ENERGY NEW ENGLAND

Energy Outlook

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Energy New England enters into strategic partnership with Seldera

Energy New England has entered into a long term strategic partnership with Seldera to develop and market an expanded version of the ECHO℠ Analytics dashboard. Through their experience and knowledge of web-based platforms and sensing, Seldera brings a technology focused perspective to the product line with the ultimate goal the integration into their well respected Building Dynamics suite. Andreas Savvides, Executive Vice President of Seldera said *"the combination of technology with an experienced partner like Energy New England adds a lot of value to the customer."* John Tzimorangas shared his enthusiasm for the potential in the partnership and added "*ECHO℠ Analytics has proven to be a useful tool for our clients, this will only serve to transform a good tool into a GREAT one*."

The partnership leverages Seldera's scalable platform and technology expertise to create a superior product, coupled with Energy New England's experienced sales team and existing client base to gain market penetration in an increasingly competitive niche market. This symbiotic approach allows each partner to focus on their strengths, a true win-win! The partnership is the result of months of work by teams at both Energy New England and Seldera and was enthusiastically received by the senior management and boards of both organizations.

The continued improvement and expansion of the ECHO℠ Analytics platform is key to remaining relevant in the ever-changing energy world and with demand charges expected to rise dramatically over the next few years, the proposed functionality of EA 2.0 will allows its users to take proactive steps to mitigate costs. Andreas explained "*We are entering an era of information-driven energy efficiency. Information and analysis about consumption can help customers make good business decisions on how to manage their energy use and ways to save."* Once launched, ECHO℠ Analytics 2.0 will be fully supported by the Seldera team, allowing Energy New England to return our focus to our core competencies while retaining a presence in the technological solution space.

SELDERA
Intelligent Sensing for Energy Efficiency

First non-municipal member utility contracts with Energy New England

On July 1, 2014 Blackstone Gas Company (BGC) became the first non-municipal member utility contracting with Energy New England, LLC in the provision of Residential Conservation Auditing Services since ENE began offering this service in 2002. The agreement runs from July 1, 2014 to December 31, of 2014. Blackstone Gas Company is an “S” corporation and is also a member company of the Gas Networks Collaborative of Massachusetts. Energy New England, LLC welcomes the opportunity to provide residential audits to Blackstone Gas Company customers**.**

Regulatory Roundup

The regulatory scene in New England is busy with many initiatives in front of FERC and making their way through the New England market stakeholder process. All of the issues will have impact on consumer. Below is an update on the bigger issues in those processes:

FERC Rulings

Pay-for-Performance (formerly known as Performance Initiative)

On May 30, 2014 FERC issued an order on the ISO NE Pay For Performance (PFP) Jump Ball filing. If the Participants Committee approves a Market Participant sponsored Market Rule design by at least 60% that is an alternative to what ISO proposes then ISO must file both its proposal and the Participant approved proposal with FERC. FERC must wade through all the supporting documents (thousands of pages) to determine which proposal or combination thereof, if any, it considers just and reasonable for the Market Rule. FERC found neither ISO’s nor NEPOOL‘s alternate proposal just and reasonable, and instead combined elements of the two to form the PFP rules.

In essence FERC accepted substantial parts of ISO’s filing, added to it the NEPOOL proposal for increased Reserve Constraint Penalty Factors, and ordered ISO to address certain other issue in a compliance filing. The PFP order (referred to in some quarters as the *Franken(stein) Tariff*) results in supply resources facing greater reward for performance when the bulk power system is short of reserves and risk for under performance. During scarcity conditions the incentive (or penalty) could be greater than $7,000 MWH for every MW of underperformance when the additive effects of the full PFP rate and the new Reserve Constraint Penalty Factors (RCPFs) are in force. The rule allows for no exemption on penalty including whether the unit was not committed or dispatched by ISO prior to the event.

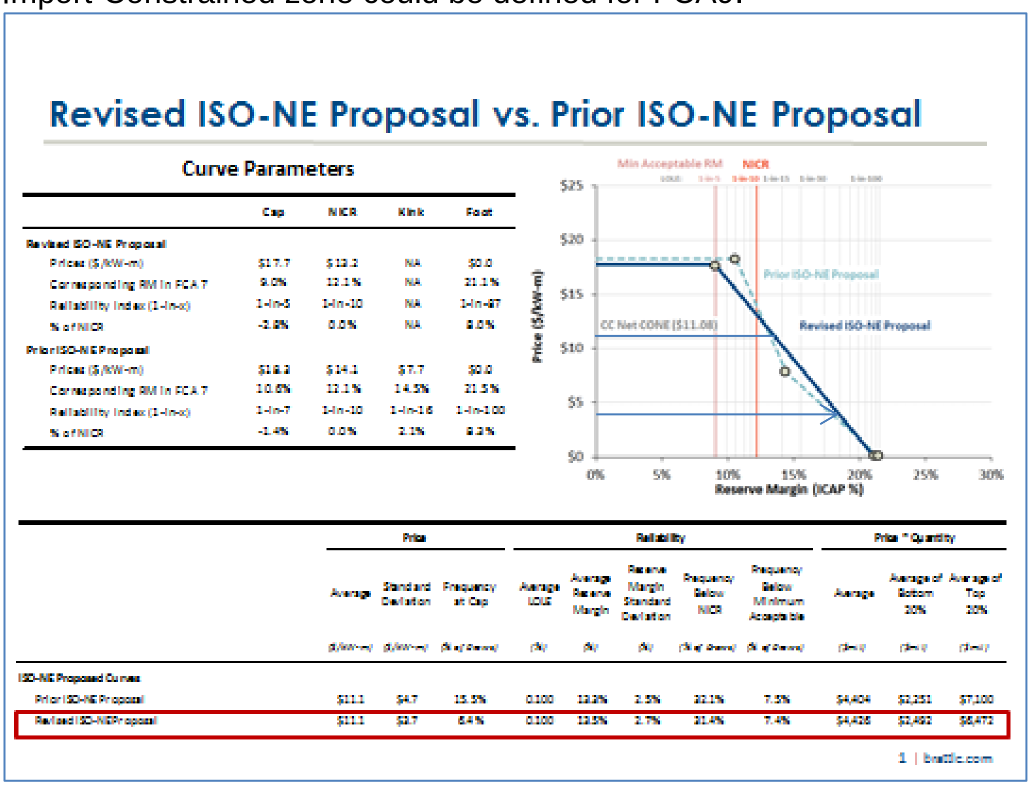
On July 14, 2014 ISO, under FERC order, made its compliance filing on PFP addressing three substantive issues FERC raised - incorporation of the new RCPFs, treatment of Energy Efficiency asset performance during scarcity conditions and treatment of supply resources on export side of intra-zonal constraint during scarcity conditions. The filing also addresses three minor changes which allow supply resources to opt-out of previous multi-year commitment period elections prior to FCA9, filing date references are being updated, and inclusion of Sloped Demand language reflecting FERC’s recent approval of the Sloped Demand filing. This filing received 0% support from the Participants Committee.

This all means the cost to consumers will increase substantially over the next several years. Capacity market prices for municipal utilities, investor utility customers, and competitive supply customers will rise. Generation/supply resources will have greater revenue, and also greater risk and reward. The penalty dollars will be allocated to generators and other supply resources, leaving load to pay more and for generators to share the results. This will increase the value of load management, demand response, energy efficiency, and participating in generation to help blunt these increases.

Slope Demand Curve (System Level)

On May 30, 2014 FERC approved ISO's Sloped Demand Curve filing which brings substantial changes to the capacity market. Effective with Forward Capacity Auction 9 (FCA9) for June 2018 through May 2019, ISO will utilize a sloped demand curve for procurement of the Net Installed Capacity Requirement to assure New England has adequate installed capacity to meet system load and reserve requirements. ISO was under FERC order to make the Sloped Demand Curve filing no later than April 1, 2014.

The Sloped Demand Curve should produce less volatile capacity prices however at a much higher cost to New England consumers than had historically seen for the Rest of System Capacity zones (RI, VT, NH, Southeastern (SEMA) and West-Central Massachusetts (WCMA)) with a projected long run average cost of capacity at approximately $11.08/kW-month. This will lead to a more than 300% increase from current costs in those areas, driving further future electric rate increases for all. In FCA9 ISO will utilize the current vertical demand curve for the Import–Constrained Zones of CT and NEMA and the Export-Constrained Zone of ME. On April 28, 2014 FERC approved ISO Zonal Definitions proposal with the operation of that new tariff language it is very likely that a SEMA/RI Import-Constrained zone could be defined for FCA9.



Revised ISO-NE Proposal vs. Prior ISO-NE Proposal

Curve Parameters

	Cap	NICR	Kink	Foot
Revised ISO-NE Proposal				
Prices ($/kW-m)	$17.7	$13.2	NA	$0.0
Corresponding RM in FCA 7	9.0%	12.1%	NA	21.1%
Reliability Index (1-in-x)	1-in-5	1-in-10	NA	1-in-87
% of NICR	-2.8%	0.0%	NA	9.0%
Prior ISO-NE Proposal				
Prices ($/kW-m)	$18.3	$14.1	$7.7	$0.0
Corresponding RM in FCA 7	10.6%	12.1%	14.5%	21.5%
Reliability Index (1-in-x)	1-in-7	1-in-10	1-in-16	1-in-100
% of NICR	-1.4%	0.0%	2.1%	9.3%

	Price			Reliability					Price * Quantity		
	Average	Standard Deviation	Frequency at Cap	Average LOLE	Average Reserve Margin	Reserve Margin Standard Deviation	Frequency Below NICR	Frequency Below Minimum Acceptable	Average	Average of Bottom 20%	Average of Top 20%
	($/kW-m)	($/kW-m)	(% of Draws)	(%)	(%)	(%)	(% of Draws)	(% of Draws)	($m/y)	($m/y)	($m/y)
ISO-NE Proposed Curves											
Prior ISO-NE Proposal	$11.1	$4.7	15.5%	0.100	13.3%	2.5%	32.1%	7.5%	$4,404	$2,251	$7,100
Revised ISO-NE Proposal	$11.1	$3.7	6.4%	0.100	13.5%	2.7%	31.4%	7.4%	$4,426	$2,492	$6,473

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Since December 2006 prices have ranged between $3.05 and $4.50. Based on this curve, we are headed for $11.08! Translation: 1.6 c/kwh increase in electric rates by June 2018

Transition Return On Equity (ROE)

In 2011 many Public Power entities and other interested parties filed a complaint at FERC stating the current allowed Transmission Return On Equity (ROE) rate of 11.4% was unjust and unreasonable in light of changes in the capital markets that had occurred since the rate was established in 2006. The complainants established, through expert analysis of discounted cash flow (DCF), a just and reasonable ROE of not to exceed 9.2%. The matter was set for hearing with Administrative Law Judge (ALJ) who issued an initial decision on August 6, 2013. The ALJ adopted the New England Transmission Owners (NETOs) DCF method for establishing rates and then set a ROE rate of 10.6% for a refund period (10.1.11:12.31.12) and a ROE rate of 9.7% from the date of a final order.

The FERC subsequently ruled on June 19, 2014 to accept a new two set methodology for DCF in calculating public utility transmission rates (aligning the transmission process with natural gas and oil industry processes, applied the new DCF methodology to the facts in the ROE case and tentatively determined a NETO's base ROE of 10.57% (midpoint of the "zone of reasonableness" determined by the FERC) subject to further adjustment, instituted a paper hearing and reopened the record to provide participants the opportunity to file new briefs on the issue of the new DCF method, and changes its (FERC) practice on post-hearing ROE adjustments (FERC will not adjust ROE after the fact).

Additionally, contrary to the Initial Decision, FERC determined that a single base ROE will apply to both the refund period and the prospective period. In the end if FERC final order holds true under paper hearing RNS customer should expect ISO to process a refund, relative to the refund period, and expect a drop in the RNS rate reflective of the new ROE rate of 10.57% ROE. Stayed tuned for a final ruling FERC order on this issue in perhaps later this year.

Coming Attractions

Non-commercial Exemption

On July 16, 2014 ISO filed "Revisions to Allow a Non-Commercial Capacity Resource to Seek a One-Year Deferral". At a high level the proposed rule changes would allow a Supply Resource that cleared in an FCA, but cannot meet its Commercial Operations Date related to the FCA in which it cleared (think of a large NEMA-based resource), to seek a deferral of its Capacity Supply Obligations for one Capacity Commitment Period (CCP). The Market Participant could only seek the waiver if ISO determines that absence of the resource for the CCP in which it initially cleared and the subsequent CCP would result in violation of NERC or NPCC (or their successors) criteria or of the ISO New England System rules.

Under the proposed language the resource receiving the deferral would not receive capacity payments during the deferral CCP and therefore cost to load would be reduced. If the resource had elected to receive the FCA clearing price for multiple years those rights and obligations would exist, but would be moved forward one CCP.

The concept is that a resource seeking a deferral is more likely to be built than a new resource clearing a future FCA since it has already started the required permitting and other processes required to work toward construction and commercial operation. This can add additional challenges to managing the cost of capacity to consumers, as planning for one's needs is partly dependent on market prices, and this could add variability to what was thought to be a defined price for a given CCP.

Local Sloped Demand Curves

Currently ISO is bringing a proposal for Local Sloped Demand Curves through the stakeholder process. Beginning with FCA10 (June 2019 to May 2020) the Local Sloped Demand Curves will replace the current vertical demand curves for capacity zones defined in an FCA as Export (ME) or Import (NEMA, CT) constrained. The moved to Local Sloped Demand Curves will have all capacity zones clear under the same mechanic starting with FCA10. Again the sloped demand curve approach is supposed to lead to lower capacity price volatility as large changes in capacity supply should not lead to volatile swings in capacity prices. The trade off on suppressing price volatility is consumers will face higher overall costs for capacity. This moves the pre-market central planning process to a very local one. Historically, participating in a generating asset anywhere in New England counted 1:1 as a hedge against higher capacity prices. Now, like the real estate market, the value will be based on location, location, location!

Governor's Initiative

The six New England Governor's through the New England States Committee On Energy (NESCOE) are bringing two initiatives through the ISO stakeholder process. The joint initiatives are Gas Pipeline Capacity and Transmission infrastructure to support acquisition of No or Low Carbon power for New England. The governor's initiative envisions a competitive solicitation process that would bring 1 BCF of new pipeline capacity, above 2013 levels, into New England. While the Transmission initiative envisions a competitive solicitation process that would procure enough new transmission capacity to enable delivery of at least 1,200 MW and as much as 3,600 MW of No/Low Carbon power into New England.

The gas initiative if successful will significantly increase natural gas availability to New England for power generation and by default other needs. The objective is to significantly reduce gas transportation costs and thus winter power costs as well as on hot and humid summer days.

The transmission initiative and no/low carbon power procurement piece will has the potential the lower overall real-time energy cost while meetings state public policy goals. However, both initiatives come with significant cost ranging in the billions.

The cost allocation methodology for both initiatives are, at a high level, being allocated to consumers based on a pro-rata share of the regional network transmission charges, after application of a state level allocation process.

Energy New England Celebrates 15th Anniversary at NEPPA

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Energy New England will be celebrating its 15th year Anniversary at NEPPA's Annual conference at the Sea Crest in North Falmouth with a reception on Monday night, August 25th. The organization has grown significantly in the past several years and would like to celebrate this success with the attendees at the Annual Conference. Come join us for this celebration and enjoy the beautiful setting of the Sea Crest Resort.

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