



ELIN SWANSON KATZ
CONSUMER COUNSEL



GEORGE JEPSEN
ATTORNEY GENERAL



ARTHUR HOUSE
PURA CHAIRMAN

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Action Against ISO-New England Budget Resolved as CT and Other New England States Sign Settlement Agreement

*Agreement with ISO now before FERC scales back budget increase
and provides for oversight of future ISO budgets*

The Connecticut-led effort to rein in and establish oversight procedures for the budget of the organization that operates New England’s electric grid has taken an important step forward with parties to the matter reaching a settlement agreement.

Under the agreement filed today for approval by the Federal Energy Regulatory Commission (FERC), the 2013 administrative and capital budget for the Independent System Operator - New England (ISO-NE) will be reduced by \$2.85 million. In addition, new procedures will be established to allow Connecticut’s Public Utilities Regulatory Authority (PURA), its five New England counterparts, and other state agencies in New England to review and provide feedback when ISO proposes its annual budget.

“While the impact of the ISO budget on monthly electric bills is small, there is an important principle at stake here,” said PURA Chairman Arthur House. “That principle is that costs borne by ratepayers – including the ISO budget – must be subject to careful scrutiny and review. Our legal responsibility and fiscal obligation to everyone who pays an electric bill demand this.”

“This settlement provides for immediate reductions in ISO-NE’s spending. More importantly, the settlement includes all of the states’ requested changes to the budget process,” said Attorney General George Jepsen. “These changes will give the New England states better and timely access to ISO-NE budget information and allow regulators to play a more meaningful budget oversight role to the benefit of ratepayers.”

“It’s our job to watch the bottom line, and charges like the ISO budget that impact electric rates need to be fair and reasonable,” said Consumer Counsel Elin Swanson Katz. “This settlement creates a robust process for state review of ISO-NE’s budget, and the budget reduction we negotiated is a step in the right direction. ISO-NE’s budget has increased by more than a third in the last four years. Those kinds of increases simply aren’t sustainable or appropriate.”

ISO-NE operates New England's regional transmission grid and electricity markets. Currently, no New England public utility commission has any formal oversight role regarding ISO-NE's budget, even though the organization is funded directly and indirectly by New England ratepayers.

Background on Budget Protest by CT and New England States

On November 28, 2012, PURA, the Attorney General and Consumer Counsel were joined by state regulatory agencies from Maine, New Hampshire, and Rhode Island in filing an action with FERC against ISO-NE's proposal to increase its combined 2013 administrative and capital budgets by nearly 10 percent. That proposed increase came on top of other increases in past years.

ISO-NE had submitted for FERC approval a 2013 administrative budget of approximately \$164.8 million – a \$12.9 million increase over its \$151.9 million budget for 2012. The settlement agreement limits the 2013 administrative budget to \$162.7 million – \$2.25 million less than the increase originally sought by ISO-NE.

ISO-NE had also submitted a 2013 capital budget increase of \$1.3 million over its 2012 capital budget of about \$29 million. The settlement agreement cuts the capital budget increase almost in half, reducing it by \$600,000.

Overall, the settlement agreement reduces by 20 percent the combined administrative and capital budget increase requested by ISO-NE.

The agreement also details steps to help control ISO-NE's costs in future years – such as no longer including the cost of golf tournaments or charitable contributions in rates it charges to member states and moving from a more costly defined-benefit pension plan to a defined-contribution plan for new employees hired after January 1, 2014.

New Process for Budget Review in Settlement Agreement

The settlement agreement also provides a process that for the first time gives New England public utility regulators rights to be informed of, review and assess ISO-NE's future budgets at critical development states. Under this process:

- ISO will prepare an annual work plan in the first quarter of each budget year and present it to and allow input from state agencies;
- ISO-NE will be required to present a draft budget for the upcoming year each June at the annual symposium of the New England Conference of Public Utilities Commissioners (NECPUC);
- ISO-NE will also be obliged to respond in writing to budgetary inquiries from agencies in member states and its responses will be filed with FERC; and
- FERC continues to have oversight over ISO-NE, but now the states have structured ways to review, assess and comment on the ISO-NE budget and to have their assessments and comments go to FERC.

The Connecticut and New England agencies that filed the complaint noted that ISO-NE's budget has increased 34 percent over the past four years and that the number of full-time employees has increased from 180 in 1997 to 563 originally proposed for 2013. The states said that ISO-NE already employs 40 percent more employees than all of the public utility commissions in New England combined.

In the complaint against the proposed 2013 ISO-New England budget, participating state agencies said their review showed that in 2012, 275 of the 524 ISO-NE's employees were paid more than \$100,000 annually as base pay, and they received average yearly pay increases of three percent for each of the past seven years. Employees last year received an average yearly merit bonus of nine percent per employee.

Status of Action

The settlement agreement was negotiated with the assistance of FERC staff and a FERC settlement judge and forwarded by them to the FERC Commissioners for final approval. Connecticut and the other states involved have requested an expedited ruling on the settlement.

Media Contact:

PURA/Department of Energy & Environmental Protection:
Dennis Schain
dennis.schain@ct.gov
860-424-3110 (office)

Office of the Attorney General:
Susan E. Kinsman
susan.kinsman@ct.gov
860-808-5324 (office)
860-478-9581 (cell)

Office of Consumer Counsel:
Taren O'Connor
taren.oconnor@ct.gov
860-827-2908 (office)