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DOE-NARUC National Electricity Delivery Forum Tie Benefits Issues

Federal law and common practice within the United States provides for mutual aid among communities in sharing fire department resources to ensure the redundancy of life saving equipment and ensure safety among their respective citizenry. Treating the value of tie benefits between regional electrical transmission control areas in the same manner as the mutual aid pacts between fire departments was developed in an era when transmission and generation resources were centrally planned and ratepayer funded. Systems were planned so the mutual reliance would be largely symmetric. However; given the competitive nature of generation procurement in the Northeast and the fact that two of the three control areas that New England interconnects with (New Brunswick and Québec) do not rely on New England for tie benefits, that model may well need to be changed.

The historic situation between New York and New England is a good example of how tie benefits without compensation has worked for areas that generally rely equally on each other. Both regions have summer peaking profiles and both calculate a tie benefit (the megawatt value of capacity that can be probabilistically counted on as being available when needed by the other control area) that is used to reduce the internal capacity requirements that are

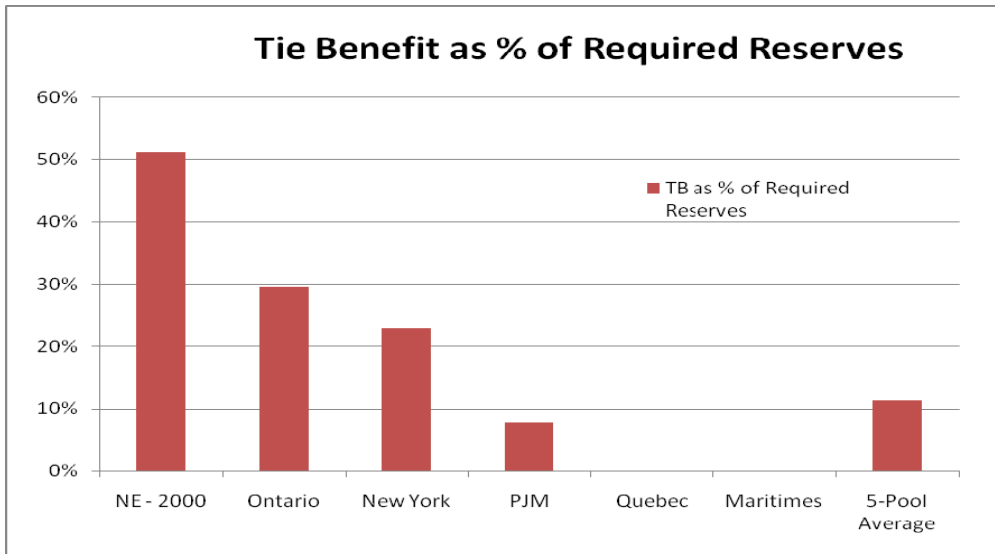
procured to dependably meet the reliability standard of one day in 10 years loss of load probability. In principle, New England and New York rely on each other the same number of times in the course of a year (a concept known as “equal leaning”). The net compensation would be zero if each region paid for service. However, New England and New York currently perform their respective determination of tie benefits independently of each other and use different input assumptions so the concept of ‘equal leaning’ may no longer be in effect.

The relationship between New Brunswick, Québec and New England is different. These Canadian provinces plan their system without any reliance on tie benefits in determining their internal capacity needs. That is not to say that they never receive assistance but they meet their reliability planning criteria without tie benefits, internally procuring all needed generation. Because New England does rely on these control areas for tie benefits the relationship is not symmetrical. This is analogous to one town deciding to pay for little or no fire protection equipment because they know their neighbor, which has planned and paid for readiness to a high standard, will always come to their rescue in an emergency.

New England currently has determined that the tie benefits between the three adjoining control areas provide an additional collective resource to New England of 2000 MW. Those tie benefits reduce the amount of generation that is supported within the region. Given the competitive nature of the acquisition of power generation we believe it's time to re-examine the historic assumption that there should be no payment assigned to these tie benefits that reduce the need for internal resources, especially when the level of reliance is not symmetrical.

The issue regarding valuing tie benefits may also well need to change if

New England acquires significant new non-carbon emitting energy from the Canadian provinces of Québec and New Brunswick. Given the strong winter-peaking nature of those provinces they have significant capacity available in the summer unless sold to other summer peaking areas such as New York and Ontario. New England's current methodology for determining tie benefits effectively blocks the sale of capacity over the lines from those provinces to New England. This lowers the economic value of these transmission lines and could make it difficult for New England to meet its policy goals.



The New England Power Generators Association, Inc. is the largest trade association representing competitive electric generating companies in New England. NEPGA's member companies represent over 25,000 megawatts (MW) of generating capacity in the region. NEPGA's mission is to promote sound energy policies which will further economic development, jobs, and balanced environmental policy. We believe that sustainable competitive markets are the best means to provide long-term reliable and affordable supplies of electricity for consumers. Further information can be obtained at www.nepga.org.