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February 21, 2007

VIA ELECTRONIC FILING

Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: ISO New England Inc.; Docket No. EL07-2-000

Dear Ms. Salas:

Transmitted electronically for filing is the Motion for Leave to Answer and Answer of ISO New England Inc. in the above-captioned docket.

If there are any questions concerning this filing, please call me at (202) 661-2205.

Very truly yours,

/s/

Howard H. Shafferman
Counsel for
ISO New England Inc.

Enclosure

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

ISO New England Inc.

)

Docket No. EL07-2-000

**MOTION FOR LEAVE TO ANSWER AND ANSWER
OF ISO NEW ENGLAND INC.**

Pursuant to Rule 213 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (the “Commission”), 18 C.F.R. § 385.213 (2006), ISO New England Inc.¹ (the “ISO” or “ISO-NE”) hereby submits this response (“Answer”) to the Protest of Consolidated Edison Energy, Inc. (“CEE’s Protest”), the Comments of the NRG Companies² (“NRG’s Comments”) filed on February 6, 2007, and the Comments of NSTAR Electric & Gas Company (“NSTAR’s Comments”) filed on February 14, 2007, in the above-captioned docket.

The ISO respectfully asks the Commission to grant this motion and accept ISO-NE’s Answer, reject CEE’s Protest and NSTAR’s and NRG’s Comments, and direct CEE, NSTAR, and NRG to pursue their respective concerns in the Commission-approved stakeholder process for consideration by ISO-NE and NEPOOL. As further discussed below, the rules and market structures adopted in New England, which address the concerns raised by the Commission in its October 25 Order (namely, that the scheduling and compensation systems within organized markets not discourage the availability of gas-fired units during emergency conditions) were fully considered and developed through the stakeholder process. Thus, any changes or additions to the existing mechanisms should be presented and vetted through the stakeholder process.

¹ Capitalized terms not defined herein have the meanings ascribed thereto in the ISO New England Inc. Transmission, Markets and Services Tariff, FERC Electric Tariff No. 3 (the “ISO Tariff”).

² The NRG Companies are: NRG Power Marketing Inc., Connecticut Jet Power LLC, Devon Power LLC, Middleton Power, Montville Power LLC, Norwalk Power LLC and Somerset Power LLC.

I. MOTION FOR LEAVE TO ANSWER

Because an answer is not normally permitted in response to protests, the ISO hereby moves, pursuant to Rule 212 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.212 (2006), for leave to accept this answer. The Commission has the authority to waive the prohibition against answers to protests for good cause.³ The Commission has found good cause to permit answers where they are otherwise prohibited in various circumstances, including where the answer would assure a complete record in the proceeding,⁴ provide information helpful to the disposition of an issue,⁵ permit the issues to be narrowed or clarified,⁶ or aid the Commission in understanding and resolving issues.⁷ The ISO believes that this answer will assure a more complete record in this proceeding and otherwise assist the Commission in understanding and resolving the issues presented. Furthermore, the Commission has accepted answers by the ISO under similar circumstances.⁸

II. BACKGROUND

A. The Commission Initiates Inquiries Into Gas-Electric Coordination Issues

On October 25, 2006, in the above-captioned docket, the Commission issued its "Order Instituting Inquiries Into Gas-Electric Coordination Issues"⁹ regarding the scheduling practices

³ See 18 C.F.R. § 385.101(e) (2006).

⁴ See, e.g., *Pacific Interstate Transmission Co.*, 85 FERC ¶ 61,378, at 62,443 (1998), *reh'g denied*, 89 FERC ¶ 61,246 (1999).

⁵ See, e.g., *CNG Transmission Corp.*, 89 FERC ¶ 61,100, at 61,287 n.11 (1999).

⁶ See, e.g., *PJM Interconnection, LLC*, 84 FERC ¶ 61,224, at 62,078 (1998); *New Energy Ventures, Inc. v. Southern California Edison Co.*, 82 FERC ¶ 61,335, at 62,323 n.1 (1998).

⁷ See, e.g., *Tennessee Gas Pipeline Co.*, 92 FERC ¶ 61,009, at 61,016 (2000).

⁸ See, e.g., *See ISO New England Inc. and New England Power Pool*, 110 FERC ¶ 61,202 at P 29 (2005).

⁹ *California Independent System Operator Corp.*, 117 FERC ¶ 61,094 (2006) ("October 25 Order").

of independent system operators (“ISOs”) and regional transmission organizations (“RTOs”).¹⁰ Specifically, the Commission explained that the ISO/RTO scheduling practices may not be “effectively coordinated with the scheduling of natural gas purchase and transportation transactions, so that gas-fired must-run generators may be unable to obtain gas during periods [such as extreme weather conditions and other emergencies] when gas transportation is constrained or gas prices are volatile.”¹¹ The Commission expressed its concern that these difficulties may discourage gas-fired generators’ participation in organized markets, which, in turn could have serious consequences in those markets to the extent gas-fired generation is needed to maintain system reliability during severe weather or other emergency conditions.¹²

To address these concerns, the Commission directed certain ISOs and RTOs, including ISO-NE, to examine their needs during various weather and other emergency conditions and file by January 16, 2007, any necessary revisions to their scheduling and compensation mechanism to the extent these mechanism could pose problems on their systems.

B. ISO-NE’s Response to the Commission’s Inquiries

As directed by the Commission, on January 16, 2007, ISO-NE filed its Response to the Commission’s inquiries.¹³ In its Response, ISO-NE stated that it had examined New England’s needs during weather and other emergency conditions in conjunction with stakeholders as recently as August 2006, and concluded that no additional changes – other than those filed and

¹⁰ October 25 Order at P 1.

¹¹ *Id.*

¹² *See id.* at P 8.

¹³ *See* Response of ISO New England Inc. filed on January 16, 2007, in the above-captioned proceeding (“ISO-NE’s Response”).

accepted in Docket Nos. ER06-1116 and ER06-1464¹⁴ – to the scheduling and compensation systems contained in the ISO Tariff are necessary at this time. ISO-NE explained that the mechanisms and market structures developed in New England and approved by the Commission ensure the availability of natural gas-fired generating units under extreme weather and other emergency conditions and their appropriate compensation for the services provided under such conditions.¹⁵

Specifically, ISO-NE’s Response identified the mechanisms and market structures that have been adopted in New England based upon the lessons learned and experience gained in the region since the January 2004 Cold Snap.¹⁶ With regard to the mechanisms, the Response identified:

- Appendix H to Market Rule 1,¹⁷ which sets forth the rules applicable during specifically-defined extreme cold weather conditions; and
- Operating Procedure No. 21 (“OP21”), which establishes criteria and guides that are applicable year-round to anticipate and address emergency energy situations that may occur as a result of continuous national or regional shortages in fuel availability or deliverability to the region’s electric generation sector.

Additionally, the Response identified certain market rules that have significantly improved the availability of facilities during emergency conditions in New England, including market rules that:

¹⁴ See delegated order in Docket No. ER06-1116 (issued July 27, 2006) and Commission order in 117 FERC ¶ 61,082 (2006), respectively.

¹⁵ See ISO-NE’s Response at 1, 3-5.

¹⁶ See ISO-NE’s Response at 5-8. See also, *Final Report on Electricity Supply Conditions in New England During January 14-16, 2004*, available via the internet at: http://www.iso-ne.com/pubs/spcl_rpts/2004/final_report_jan2004_cold_snap.pdf (hereinafter, “Cold Snap Report”).

¹⁷ Market Rule 1 is Section III of the ISO Tariff.

- Provide generating resources additional flexibility to adjust Start-Up and No-Load offer parameters on a daily basis to better reflect market realities and mitigate exposure to pipeline penalties through adjustments and re-declarations of physical operating characteristics and limits;
- Allocate Posturing credits to Real-Time Load Obligations for costs incurred for dispatching generating resources to ensure that Operating Reserves are available in real-time; and
- Eliminate the allocation of Real-Time Generation Obligation Deviation charges to Emergency Energy Transaction purchases from other Control Areas to improve market signals with respect to such transactions.

Finally, the Response identified recently developed market structures – the Locational Forward Reserve Market (“LFRM”) and Forward Capacity Market (“FCM”) – which together improve generating resources’ availability during extreme weather and other emergency conditions, provide significant incentives for performance during time of need, and provide for performance penalties when units fail to perform. Given the expected critical need for gas-fired resources during the winter period (as has been New England’s experience), FCM also provides for future changes to the market rules that will accelerate the timelines for when bids must be received for the Day-Ahead Energy Market during that period and for the publication of financially binding dispatch schedules for the next day.¹⁸

¹⁸ See Explanatory Statement in Support of Settlement Agreement of the Settling Parties and Request for Expedited Consideration and Settlement Agreement Resolving All Issues in *Devon Power LLC, et al.* filed on March 6, 2006, in Docket Nos. ER03-563-000, -030 and -055 (“FCM Settlement Agreement”). As ISO-NE indicated in its Filing Containing Revisions to Market Rules Implementing FCM Settlement Agreement filed on February 15, 2007, in Docket Nos. ER07-546, *et al.* (“FCM Market Rules Filing”), the details around the provisions that pertain to the availability of natural gas for resources in cold weather conditions remain to be worked out. See FCM Market Rules Filing at 20.

C. Market Participants' Reaction to the ISO-NE's Response

On February 6, 2007, various entities filed comments¹⁹ and one entity – CEE – filed a protest concerning ISO-NE's Response. This Answer concerns the issues raised in CEE's Protest and NSTAR's and NRG's Comments, as summarized herein below.

In its Protest, CEE recognizes that ISO-NE has undertaken "several significant efforts to improve the availability of fuel during periods of cold weather."²⁰ CEE, however, asserts that the existing market rules do not "incorporate appropriate price signals within the energy market to reflect the marginal cost of fuel during periods of extreme cold weather."²¹ CEE asks the Commission to reject the ISO-NE's Response until rules that improve energy price signals are developed.²²

The Comments of NSTAR and NRG, respectively, relate to the existing cold weather procedures in New England, primarily located in Appendix H to Market Rule 1. In its Comments, NSTAR indicates its support for Appendix H, in particular, those provisions "that provide for coordination of the different timeframes between the natural gas and electric systems, the process for communication between the ISO-NE and owners of the gas pipeline operators, and the enhanced forecasting protocols."²³ NSTAR, however, raises two specific concerns with Appendix H, particularly that: (1) generators are not required to re-declare their resource to reflect gas limitations; and (2) the language allowing full recovery of Extraordinary Fuel

¹⁹ The entities that filed Comments on February 6, 2007, include: NRG, FPL Energy Generators and WPS Resources Corporation. NSTAR also submitted Comments on February 14, 2007.

²⁰ CEE's Protest at 2.

²¹ CEE's Protest at 2.

²² *Id.*

²³ NSTAR's Comments at 3.

Expenses (“EFE”) is open to misuse and should not be adopted on a permanent basis.²⁴ Notably, NSTAR did not protest these provisions when Appendix H was filed in Docket No. ER06-1464.

In its Comments, NRG argues that there is a disconnect between the New England’s electric markets and the gas markets that jeopardizes the efficient and reliable supply of energy in the region.²⁵ NRG’s Comments request that the Commission direct ISO-NE to implement the procedures set forth in Appendix H on a year-round basis, as further revised to provide notifications to the entire market of bids accepted at a time earlier than that provided under the current rules (*i.e.*, 11:00 a.m. instead of noon).²⁶ NRG, like NSTAR, did not raise these matters in a protest when Appendix H was filed in Docket No. ER06-1464.

NRG’s Comments also challenge ISO-NE’s request that the comprehensive coordination of the scheduling protocols between the natural gas and electric markets be addressed on a national basis, stating that these issues should be addressed on a market-to-market basis.

III. ANSWER

A. **CEE’s Protest Should be Rejected, as the Rules and Market Structures Adopted in New England Have Improved the Availability of Gas-Fired Units During Emergency Conditions, Thereby Addressing the Stated Concerns of the Commission; CEE Should Raise Any Specific Price-Formation Proposals in the Commission-Approved Stakeholder Process**

CEE requests that the Commission reject ISO-NE’s Response because “ISONE has not implemented any projects or rule changes that would better reflect the marginal cost of fuel within the calculated price of electricity”²⁷ during periods of extreme cold weather despite its

²⁴ *Id.*

²⁵ NRG’s Comments at 3-4.

²⁶ *See id.* at 4-5.

²⁷ CEE’s Protest at 2.

indication that it would “improve price formation.”²⁸ CEE asserts that improving price signals to “reflect the marginal cost of units dispatched for reliability . . . will improve reliability more than reliance on out-of-market incentives.”²⁹

The Commission should reject CEE’s assertions as beyond the scope of this proceeding. The Commission’s October 25 Order focused on the scheduling and compensation systems established in various organized markets to ensure that such mechanisms did not impact the availability of gas-fired units during periods of extreme weather and other emergency conditions, which, in turn, could affect system reliability. ISO-NE’s Response specifically addressed the Commission’s concerns as stated in its October 25 Order, particularly focusing on the mechanism implemented in New England to increase the availability of gas-fired units during extreme weather and other emergency conditions when such resources are most needed to maintain system reliability.

²⁸ *Id.* (citing to statements in the Cold Snap Report and the Management Response to that Report). See *ISO New England’s Management Response to the October 12, 2004 publication entitled Final Report on Electricity Supply Conditions in New England during the January 14-16, 2005 “Cold Snap”* available via the internet at: http://www.iso-ne.com/pubs/spcl_rpts/2004/iso_management_response_cold_snap.pdf. The Cold Snap Report provides, in relevant part:

Prohibiting fuel arbitrage is both difficult to enforce and economically inefficient. Instead, adequate market incentives should ensure that unit availability and electricity production are adequately rewarded and, thereby, create incentives for necessary participation in the electricity market. Evidence of LMPs below the incremental costs of gas-fired units during the Report Period suggests the absence of these incentives.

...
The ISO should carefully reevaluate commitment practices and price-setting methodology to ensure appropriate price signals.

Cold Snap Report at 142.

In addition, the Management Response provides that the ISO will “investigate out-of-merit operations during Cold Snap” and develop rules “to reflect more fully in LMPs the cost of dispatched units.” *Management Response* at 16.

²⁹ CEE’s Protest at 3.

With respect to CEE’s concerns: prior to the 2004 Cold Snap, the frequency with which market offers could be updated created situations where volatile fuel prices may not have been accurately reflected in the real-time market. However, ISO-NE and its stakeholders have already taken significant steps in the design and implementation of market rules to ensure that volatile fuel prices can be included in updated offers to the energy markets and reflected in Locational Marginal Prices (“LMPs”).

Specifically, through the implementation of the LFRM last year, ISO-NE has adopted market rules that provide units with additional flexibility to modify the Start-Up and No-Load components of Supply Offers and to amend bidding characteristics (*i.e.*, minimum run times and ramp rates) during Cold Weather Events, which permits better reflection of fuel prices and supply conditions.³⁰ Volatility in fuel pricing can, more generally, be addressed through the opportunity that all generators have to update bids during the re-offer period following the close of the Day-Ahead Energy Market.³¹ Therefore, it is not surprising that market reports from the ISO’s Internal Market Monitoring Unit and its Independent Market Advisor confirm that LMPs closely track fuel price changes.³²

Moreover, consistent with the Cold Snap Report, ISO-NE has adopted other market rules and developed new market structures that provide adequate market incentives to ensure the availability of gas-fired units during cold weather conditions. Specifically and as recognized by

³⁰ See Sections III.1.10.1A(d)(iii) and III.H.3.4(c)(ii) of the ISO Tariff.

³¹ See Section III.1.10.9(a) of the ISO Tariff.

³² See, *e.g.*, *2005 Annual Markets Report*, ISO New England Inc. (June 2006) (“Hence, electricity-market clearing prices rise and fall with changes in fuel prices. Figure 3-25 shows this relationship, with gas plant costs and electricity prices highly correlated. This is consistent with the marginal fuels data shown in Figure 3-24.”); *2005 Assessment of the Electricity Markets in New England*, David B. Patton, Ph.D., Pallas LeeVanSchaick (“For example, electricity prices in New England have been strongly correlated with changes in underlying fuel prices as one would expect in a well functioning market.”).

the Commission, ISO-NE has implemented cold weather procedures that ensure gas-fired units' participation in the energy market during cold weather conditions,³³ and the LFRM provisions apply substantial penalties to resources which are unavailable under these conditions. The real-time markets currently reflect relative scarcity of reserves or energy through increased reserve prices and/or LMPs. Further, ISO-NE's recently developed FCM rules provide additional incentives to improve unit availability for reliability purposes by directly tying the level of capacity payment to the resources' availability.

Aside from the potential impact of fuel volatility, which has already been addressed as described above, the marginal cost of fuel for economically dispatched resources has always been accurately reflected in the LMP calculation within New England's markets. However, simply examining two quotations from the CEE intervention clearly indicates that the "price formation" issue CEE is attempting to address is not an issue of gas fuel availability, fuel scheduling, pricing, or cost recovery by gas-fired resources, but rather a desire to allow resources committed and dispatched for reliability, out of economic merit order, to set the economic clearing price. As such, it should be rejected here as outside the scope of this proceeding, which was established to examine the issues of gas-electric market coordination.

The "price formation" concern is that resources that are not economically dispatched, but are committed for reliability purposes, may depress regional clearing prices during periods when the resource is not dispatched in economic merit order. Any time that a resource is dispatched economically, its offer does set the clearing price, and regional prices reflect that cost. CEE's concern is a potential issue mostly within load pockets where slow-starting resources, not typically gas-fired resources, must be committed in advance of their need to ensure that

³³ See October 25 Order at PP 3-5.

sufficient on-line ramping capability will be available to respond to contingencies in real time, or where the specific resource is needed to provide voltage support. When this occurs, the owner of the resource in question is fully compensated for the cost of following dispatch instructions through the so-called Net Commitment Period Compensation mechanism..

As indicated in the ISO-NE's Response, one of the principal goals of the LFRM is to attract investment in quick-start resources located in load pockets. However, ISO-NE is unaware of any solution in any operating electricity market to address the "price formation" issue raised by CEE, without otherwise creating significant problems with incentives to follow dispatch instructions, or for generators to offer their resources to the market in as flexible a manner as possible. In the past, most proposals to address this issue would simply raise prices to an uneconomic level while ignoring the incentive issues. Despite these factors, ISO-NE is continuing to analyze the problem in hopes of finding an incentive-appropriate solution. Notably, CEE here offers no specific proposals to address its "price-formation" concerns. Clearly, CEE's concern should be addressed through a full airing of all of the issues as part of the normal stakeholder process.

B. The Revisions Requested by NSTAR and NRG, Various, Deviate From the Consensus Developed by ISO-NE and Its Stakeholders of Appropriate Measures to Address Gas-Electric Coordination or Are Scheduled to Be Considered in the Stakeholder Process

As briefly summarized above, in their respective Comments, NSTAR and NRG recommend changes to the existing Commission-approved market rules. The Commission should decline to order these changes, for the reasons explained below.

As a preliminary procedural matter, the instant proceeding concerns the Commission's national concerns with ensuring the availability of gas-fired generation to maintain system reliability during periods of emergency conditions. In this regard, a Commission order directing

the changes to the existing filed rate requested by NSTAR and NRG, which are merely intended to advance these entities' own agenda rather than the region's needs, would not be appropriate.

Beyond this, it is important to recognize, as background, that the Appendix H rules and other market rule changes described above were the result of a comprehensive and collaborative review by ISO-NE and the NEPOOL stakeholders through the Commission-approved stakeholder process, and enjoy broad stakeholder support.³⁴ The Appendix H rules have also been approved by the Commission as just and reasonable on several different occasions,³⁵ and NSTAR and NRG have not demonstrated, through a Section 206 complaint, that the existing provisions are unjust and unreasonable, and the Commission has made no such finding.

1. The Commission Should Reject NSTAR's Recommended "Clarifications" to Appendix H

In its Comments, NSTAR raises two issues with respect to Appendix H. First, NSTAR states that Section III.H.3.4(c)(ii), which grants the generator owner the discretion to re-declare its Resource to reflect gas limitations, should be revised to provide that generators are *required* to re-declare the Resource, thereby informing ISO-NE of any gas curtailment.³⁶ Second, NSTAR asserts that Section III.H.3.7, which "allows for full recovery of [EFE,] is open to misuse and should not be adopted as a permanent feature of the market." NSTAR is particularly concerned about the possibility that the EFE mechanism "creates an incentive to avoid the cost

³⁴ See September 1 Filing at 10.

³⁵ See *ISO New England Inc. and New England Power Pool*, 113 FERC ¶ 61,175 (2005) ("Appendix H Settlement Order"); *ISO New England, Inc. and New England Power Pool*, 113 FERC ¶ 61,220 (2005) order *on reh'g*, 115 FERC ¶ 61, 145 (2006) and the Commission's Dec. 22, 2005 and Dec. 30, 2005 delegated letter orders in Docket Nos. ER06-252-000, -001 (collectively, the "Winter Package Orders"); *ISO New England, Inc. and New England Power Pool*, 117 FERC ¶ 61,082 (2006) ("Appendix H Order"). See also the Commission's July 27, 2006 delegated letter order in Docket No. ER06-1116-000 ("July 27 Order").

³⁶ NSTAR's Comments at 4.

of buying firm gas supply or to sell off firm gas if the next-day gas prices spike” and that this “allows the generator to make a profit and to repurchase gas in the operating day at a higher price and fully recover its cost including any pipeline penalties....”³⁷

With regard to NSTAR’s first issue, ISO-NE and the stakeholders have recently considered NSTAR’s proposal. At the February 2, 2007 meeting of the NEPOOL Markets Committee, a motion was supported by over 60.03 percent of that committee to *strike* language in the FCM market rules specifically *requiring* generators to re-declare to the ISO any changes in their ability to provide generation, including any changes in fuel availability. Despite the rejection of this amendment, the proposed FCM rules still contain a requirement that generator offers accurately reflect the true physical characteristics of the resource, including fuel limitations. Failure to do so will result in a referral to the Commission for sanction. Further, as stated above, the rules to implement the gas availability section of the FCM Settlement Agreement have not yet been developed. These rules will be developed through the stakeholder process prior to implementation in 2010, and that process will provide additional opportunities for further consideration of the issues raised by NSTAR. In light of this, ISO-NE requests the Commission to reject NSTAR’s argument here.

Regarding NSTAR’s second issue, the current Appendix H rules provide substantial controls on the potential recovery of EFE: Section III.H.3.7 of Appendix H sets forth procedures that enable generators to recover EFE incurred during cold weather events but only if those costs “could not have been reflected in the incremental energy offer.”³⁸ Moreover, the recoverability

³⁷ NSTAR’s Comments at 3, 5.

³⁸ Under Sections III.1.10.1A(d)(iii) and III.H.3.4(c)(ii), generators have the ability to mitigate exposure to pipeline penalties through adjustments of Supply Offer bidding characteristics, and through re-declarations to physical operating characteristics and limits.

of pipeline penalties by gas-fired generators during times of extraordinary fuel prices arose as an issue in the stakeholder process related to the development of the FCM market rules filed on February 15, 2007 in Docket No. ER07-546. As described in the associated filing letter, the FCM Settlement:

permits generators to recover gas pipeline imbalance charges and other penalties incurred during periods of extraordinary fuel costs, and thus does not require that the recovery of such costs should be prevented. However, as the ISO files rules to implement Section VII of the Settlement regarding gas availability, it may seek to clarify the provision to assure that they do not provide improper incentives.³⁹

Accordingly, NSTAR should advance its views concerning pipeline penalties in the upcoming stakeholder process to develop rules for the implementation of Section VII of the FCM Settlement.

2. The Commission Should Reject NRG's Request that Appendix H Procedures, With Certain Modifications, be Implemented on a Year-Round Basis

In its Comments, NRG asserts that the lack of coordination between the gas and electric markets “jeopardizes the efficiency and reliable supply of energy, especially in an area such as ISO-NE that is heavily dependent on natural gas.”⁴⁰ In support of this claim, NRG states that while a new combined cycle unit can accurately predict its gas burn and make appropriate arrangements, “peaking units that are needed for reliability, however, are called infrequently, or worse, out of merit” and thus, “have little or no ability to predict their gas burn and make

³⁹ FCM Market Rules Filing at 157.

⁴⁰ NRG's Comments at 1-2.

appropriate pipeline arrangements.”⁴¹ NRG requests that the Commission direct ISO-NE to make Appendix H applicable, with revisions, on a year-round basis.⁴²

As an initial matter, NRG’s assertion that older peaking units have no ability to predict their gas burn and make appropriate gas arrangements is without merit. First, ISO-NE has greatly improved communications protocols with Market Participants so they can anticipate when their units will be most needed. Moreover, through LFRM, Market Participants receive payments for making available resources that are able to respond on short notice to help recover from system or local contingencies. Furthermore, peaking generators can mitigate their concerns by purchasing fuel contracts that provide or support “no notice” type services or, alternatively, add dual-fuel capability.

NRG states that ISO-NE has not rectified an alleged disconnect between the scheduling practices of the natural gas and electric markets in New England, which “jeopardizes the efficient and reliable supply of energy” in the region.⁴³ As summarized in Part II.B above, in addition to Appendix H, ISO-NE has implemented several measures that, through proper incentives and the possibility of special compensation, have significantly improved the availability of generation in the region during emergency conditions.⁴⁴ Among the measures adopted in New England, are market rules that provide Market Participants maximum flexibility to adjust their resource’s offer parameters and limitations which will, in turn, mitigate their economic risks.

⁴¹ *Id.* at 4.

⁴² *Id.* at 2, 3-4.

⁴³ *Id.* at 2.

⁴⁴ For instance, since 2004, the availability of dual-fuel generation in New England has significantly increased to over 2,275 MW.

The mechanisms adopted in New England to increase the likelihood that sufficient resources will be available during periods of extreme cold weather and in emergency conditions in the region reflect a substantial consensus among ISO-NE and New England stakeholders. That consensus specifically supported application of the Appendix H procedures *solely* during the winter months when gas-fired resources are most needed to maintain system reliability. As noted earlier, ISO-NE and the stakeholders, however, are still developing the details with respect to the FCM provisions that pertain to the availability of natural gas, including the modifications to the Day-Ahead Energy Market schedules during the winter period. To the extent that NRG wishes to revisit this topic, it should make its proposals in the stakeholder process for consideration by ISO-NE and NEPOOL.

IV. CONCLUSION

For the reasons stated herein, the ISO respectfully requests that the Commission address the comments and protests as discussed herein, and accept the Answer.

Respectfully submitted,

/s/ Raymond W. Hepper

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Counsel for ISO New England Inc.

Dated: February 21, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C. this 21st day of February, 2007.

/s/ Pamela S. Higgins
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