**UNITED STATES OF AMERICA**
**BEFORE THE**
**FEDERAL ENERGY REGULATORY COMMISSION**

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| ISO New England Inc. | ) ER14-1050-000 |
| New England Power Pool | ) ER14-1050-001 |

# COMMENTS OF NORTHEAST ENERGY EFFICIENCY PARTNERSHIPS, WITH THE NORTHEAST UTILITIES COMPANIES, VERMONT ENERGY INVESTMENT CORPORATION, AND ENVIRONMENT NORTHEAST

Pursuant to Rules 211 and 212 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("FERC" or the "Commission"), 18 C.F.R. §§ 385.211 and 385.212, Northeast Energy Efficiency Partnerships, Inc., [1] with the Northeast Utilities Service Company on behalf of the Northeast Utilities Companies, Vermont Energy Investment Corporation, and Environmental Northeast, (collectively, the "EE Stakeholders") hereby comment in the above-captioned proceedings.

## I. INTRODUCTION

The EE Stakeholders respectfully submit these comments and recommendations to the Federal Energy Regulatory Commission (FERC) regarding the *Proposed Revisions to Market Rule 1 of the ISO-NE Tariff* filed by ISO New England and the New England Power Pool.[2] These comments focus specifically on the implications of changes to Market Rule 1 for energy efficiency (EE) resources. The proposed revisions to the ISO New England Market Rule have

[1] NEEP moved to intervene in this docket by doc-less intervention submitted on February 11, 2014.
[2] These comments are offered by NEEP and the EE stakeholders identified herein, and do not necessarily represent the views of the NEEP Board of Directors, sponsors or underwriters.

potential implications for the participation of ratepayer-funded energy efficiency (EE) programs in the Forward Capacity Market (FCM), either administered by electric utilities or third-party program administrators (PAs). It is the purpose of these comments to raise this matter to the FERC's attention so that due consideration can be given to the possible impact of proposed revisions on the continued participation of EE programs in the FCM.

Northeast Energy Efficiency Partnerships (NEEP) is a non-profit 501(c)3 organization founded in 1996, which works regionally with key industry players across the Northeast and Mid-Atlantic regions to advance energy efficiency in buildings. NEEP's work includes facilitating the Regional Evaluation, Measurement & Verification Forum, an effort involving nine states in the region to coordinate energy efficiency evaluation research (e.g., regional end-use loadshape studies), and to build greater consistency in measuring, evaluating and reporting EE program impacts, including informing national EM&V protocols. The Forum is guided by a Steering Committee represented by public utility commissioners from each participating jurisdiction, as well as state energy office and air regulatory representatives.

The Northeast Utilities Companies are The Connecticut Light and Power Company, Western Massachusetts Electric Company, Public Service Company of New Hampshire, and NSTAR Electric Company. The Northeast Utilities Companies provide electric transmission and distribution services to approximately 3.5 million commercial and residential retail customers in Connecticut, Massachusetts, and New Hampshire. The Northeast Utilities Companies are Market Participants under ISO-NE's Transmission, Markets and Services Tariff, including the FCM provisions in Market Rule 1 and Appendix A.

Vermont Energy Investment Corporation (VEIC) is a private, nonprofit organization that operates the statewide Energy Efficiency Utility - Efficiency Vermont. In its capacity as the entity that is responsible for DSM, the Vermont Public Service Board has charged VEIC with bidding capacity acquired from efficiency measures into the FCM. This is managed through a rigorous evaluation, measurement, and verification process, overseen in collaboration with the Vermont Department of Public Service and the Vermont Public Service Board.

Environment Northeast (ENE) is a non-profit organization that addresses large-scale environmental problems that threaten regional ecosystems, human health, and the management of natural resources while promoting sustainable economies. ENE represents environmental interests on energy efficiency stakeholder councils in Massachusetts, Rhode Island, and Connecticut and advocates for successful implementation of states' all cost-effective energy efficiency procurement mandates.

## II. BACKGROUND

The qualification of EE resources in the FCM under the current market rule is based on their contribution to the maintenance of resource adequacy in the ISO New England control area. The magnitude of that contribution is determined by a demonstrable reduction in energy demand during designated peak hours of the year. The definition of the peak hours derives from the analyses conducted by ISO New England to establish the level of installed capacity (ICR) required to comply with its resource adequacy criteria.

The economic value of the EE contribution to resource adequacy is based on the opportunity cost of installed capacity as indicated by the FCM clearing price. The current Market Rule provides a financial incentive for participation in the FCM in the form of a capacity payment equal to the product of the market clearing price of capacity and the amount of the ICR supplied by the resource. Therefore the current Market Rule provides an incentive that is commensurate with the economic value of the program demand reduction in terms of its contribution to resource adequacy.

Under the current Market Rule, qualification of EE measures to receive capacity payments requires compliance with measurement and verification (M&V) requirements to measure, verify and document demand reduction during the designated peak hours.EE program administrators have invested a substantial amount of utility ratepayer funds in EE program implementation and in the M&V activities that are necessary to demonstrate demand reduction during ISO New England FCM peak hours.

In summary, the current Market Rule provides for the qualification of EE resources to participate in the FCM and to receive capacity payments commensurate with their contribution to resource adequacy, **as demonstrated by demand reduction during peak hours as verified by procedures that comply with ISO New England M&V standards**. The effectiveness of the current Market Rule in creating the opportunity for EE as a capacity resource to participate in the FCM is confirmed by the high rate of participation of ratepayer-funded EE programs in the FCM, where all New England EE Program Administrators actively participate, with an associated 1,530 MW clearing the market in seventh forward capacity auction.

Participation in the FCM provides a relatively stable source of revenue which augments the overall level of EE program funding, thus enabling the expansion of EE measure installation and the realization of a greater share of the potential economic and environmental benefits of the programs. When a PA assumes a capacity supply obligation in the FCM, it can rely on a predictable stream of capacity payments that are determined by the measures that are installed in advance of the obligation year. The payments are tied directly to the demand reduction during the defined peak hours that are known in advance of participation in the FCA. The projected demand reduction value is the determinant of the capacity supply obligation which reflects the real capacity value of the resource, i.e. its contribution to resource adequacy.

Under the current rule, the uncertainty in the annual revenue stream yielded by participation in the FCM is limited to annual fluctuations in the FCM clearing price, which is known three years in advance of the obligation year, and deviations of the actual demand reduction value from the projected values. There are no penalties for "non-performance" of an EE resource which lie outside of its CSO-defined peak performance hours.

## III. COMMENTS

The performance requirements set forth in the ISO New England proposed Market Rule revision are not aligned with the "passive" (non-dispatchable) nature of the EE resource, and as such, its contribution to resource adequacy will impose a financial risk on PAs that could create a significant disincentive to participate in the FCM. While EE resources can and are being designed to provide capacity value during defined peak hours, as demonstrated by the ICR analysis noted above, **passive demand resources do not have the capability to respond to system operational contingencies in real time,** nor are there ongoing O&M activities necessary to enable the continuation of the provision of capacity reductions.

If there is substantial uncertainty in the number and timing of annual performance hours, then the level of annual revenue produced by EE resource participation in the FCM will be subject to significant unpredictable variation which will destabilize the projections of annual program funding that underlie program plans and the development of savings goals. Furthermore, in addition to the risk there is the possibility that performance penalties will reduce capacity payments compared to the levels under the current Market Rule, such that the PA could potentially be assessed a monthly charge for negative "performance."

The only way to mitigate the risk of reduced capacity payments is for the PA to incur additional M&V costs that are required to quantify demand reduction during every hour of the year with the same rigor that is currently required for demand reduction during peak hours. Efficiency PAs are understandably concerned that the incremental cost may create a deterrent to participation in the FCM; and **while an increased investment in M&V may reduce performance penalties under the proposed rule, it will not remove the fundamental source of uncertainty in the revenue stream, which is the number and timing of performance hours that can occur at any time during the obligation year.**

The original purpose of the FCM is to ensure resource adequacy through the procurement of sufficient capacity resources to comply with established reliability standards. ISO New England's proposal effectively changes the FCM from a resource adequacy market to an operating reserve market in which all resources must be available to respond to dispatch directions 24x7 or be subject to penalties. As noted above, energy efficiency resources are passive, non-dispatchable resources that are physically unable to be intentionally turned off or turned on to meet power system needs. Therefore, it is not fair or reasonable to subject energy efficiency resources to a market rule that is based upon the premise that the resource has a dispatchable response capability that can be effected by short term price signals. The principle of resource neutrality requires that every capacity resource, including EE, be paid the same amount for an equivalent contribution to the ICR. Under the ISO New England proposal, the EE resources may not receive full payment for the verified performance of the obligation they assumed (due to the proposed "performance" penalties) and may be forced to incur additional

M&V costs to avoid further penalties**, even though the resource contribution is the same as it is under the current rule.**

In contrast to the ISO New England proposal, the NEPOOL proposed alternative appears to retain the current treatment of EE under the Market Rule, and recognizes that the strategy to address reliability concerns during shortage events and around gas supply issues are more appropriately addressed in other ISO New England markets (energy and ancillary service markets) and not the Forward Capacity Market.

## IV. CONCLUSION

The prospect of an uncertain and reduced FCM revenue stream in conjunction with higher M&V costs, and potentially higher ISO New England transactions costs, means that less funding will be available to support the installation of EE measures with a corresponding reduction in the benefits that will be returned to utility ratepayers in the form of lower costs of end-use service and associated environmental benefits. Moreover, lower EE program funding will translate directly into a reduction in the potential contribution of cost-effective capacity resources to fulfill the ICR requirements of resource adequacy, which would defeat the stated purpose of the FCM.

Finally, the revenue and cost implications present the real possibility that the opportunity cost of participation in the FCM could deter future entry of EE resources into the market or could cause PAs to delist existing resources that would under the current Market Rule continue to provide a portion of the ICR.

The EE Stakeholders recommend that FERC's decision regarding the adoption of proposed changes to the Market Rule ensure that treatment of EE remains consistent in effect with the provisions for EE under the current Market Rule, specifically that FCM payments continue to be determined at an amount commensurate with the magnitude of the contribution to the ICR necessary to maintain resource adequacy. In the case of the NEPOOL alternative proposal, the EE Stakeholders' understanding is that the NEPOOL proposal's intent is to maintain the current treatment of passive demand resources under the existing Market Rule. FERC should direct NEPOOL to clarify its treatment of these resources in its proposal in further discussions on the details.

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in these proceedings.

Dated at Lexington, Massachusetts, this 12th day of February 2014.

*/s/ Julie Michals*

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