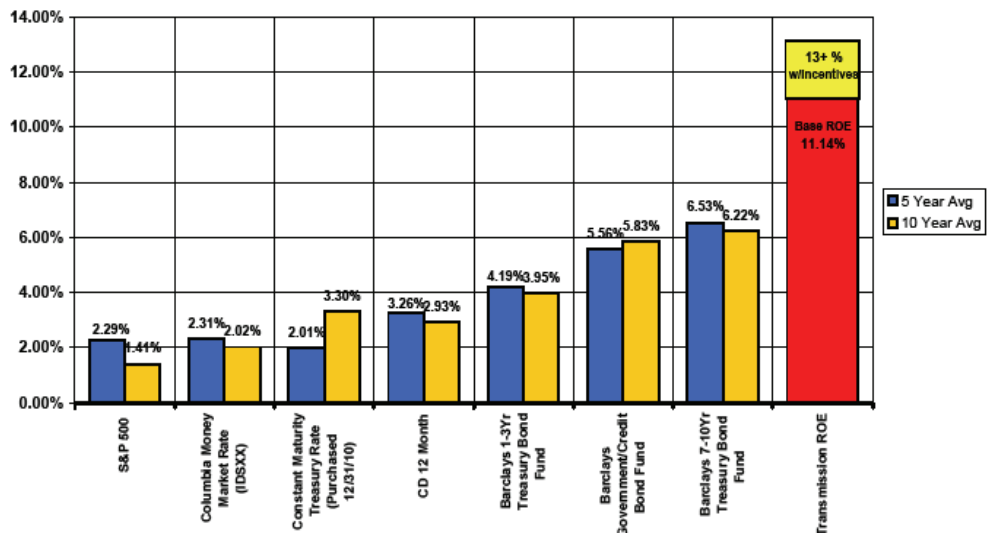
“Unreasonable rate incentives hit consumers in their pocketbooks and affect businesses’ bottom lines,” the Senators state. “Furthermore, the prolific use of ROE adders may disincentivize the use of other important, cheaper, non-transmission alternatives, such as smart grid infrastructure, energy storage, demand response, energy efficiency technologies and distributed generation.”

Other Initiatives

Other MMWEC initiatives to contain transmission costs include an ongoing effort to obtain an ownership interest in the region’s transmission facilities, which would help to offset costs through receipt of ownership revenues.

In addition, MMWEC is active in the ISO New England process for developing a plan for compliance with the FERC’s landmark transmission planning and cost allocation order, issued in July 2011.

Typical Rates of Return vs Transmission ROE



Low prices create attractive power deals for MMWEC portfolio participants

MMMWEC and its member utilities are continuing to take advantage of low prices to hedge open market positions with forward power purchases as far out as 2015.

With power prices continuing to gravitate lower, driven by natural gas prices, MMWEC is executing forward power deals at around-the-clock (ATC) prices of less than \$55 per megawatt hour to close open positions in 2015.

ATC prices for power in earlier years range from approximately \$48 per megawatt hour in 2012 to \$52 per megawatt hour in 2014.

“Ample supplies of natural gas and increased levels of production are

sustaining market expectations for a continued abundance of gas and low prices,” said Jay Kline, MMWEC’s Director of Treasury and Commodities. “This is enabling MMWEC to execute transaction that reduce members’ exposures to the spot market at very attractive prices,” he said.

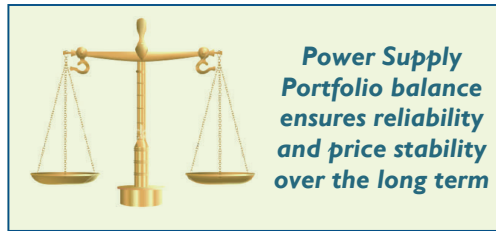
These transactions are performed using MMWEC’s Power Supply Portfolio Management services, which integrate power supply planning, market analysis, resource develop-

ment, contracting and risk management functions. In this system-specific process, MMWEC accommodates each system’s unique portfolio goals and risk tolerance levels while bulk purchases under the MMWEC credit umbrella capture economies of scale and limit transaction costs.

Typically, members have diverse portfolios that include owned generation, various contractual resources and some exposure to the spot market for electricity.

“The goal is develop a diverse and well-balanced portfolio for each member that ensures reliability and price stability over the long term,” Kline said.

MMWEC’s unique capabilities to manage the counterparty risks associated with bulk power purchases are key to the program’s success.



MMWEC to participate in cyber security exercise

NERC compliance program includes potential ‘best practice’



MMMWEC has one of the better programs to ensure compliance with electric system reliability standards and a potential ‘best practice’ among its compliance activities, according to the Northeast Power Coordinating Council (NPCC).

MMWEC responses to the NPCC Culture of Compliance survey resulted in the finding that MMWEC meets or exceeds compliance requirements, from having a board-approved Reliability Compliance Program to maintaining practices for self-improvement, training and communication related to reliability standards and requirements of the North American Electric Reliability Corporation (NERC).



David Gordon
NERC Compliance Officer

According to MMWEC’s NERC/Regulatory Services Compliance Officer David Gordon, NPCC was particularly interested in MMWEC’s concept of “regulatory margin”, a practice that endeavors to maintain a margin of compliance above regulatory requirements. MMWEC uses this practice in managing its jointly-owned generating resources and has adopted the practice for use in its NERC Reliability Compliance Program.

“Maintaining a regulatory margin involves keeping a close watch on regulatory developments and continually improving our program activities to ensure compliance,” Gordon said. “Essentially, the practice provides a hedge against potential violations, which could be costly for MMWEC. Our objective goes beyond compliance excellence. Our goal is reliability excellence.”

He said the NPCC may use MMWEC’s concept of regulatory margin as a best practice in its correspondence and presen-

tations to industry stakeholders.

In addition, maintaining a sound culture of compliance is consistent with the philosophies of enforcement agencies that entities will be given credit with regard to penalties and sanctions if an effective compliance program is in place.

Cyber Security Exercise

Separately, MMWEC will participate in GridEx 2011, a North American cyber security exercise sponsored by the NERC. The exercise will enable participants to exercise their Cyber Incident Response Plans, enhance industry security capabilities and strengthen relationships among entities with responsibilities to respond in an actual emergency.

GridEx 2011, scheduled for mid-November, will be a 1.5-day, internet-based exercise in which participants will respond to a cyber attack or incident involving the bulk power system. Among the other 40-plus participants are utilities throughout the United States and Canada, government agencies, reliability organizations and industry associations.

NERC’s Critical Infrastructure Protection (CIP) standards require MMWEC to maintain a Cyber Incident Response Plan due to its ownership and operation of the Stony Brook power plant. Stony Brook, based upon NERC and NPCC criteria, is a critical asset in the Bulk Power System.

By participating in the exercise, MMWEC will be able to test its response plan (an annual NERC requirement) and gain first-hand knowledge of the process for responding to cyber emergencies. It also will provide a better understanding of how municipal utilities should respond to a widespread cyber incident.

MMWEC is closely monitoring the development of new NERC CIP standards, which are likely to include additional requirements for municipal utilities in years ahead.

MMWEC SREC sales exceed \$300,000 through third quarter

The number of Solar Renewable Energy Certificates (SRECs) generated by the MMWEC Solar Aggregate has increased significantly during 2011, resulting in more than \$300,000 in SREC sales to help Aggregate participants offset the costs of solar projects in Massachusetts municipal utility communities.

SRECs generated by the MMWEC Solar Aggregate increased from 136 in the first quarter, to 205 in the second quarter and to approximately 220 in the third quarter.

One SREC is created each time a solar project, or an aggregation of solar projects, generates 1,000 kilowatt hours of electricity.

MMWEC has sold its 2011 SRECs generated through the third quarter without using a broker, saving 2-3 percent in broker fees. An agreement for the sale of third quarter SRECs will close once the SRECs are "minted" through the NEPOOL Gen-

erator Information System (GIS).

On a quarterly basis, SREC's are "minted" electronically by NEPOOL based upon verified meter readings and then credited to generators or their aggregator.

There are currently 38 solar projects with a total capacity of 653 kilowatts participating in the MMWEC Solar Aggregate, created by MMWEC to enable municipal utilities and their customers to capture the benefits of the Commonwealth's solar development incentive, which is based upon the production and sale of SRECs.

Projects in the MMWEC Solar Aggregate range from the 369.6-kilowatt solar project in West Boylston to smaller municipal projects and individual residential installations. In addition to West Boylston, the MMWEC Aggregate projects are located in the communities of Ashburnham, Shrewsbury, Templeton, Ipswich, Holden, Littleton, Middleborough, Rus-

sell and Sterling.

Any solar project located in a municipal utility community is eligible to join the MMWEC Solar Aggregate. MMWEC provides assistance in meeting the qualification and registration requirements for projects seeking to sell SRECs. Once a project is qualified and registered, it can join the Aggregate, which handles SREC transactions from start to payout for participants.

MMWEC also offers a solar project development program that provides site assessments, pre-approved contractors and discounted pricing for project components. Residential energy audits provided through MMWEC's Home Energy Loss Prevention Services (HELPS) program now include residential solar assessments.



Berkshire Wind reaches full capacitycontinued from Page 1

State Energy and Environmental Affairs Secretary Richard K. Sullivan congratulated project owners "for the initiative and perseverance they have demonstrated in successfully developing the Commonwealth's first onshore wind farm."

Berkshire Wind is a 10-turbine, 15-megawatt wind farm owned and operated by the Berkshire Wind Power Cooperative Corporation (BWPC). The BWPC membership is comprised of MMWEC and 14 Massachusetts municipal utilities based in the communities of Ashburnham, Boylston, Groton, Holden, Hull, Ipswich, Marblehead, Paxton, Peabody, Shrewsbury, Sterling, Templeton, Wakefield and West Boylston.

With the retirement of BWPC President H. Bradford White, general manager of the West Boylston Municipal Lighting Plant, Wakefield Municipal Gas & Light Department General Manager Peter Dion is assuming the BWPC presidency.

Startup and equipment issues, coupled with moderate summer wind, kept the project's capacity factor in the mid-

20s during the initial months of operation. MMWEC believes many of these issues involving computer cards and other electronic components may be attributable to the turbines being inactive and stored in cold weather during the year-long construction delay.



The shadow of MMWEC's Neil Geary can be seen at lower left atop a Berkshire Wind Power Project turbine. MMWEC performs a variety of maintenance and operations tasks at the project.

"The number of turbine events has decreased significantly since startup," said Ed Kaczinski, MMWEC's Director of Engineering and Generation Assets. "We've been seeing higher availability in recent months, in time for the project to take advantage of the stronger winter winds," he said.

Through a series of agreements with BWPC, MMWEC acts as the BWPC's agent to perform numerous tasks associated with the financing, construction and operation of the project. In conjunction with turbine manufacturer General Electric, MMWEC remotely monitors project operations and can control certain turbine functions from the control room of its Stony Brook power plant in Ludlow.



Massachusetts Municipal Wholesale Electric Company

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