

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

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ISO New England Inc.

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) **Docket No. ER13-185-000**  
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**JOINT COMMENTS AND PROTEST OF THE CONNECTICUT PUBLIC  
UTILITIES REGULATORY AUTHORITY, CONNECTICUT CONSUMER  
COUNSEL, ATTORNEY GENERAL FOR CONNECTICUT, RHODE  
ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS,  
ATTORNEY GENERAL FOR RHODE ISLAND, NEW HAMPSHIRE  
CONSUMER ADVOCATE AND MAINE PUBLIC ADVOCATE**

Pursuant to Rules 212 and 214 of the Commission’s Rules of Practice and Procedure (18 C.F.R. §§ 385.212, 385.214), the Commission’s Combined Notice of Filing #2 issued October 25, 2012 and its November 6, 2012 Notice of Extension of Time, the Connecticut Public Utilities Regulatory Authority; Elin Swanson Katz, Connecticut Consumer Counsel; George Jepsen, Attorney General for the State of Connecticut; the Rhode Island Division of Public Utilities and Carriers; Peter F. Kilmartin, Attorney General for Rhode Island; Susan W. Chamberlin, New Hampshire Consumer Advocate; and Agnes Gormley, Maine Public Advocate (collectively, the “Joint New England Agencies”) hereby submit their comments and protest regarding ISO New England Inc.’s (“ISO-NE’s”) October 25, 2012 Filing of Revised Tariff Sheets for Recovery of 2013 Administrative Costs (“ISO-NE Filing” or “Filing”).<sup>1</sup> The Joint New England Agencies urge the Federal Energy Regulatory Commission (“FERC” or “Commission”) to hold an evidentiary hearing regarding ISO-NE’s Filing. The Joint New

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<sup>1</sup> On October 25, 2012, ISO-NE also submitted its 2013 capital budget request for \$29 million, docketed at ER13-192-000. The Connecticut Agencies listed above filed a protest regarding ISO-NE’s proposed 2013 capital budget on November 15, 2012 and requested that ISO-NE’s 2013 capital budget request be considered in conjunction with ISO-NE’s 2013 administrative budget request.

England Agencies also request FERC to reform the process by which ISO-NE presents its proposed annual budget and tariff rate increases to the New England state regulatory entities starting with its 2014 budget.

As a threshold matter, the Joint New England Agencies commend ISO-NE for performing its core functions effectively, and do not intend these comments to be taken as a criticism of ISO-NE's performance. Rather, the Joint New England Agencies submit that overall fiscal constraints should be granted more deference and that the current budget process affords state regulatory entities insufficient time and detailed information to properly review ISO-NE's annual budget proposals.

## **I. INTRODUCTION**

ISO-NE is a private non-profit public utility regulated by FERC. ISO-NE is funded entirely by wholesale rates that flow through to all New England electricity customers. For its administrative tariff, all costs are directly or indirectly borne by the ratepayers of New England. FERC has authorized ISO-NE to serve as New England's Regional Transmission Organization ("RTO"), and ISO-NE is one of six RTOs in the country. As New England's RTO, FERC has authorized ISO-NE to dispatch and operate the transmission grid, administer wholesale energy and capacity markets, and conduct some resource planning, although under the Federal Power Act the states retain significant authority over generation planning.

On October 25, 2012, ISO-NE filed its 2013 administrative budget and rate increase with the FERC for approval. Public comments are due on November 30, 2012, and FERC will issue an administrative decision regarding the filing shortly thereafter. The Joint New England Agencies have reviewed ISO-NE's budget and proposed rate

increase and now request FERC to hold an evidentiary hearing regarding ISO-NE's 2013 budget request. FERC last held an evidentiary hearing on ISO-NE's 2006 budget; every ISO-NE budget since 2006 has been approved without a hearing.

ISO-NE's budget has grown exponentially, seemingly without regard to poor economic conditions that have required all other regulated and unregulated public utilities to control, limit or reduce costs and staffing levels. In 1997, ISO-NE's operating budget was \$28 million, compared to its 2013 request for approximately \$165 million. With the exception of a 2.6% decrease in 2011, recent operating budget increases have been significant, with an 11.2% increase in 2010, a 7.4% increase in 2012 and now a proposed 14.8% increase for 2013. From 2009 to 2013, ISO-NE has increased its revenue requirements by 34%. This growth has been permitted to continue even through periods of economic lag and recession when other regulated and unregulated companies have frozen or reduced costs and staffing levels.

The U.S. economy suffered from the "Great Recession" during the same time period and has been slow to recover. For example, the annual national Gross Domestic Product ("GDP") fell 0.3% in 2008, and fell an additional 3.1% in 2009, followed by modest increases of 2.4% in 2010 and 1.8% in 2011. The GDP is forecasted to rise by 2% in 2013. Likewise, U.S. unemployment has increased over the time period ISO-NE has increased headcount and salary levels. For example, the percent of the civilian unemployed labor force was 5.8% in 2008, 9.3% in 2009, 9.6% in 2010 and 8.9% in 2010. The 2013 level of unemployment is forecasted to be 7.8%.<sup>2</sup>

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<sup>2</sup>The GDP historical figures are from The Bureau of Economic Advisors, [www.bea.gov/national/#gdp](http://www.bea.gov/national/#gdp). The historical unemployment data are from The Bureau of Labor Statistics, [www.bls.gov/cps/cpsaat01.htm](http://www.bls.gov/cps/cpsaat01.htm). The 2013 forecasts are from the November 10, 2012 edition of Blue Chip Economic Indicators, p. 3.

In 1997, ISO-NE employed 180 full time employees (“FTEs”), whereas in 2013, ISO-NE is requesting funding for 563 FTEs. ISO-NE increased its funded full-time positions by 100 positions just in the past five years, with a pay structure heavily weighted towards high salaries. In 2012, 275 of the 524 ISO-NE FTEs were paid more than \$100,000.00 annually as base pay, and received on average 3% for pay increases and 9% in merit bonuses. ISO-NE already has 40% more FTEs than all six New England utility regulatory commissions combined. If the present proposed increase in employees is permitted, that figure would rise to 50%.

In 2011, all six RTOs across the country filed a report with FERC, reporting each RTO’s performance.<sup>3</sup> As revealed in this 2011 report, of the six RTOs across the nation, ISO-NE has the smallest service area, services the smallest population, manages the least amount of installed generation, and oversees the fewest number of miles of transmission lines. Under its 2011 approved budget, ISO-NE nonetheless has the highest administrative cost per megawatt hour of load, and the highest operating costs per capita, per installed generation in megawatts, and per mile of transmission lines. Under its 2011 staffing levels, ISO-NE also had the highest ratio of employees to installed generation, miles of transmissions lines, and population served.

While being the most expensive RTO in the country does not necessarily indicate that the ISO-NE rates are unreasonable, it does strongly support the need for a FERC hearing on the proposed 2013 budget. The fact that ISO-NE may perform certain functions that other RTOs do not perform does not automatically render reasonable its

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<sup>3</sup> The other domestic ISOs and RTOs are the California Independent System Operator Corporation (“California ISO”), Midwest Independent Transmission System Operator, Inc. (“MISO”), New York Independent System Operator (“NYISO”), PJM Interconnection, L.L.C. (“PJM”) and Southwest Power Pool, Inc. (“SPP”).

higher operating costs or proposed 2013 budget and rate increases. Further, ISO-NE appears to perform all the same functions as two nearby RTOs: NYISO, the RTO serving New York State, and PJM, which serves Pennsylvania, New Jersey, Maryland and all or part of ten other states along with the District of Columbia, yet NYISO's and PJM's costs are lower.<sup>4</sup>

The Joint New England Agencies submit that ISO-NE needs to exercise fiscal restraint and that ISO-NE's proposed 2013 budget and rate proposal are unjust and unreasonable. The demand for electricity in New England is projected to remain flat. In this context, ISO-NE's following requests seem unreasonable:

1. An increase of 39 FTEs for a total of 563 FTEs;
2. A \$13 million cost for outside legal, consulting and professional fees;
3. Rate increases ranging from 5% to 1440% -- for example, the regional network service rate, which is directly paid by New England's ratepayers, would increase by 25.3%;
4. A \$164.9 million revenue requirement, increased by \$21.3 million, or 14.8% over the 2012 revenue requirement of \$143.6 million; and
5. An increase in ISO-NE's operating expenses by \$11.2 million, or 9.2%, from \$121.6 million in 2012 to \$132.9 million in 2013.

No state regulatory authority has any jurisdiction over the ISO-NE budget process, yet state ratepayers bear the costs of ISO-NE's operations and capital expenditures. The Joint New England Agencies respectfully call on FERC to reform ISO-NE's budget-making process to allow more meaningful input from the states whose residents pay for the budget and by conducting hearings on the budget if requested by any affected state commission.

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<sup>4</sup> See Docket No. AD10-5-000, 2011 ISO/RTO Metrics Report, pp. 74, 203, 263, excerpts attached as Exhibit C hereto.

## **II. ISO-NE'S ADMINISTRATIVE BUDGET FILING**

In its 2013 proposed Administrative Budget, ISO-NE seeks an overall increase in its revenue requirement and staffing levels, resulting in higher rates.

### **A. ISO-NE's Proposed Administrative Budget Increase**

In its 2013 proposed administrative budget, ISO-NE seeks \$164.9 million as its revenue requirement, an increase of \$21.3 million, or 14.8% over its 2012 revenue requirement of \$143.6 million. See Robert Ludlow's August 24, 2012 Briefing to the NEPOOL Budget and Finance Subcommittee regarding the 2013 ISO-NE Administrative Budget, p. 13 (Exhibit A attached hereto);<sup>5</sup> Exhibit 3, Direct Testimony of Robert C. Ludlow, RCL-5, Schedule 3 Variance Summary ("Ex. 3, RCL-5, Schedule 3"). ISO-NE proposes to increase its operating expenses by \$11.2 million, or 9.2%, from \$121.6 million in 2012 to \$132.9 million in 2013. *Id.*

ISO-NE's budget has grown exponentially from 1997 to 2012. See chart attached hereto as Exhibit B. ISO-NE's 1997 operating budget was \$28 million, compared to its request for \$164.9 million for 2013. *Id.* Similarly, ISO-NE's revenue requirements have escalated from \$123.4 million in 2009 to the proposed \$164.9 million in 2013, an overall increase of 34% in just four years. Exhibit A, p.13. With the exception of a 2.6% decrease in 2011, the annual increases in ISO-NE's budget have been significant, with an 11.2% increase in 2010, a 7.4% increase in 2012 and a proposed 14.8% increase for the coming year. *Id.* By contrast, the Consumer Price

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<sup>5</sup> Excerpts of the August 24, 2012 power point presentation are attached as Exhibit A. The entire power point presentation may be found at [http://www.iso-ne.com/committees/comm\\_wkgrps/prtcpnts\\_comm/budgfin\\_comm/budgfin/mtrls/2012/aug242012/2\\_updated\\_iso\\_2013\\_budget.pdf](http://www.iso-ne.com/committees/comm_wkgrps/prtcpnts_comm/budgfin_comm/budgfin/mtrls/2012/aug242012/2_updated_iso_2013_budget.pdf).

Index has increased at a substantially lower rate, specifically 1.6% in 2010, 3.2% in 2011 and 2% through September 2012.

**B. ISO-NE'S Proposed Tariffs Increase by 25.3% the Regional Network Service Rate, and Escalate as High As a 1440% Increase.**

The impact on 2013 tariff rates from these proposed increases is striking. Attachment 2 to ISO-NE's Filing contains a red-line version of ISO-NE's proposed revised tariff. The Regional Network Service rate would increase by 25.3%, from \$0.13201 to \$0.16545 per kilowatt month.<sup>6</sup> Attachment 2, Schedule 1, pp. 10-11. The Through or Out service rate would increase by 27.8%, from \$0.00018 to \$0.00023 per kilowatt hour.<sup>7</sup> *Id.* See also Ludlow testimony, Table 8 at p.36. The ISO-NE's \$/KWh Rate would increase by 14.4%, from \$0.00104 to \$0.00119. Exhibit A, p.13.

The Energy TU Based Charges increase by 14.45% under the present proposal. See Attachment 2, Schedule 2 of the tariff pp. 12-14; Ludlow testimony Table 8 on p. 36; Ex. 3, RCL-7, Schedule 4. The Volumetric Measure Based Charges increase by 20.6%. *Id.* For charges based on submitted and cleared FTR bids, the rates increase 65% for any FTR auctions held and increase by 1440% for any FTR auctions that clear. *Id.* In Schedule 3, the Reliability Administration Service fee increases 8.6% for non-Market Participants, increases 12% for Market Participants, and increases 5.8% for exports. Attachment 2, Schedule 3, pp. 15-16; Ex. 3, RCL-7, Schedule 4. Excluding the outliers of 5.8% and 1440%, ISO-NE proposes a simple average rate increase of 25%.

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<sup>6</sup>  $\$0.16545 - \$0.13201 = \$0.03344 \div \$0.13201 = .253$  or 25.3%. See Attachment 2, Schedule 1 of the tariff p. 10; Ludlow testimony Table 8 on p. 36; Ex. 3, RCL-7, Schedule 4. All of the percentage increases in this section are calculated by dividing the proposed increase amount by the current tariff amount, as set forth in Attachment 2 to ISO-NE's Filing.

<sup>7</sup> See Attachment 2, Schedule 1 of the tariff p. 11; Ludlow testimony Table 8 on p. 36; Ex. 3, RCL-7, Schedule 4.

For purposes of rate design, Mr. Ludlow assumed that network load would stay flat, or rise by a modest 0.5%. Ludlow testimony, pp. 25-30. Mr. Ludlow then testified that under these new tariff rates, overall revenue will increase by 18.46% from the approved 2012 rate level, and Schedule 1 network revenue will increase by 25.33%. Ex. 3, RCL-7, Schedule 4. The revenue from Schedule 2 transaction and volumetric rates will increase by 19.87%. *Id.* Finally, the Schedule 3 revenue will increase by 11.62%. *Id.*

Network load projections provide an imperfect proxy for an indication of the overall economic situation in New England. Given the projection of essentially flat load, ISO-NE should be required to justify at an evidentiary hearing its average rate increases of 25% and revenue requirement increases of over 18% on a cost-of-service basis.

### **C. ISO-NE's Proposed Increase in Full-Time Employees**

In its proposal, ISO-NE seeks to increase its FTEs by 39 positions, comprised of 26 new positions and 13 filled positions by cutting the vacancy rate in half. Ex.3, RCL-5, Schedule 5, p.3. Applying a 2.5% vacancy rate, ISO-NE proposes to increase its headcount to 577.5 FTEs, resulting in a budget proposal for 563 funded FTE positions. Exhibit A, p. 43 ftn 2; Ex.3, RCL-5, Schedule 5. The budget impact thus will be an additional 39 FTEs. *Id.* For the 39 additional positions, ISO-NE proposes to add 28 employees to its operations administration and 11 employees to its executive administration. Ex.3, RCL-5, Schedule 5.

If adopted, ISO-NE will have added approximately 100 additional funded FTEs over the past five years. Exhibit A, p. 43. In 2009, ISO-NE employed 466 FTEs. *Id.* In 2010, 479 FTEs were in ISO-NE's budget. *Id.* The number of employees expanded

significantly to 532.5 in 2011 and then receded to 524 in the 2012 budget. *Id.* This year ISO-NE seeks to increase to 563 full time employees.

Moreover, in 2012, 275 of ISO-NE's current employees, almost 50%, earn more than \$100,000/year, excluding benefits. Exhibit A, p. 40. ISO-NE omits specific information regarding the level of merit bonuses and pay increases in its filing, though it has informed some of the Joint New England Agencies that pay increases are approximately 3% and merit bonuses average 9%. The Chief Executive Officer is eligible for a bonus of up to 45% of base salary, executives are eligible for bonuses up to 25% and all other employees are eligible for bonuses up to 15% of base salary.

### **III. COMMENTS AND PROTEST**

The Commission should reject ISO-NE's Filing, maintain tariffs at current levels and set the matter for an evidentiary hearing in order to review the evidence and determine whether the proposed budget would result in rates that are more than just and reasonable. ISO-NE's Filing proposes rates that are neither just nor reasonable in order to support its significant increase in staffing levels and expense.

No state regulatory authority has any jurisdiction over the ISO-NE budget process. The ISO-NE's budget-making process needs to be reformed to allow more meaningful input from the states and to provide sufficient time for review.

#### **A. The ISO-NE's Increased Staffing Levels and Professional Fees Are Not Reasonable.**

ISO-NE acknowledges that its main expense in its Core Operating Budget is personnel, and has budgeted \$95.7 million for salaries and overhead. Ludlow testimony, p. 20 and RCL-5, Schedule 1. An additional \$13 million is set aside for professional fees and consultants, including \$3.9 million for outside legal fees. RCL-5,

Schedule 1 and Exhibit A, p. 44. ISO-NE presents no evidence that adding 39 more internal staff members will create savings by reducing its consultant expense; the costs are simply additive. The two categories account for 82% of the total operating budget (excluding depreciation and debt service), and personnel costs alone account for 72% of the budget.

The ISO-NE outside professional services fees comprise 8% of its total budget. Nonetheless, these fees have not been subjected to a comprehensive review by this Commission. The Joint New England Agencies respectfully request FERC to review ISO-NE's staffing levels and its extensive use of outside professional services. Given how heavily weighted ISO-NE's budget is toward personnel, any additional staff requests and the level of professional fees and consultants should be closely scrutinized.

At its current staffing levels, ISO-NE is significantly larger than the staff of all New England public utility commissions **combined** and has more than one-third the number of FTEs at FERC. The public utility commissions for all six New England States currently have 376.25 FTEs, and in 2011 FERC employed 1,500 FTEs.<sup>8</sup> ISO-NE currently hires 524 FTEs, which is 148 additional employees and 40% more employees than all of the New England public utility commissions combined and more than one-third of FERC. The addition of 39 more FTEs would result in ISO-NE employing 50% more employees than all of the New England public utility commissions combined.

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<sup>8</sup> The staffing levels of the New England states' public utility commissions are as follows: Connecticut 69 FTEs; Maine 61.25 FTEs; Massachusetts 140 FTEs; New Hampshire 70 FTEs; Rhode Island 10 FTEs; and Vermont 27 FTEs for a total of 376.25 FTEs. FERC's employee numbers may be located on its "Frequently Asked Questions" section of its website.

While labor costs are high everywhere, ISO-NE's costs appear to be heavily weighted to highly-compensated employees. In 2012, 50% of the ISO-NE labor force earned more than \$100,000 in base salary, plus 3% wage increases and an average of 9% merit bonuses. Exhibit A, pp. 33, 40. Some of the Joint New England Agencies were informed about the levels of wage increases and merit bonuses in an October 16, 2012 briefing by ISO-NE, though the information is not included in ISO-NE's Filing.

This Commission should conduct a hearing to fully consider whether the sheer size of ISO-NE and its extraordinary growth in a time of economic stagnation will result in rates that are more than just and reasonable. The Commission also should conduct a comprehensive review of the number of ISO-NE employees and their compensation structure.

**B. ISO-NE has the Smallest Service Area and Highest Costs of the RTOs.**

Even before its current request, ISO-NE has the smallest service area and the highest costs of the domestic RTOs. Based upon 2011 actual data, ISO-NE has the highest annual administrative charges per Megawatt-Hour of Load Served, the highest operating cost by population, the highest operating cost by installed generation, and the highest operating cost per mile of transmission lines of all of the other domestic Independent System Operators (ISOs) and RTOs.

On August 31, 2011, the six ISOs/RTOs submitted the 2011 ISO/RTO Metrics Report in docket no. AD10-5-000. In the 2011 Metrics Report, ISO-NE has the highest Annual Administrative Charges per Megawatt Hour of Load Service of \$1.04/MWh. Exhibit C, excerpts of 2011 Metrics Report, p. 136. The next highest administrative costs were charged by the NYISO at \$0.83/MWh, and then, in descending order, by the California ISO at \$0.79/MWh, MISO at \$0.38/MWh, PJM at \$0.26/MWh and SPP at a

mere \$0.18/MWh.<sup>9</sup> ISO-NE's Annual Administrative Charges per MWh were 25% higher than NYISO's and slightly more than five times the charges imposed by SPP.

Comparing the Installed Generation, Miles of Transmission Lines and Population set forth in the 2011 Metrics report at page 11 and the compilation of 2011 operating expenses provided in Mr. Ludlow's August 2012 Report to the NEPOOL Subcommittee (Exhibit A at p. 102), ISO-NE's operating expenses are substantially higher than other domestic ISO/RTOs. In 2011, ISO-NE charged \$9.97 per person in the New England region. By contrast, PJM charged slightly more than half that amount, at \$5.10 per person.<sup>10</sup>

ISO-NE also has the highest operating expense of all the domestic RTOs on an installed generation (in megawatts) basis. For 2011 actual costs, ISO-NE charged \$4,362.50 per MW, whereas PJM charged only \$1,670.76 per MW, such that ISO-NE's charges are more than twice as expensive.<sup>11</sup> Based upon miles of transmission lines, operating ISO-NE is already almost twice as expensive as the next highest-cost RTO. In 2011, ISO-NE spent \$17,171 per mile of transmission line, whereas the next highest-cost RTO, California ISO, spent \$9,614 per mile of transmission line.<sup>12</sup>

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<sup>9</sup> Exhibit C, 2011 ISO/RTO Metrics Report filed in AD10-5-000 at pp. 66 (California ISO), 136 (ISO-NE), 195 (MISO), 251 (NYISO), 313 (PJM), and 351 (SPP).

<sup>10</sup> The per-person charge was calculated by dividing the operating expense charges by the population. See Exhibit A, p. 102; Exhibit C, 2011 Metrics Report, p.11. California ISO charged \$8.18 per person, NYISO charged \$8.14, MISO charged \$7.69, and SPP charged \$9.21. *Id.*

<sup>11</sup> The per-megawatt charge was calculated by dividing the operating expense charges by the installed generation amount by region. See Exhibit A, p. 102; Exhibit C, 2011 Metrics Report, p.11. California ISO charged \$4,289/MW, MISO charged \$2,175.73/MW, NYISO charged \$4,135/MW and SPP charged \$2,088/MW. *Id.*

<sup>12</sup> The per-mile of transmission line charge was calculated by dividing the operating expense charges by the miles of transmission lines. See Exhibit A, p. 102; Exhibit C, 2011 Metrics Report, p.11. MISO cost \$5,622 per mile of transmission lines, NYISO cost \$14,222, PJM cost \$4,876 and SPP cost \$2,732. *Id.*

Finally, on a comparative basis, ISO-NE has the most employees per installed generation, miles of line and population served of all of the domestic RTOs before including the additional 39 employees in its proposed 2013 budget.<sup>13</sup> In short, ISO-NE costs more and has more employees using population, generation or transmission metrics than every other ISO/RTO in the nation. FERC should hold hearings to examine whether ISO-NE's rates and the size and scope of its operations are just and reasonable in light of the core functions it is designed to serve.

**C. An Evidentiary Hearing is Necessary for All of ISO-NE's Proposed 2013 Administrative Budget.**

An evidentiary hearing is necessary on the entirety of ISO-NE's Proposed 2013 administrative budget. ISO-NE's Filing lacks specificity and the details necessary for this Commission to determine whether ISO-NE's proposed rate increases are just and reasonable. Some key drivers of the revenue requirement increase are simply stated, without any evidentiary or factual support for the proposed increase and cost. The proposed increases may be warranted or may be unreasonable but it is impossible to determine without further information.

The following are a few illustrative examples of these insufficiently-supported requested increases.

1. Pension Expense and Post-Retirement Benefits Other than Pensions (PBOP)

One of the primary drivers for ISO-NE's revenue requirement increase is a change in the interest rate assumptions for its pension plan and post-retirement benefit costs (PBOP). See Letter, p.6; Exhibit 3, RCL-5, Schedule 4, p.1. In its Filing, ISO-NE

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<sup>13</sup> The ratios were calculated by dividing the number of FTEs by each measure. See Exhibit A, p. 102; Exhibit C, 2011 Metrics Report, p.11.

reports an increase of \$4.1 million, for post retirement benefit and pension costs. Exhibit 3, RCL-5, Schedule 4, p.1.

In Attachment 6 to its Filing, ISO-NE includes the 4<sup>th</sup> quarter 2011 FERC Form 1, which includes a discussion of the 2011 pension plan and PBOP in note 5. Attachment 6, FERC Form 1 n.5, pp. 123.9-123.12. The sole evidentiary support for the 2013 increase resides in the testimony of Mr. Ludlow, where he states that the pension plan increase is to “reflect the appropriate interest rate assumptions, based on current economic conditions and actuarial projections.” Ludlow Testimony Exhibit 3, p. 9.

ISO-NE’s Filing fails to provide any explanation as to why and how the pension plan assumptions were changed from the reported 2011 year-end to its projections for 2013. The annual cost of a pension plan is calculated using the following formula:

$$\begin{array}{l} \text{Service cost} \\ + \text{Interest cost} \\ - \text{Expected return on assets} \\ + \text{Or - Amortization} \\ \hline \text{Net Periodic Pension Cost} \end{array}$$

The service cost is the value of benefits earned during the year for each employee. Interest cost is defined as the increase in plan liabilities resulting from the passage of the year. The expected return on assets is the projected return on market related value of the invested assets for the year. Amortization refers to the cost for the year attributable to events from prior years such as plan amendments, gains and losses.

A pension plan’s expense is calculated using the above formula through the use of the actuarial assumptions of expected return on plan assets, discount rate, and salary increase assumption. The expected return is a long-term projection of the probable return on pension plan assets, which is influenced by the particular asset mix and

expected returns on that asset mix. The higher the assumption for future returns on plan assets, the lower the pension expense. The discount rate is the rate at which projected benefits are discounted back to a present value. It is used to evaluate the present value of the pension plan liabilities. The discount rate affects the pension plan costs in that when the discount rate decreases, the liability, or present value, of a pension plan's obligations increases. This increase in a pension plan's obligations increases the service cost. The salary increase assumption is the long-term assumption of salary increase for all the employees in the pension plan.

For post-retirement pension benefits, the expense is also driven by actuarial assumptions of a long-term rate of return on plan assets, the discount rate, and salary increases on the life insurance portion of the benefit. In addition, a health care cost trend rate is used. The health care cost trend rate is an assumption that reflects the cost of future health care. The initial health care trend assumption reflects expectations of cost increases in the near term. The ultimate assumption is developed from a 'building block' approach, where an underlying inflation assumption is increased to reflect improvements in technology and additional utilization. Since there were no actuarial statements provided by ISO-NE, an analysis cannot properly be made to justify the expense.

None of these critical assumptions are provided in the ISO-NE Filing. The Filing lacks the actuarial assumptions, the projected return on plan assets, the yield curves, the union contractual obligations, the discount rates, the rate of return on investments or the impact of proposed future salary increases. It is unclear whether the proposed pension and PBOP increases reflect the proposed 39 new employees for 2013 (the 26

new positions and 13 additional positions from the change in the vacancy rate). In short, ISO-NE failed to provide sufficient evidentiary support for these proposed increases, rendering an evidentiary hearing necessary.

## 2. Merit Increases and Promotions

Another budget driver is the requested increase for merit bonuses and promotions. ISO-NE provides testimony as to level of executive compensation, turnover ratios, and the national average percentage increases. Testimony of Janice S. Dickstein. However, ISO-NE fails to provide any specific data or information in its Filing as to the levels of merit bonuses, expected promotions and actual expenses for merit increases and promotions. Projected increases in salaries and wages typically do not equal actual increases. Rather, ISO-NE requested a percentage increase based on national averages based upon market surveys. Upon information and belief, ISO-NE's experience is that actual merit increases are typically one-half of one percent below the projected amount found in the surveys. Further, it is unclear whether merit bonuses as high as 15% to 45% are reasonably borne by the ratepayers of New England.

ISO-NE also fails to provide any offset for retirements and departures. While pay increases for promotions may be appropriate, they typically are netted against the reduction in salaries and wages from the position being replaced. ISO-NE appears to have failed to calculate such an offset. The lack of an offset, and absence of any evidentiary support for actual merit increases and promotions, compels an evidentiary hearing.

**D. The Commission Should Leave Tariff Rates at Present Levels Pending the Outcome of this Proceeding.**

The ISO-NE budget has not been subjected to a hearing before this Commission since the submission of ISO-NE's 2006 budget. Given the expansion of its staffing levels and its costs, it is time to thoroughly review ISO-NE's budget. In fact, even at the **current** tariff levels, ISO-NE remains the single most expensive RTO.

On page 2 of its budget letter, ISO-NE requests expedited approval of its proposed budget because it cannot issue refunds. While taking no position as to whether that assertion is true, the Joint New England Agencies respectfully submit that ISO-NE's current tariff levels are more than adequate to allow ISO to continue its operations until these budget concerns are addressed. There is no justification to rush into placing an even greater burden upon the ratepayers New England until these concerns are fully and fairly reviewed and analyzed.

**E. The New England States Need More Process and Oversight of ISO-NE's Budgets.**

The Joint New England Agencies respectfully request that as part of its ruling in this proceeding, FERC reform the ISO-NE budget-making process in future years to ensure greater transparency and accountability to the New England states by and through their state utility regulators.

ISO-NE's budget currently is reviewed by NEPOOL and then approved by the ISO-NE Board of Directors. Budget cover letter at p. 4. None of the New England state utility commissions are members of NEPOOL. Rather, NEPOOL is a stakeholder advisory body to ISO-NE with over 400 members, divided into various sectors. NEPOOL does not manage or regulate ISO-NE.

In its budget cover letter, ISO-NE represents that “state regulators” have “opportunities to review and comment” at NEPOOL meetings and meetings with ISO-NE management. *Id.* On September 13, 2012, ISO-NE provided an “information only” presentation on its proposed budget at a regional luncheon, but no action was contemplated or taken. ISO-NE management also met with staff from the Connecticut Office of Consumer Counsel, Office of the Attorney General and Public Utilities Regulatory Authority (the “Connecticut Agencies”) on October 16, 2012, the day before the ISO-NE Board approved the budget on October 17, 2012. At that meeting, the Connecticut Agencies raised concerns about the additional staffing levels and extent of the proposed increases, none of which were addressed in the submitted budget. Indeed, given the timing constraints imposed by the back-to-back meetings, the Connecticut Agencies’ comments could not possibly have been taken into account.

The New England state governors and public utility commissions received ISO-NE’s formal 2013 budget on October 25, 2012, the same day it was filed with this Commission, and typically would have only three weeks to submit a protest. See Attachment 7 to Filing. Unless this Commission grants a hearing, ISO-NE’s proposed budget and rate increases are borne by the ratepayers of New England without any state governmental oversight or input.

The Joint New England Agencies respectfully submit that the process for state governmental review and consideration of ISO-NE’s budgets is insufficient and needs to be modified. Therefore, the Joint New England Agencies request FERC to include, as a condition on any approval, robust requirements for notice and communications with the state public utility commissions starting with the 2014 ISO-NE’s annual budget. To

accomplish this end, the Joint New England Agencies respectfully offer the following suggestions.

First, state regulatory agencies need more time to review the proposed budgets before they are filed with FERC. FERC should require ISO-NE to formally submit its proposed annual administrative and capital budget and any associated rate filing to each New England state utility commission at least sixty days prior to filing its administrative and capital budget with FERC. This review period would provide state agencies with sufficient time to review the budgets and provide ISO-NE with the opportunity to explain its budgets and rate proposal and make any necessary and appropriate adjustments resulting from its dialogue with the state commissions.

Second, ISO-NE should be required to report on the feedback received by each state utility commission to FERC in its budget filings, so that this Commission will be automatically notified of the various states' positions.

Third, ISO-NE should file with FERC its entire annual budget, both administration and capital expenses, in one docket rather than continuing its current practice of presenting separate annual administrative and capital budgets to FERC for review and approval. ISO-NE presents both sides of its budget, capital and administrative, jointly to NEPOOL for input, because the two sides of the budget are interrelated and interdependent. Although ISO-NE is funding its 2013 capital budget through private debt placement and senior unsecured notes, the debt service and depreciation recovery are funded through ISO-NE's administrative budget. Ludlow testimony, pp. 13-14.

ISO-NE's requests for additional staffing typically are directly linked to its capital requests. For example, in this administrative budget, ISO-NE seeks \$4.5 million and

additional staff to work on the Strategic Initiatives project. Ludlow testimony, pp. 10-11; cover letter, pp. 7-8. In its companion filing for its capital budget, ISO-NE seeks an additional \$2,500,000.00 for the Strategic Initiatives project as a conceptual capital expense. See Docket no. ER13-192-000, October 25, 2012 cover letter, p. 12 and Testimony of Dr. Vamsi Chadalavada, p. 16.

Fourth, this additional, in-region review by the state utility commissions, with the opportunity to conduct meaningful dialogue with ISO-NE, should limit the need for an evidentiary hearing by this Commission. If, however, the state's concerns are not addressed, then state utility commissions and agencies should be given an opportunity for a hearing before FERC. Given the sheer size of ISO-NE's budget, it is of concern that FERC has not held a hearing on an ISO-NE budget since 2006. When its capital budget is included with its proposed administrative budget, ISO-NE seeks almost \$200 million for 2013. Costs of this magnitude borne by the ratepayers deserve more careful review.

If FERC is not inclined to automatically conduct an evidentiary hearing for rate increases, it may wish to consider conducting an evidentiary hearing pursuant to 16 U.S.C. §§ 824d and 824e if a New England state utility commission so requests. In the alternative, FERC may delegate its review authority and decision-making authority regarding the ISO-NE annual budget and rate filing to a FERC-approved New England State Board pursuant to 16 U.S.C. § 824h.

With a proposed annual budget of nearly \$200 million dollars between its administrative and capital budgets, the New England state governments and the ratepayers they represent require a meaningful opportunity to review and comment on

ISO-NE's administrative and capital budgets. The Joint New England Agencies respectfully request reforms in the budget review process.

### **CONCLUSION**

ISO-NE has not been required to work within fiscal constraints and prioritize certain projects. Instead, the pattern of staff and revenue requirement increases suggest ISO-NE inclinations to expand the budget whenever possible to pursue all projects at the same time. Such an approach and mode of operation has resulted in ISO-NE growing 100 FTE positions and increasing its revenue requirements by more than 34% in the past five years. This approach and the currently inadequate regulatory review process have inflated rates to levels that are more than just and reasonable. Cost-of-service ratemaking is supposed to create and replicate through rates some of the competitive forces that a business in a competitive industry might face. Certainly those forces faced by every competitive industry of late included the need to prioritize projects and maximize the productivity of existing staff before considering additions.

The Joint New England Agencies request FERC to conduct hearings to fully examine whether ISO-NE's 2013 administrative budget and proposed rate increase is just and reasonable. The Joint New England Agencies also request FERC to modify the review process of ISO-NE's budgets to permit meaningful state regulatory review starting with the 2014 budgets.

**WHEREFORE**, the Joint New England Agencies respectfully request that  
the Commission:

1. Mark the issues down for hearings pursuant to Subpart E of the Commission's regulations, with discovery rights, to ensure that the rates the Commission ultimately approves are just and reasonable;
2. Condition any approval of the ISO-NE Filing to require a modified review process to permit meaningful state regulatory review of the ISO-NE's budgets and associated rate filings prior to their submission with this Commission, starting with the 2014 budget; and
3. Grant such further relief as the Commission deems just and proper.

Respectfully submitted,

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Dated: November 28, 2012

**CERTIFICATE OF SERVICE**

I, Clare E. Kindall, hereby certify that on this day I caused the foregoing to be served upon all parties identified on this agency's service list for this proceeding.

/s/ Clare E. Kindall  
Clare E. Kindall

Dated: November 28, 2012

AUGUST 24, 2012

EXHIBIT A

# ISO New England Proposed 2013 Operating and Capital Budgets



*NEPOOL Budget and Finance Subcommittee*

Robert Ludlow

VP, CHIEF FINANCIAL & COMPLIANCE OFFICER



# Summary Budget Information

(Budget Amounts are in Millions)	<u>2013</u>	<u>Change</u>	<u>2012</u>	<u>Change</u>	<u>2011</u>	<u>Change</u>	<u>2010</u>	<u>Change</u>	<u>2009</u>	<u>Change</u>	<u>2008</u>
		%		%		%		%		%	
Operating Budget Before Depreciation	\$135.5	9.4%	\$123.9	5.4%	\$117.5	7.9%	\$108.9	6.1%	\$102.6	8.3%	\$94.7
Capital Budget (1)	29.3	4.6%	28.0	5.7%	26.5	(5.4%)	28.0	14.3%	24.5	11.4%	22.0
<b>Total Cash Budget</b>	<b>\$164.8</b>	<b>8.5%</b>	<b>\$151.9</b>	<b>5.5%</b>	<b>\$144.0</b>	<b>5.2%</b>	<b>\$136.9</b>	<b>7.7%</b>	<b>\$127.1</b>	<b>8.9%</b>	<b>\$116.7</b>
Operating Budget Before Depreciation	\$135.5	9.4%	\$123.9	5.4%	\$117.5	7.9%	\$108.9	6.1%	\$102.6	8.3%	\$94.7
Depreciation	28.5	5.2%	27.1	4.6%	25.9	7.5%	24.1	(6.6%)	25.8	(9.5%)	28.5
Revenue Requirement Before True-up	164.0	8.6%	151.0	5.3%	143.4	7.8%	133.0	3.6%	128.4	4.2%	123.2
True up	0.9		(7.4)		(9.7)		4.2		(5.0)		2.1
<b>Revenue Requirement</b>	<b>\$164.9</b>	<b>14.8%</b>	<b>\$143.6</b>	<b>7.4%</b>	<b>\$133.7</b>	<b>(2.6%)</b>	<b>\$137.2</b>	<b>11.2%</b>	<b>\$123.4</b>	<b>(1.5%)</b>	<b>\$125.3</b>
Forecast – GW/hs (2)	138.9	0.7%	138.0	4.2%	132.4	1.2%	130.8	3.2%	126.8	(3.7%)	131.7
\$/KWh Rate	\$0.00119	14.4%	\$0.00104	3.0%	\$0.00101	(3.8%)	\$0.00105	8.2%	\$0.00097	2.1%	\$0.00095
Average Monthly Consumer Cost (3)	\$0.83		\$0.73		\$0.71		\$0.74		\$0.68		\$0.67

(1) 2013 Capital Budget includes the Backup Control Center (BCC) Data Center Transition Project, however, it excludes the BCC Project.

(2) 2013 Forecast based on May 2012 CELT Report. All other years based on CELT Report for the applicable year, which can be found on [www.iso-ne.com](http://www.iso-ne.com).

(3) Based on average consumption of 700 kWh per month.

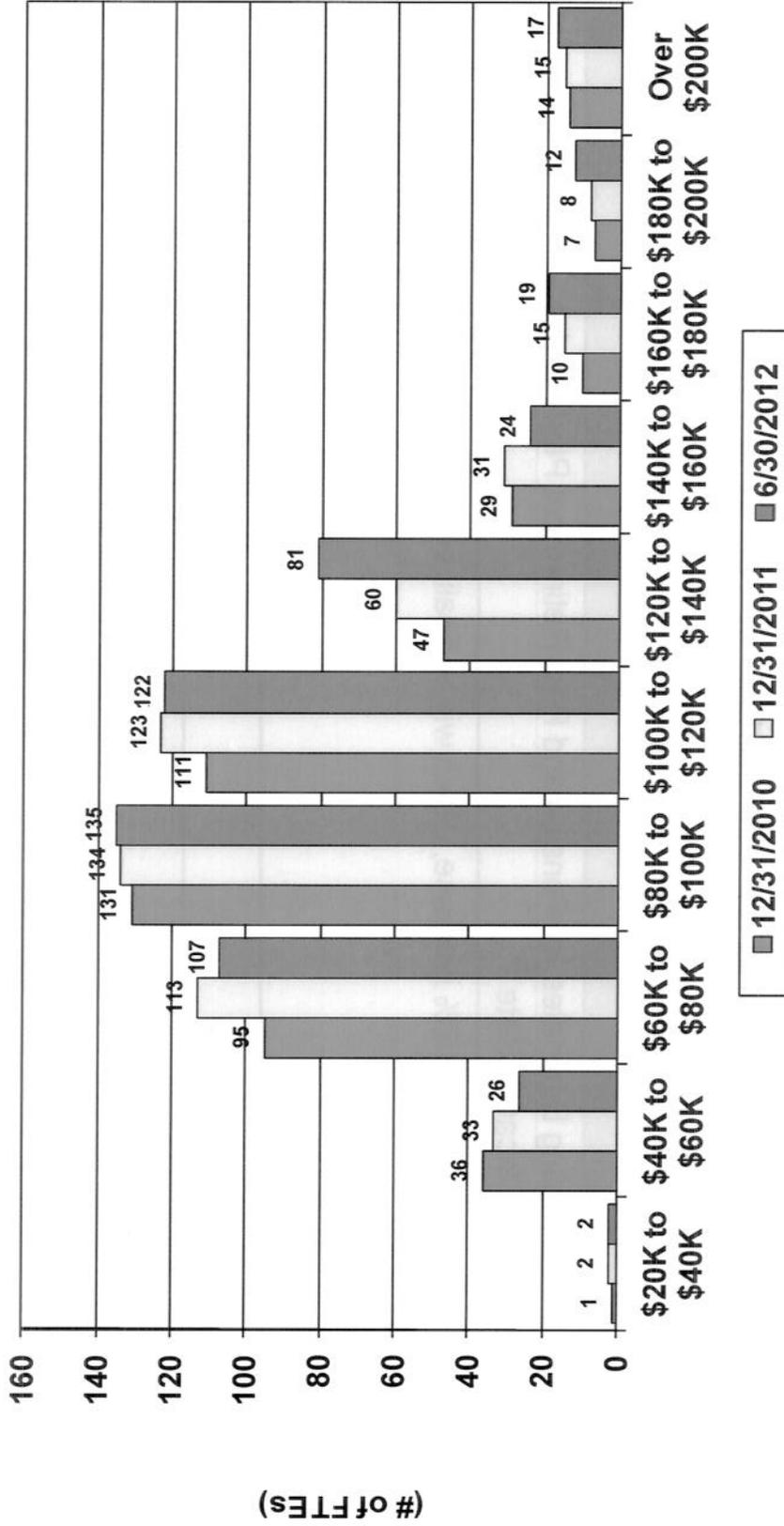
# ISO New England Salary History

Comparison: Survey Data to ISO New England Salary Increase Budgets						
Year	Merit Increase Budgets			Promotion/Equity Increase Budgets		
	Survey Results		ISO-NE Budget	Survey Results		ISO-NE Budget
	Utility Industry	General Industry		Utility Industry	General Industry	
<b>2013</b>	3.0% - 3.0%	2.8% - 3.0%	3.0%	0.25% - 1.0%	0.5% - 1.0%	0.9%
<b>2012</b>	3.0% - 3.0%	3.0% - 3.2%	3.0%	0.5% - 1.0%	0.5% - 1.0%	0.8%
<b>2011</b>	2.7% - 3.3%	2.7% - 3.3%	2.9%	0.6% - 1.8%	0.9% - 1.0%	0.9%
<b>2010</b>	2.5% - 3.1% Q4 data	2.5% - 2.8% Q4 data	2.5% final budget	Q4 data not reported	Q4 data not reported	0.5% final budget
	2.5% - 3.3% original data	2.6% - 3.1% original data	2.5% original budget	0.8% - 1.2%	1.0% - 1.2%	0.5% original budget
<b>2009</b>	3.2% - 3.5% Q4 data	2.9% - 3.6% Q4 data	3% adjusted in Feb. 2009	Q4 data not reported	Q4 data not reported	1.0% final budget
	3.5% - 4.5% original data	3.5% - 3.9% original data	3.5% original budget	0.9% - 1.9%	1.0% - 1.4%	1.0% original budget
<b>2008</b>	3.5% - 4.1%	3.5% - 3.9%	3.5%	1.0% - 2.2%	1.1% - 1.2%	1.0%
<b>2007</b>	3.4% - 3.8%	3.5% - 3.9%	3.5%	0.9% - 2.7%	1.2% - 2.2%	0.5%
<b>2006</b>	3.2% - 3.7%	3.4% - 4.1%	3.5%	0.9% - 1.6%	0.8% - 1.3%	0.5%
<b>2005</b>	3.3% - 4.3%	3.4% - 3.7%	3.5%	1.1% - 1.8%	0.9% - 1.7%	1.0%
<b>2004</b>	3.3% - 4.0%	3.5% - 3.8%	3.5%	0.4% - 1.0%	0.8% - 1.0%	0.5%

Note (\*): The survey data for 2013 reflects the three surveys available to date. The budgets for 2013 are placeholders. The actual budgets will be determined by the Board's Compensation Committee in September, when all survey data is available.

# Operating Budget Details

## Staffing – Number of Employees by Salary Band



# Operating Budget Details - Budget Categories

(see next slides for detail on certain categories)

	2009		2010		2011		2012		2013	
	Actuals	Actuals	Actuals	Actuals	Actuals	Budget	Actuals	Budget	Actuals	Budget
(\$ in thousands)										
Salaries and Burden	\$66,903	\$70,751	\$78,558	\$82,772	\$94,581					
Professional fees and consultants	12,435	12,929	12,250	14,389	12,959					
Building services	1,932	1,977	1,863	1,930	1,961					
Rents/leases	352	356	330	355	551					
Communications expense	1,798	1,767	1,965	2,047	2,043					
Computer services	4,708	5,730	6,785	7,423	7,612					
Insurance expense	1,697	1,691	1,693	1,842	1,888					
Board of Directors Expense	930	931	1,109	1,167	1,160					
Meetings, Travel, Seminars & Training	1,819	1,756	1,654	2,456	2,545					
NPCC Dues	3,949	4,214	4,557	4,949	5,056					
Interest Expense	2,706	2,655	2,344	2,237	2,661					
Contingency Funds (1)	-	-	-	1,800	1,800					
Other Expense	1,044	1,092	1,597	1,310	1,388					
Interest Income & Other Revenue	(822)	(640)	(798)	(781)	(647)					
<b>Net Expense before Depreciation</b>	<b>99,451</b>	<b>105,209</b>	<b>113,907</b>	<b>123,896</b>	<b>135,558</b>					
Depreciation	23,378	22,133	24,957	27,104	28,484					
<b>Total ISO Tariff Recovery</b>	<b>\$ 122,829</b>	<b>\$ 127,342</b>	<b>\$ 138,864</b>	<b>\$ 151,000</b>	<b>\$ 164,042</b>					
Revenue True-up	(4,953)	4,162	(9,664)	(7,365)	916					
Revenue Requirement	117,876	131,504	129,200	143,635	164,958					
Network Load (MWh)	126,845	130,767	129,153	137,955	138,875					
Grid Market Charge \$/KWh	\$0.00093	\$0.00101	\$0.00100	\$0.00104	\$0.00119					
Headcount (FTE's) (2)	466.0	479.0	532.5	524.0	563.0					

(1) The Contingency Budget for both 2009, and 2010 was \$1.7 million, while for 2011 this was \$1.8 million.

(2) 2009, 2010 and 2011 reflect December 31 actual headcount for those years. 2012 reflects headcount of 551.5 less 5% vacancy which equates to 27.5 FTE's. and 2013 reflects headcount of 577.5 less 2.5% vacancy which equates to 14.5 FTE's.

# Operating Budget Details

## Professional Fees

*(See next slides for details)*

	<u>2013</u>	<u>2012</u>
Corporate Center	\$3.3M	\$3.4M
Legal	\$3.8M	\$3.9M
Operations	\$5.9M	\$7.1M
<b>Total Professional Fees</b>	<b>\$13.0M</b>	<b>\$14.4M</b>

# Financial Results Summary

## ISO/RTO Financial Summary - 2011 Actual Results

### Operating Expense and Capital Expenditures for Calendar Year 2011, and Outstanding Debt as of December 31, 2011 <sup>(1)</sup>

(Amounts in Millions)

	ISO-NE <sup>(2)</sup>	NYISO	CAISO	IESO <sup>(3)/(4)</sup>	PJM	MISO	SPP <sup>(5)</sup>	ERCOT
Operating Expense - 2011	\$ 139.6	\$ 154.7	\$ 245.4	\$ 133.2	\$ 275.5	\$ 323.0	\$ 138.2	\$ 275.2
Less: Amortization & Depreciation	(24.6)	(18.9)	(69.4)	(15.4)	(30.0)	(73.8)	(13.1)	(158.8)
Regulatory Fees	(4.6)	(11.4)	-	-	(49.0)	(38.3)	(16.6)	(12.0)
Grant Expenses	-	(0.6)	-	-	-	-	-	-
Net Operating Expense - 2011	\$ 110.4	\$ 123.8	\$ 176.0	\$ 117.8	\$ 196.5	\$ 210.9	\$ 108.5	\$ 104.4
Other Financial Data								
Capital Expenditures for 2011	\$ 25.2	\$ 33.7	\$ 30.4	\$ 14.8	\$ 55.3	\$ 74.4	\$ 79.4	\$ 35.9
Outstanding Debt as of 12/31/2011	\$ 75.9	\$ 74.0	\$ 287.8	\$ 78.2	\$ 86.7	\$ 264.1	\$ 182.2	\$ 192.2
Actual full-time equivalent headcount as of 12/31/2011	532.5	516.0	583.0	449.0	630.0	718.0	514.0	602.0

(1) Applicable amounts were taken from each entity's 2011 audited financial statements except for headcount information

(2) ISO-NE Amortization & Depreciation and Capital Expenditures are presented on a cash-flow basis

(3) Amounts are in Canadian dollars

(4) IESO excludes regional System Planning function and costs which are provided by Ontario Power Authority

(5) Operating Expense includes Change in Funding Status of Employee Benefit Plans

EXHIBIT B

THE HISTORY OF ISO NEW ENGLAND's ANNUAL BUDGET

(all cost amounts represent US dollars in millions)

Year	Operating % +/-		Capital % +/-		Total % +/-	Debt Cost
2013	135.5	+9.4	29.3	+4.6	164.8 +8.5	28.5
2012	129.3	+5.4	28	+5.7	151.9 +5.5	29.9*
2011	117.5	-5.4	26.5	+7.9	144.0 +5.2	28.7*
2010	109.9	+6.1	28.0	+14.3	136.9 +7.7	26.8*
2009	102.6	+8.3	24.5	+11.4	127.1 +8.9	28.8*
2008	94.7		22.0		116.7	32.2*
2007	87.7*		20.0*		107.7	32.5*
2006	83.7*		22.9		106.6**	30.3*
2005	83.7*		24.6		106.2**	41.4*
2004	116.8		23.3		140.1	incl. in 116.8
2003	73.9*		17.4		103**	38.2*
2002	63.9		45.9		109.8**	
2001	62.6		34.6		97.2	
2000	45.5				45.5	
1999	45.6				45.6	
1998	46.4				46.4	
1997	28.0				28.0	

\*These numbers are the ISO NE filed numbers approved by the FERC and may be different than the actuals.

\*\* These totals are estimates based on the filed numbers and may need to be revised to actuals.



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August 31, 2011

**EXHIBIT C**

***VIA ELECTRONIC FILING***

Honorable Kimberly D. Bose, Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426-0001

**Re: RTO/ISO Performance Metrics, AD10-5-000**

Dear Secretary Bose:

The six Independent System Operators (“ISOs”) and Regional Transmission Operators (“RTOs”) regulated by the Federal Energy Regulatory Commission<sup>1</sup> (“Commission”) are pleased to submit the 2011 ISO/RTO Metrics Report. This more than 350-page report reflects the content outlined in the October 21, 2010 Commission Staff Report on ISO/RTO Performance Metrics, as applicable and as information is available for each entity.

The ISOs/RTOs have combined their data and narratives into one report, instead of six separate documents, for the convenience of the readers. This combined report is organized as follows:

- Executive Summary
- ISO/RTO Geography and Operations Statistics
- Performance Metrics and Other Information
  - Descriptions – common definitions of metrics and other information included in each ISO’s/RTO’s section
  - California ISO
  - ISO New England
  - MISO
  - New York ISO
  - PJM
  - Southwest Power Pool

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<sup>1</sup> The California Independent System Operator Corporation (“California ISO”), ISO New England, Inc. (“ISO-NE”), Midwest Independent Transmission System Operator, Inc. (“MISO”), New York Independent System Operator (“NYISO”), PJM Interconnection, L.L.C. (“PJM”), and Southwest Power Pool, Inc. (“SPP”) have each contributed to this report.

The Hon. Kimberly Bose  
RTO/ISO Performance Metrics, Docket No. AD10-5  
August 31, 2011  
Page 2

Any questions concerning this report should be addressed to the undersigned.

Respectfully submitted,

*/s/ Suzanne Daugherty*

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*/s/ Jacquelynn B. Huges*

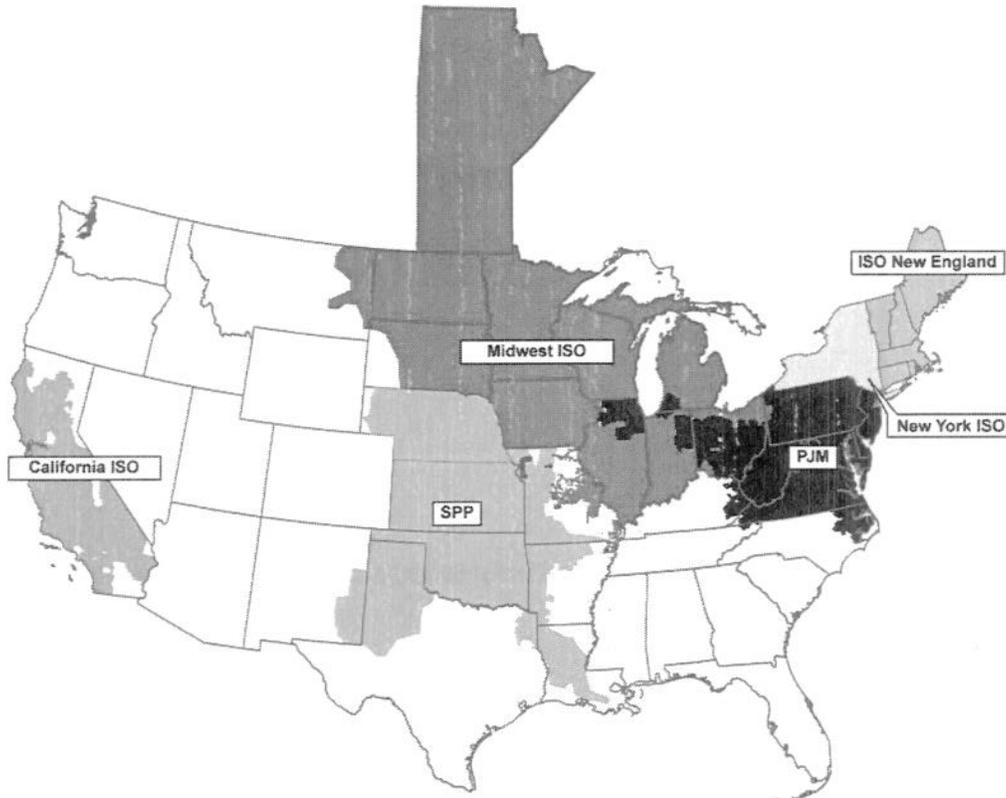
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# 2011 ISO/RTO Metrics Report

The California Independent System Operator Corporation (California ISO), ISO New England, Inc. (ISO-NE), Midwest Independent Transmission System Operator, Inc. (MISO), New York Independent System Operator (NYISO), PJM Interconnection, L.L.C. (PJM), and Southwest Power Pool, Inc. (SPP) assisted in the preparation of this report.

## ISO/RTO Geography and Operations Statistics

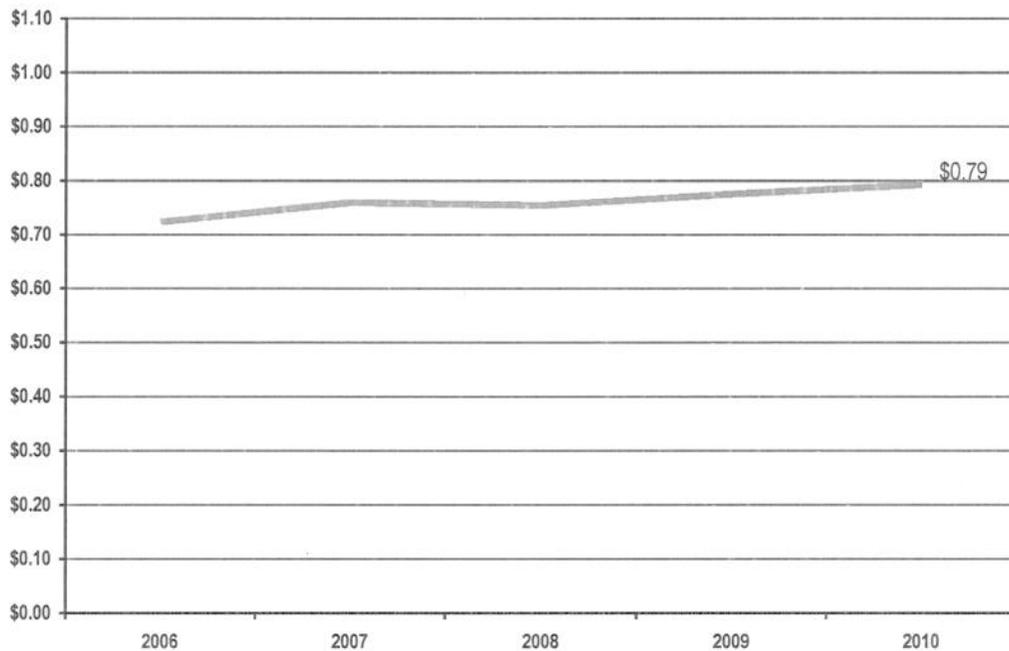
The map and data below show to the location and breadth of operations for the ISOs/RTOs contributing to this report. These reference points will facilitate understanding some of the similarities and differences amongst the information of ISOs/RTOs in this report.



The table below summarizes the miles of transmission lines, installed generation, and population in each ISO/RTO region.

ISO/RTO	Headquarters	Installed Generation (in megawatts)	Miles of Transmission Lines	Population (in millions)
CAISO	Folsom, CA	57,124	25,526	30
ISO-NE	Holyoke, MA	32,000	8,130	14
MISO	Carmel, IN	148,456	57,453	42
NYISO	Rensselaer, NY	37,416	10,877	19
PJM	Valley Forge, PA	164,895	56,499	54
SPP	Little Rock, AR	66,175	50,575	15

California ISO Annual Administrative Charges per Megawatt Hour of Load Served 2006-2010  
 (\$/megawatt-hour)



**Customer Satisfaction**

Instead of using a single client satisfaction metric for developing business improvement initiatives, the California ISO uses a variety of survey instruments to test stakeholder satisfaction. Among these instruments are “transactional surveys” to gauge stakeholder satisfaction with specific projects or stakeholder processes, “corporate surveys” to annually sample senior-level stakeholders across multiple ISO business areas, and “touch point mapping exercises” in which the ISO seeks to better understand business interactions with its customers. Although these surveys yield no single stakeholder satisfaction score, the ISO asks two questions on overall stakeholder satisfaction within the annual corporate survey. The graphic below presents these scores for the past four years.

## A. ISO New England Bulk Power System Reliability

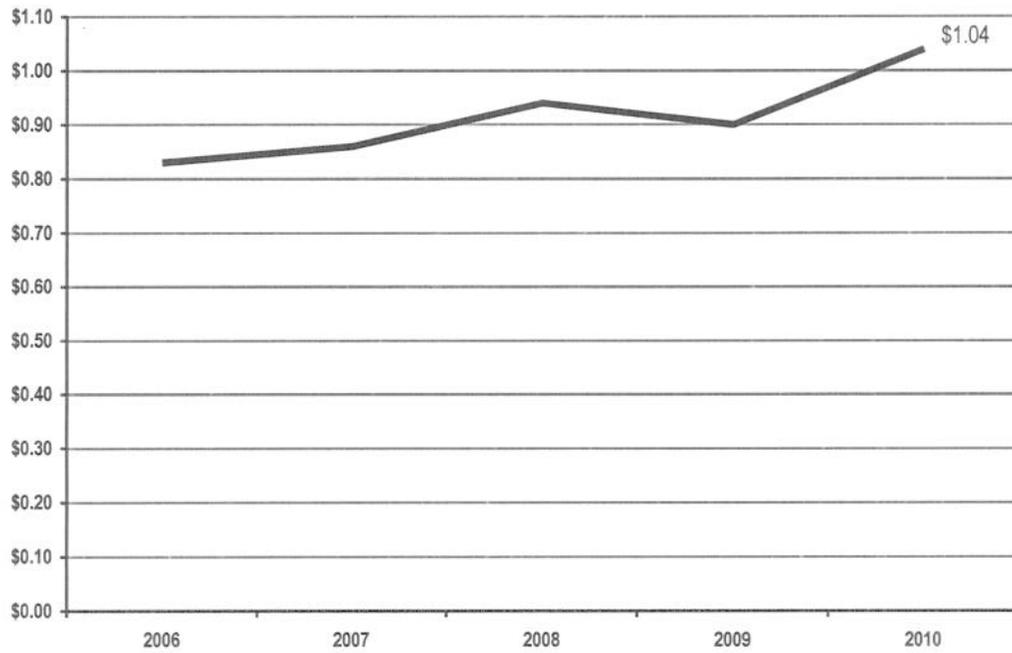
The table below identifies which NERC Functional Model registrations ISO-NE submitted as of the end of 2010. The regional entity for ISO-NE is the Northeast Power Coordinating Council (NPCC). A link to the website for the specific NPCC reliability standards applicable to ISO-NE is included at the end of the table. For the reporting period 2007 to 2010, ISO-NE has had one NERC Confirmed Violation of national or regional reliability standards. ISO-NE regularly reports to stakeholders about the monthly operation of the system.

NERC Functional Model Registration	ISO-NE
Balancing Authority	
Interchange Authority	
Planning Authority	
Reliability Coordinator	
Resource Planner	
Transmission Operator	
Transmission Planner	
Transmission Service Provider	
<b>Regional Entity</b>	Northeast Power Coordinating Council (NPCC)

Standards that have been approved by the NERC Board of Trustees are available at <http://www.nerc.com/page.php?cid=2|20>.

Additional standards approved by the NPCC Board are available at <http://www.npcc.org/regStandards/Approved.aspx>.

ISO-NE Annual Administrative Charges per Megawatt Hour of Load Served, 2006–2010  
(\$/MWh)

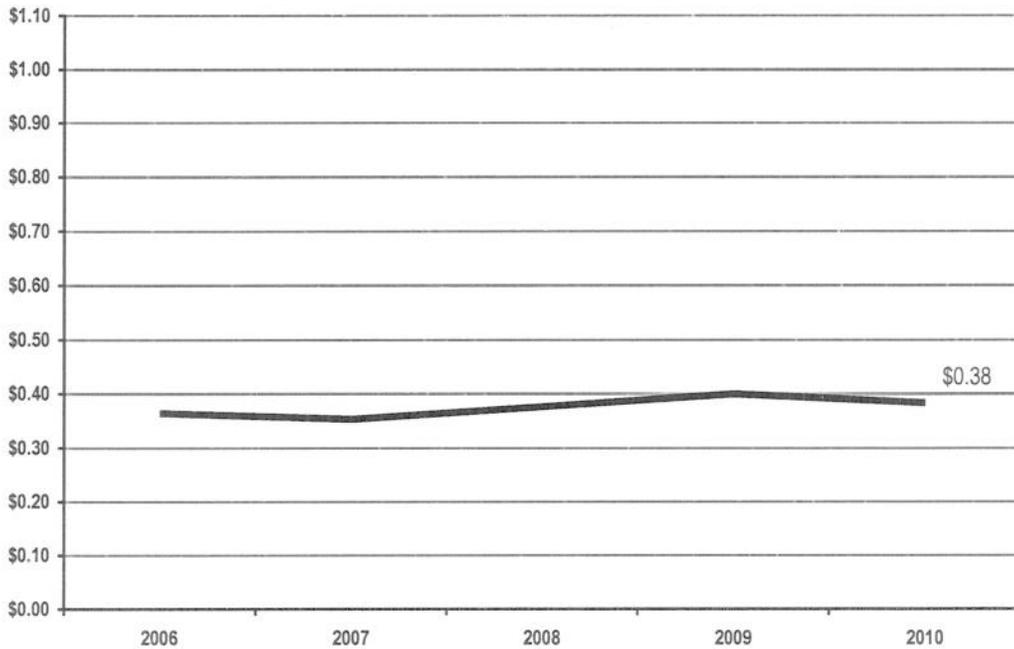


ISO-NE Annual Load Served, 2010



Note: Annual load amount is forecast, and administrative charges are budget amounts that include prior year collection true-up.

**MISO Annual Administrative Charges per Megawatt Hour of Load Served 2006-2010**  
 (\$/megawatt-hour)



The administrative costs per MWhr of load served data in the chart above should be reviewed in the context of the widely-varying levels of annual load served by each ISO/RTO as noted in the table below.

ISO/RTO	2010 Annual Load Served (in terawatt hours)
MISO	563

Prospectively, MISO forecasts its annual administration rates will approximate \$0.390, \$0.368, and \$0.374 per MWh of load in 2012, 2013, and 2014, respectively. These administration rates reflect the ending of amortization of startup costs associated with the energy market. In addition, load reductions due to demand response have an immaterial effect on annual administration rates. The projected cost per MWh varies with the amount of load served.

## A. NYISO Bulk Power System Reliability

The table below identifies which NERC Functional Model registrations the NYISO has submitted effective as of the end of 2010. In addition, the Regional Reliability Organization (RRO) for the NYISO is noted at the end of the table with a web site link to the specific reliability standards.

- The NYISO has had **no self-reported or audit-identified violations** of NERC or applicable RRO operating reserve standards.
- The NYISO has not shed any load in the New York Control Area ("NYCA") due to a standards violation. .

NERC Functional Model Registration	NYISO
Balancing Authority	
Interchange Authority	
Planning Authority	
Reliability Coordinator	
Resource Planner	
Transmission Operator	
Transmission Planner	
Transmission Service Provider	
<b>Regional Entity</b>	NPCC

Standards that have been approved by the NERC Board of Trustees are available at:

<http://www.nerc.com/page.php?cid=2|20>

Additional standards approved by the NPCC Board are available at:

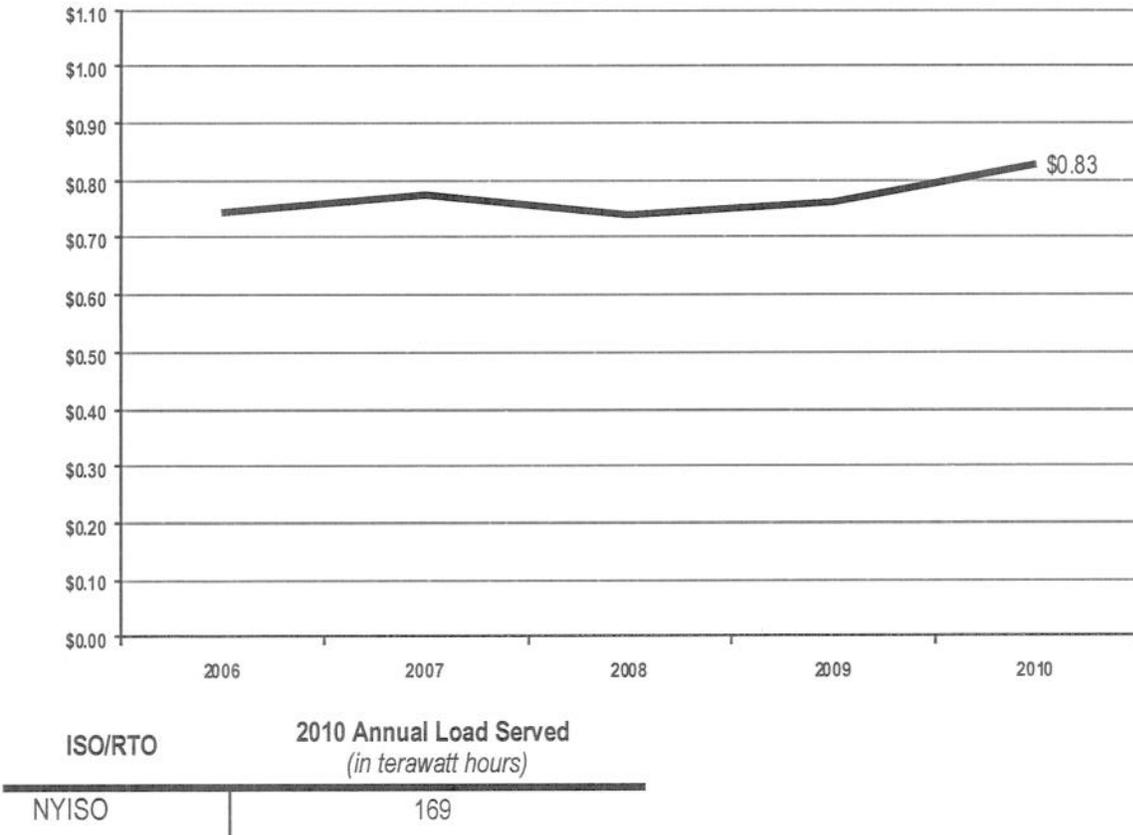
<http://www.npcc.org/regStandards/Approved.aspx>

In addition, section 215 of the Federal Power Act, as amended by the Energy Policy Act of 2005, authorizes the State of New York to "establish rules that result in greater reliability within that state as long as such action does not result in lesser reliability outside the state." The New York State Reliability Council, L.L.C ("NYSRC"), promotes and preserves the reliability of electric service on the New York power system by developing, maintaining, and updating the Reliability Rules specific to the New York State power system that are more stringent or more specific than the rules of the NERC and the NPCC. Those rules, which are adopted by the New York State Public Service Commission as state rules, are complied with by the NYISO and all entities engaging in electric transmission, ancillary services, energy and power transactions on the New York power system.

The New York State Reliability Council and the Reliability Rules they administer are available at:

<http://www.nysrc.org/>

NYISO Annual Administrative Charges per Megawatt Hour of Load Served 2006-2010  
(\$/megawatt-hour)



## A. PJM Bulk Power System Reliability

The table below identifies which NERC Functional Model registrations PJM has submitted effective as of December 2010. Additionally, the Regional Entities for PJM are noted at the end of the table with a link to the websites for the specific reliability standards. To date, PJM has had no self-reported or audit-identified violations of NERC or applicable Regional Entities' standards, though certain potential violations are under review based on a first quarter 2010 standards audit. Also, PJM has not shed any load in the PJM region due to violating a NERC or Reliability Entity operating standard.

NERC Functional Model Registration	PJM
Balancing Authority	
Interchange Authority	
Planning Authority	
Reliability Coordinator	
Resource Planner	
Transmission Operator	
Transmission Planner	
Transmission Service Provider	
<b>Regional Entities</b>	ReliabilityFirst and SERC

Standards that have been approved by the NERC Board of Trustees are available at:  
<http://www.nerc.com/page.php?cid=2|20>

Additional standards approved by the ReliabilityFirst Board are available at:  
<http://www.rfirst.org/Standards/ApprovedStandards.aspx>

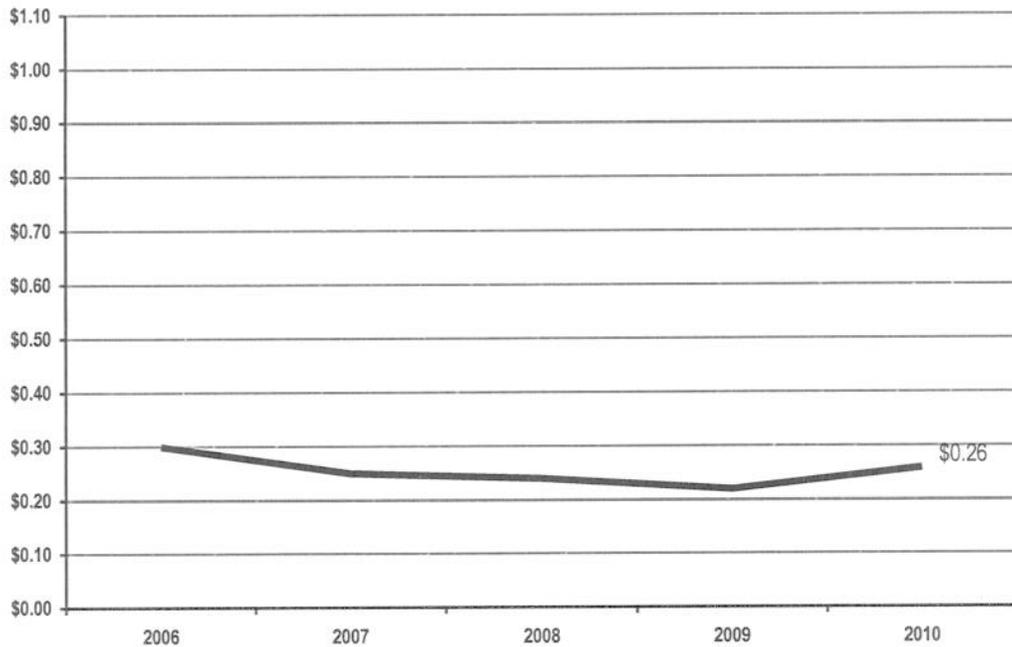
Additional standards approved by the SERC Board are available at:  
<http://www.serc1.org/Application/ContentPageView.aspx?ContentId=111>

capital projects from 2006 to 2007. PJM's 2007 actual capital recovery costs were lower than budgeted due to lower interest expense due to lower borrowings required to fund PJM's capital expenditures.

PJM's 2008 actual capital recovery costs were 28 percent lower than budget due to the impact on depreciation and interest expense of the revised completion dates of certain projects such as the market settlement system replacement and lower interest expense from lower borrowings than budgeted. PJM's 2009 actual capital recovery costs did not vary significantly from its budgeted capital recovery costs.

The majority of the 2010 variance in capital recovery costs was due to a change in the go-live date of PJM's second control center. The 2010 budget had assumed those assets would go into service in latter 2010, but, during 2010, the second control go-live date was revised to 2011 thus decreasing 2010 depreciation and interest expense. With the completion of PJM's second control center in 2011, PJM's capital recovery costs are projected to increase from 2011 forward to reflect the depreciation and interest expenses associated with that approximate \$165 million capital investment.

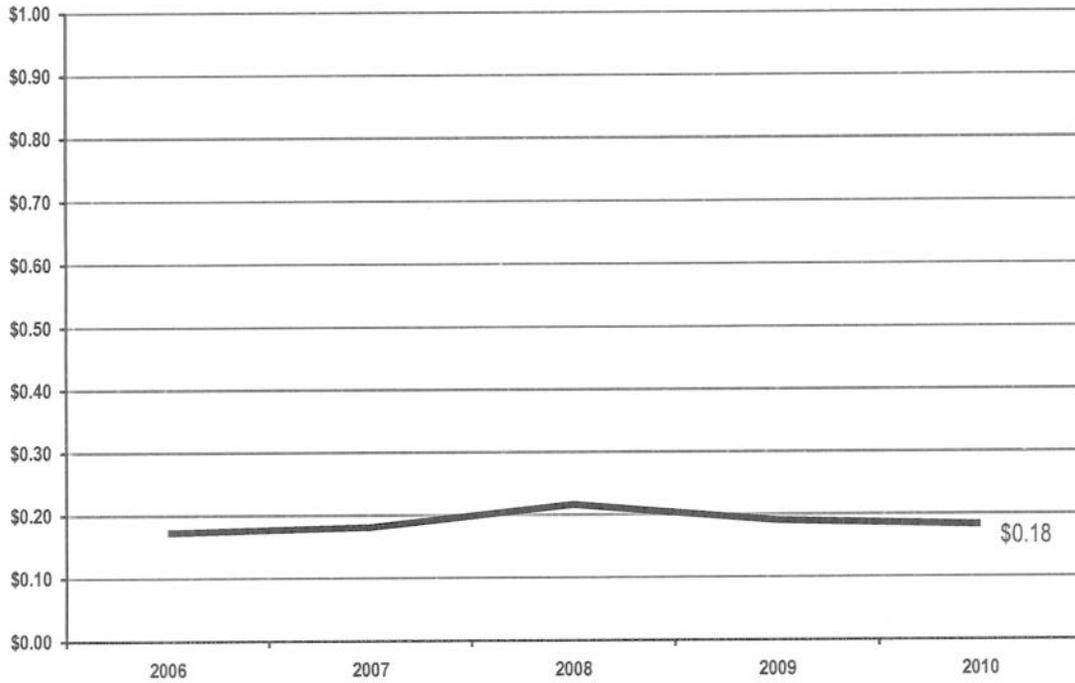
**PJM Annual Administrative Charges per Megawatt Hour of Load Served 2006-2010**  
 (\$/megawatt-hour)



The administrative costs per MWh of load served data in the chart above should be reviewed in the context of the PJM annual load served noted in the table below.

ISO/RTO	2010 Annual Load Served (in terawatt hours)
PJM	745

**SPP Annual Administrative Charges per Megawatt Hour of Load Served 2006-2010**  
 (\$/megawatt-hour)



The administrative costs per MWhr of load served data in the chart above should be reviewed in the context of the SPP annual load served as noted in the table below.

ISO/RTO	2010 Annual Load Served (in terawatt hours)
SPP	328