



August 2, 2007

VIA HAND DELIVERY

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: Report on Status of Composite Offer Process in Docket Nos. ER07-546-000 and ER07-938-000.

Dear Ms. Bose:

On April 16, 2007, the Federal Energy Regulatory Commission (“Commission”) issued an Order conditionally accepting market rules establishing the Forward Capacity Market (“FCM”)¹ submitted by ISO New England Inc. (the “ISO”).² In that Order, the Commission confirmed the annual nature of the forward capacity product,³ but expressed concern regarding the ability of resources that do not have year-round capacity (notably, summer-only seasonal Demand Resources) to participate in the Forward Capacity Auction.⁴ The FCM rules enable resources having seasonal capacity to combine their capacity in different months of the year to create a single, annual offer (a “composite offer”).⁵ In the April 16, 2007 Order, the Commission accepted the composite offer mechanism, but directed the ISO to file the instant report on the status of the composite offer process.⁶ The ISO hereby submits an original and five (5) copies of its report, as well as extra copies for your staff to date-stamp and return to the messenger making this filing.

As described in more detail below, the ISO’s initial analysis of the composite offers submitted on July 2, 2007 indicates that the composite offer option included in the FCM rules successfully allows resources with summer seasonal capacity to combine with resources having excess winter capacity to form annual offers that are the basis of the Forward Capacity Auction. The ISO has calculated the amount of seasonal capacity that

¹ Capitalized terms used but not otherwise defined in this filing have the meanings ascribed thereto in the ISO’s Transmission, Markets and Services Tariff (FERC Electric Tariff No. 3) (the “Tariff”), the Second Restated New England Power Pool Agreement, and the Participants Agreement.

² ISO New England, Inc., 119 FERC ¶ 61,045 (2007) (“April 16, 2007 Order”).

³ See April 16, 2007 Order at P 149.

⁴ See April 16, 2007 Order at PP 144-152.

⁵ Tariff Section III.13.1.5. The FCM rules refer to composite offers as “Offers Composed of Separate Resources.”

⁶ April 16, 2007 Order at P 152.

could potentially be included in composite offers; as expected there is abundant excess capacity in the winter period available to combine with resources having excess (or only) summer capacity.⁷ In fact, the amount of available capacity in the winter exceeds the amount of summer capacity seeking partners by a factor of almost three.

Most importantly, of the summer capacity that needed winter capacity to participate in the auction, a very large percentage submitted composite offers for the first Forward Capacity Auction. The results of this process demonstrate that the composite offer mechanism works effectively to foster the development and participation of seasonal resources in the Forward Capacity Market. These results provide an excellent start for the ISO's continued monitoring of the composite offer mechanism and, as directed by the Commission,⁸ its work with stakeholders to consider options for resources with seasonal capability.

I. COMMUNICATIONS

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II. COMPOSITE OFFER TRAINING AND EDUCATION PROCESS

The ISO worked closely with stakeholders prior to the deadline for submission of composite offers to ensure that interested parties had the necessary information and training to successfully submit composite offers. In addition to the NEPOOL stakeholder process and numerous informal discussions with market participants, the ISO conducted four workshops to provide interested parties with information and training regarding composite offers. Specifically, the ISO held informational and training workshops on May 1, 2007; May 15, 2007; June 13, 2007; and June 19, 2007. These sessions were well attended by participants representing both supply and Demand Resources. At the May 15, 2007 workshop, the parties discussed and developed a generic "term sheet" to be used

⁷ Due to lower ambient air temperatures, the majority of thermal generating units in New England have more capacity in the winter months than in the summer months.

⁸ See April 16, 2007 Order at P 152.

as a guide in developing composite offer agreements. Further, the composite offer process was discussed at the ISO's annual Demand Resources Summit on May 2, 2007, which was attended by over 250 Demand Resource providers, retail customers, market shareholders, policymakers and other electric industry officials.

During these training and informational discussions, it became clear that more time would likely enable more parties to submit composite offers, and thus on May 25, 2007, in response to requests from many stakeholders, the ISO requested that the Commission approve a modification to the FCM rules to extend the composite offer deadline to July 2, 2007.⁹ In that filing, the ISO also requested that the Commission extend the deadline for submittal of the instant report to August 2, 2007. The Commission approved the rule change and reporting extension on June 8, 2007.¹⁰

III. RESULTS OF THE FIRST COMPOSITE OFFER PROCESS

A. Available Seasonal Capacity

The effectiveness of the composite offer mechanism can be gauged by comparing the amount of capacity available to form composite offers to the amount of capacity that submitted composite offers to the ISO for the first Forward Capacity Auction. To determine the amount of capacity available to form composite offers, the ISO compared the summer and winter Qualified Capacity – as determined in accordance with the FCM rules – for each existing and proposed supply, import, and Demand Resource in New England.¹¹ Resources with summer Qualified Capacity exceeding winter Qualified Capacity by more than 2 MW or 2% of summer Qualified Capacity must find one or more corresponding winter resources with which to partner in order to participate in the Forward Capacity Auction at their full summer Qualified Capacity.¹² Conversely, resources that have more winter Qualified Capacity than summer Qualified Capacity have the option to partner with a qualified summer resource to take full advantage of their excess winter capacity in the Forward Capacity Auction. Resources with excess summer Qualified Capacity above the thresholds described above that do not participate in a composite offer will have their summer Qualified Capacity reduced to equal their winter Qualified Capacity for the Forward Capacity Auction for new capacity resources and through a Static De-List Bid for existing capacity resources.

Table 1 below shows the total excess summer capacity, by capacity zone and by resource type, for resources with summer Qualified Capacity exceeding winter Qualified Capacity by more than 2 MW or 2% of their summer Qualified Capacity. Table 2 shows

⁹ ISO New England Inc., Docket No. ER07-938-000, Filing of Limited FCM Rule Change to Extend Composite Offer Deadline, Motion for An Extension of Time, and Request for Shortened Comment Period (May 25, 2007).

¹⁰ ISO New England Inc., Letter Order in Docket No. ER07-938-000 (June 08, 2007).

¹¹ The data in this report are based on the summer and winter Qualified Capacities for the respective resources. While the FCM rules define different summer and winter periods for Demand Resources, generation and imports, the period defined by resource type did not impact the analysis in this report.

¹² See Tariff Section III.13.1.2.2.5.2.

the total excess winter capacity, by capacity zone and by resource type, for resources with excess (or only) winter capacity.

Table 1 Excess Summer Capacity (MW)

Capacity Zone	Demand Resources	Generation	Imports	Total
ME	11.6	6.7	246.0	264.4
CT	80.5	1.1	-	81.6
NEMA	70.4	2.1	-	72.5
ROP	128.2	7.2	670.6	806.0
Total	290.8	17.1	916.6	1,224.5

Table 2 Excess Winter Capacity (MW)

Capacity Zone	Demand Resources	Generation	Imports	Total
ME	35.2	216.0	-	251.2
CT	33.3	784.6	-	817.9
NEMA	2.6	541.3	-	543.9
ROP	20.0	1,580.9	14.8	1,615.7
Total	91.1	3,122.8	14.8	3,228.7

As demonstrated by the tables above, there was significant excess capacity in the winter period for resources with excess summer Qualified Capacity to form composite offers. In the entire New England region, these data show that there were 1,224.5 MW of available summer capacity that could be combined with 3,228.7 MW of excess winter capacity.

Composite offer opportunities for resources with excess summer Qualified Capacity were also abundant in the capacity constrained capacity zones of Connecticut and Northeast Massachusetts (“NEMA”). In Connecticut, there was nearly ten times more excess winter Qualified Capacity than excess summer Qualified Capacity, and in NEMA, over seven times more excess winter Qualified Capacity was available. Notably, as the tables show, almost one third of the excess summer capacity of Demand Resources (290.8 MW) could partner with other Demand Resources having excess winter capacity (91.1 MW).

B. Composite Offers Submitted

The composite offer deadline for the first Forward Capacity Auction was July 2, 2007. There were a total of sixty-nine different composite offers submitted, representing 896 MW of capacity. Table 3 below, which compares the amount of composite offers submitted to the amount of potential composite offers, demonstrates that the composite offer process was successful and that the vast majority of summer capacity megawatts successfully partnered with other resources to submit composite offers. The table below shows the amount of composite offers that were submitted by various seasonal resources compared to the amount of available seasonal resources.

Table 3 Composite Offers Submitted vs. Potential

Capacity Zone	Demand Resources	Generation	Imports	Total	Potential	
ME	4.0	-	26.0	30.0	264.4	11%
CT	65.1	-	-	65.1	81.6	80%
NEMA	55.5	-	-	55.5	72.5	77%
ROP	113.5	-	631.8	745.4	806.0	92%
Total	238.2	-	657.8	896.0	1,224.5	73%
Potential	290.8	17.1	916.6			
	82%	0%	72%			

As shown in Table 3, of the 1,224.5 MW of available excess summer Qualified Capacity in the New England region, 896.0 MW (73%) partnered with one or more resources and submitted a composite offer. In the constrained capacity zones of Connecticut and NEMA, the composite offer mechanism was even more effective. In Connecticut, resources representing 80% of the available capacity submitted composite offers, and in NEMA, 77% submitted offers. It is worth noting that of the excess capacity for which no composite offer was submitted, a large amount was associated with resources that had a variance between summer and winter Qualified Capacity of less than 0.5 MW. Resources with a small enough variance are not required under the FCM rules to take specific action with respect to the difference.¹³

¹³ See Tariff Section III.13.1.2.2.5.2.

IV. CONCLUSION

As noted above, one of the Commission's concerns that led to the submittal of this report was whether composite offers adequately enable seasonal Demand Resources to participate in the Forward Capacity Auction. The initial findings from the composite offer process demonstrate that over 82% of the possible excess summer Demand Resource capability submitted composite offers. Overall, resources representing 73% of the available seasonal capacity in the entire New England region submitted composite offers to participate in the Forward Capacity Auction. As expected, there was a large amount of excess winter capacity which provided opportunities and flexibility for resources with summer seasonal capacity to combine with winter resources to form a composite offer. While the data demonstrate that the composite offer mechanism is effective, the ISO will continue to monitor this process, and, as directed by the Commission, will consider with stakeholders other options for resources with seasonal capability.

Respectfully submitted,

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Dated: August 2, 2007

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010 (2007), upon each person designated on the official service list in this proceeding as compiled by the Secretary of the Federal Energy Regulatory Commission.

Dated at Washington, D.C., this 2nd day of August, 2007.

Sherry A. Quirk