ISO new england

press release

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ISO New England FERC Filing Provides Details Regarding Payments to Imported Capacity Resources

Organization Continues to Press for Market Rule Changes

Holyoke, MA—May 6, 2009—ISO New England Inc., the operator of the region's bulk power system and wholesale electricity markets, today submitted to the Federal Energy Regulatory Commission (FERC) an answer in response to two complaints filed against it in order to complete and correct the record regarding payments made to capacity importers.

In a March 20 filing with the FERC, ISO New England proposed several market rule changes developed through a systematic process with stakeholders. These reforms would require resources selling into New England to offer electricity supplies at more competitive prices and impose greater penalties for those failing to provide energy when needed.

As a part of the testimony supporting the March filing, the ISO's internal market monitor mistakenly concluded that certain New York capacity resources were called upon to deliver electricity into New England and did not perform during 108 hours. Concerns raised in response to the filing by the Connecticut Department of Public Utility Control, the Connecticut Office of Consumer Counsel, and the Connecticut Attorney General prompted the ISO's internal market monitor to review the information cited in the filing.

After a thorough review of control room and other data, the internal market monitor determined that high-priced offers from these external resources were not needed to meet New England's electricity demands and were, therefore, not asked to produce energy during the 108 hours in question. These resources were correctly paid capacity payments in accordance with the existing market rules. However, the need for stronger rules for capacity imports remains and ISO New England continues to push for the proposed changes to be in effect by July 1, 2009.

"We sincerely regret this error and are working to change our internal review process to reduce the likelihood of a reoccurrence," said Gordon van Welie, ISO New England's President and CEO. "Fulfilling New England's electricity needs and maintaining reliability were never at issue."

In wholesale electricity markets, the capacity market acts as an insurance policy, making certain that the region will have the resources needed to meet future electricity demand.

Additional Background on Imported Capacity Resources and Market Rule Changes

To ensure the region will have the resources needed to meet electricity demand, ISO New England and regional stakeholders made arrangements to pay all supply- and demand-side resources a set fee beginning in late 2006 through May, 2010. Paying for all capacity resulted in the region having more resources available than were needed at most times.

Capacity imports were available but rarely needed because of a combination of the regional surplus of capacity and mild summer weather. Some capacity importers into New England have been offering to deliver energy at very high prices, thereby limiting New England's use of these resources to emergency conditions or high-priced periods. Given the surplus resources and relatively low levels of electricity demand resulting from the mild summers of late, lower-cost capacity resources were instead called into service and produced the electricity required to ensure reliability and meet New England's demands.

ISO New England recognized that New England could derive even more value from these external resources and worked to develop market rule changes that will make these resources more beneficial to the New England region. The proposed changes will require capacity importers to offer electricity at more competitive prices and would increase financial penalties for non-delivery.

The May 6 ISO New England filing also describes how the review of insufficient data led to the erroneous conclusions in the original testimony. As the filing explains, the capacity payments made over a 26-month period to imported capacity with high-priced energy offers conformed to the rules that govern participation in New England's wholesale marketplace. External resources were accessible if system conditions had warranted, but they were never called upon to deliver energy during the 108 hours in question.

In preparing the testimony for the initial March 20 filing, the ISO New England internal market monitor mistakenly relied on only a portion of the data used in the control room. Among the tools in the control room, one software program periodically provides a forecast of wholesale prices several hours ahead and identifies external resources that *could* be used to meet anticipated electricity demand. This system flagged imported capacity resources in New York as potentially being needed to meet electricity demands during 108 hours. However, more up-to-the-minute data showed that other, less costly resources were available to meet demand and these resources were instead called into service.

Full details are contained in ISO New England's May 6 filing at www.iso-ne.com.