

July 11, 2008

To: Wendy Jacobs and Richard Rodrigue

Connecticut Department of Environmental Protection

FR: Eric Johnson, ISO New England (413) 335-5822

RE: ISO New England Comments on Synapse Report: Reducing Emissions in Connecticut on High Electric Demand Days (HEDD)

ISO New England appreciates the opportunity to comment on the Synapse report, which analyzes several strategies to achieve Connecticut's OTC commitment to reduce NOx emissions on High Electric Demand Days (HEDD). ISO's comments are focused on a few key areas and are not intended to provide an exhaustive review of the report. We look forward to continued dialogue with the Department on matters affecting New England and Connecticut's energy and environmental goals.

The report recommends a strategy for NOx emissions reduction to meet the HEDD target of increasing energy efficiency (EE) combined with adding NOx reduction controls on Connecticut's RMR units.

As you are aware, New England's system peak demand, which occurs during the summer months, has been growing faster each year than overall consumption. The ISO's role is to ensure that New England has adequate resources to meet peak demand. Meeting peak demand, particularly during a sustained heat wave, can put a strain on the region's bulk power system, which presents challenges for the ISO as well as environmental regulators.

The Synapse report provides an analytical basis to study the issue of how to reduce Connecticut's NOx emissions; however, there are some potential situations that could affect the success of the recommended strategy while also respecting the need for system reliability. In particular:

1. The report assumes that the two Millstone units would operate at 100% of their capacity during HEDD days. While this has a high probability, there can be outages on peak days. Also, the desired NOx reductions cannot depend on just Millstone operating at 100%, but on all the other New England supply-side resources performing at optimum levels as well. To a lesser extent, if any large low-NOx emitting base load units experience outages on a HEDD day, this would probably increase the region's overall NOx emissions due to the likelihood that those units would be replaced by a higher NOx emitting resource.
2. The report does not appear to address the potential for emergency generators (EG) to operate on a HEDD day. Such operation could possibly offset a significant portion of the NOx emission reductions achieved through EE and controls on RMR units. The potential for EG operation needs to be taken into account in developing any HEDD strategy, since ISO's

operating procedures (i.e., OP-4) may trigger actions that require EGs to operate on peak load days.

3. There is a possibility that neighboring systems (i.e., control areas) could provide imported power to Connecticut, which could reduce the need for Connecticut units to operate and thus reduce overall in-state air emissions.

4. While it may seem unlikely in today's fuel market, there is the possibility of a change in the relative prices of oil and natural gas, where oil becomes less expensive than natural gas. If this were to occur, it could significantly increase the HEDD NO<sub>x</sub> emissions over the levels projected in the report.

The ISO believes that these situations and their potential outcomes need to be considered in designing a robust and successful HEDD strategy.

*The report underscores the value of energy efficiency and the important role of the states in building upon existing levels of energy efficiency through state-administered programs and through participation in the Forward Capacity Market.*

The first Forward Capacity Market (FCM) auction in February 2008 resulted in nearly 1,200 MW of new Demand Resources being committed for the 2010 timeframe, and the show of interest for DR in the next auction for the 2011 commitment period is robust. This outcome has led ISO to more closely examine the steps that need to be taken to successfully integrate increasing levels of DR into system operations. This has led to further discussions recently with the Planning Advisory Committee and Demand Resources Working Group, as well as the NEPOOL Markets Committee. ISO would welcome the participation and input of the DEP in these stakeholder forums.

With regard to Recommendation 3 (Increasing Transparency of Generation Data), ISO makes extensive market and environmental information available to stakeholders in the form of reports and other data on its Web site. This information is presented for discussion with stakeholders through several forums, such as the Planning Advisory Committee and Environmental Advisory Group. The Regional System Plan and Scenario Analysis stakeholder processes have resulted in the development of significant new economic and environmental data over the past year, which is available to stakeholders. In addition, ISO makes information on the aggregate performance of Demand Resources available through the Demand Resources Working Group.

Certain wholesale market information is subject to the Information Policy, which is part of ISO's FERC-approved tariff. This generally includes market-sensitive information related to operation and performance of specific resources. To the extent the Department has a need for specific information, we would be pleased to discuss the availability of that information, the applicability of the Information Policy, and whether there might be alternate sources of information (e.g., aggregate information) that would meet the Department's objectives.

Again the ISO appreciates the opportunity to comment on this important topic.

Please contact me if you have any questions.

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