



A PUBLICATION OF THE MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY (MMWEC)

## FERC Orders Hearings on New England Transmission Rates and Rate-Setting Process

**M**MMWEC has intervened in a case initiated by the Federal Energy Regulatory Commission (FERC) to investigate the formula used to set New England transmission rates, which appears “to be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful,” according to the FERC.

In a December 28 order, issued on its own initiative, the FERC expressed concern that charges calculated under the tariff formula “lack adequate transparency and challenge procedures with regard to the formula rates for ISO-NE Participating Transmission Owners (PTOs).” According to FERC, the formulae used to set both Regional Network Service (RNS) and Local Network Service (LNS) charges “appear to lack sufficient detail in order to determine how certain costs are derived and recovered in the formula rates.”

The RNS rate is calculated annually using a formula that includes the costs of all Pool Transmission Facilities (PTF) in New England. PTF generally are the larger, higher-voltage transmission facilities that form the backbone of the New England grid. The PTOs also maintain LNS rates aimed at the recovery of non-PTF transmission costs and other expenses.

The RNS rate is calculated based on a single formula used by all of the PTOs that incorporates their respective RNS revenue requirements. The PTOs submit a joint, annual update to FERC that includes their current (and respective) transmission revenue requirements. Forty-five days before the FERC filing, a draft of the filing is made available to all interested parties for review and comment. Some of the PTOs are required to file their LNS rates with

the FERC as well. There is no standard method for calculating LNS rates under the tariff.

FERC’s preliminary analysis of the RNS and LNS formula rates found that they lack adequate safeguards to ensure that the input data is correct and accurate, that calculations are performed consistently with the formula rate, and that the costs to be recovered in the formula rates are reasonable and prudently incurred. FERC also is concerned that several of the PTOs that provide LNS are not required to submit annual updates. The formula rate protocols also lack provisions to allow interested parties to informally resolve disputes related to the implementation of the formula rates, or to bring formal challenges to FERC without needing to file a formal complaint.

FERC has established hearing and settlement judge procedures to examine these issues and determine just and reasonable formula rate protocols. Settlement talks are already underway, and a settlement conference is scheduled for March 24. FERC generally encourages parties to try to settle their disputes without the need for an evidentiary hearing, and will not initiate a hearing process until the parties conclude that they have reached impasse.

Concerns raised in the FERC order are similar to those raised in a June 2015 letter from Massachusetts Attorney General Maura Healey to ISO-NE CEO Gordon van Welie and the chairman of ISO-NE’s Pool Transmission Owners Administrative Committee (PTOAC). The letter seeks greater transparency in the process of

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## Sterling Municipal Light Department Joins MMWEC Energy Efficiency Program

**T**he Sterling Municipal Light Department has joined MMWEC’s “Green Opportunity – Energy Efficiency”, or GO, Program. Sterling joins seven other MMWEC Members currently taking advantage of this unique service designed to implement energy efficiency initiatives that benefit commercial and industrial (C&I) customers.

The Sterling Municipal Light Department is offering the Prescriptive Lighting GO Program – a fast-track process for reviewing and implementing lighting projects. The program is designed for commercial and industrial utility customers who have identified lighting improvement projects and have procured cost estimates from licensed installers. Prescriptive Lighting rebates are straight forward,

pre-defined measures with pre-defined rebate amounts.

The GO Program delivers customized energy efficiency solutions for C&I customers of Massachusetts municipal utilities. It provides benefits for the utility, its customers and the community as a whole, as well as control over various program components, including the budget.

“The GO program creates opportunities for utilities to develop powerful relationships with local businesses while increasing energy efficiency and reducing environmental impacts”, said Kim Grant, MMWEC’s Energy Efficiency Program Manager. “Dollars not spent on energy provide local businesses with economic development and employment opportunities, with winning outcomes for the utility,

its customers and the community,” she said.

Under the program, municipal utilities receive services that include energy audits, marketing, customer intake, project design and tracking, technical assistance and inspections, rebate processing and tracking and reporting of energy savings. The GO Program also supports local economic development by encouraging the use of local contractors to complete projects.

“We’re excited that SMLD is joining the GO Program and look forward to

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## Portfolio Strategy Adjusted to Capture Market Trends

A flexible power supply portfolio hedging strategy has allowed MMWEC to reduce risk and costs to Members while taking advantage of lower power prices over the coming months.

Record high temperatures early this winter, combined with low demand for electricity, availability of natural gas and more renewable resources, have pushed wholesale power prices down. Based on these trends, the projected price of future power in New England is lower than it is today.

MMWEC currently purchases power on a regular basis and in similar amounts until the point in time when the power is needed. Under this “dollar cost averaging” strategy, no one purchase will disproportionately impact the overall cost of the power at the time it is needed. This strategy offers the most stable price over time.

With power prices in the next few years projected to be lower than they are today, this strategy is being adjusted to enable Members to capture the benefits of this market trend. Changing the way power purchases are executed,

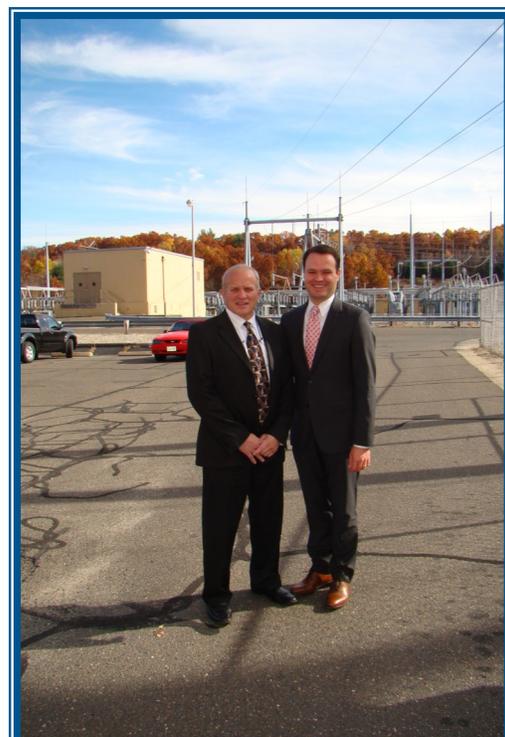
while maintaining the core features and disciplines of dollar cost averaging, will reduce future power costs for Member utilities if current downward price trends continue.

“By changing the tactic of our buys and recognizing market price trends, we’re able to allow the hedged power costs to float downward and retain risk controls,” said Matthew Ide, Director, Treasury & Commodities.

These changes are part of a continuous focus on strengthening power portfolio management strategies to bring greater value and economy to Members’ power portfolios. Hedging is a critical tool MMWEC utilizes that brings price stability to Members’ power costs in times of market uncertainty.

It involves entering into contracts for future power, using a variety of market intelligence and analytical tools to manage risks and achieve stable prices.

To address more complicated risks, MMWEC has expanded its risk assessments to include products such as load-following and options contracts. In addition, credit risk analysis tools are used to reduce exposure and minimize risk to counterparty credit quality. ∞



*Massachusetts State Senator Eric P. Lesser of Longmeadow visited MMWEC and toured the Stony Brook Energy Center in November. He is pictured here with MMWEC CEO, Ron DeCurzio.*

## MMWEC Comments Seek Exemption From FERC Reporting Requirements

MMWEC and other New England public power agencies have filed comments in response to the Federal Energy Regulatory Commission (FERC) Notice of Proposed Rulemaking (NOPR) intended to bolster the commission’s market monitoring capabilities. The comments, filed with FERC on Jan. 22, reflect MMWEC’s concern about impacts of the NOPR on consumer-owned utilities that do not have the motivation or capability to manipulate the markets.

On Jan. 13 the FERC denied a motion by industry groups to withdraw and revise the NOPR to reflect information from a December technical conference on the proposed rulemaking. The groups also sought to extend the comment filing period beyond Jan. 22, which the FERC denied.

The NOPR would require all ISO/RTO market participants to provide ISO-NE with information about “Connected Entities” that they have ownership, employment, debt or contractual relationships with, as well as details about the nature of those relationships. ISO-NE would provide this information to the FERC, which through the NOPR is seeking to expand the information it receives in an effort to detect market manipulation.

MMWEC supports FERC’s efforts to acquire information that will help it prevent market manipulation. However, MMWEC believes the NOPR fails to strike an appropriate balance between its potential benefits and the burdens of compliance on not-for-profit, consumer-owned utilities. The MMWEC comments state that such utilities, due in large part

to their business model, which is different from their investor-owned counterparts, do not have the capability or motivation to manipulate the markets.

In addition, the reporting requirements would require significant reassignment of the already constrained resources of consumer-owned utilities, thereby inhibiting their ability to participate effectively in the marketplace.

The comments from MMWEC, Connecticut Municipal Electric Energy Cooperative, New Hampshire Electric Cooperative and Vermont Public Power Supply Authority, include a request for exemption from the reporting requirements for consumer-owned utilities selling fewer than 4 million megawatt hours annually at wholesale. This is the threshold used in exempting small

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## MMWEC Ensures Member Participation in Upcoming Forward Capacity Auction

**M**MMWEC is preparing for the upcoming ISO New England 10<sup>th</sup> Forward Capacity Auction, which is expected to include several new projects.

MMWEC has been completing resource qualification requirements over the past several months. Although MMWEC is not bidding a new resource into the market, several steps need to be performed to participate, to ensure that all MMWEC Member resources are qualified and Member capacity obligations are met.

Using the ISO-NE Forward Capacity Tracking System, an online system for managing information related to resources participating in the Forward Capacity Market, MMWEC submitted the information required to qualify its existing capacity for the auction, including the New York preference power allocations of Massachusetts, Connecticut and Rhode Island. MMWEC filed a composite offer with ISO-NE, designating the Stony Brook Energy Center and a non-MMWEC asset as a combined resource. As Stony Brook has excess capacity over its annual summer qualified capacity in the eight-month winter period, and other asset owners have excess capacity in the summer, combining resources helps MMWEC maximize Stony Brook's annual capacity revenues.

In addition, MMWEC was required to meet an October dead-

line to designate specific units as self-supply for the auction. The majority of MMWEC Member resources are self-supply, which reduces Member capacity supply obligations.

The installed capacity requirement (ICR) for FCA 10 – the amount of capacity the ISO has determined needs to be available in 2019/2020 to meet the region's projected peak demand, plus required reserves – is 34,151 megawatts (MW). This year, the ICR calculations took into consideration behind-the-meter solar resources that are forecasted to be installed, or have been installed but have not been reflected in historical loads. The inclusion of behind-the-meter solar resources resulted in a 390 megawatt reduction in the ICR.

The ICR for FCA10 is 1400 MW more than the 32,747 megawatts of existing resources in the region, which includes the retirement of the Pilgrim nuclear station. However, 6,720 megawatts of new projects have been qualified to participate in FCA 10.

Analysts from UBS Securities who follow the markets are projecting the clearing price in FCA 10 to be about \$11/kW-month. That's up from \$9.55/kW-month in last year's FCA 9. Analysts say they expect the higher clearing price primarily due to the impending retirement of the Pilgrim nuclear power plant. ∞

## FERC Orders Transmission Formula Hearings..... Continued from Page 1

calculating transmission rates.

Healey, joined in the letter by 17 other parties, including consumer advocates from Rhode Island, New Hampshire, Maine and Connecticut, proposes that the information provided to the public be expanded by availability and scope. The letter also suggests that interested parties be given the opportunity to review, question and challenge, if necessary, the implementation of the formula rates.

A working group has been formed through the PTOAC to analyze the issues raised by the AG's office and modify the formula rate protocols as appropriate. That effort is being folded into the pending settlement process.

FERC's action in issuing this order is not unprecedented, as the commission has initiated similar investigations in other parts of the country in which ISO transmission formula rates are in effect. FERC earlier directed the Midcontinent Independent System Operator (MISO) to revise the formula transmission rate protocols in its tariff to address scope of participation, the transparency of the information exchanged and the ability of customers to challenge transmission owners' implementation of the formula rate.

MMWEC's intervention reflects its status as a PTO and as a representative of its Member utilities, which are transmission customers paying both regional and local transmission rates.

MMWEC is a PTO by virtue of its limited ownership of transmission facilities, but like its Members is largely dependent for transmission service on the region's larger, investor-owned PTOs. MMWEC does not have LNS rates, but

does collect RNS revenue stemming from its ownership of transmission facilities associated with its ownership in several power plants.

While any changes to the formula or rate resulting from the FERC order could reduce revenues for all PTOs, including MMWEC, the net impact of a transmission rate reduction would be dollars-positive for MMWEC and its Members. MMWEC's RNS revenue is less than two percent of what it pays to other PTOS for RNS service.

Transmission charges are among the fastest rising costs for New England electricity consumers, with RNS rates forecasted to increase approximately 25 percent over the next five years.

MMWEC continues in its efforts to contain transmission costs through ongoing FERC and federal court proceedings seeking to reduce the rate of return on equity paid to transmission owners. A FERC decision issued in mid-2014 concerning a challenge brought by MMWEC and others to transmission ROE levels resulted in a reduction in both the "base" return on equity and the "cap" on the level of base ROE plus incentives. The decision is now before the DC Circuit Court of Appeals, where MMWEC and others are continuing to push for additional reductions, as well as supporting FERC in fighting against transmission owner efforts to overturn the ruling. An initial decision is expected from a FERC administrative law judge late in March in two additional New England ROE complaints.

MMWEC also is seeking opportunities to expand its transmission ownership as a way to offset costs. ∞

## Sterling joins MMWEC efficiency program.....Continued from Page 1

helping their C&I customers implement energy efficiency measures,” Grant said.

SMLD is taking a unique approach by offering incentives according to the size of the business. This tiered approach allows them to offer incentives ranging from \$500 to \$2,000 for small, medium and large businesses. Most MLPs offer a set rebate regardless of business size. The flexibility of the GO Program allows MLPs to set incentive caps according to their budgets and customer base.

Sterling Municipal Light Department General Manager Sean Hamilton explained why SMLD has joined the program.

“Joining the GO Program was a natural transition from the work we are doing with MMWEC on an existing grant to assisting our C&I customers,” he said.

“Our plan has been to establish a program, and this experience gave us better insight on how we wanted it to perform.”

Hamilton said the program will allow SMLD to interact positively with its small, medium and large commercial and industrial customers.

The GO Program is open to MMWEC members and non-members.

“The Prescriptive Lighting Program is our most popular GO Program and easy for MLPs to implement,” she said. “MLPs set the incentive cap and MMWEC does the rest. Customers are happy to receive any incentive toward their lighting retrofit projects and typically see a quick return on their investment.”

The Prescriptive Lighting Program provides a streamlined process for the review and installation of lighting improve-

ment retrofit projects in existing commercial, industrial, governmental and institutional buildings.

Under the program, lighting retrofit projects that result in energy savings, including HID lighting, fluorescent lighting, LED, lighting controls and advanced lighting projects may be eligible. Following a brief application process, approval of the proposed project, and an inspection of certain projects, an incentive check will be issued for projects that successfully meet the parameters of the program.

The MMWEC GO Program also offers a prescriptive program for HVAC, New Construction and Major Renovation Program, as well as a Custom Retrofit GO Program, in which a customer with a specific project or a general interest in energy efficiency opportunities applies. ∞

## NOPR comments ..... Continued from Page 3

public power utilities from other generally applicable reporting requirements, such as FERC’s electric quarterly reports (EQR).

The comments also request that contracts between joint action agencies like MMWEC and their member utilities be excluded from the NOPR’s contractual reporting requirements, consistent with the treatment of such contracts in other contexts.

Should the FERC not grant the exemptions requested, MMWEC has made several requests concerning the existing proposed rules:

- Add a “safe harbor” for inaccurate or late submissions that are inadvertent, timely remedied, and cause no harm
- If no safe harbor, treat such violations with leniency for at least two years after the rule is implemented
- Extend the proposed 15-day reporting requirement to quarterly reporting
- Phase the proposed rule in over time to allow small public power utilities to better handle the additional workload

The comments also seek to clarify what information employees are required to track and report, and what constitutes a need to report. ∞

### James E. Baker - A Public Power Pioneer



James E. “Jim” Baker, a founder of MMWEC and public power pioneer, died on Dec. 3, 2015, at the age of 94.

Mr. Baker, manager of the consumer-owned Shrewsbury Electric and Cable Operations for 28 years, was an early trailblazer for public power. In 1960, Mr. Baker and the Shrewsbury utility brought a complaint to the Federal Power Commission, challenging the New

England Power Company, predecessor of National Grid, for refusing to sell power at wholesale prices to Shrewsbury. Mr. Baker persisted through a long legal fight, and prevailed in 1964. The decision established municipal systems as utilities in their own right and allowed them to purchase power at wholesale from suppliers, to the benefit of consumers.

As a steadfast proponent of the concept of joint action among municipal utilities, Mr. Baker later became a key figure in the creation of MMWEC. He served as the organization’s chairman from its inception in 1969 until 1983. Mr. Baker also served as both president and as a director of the American Public Power Association.

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