



New England Governors Statement on Regional Energy Affordability August 13, 2018

Affordable and reliable energy is a fundamental precursor for a vibrant and competitive New England economy. New England states have to be competitive to attract and retain businesses and residents. Efforts must be made to keep electric rates as affordable as possible. Increasingly, cleaner sources of energy have also become important to our energy system, regional economy, and shared environment. It is vital that our pursuit of a reliable and lower-carbon grid leverage available technologies and competitive markets to foster affordable electric rates for all consumers, particularly the most vulnerable among us.

Energy policies implemented at the state level strive to balance affordability, reliability, and sustainability. While these policies can have some impact on prices paid for by retail consumers, there are costs largely outside of state control – including wholesale electricity markets and transmission costs – which can represent half the cost of consumer electricity bills. These cost drivers are regulated in Washington, D.C. by the Federal Energy Regulatory Commission and are highly correlated with the planning assumptions and operational actions taken by ISO New England (ISO-NE), the entity that manages the region’s electric grid and underlying wholesale energy markets.

As a general matter, ISO-NE’s mission is to ensure regional electric power system reliability and implement efficient wholesale markets. While ISO-NE’s mission statement requires that ISO-NE “strive to perform all its functions and services in a cost-effective manner,” the states urge ISO-NE to ensure that affordability and rate impacts be expressly considered and analyzed with respect to proposed market rules and initiatives. Maintaining a safe and reliable energy system – both regionally and locally – is paramount; however, the markets and operational characteristics that underpin a reliable energy system should be tempered with the recognition that New England families and businesses ultimately pay the costs for that system. Any new market actions to support system reliability must have a full accounting of the benefits and costs to regional consumers.

ISO-NE has identified winter fuel security as the most significant issue facing the region. This issue affects both regional reliability and affordability. The New England states and ISO New

England have recognized the challenge of increasing reliance on natural gas-fired generation during cold periods when the region’s natural gas is used primarily for heating. These concerns

have been heightened as non-natural gas-fired generation resources, such as nuclear, coal, and oil, have retired in recent years. During recent winters, ISO-NE has been relying on more expensive, carbon-intensive oil-fired units to ensure sufficient generation to meet hour-by-hour demands on our energy system.

The states are committed to use the tools within their jurisdiction to advance solutions to the winter fuel security issue. There is no one clear solution to the problem, and each state's policy priorities will inform the solutions that the states want to prioritize. For example, energy policies that can address winter fuel security include:

- Public education campaigns during cold weather periods to conserve non-essential electricity and heating fuel, similar to the messaging conducted during summer heat waves;
- Demand response, where gas and electric customers reduce consumption in response to price signals during peak hours;
- Aggressive implementation of cost-effective energy efficiency measures, including weatherization and combined heat and power, which reduces overall consumption of electricity and natural gas; and
- Investment and siting of infrastructure for new, clean generation resources such as large-scale hydropower and off-shore wind, the production of which correlates very well with cold weather periods;
- Working with Congressional delegations to address whether the Jones Act should be modified to ensure that LNG can be delivered in a timely manner during winter months;
- Examine state permitting options that would optimize the use of dual fuel units to meet operational fuel security needs while maintaining state environmental requirements; and
- Examining potential additional infrastructure, including natural gas storage in key areas that could be used by gas-fired generation.

As the ISO-NE works to develop new market incentives for fuel security, it is essential that the ISO-NE accurately define the nature and extent of the problem, ensure that reasonable assumptions are made regarding available resources, and provide transparent information regarding the operational benefits of different solutions. They must also demonstrate the extent to which existing state energy policies may be leveraged to reduce or eliminate system constraints, and, at minimum, accommodate key state energy public policy drivers. When considering market design options, the ISO-NE must also examine whether existing markets that provide similar services are providing benefits commensurate with the costs borne by New England customers.

Effective next June, the region will have two nuclear power plants that represent approximately 3,500 MW of baseload energy that is not dependent on natural gas infrastructure and also helps to meet emission goals. While some regional programs, including the Regional

Greenhouse Gas Initiative assign value to clean energy resources, it is important to continue to evaluate cost-effective policies that properly value existing clean energy resources which have significant fuel security implications.

The New England states, working in collaboration, commit to making energy costs in the region more affordable. In the short term, the states will actively collaborate this fall to develop a mechanism for engaging residents and business in conservation efforts during cold snaps; such efforts would communicate the economic and reliability benefits of conservation during winter months. Given state jurisdiction over energy resource choices as well as environmental policies, the New England states have a crucial role in implementing regional solutions. We look forward to working with ISO New England, New England Power Pool, and other stakeholders in achieving this goal.

Sincerely,



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