<u>Framework for Performing Net Economic Impact Analysis</u>

In conjunction with FERC's Competition NOPR, a number of parties have called for ISO to perform and publish a "net economic impact analysis" in conjunction with each proposed major market design change (including market rule changes) and other major initiatives that can be expected to impact costs to electric consumers and potential revenues available to suppliers and other infrastructure owners. We here describe certain key components of such analyses.

By way of background, we note that the ISO has conducted economic impact analyses in other contexts, and that they have proven to be very helpful in promoting consensus. Examples of instances in which such analyses have been particularly useful include those prepared by ISO in connection with the establishment of the Locational Forward Reserve Market and, more recently, the analytical models developed and distributed to increase the value and effectiveness of the 2008 Scenario Analysis process.

Perhaps most important, ISO-NE is best suited to perform net economic analyses of proposed changes because it is presumably the only entity with ready access to all relevant wholesale market data. Development of such models and analytical tools by ISO-NE can provide a common framework for stakeholders to evaluate market design proposals and gain a better understanding of the potential impacts of these proposals. Key considerations pertaining to such economic impact analyses include the following:

- Economic impact analysis should include the estimation of anticipated costs to load-serving entities as well as revenues to entities supplying market resources (including demand resources.) In addition, if anticipated, potential location-based impact differences should be taken into account.

- To the extent possible, cost and revenue estimations of proposed market design or rule changes should be compared with cost and revenue estimations of market design and rules currently in effect, to quantify the net financial impact of proposed changes.

- Data and assumptions should be clearly defined and, to the extent relevant, based on recent experience in the market. To the extent market conditions are expected to change, based on the Regional System Plan and other information sources, additional scenarios should be developed reflecting these changed conditions.

- Minimally, the analysis should encompass near-term impacts (one year or less) of implementing each proposed market design change. Where appropriate (*i.e.*, to the extent possible), longer-term market impacts should also be defined and evaluated.

- Stakeholders should have the opportunity to comment on major assumptions and data used in the analysis, but ultimate responsibility for making assumptions and performing the analysis should remain with ISO-NE.

- The analysis should be presented to stakeholders early enough in the stakeholder review process to allow it to be meaningfully considered before a vote is taken.

- The economic impact analysis should also be included as part of the materials included in any FERC filing to implement the proposed market design or market rule changes.

- Where there are options for implementing a market rule or design change, the analysis should examine each alternative.

- The results of an economic impact analysis should be used as an input into the overall decision-making process. Other factors, including long-term economic efficiency and implementation considerations (including the cost of software development, training and additional personnel) should also be explicitly defined and considered by stakeholders and FERC.