



Sherry A. Quirk
202/778-6475
squirk@schiffhardin.com

1666 K STREET N.W., SUITE 300
WASHINGTON, DC 20006

t 202.778.6400
f 202.778.6460

www.schiffhardin.com

November 16, 2007

VIA ELECTRONIC FILING

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

Re: *ISO New England Inc. and New England Power Pool,*
Docket No. ER08-41-000

Dear Ms. Bose:

Attached for electronic filing in the above-referenced docket is the *Motion for Leave to Answer and Answer of ISO New England Inc.* A copy of the foregoing has been served upon all parties included in the Commission's service list.

If you have any questions regarding this filing, please feel free to contact me. Thank you for your assistance in this matter.

Respectfully submitted,

/s/ Sherry A. Quirk
Sherry A. Quirk, Esq.

Counsel for ISO New England Inc.

Attachment
cc: Official Service List

Requirement,⁵ Hydro Quebec Interconnection Capability Credits (“HQICCs”) and related values for the 2010/2011 Capability Year.

I. BACKGROUND

On October 11, 2007, the ISO and NEPOOL jointly filed a transmittal letter and related materials that identified the Installed Capacity Requirement, HQICCs and related values for the 2010/2011 Capability Year. These values will be used as part of the first auction under New England’s Forward Capacity Market, which will be held in February 2008. An Installed Capacity Requirement value of 33,705 MW was proposed. After accounting for 1,400 MW of HQICCs, this results in a net capacity purchase requirement in the first Forward Capacity Auction of 32,305 MW for the 2010/2011 Capability Year. Values were also provided for Local Sourcing Requirements and Maximum Capacity Limits for Load Zones that may be import or export constrained, due to the Forward Capacity Auction process that requires the modeling of these constraints. The ISO and NEPOOL requested that the Commission accept the filed values to become effective 60 days after the date of submission.

On October 16, 2007, the Commission issued a notice of the October 11 Filing, setting November 1, 2007 as the due date for comments. Several motions to intervene, including some comments, have been filed since the October 11 Filing was submitted. Out of the seventeen responsive pleadings submitted, only two protests have been submitted.

On November 1, 2007, NSTAR filed a protest focusing on the proposed tie benefit amounts associated with the interconnections between New England and the neighboring Control Areas of New York, New Brunswick and Hydro Quebec. NSTAR maintains that in calculating

⁵ The term “Installed Capacity Requirement” is defined in Section III.1.3 of the ISO’s Transmission, Markets and Services Tariff (the “ISO Tariff”).

total tie benefits, the ISO has understated the benefits provided by the ties, producing increased capacity costs in the near term and chilling future investment in interconnections.⁶ NSTAR's Protest alleges that the ISO's proposed methodology for calculating total tie benefits erroneously calculates benefits for all three neighboring control areas based on a probabilistic methodology, in violation of controlling authorities and diverging from past ISO methodology.⁷

Also on November 1, 2007, the Maine Parties filed a joint protest with respect to the ISO's methodology used to allocate total tie benefits, maintaining that the tie benefits assigned to New Brunswick understate the available benefits from the New Brunswick Control Area.⁸ The Maine Parties indicate that the ISO has not shown that the understating of New Brunswick tie benefits will not materially change the results of the first Forward Capacity Auction, as claimed.⁹ The Maine Parties request that if it is too late to adjust the tie benefits allocation prior to the upcoming first Forward Capacity Auction, then the Maine capacity limit should be reduced to reflect the "actual" tie benefits available from New Brunswick.¹⁰

II. MOTION FOR LEAVE TO ANSWER

In this Answer, the ISO responds to certain issues raised in the protests of NSTAR and the Maine Parties. The ISO addressed issues related to the concerns of NSTAR and the Maine Parties in the initial October 11 Filing. However, the ISO provides this Answer to address

⁶ NSTAR Protest at 1.

⁷ *Id.* at 2-3

⁸ Maine Protest at 8-9.

⁹ *Id.* at 9-10.

¹⁰ *Id.* at 10-12.

additional arguments raised by the parties in their protests, including inaccuracies regarding the October 11 Filing, which should aid the Commission in its deliberations.

While the Commission's Rules of Practice and Procedure allow parties to respond to comments,¹¹ as a general matter, the Commission's rules prohibit responses to protests.¹² The Commission has the authority, however, to waive this prohibition for good cause.¹³ The Commission has found good cause to permit replies where they are otherwise prohibited in various circumstances, including where the answer would assure a complete record in the proceeding,¹⁴ provide information helpful to the disposition of an issue,¹⁵ permit the issues to be narrowed or clarified,¹⁶ or aid the Commission in understanding and resolving issues.¹⁷ The ISO believes that this Answer will clarify the issues, assure a more complete record in this proceeding, and otherwise assist the Commission in understanding and resolving the issues raised concerning the Installed Capacity Requirement, HQICCs and related values established by the ISO for the 2010/2011 Capability Year. For these reasons, the ISO respectfully requests that the Commission grant the ISO's motion to provide the following Answer.

III. ANSWER

Firstly, contrary to NSTAR's claims, the ISO's tie benefits calculation methodology is appropriate. The methodology complies with the ISO Tariff and is in accordance with applicable

¹¹ See 18 C.F.R. § 385.213(a)(3) (2007).

¹² *Id.* at § 385.213(a)(2).

¹³ *Id.* at § 385.101(e).

¹⁴ See, e.g., *Pacific Interstate Transmission Co.*, 85 FERC ¶ 61,378 at 62,444 (1998), *reh'g denied*, 89 FERC ¶ 61,246 (1999).

¹⁵ See, e.g., *CNG Transmission Corp.*, 89 FERC ¶ 61,100 at 61,287 n.11 (1999).

¹⁶ See, e.g., *PJM Interconnection, L.L.C.*, 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).

¹⁷ See, e.g., *Tennessee Gas Pipeline Co.*, 92 FERC ¶ 61,009 at 61,016 (2000).

Commission precedent. While NSTAR seeks to “bootstrap” its arguments with extraneous ISO materials used in the ISO and stakeholder deliberation process, such materials are irrelevant to the Commission’s determination in this proceeding.

Secondly, contrary to NSTAR’s claims, the ISO’s tie benefits calculation methodology is consistent with promoting new investment in tie lines, but only when such investment is warranted. NSTAR makes much of the need to promote new transmission interconnections,¹⁸ but tie benefits should not be inflated for this purpose. The decision to construct new ties must be based upon whether such ties are needed for reliability purposes and/or whether the ties are economically feasible.

NSTAR’s flawed total tie benefits calculation methodology could jeopardize reliability in New England by overstating tie benefits and understating the Installed Capacity Requirement. In contrast, the ISO’s methodology appropriately calculates the reliability benefits associated with the mutual emergency assistance obligations of neighboring Control Areas.

Thirdly, the concerns of the Maine Parties regarding the potential understatement of the New Brunswick tie benefits due to the deterministic calculation of HQICCs in the tie benefits allocation methodology are concerns that are unlikely to be realized in the first Forward Capacity Auction. However, any Commission determination that the concerns of the Maine Parties should be addressed should require consideration of those concerns through a stakeholder process. The filed tie benefits calculation is consistent with the filed rate, which the Maine Parties do not dispute, and is the result of an extensive stakeholder process in which the Maine Parties did not raise a concern until the eleventh hour. Further, any Commission-required changes should be

¹⁸ NSTAR Protest at 23.

prospective, only, so as not to jeopardize the successful and timely completion of the approaching first Forward Capacity Auction.

These issues are discussed more fully in this Answer, below.

A. ISO's Tie Benefits Calculation Methodology is Appropriate and Consistent with Controlling Authorities

1. ISO's Methodology Complies With the ISO Tariff

Contrary to NSTAR's arguments, the ISO's tie benefits calculation methodology is in accordance with controlling authorities. The applicable provisions of the rules regarding the calculation of tie benefits are reflected in Section III.12.9 of Market Rule 1, which provides that:

The ISO shall calculate tie benefits, using a probabilistic multi-area reliability model. The method of calculating the tie benefits associated with the interconnections between the New England Control Area and adjacent Control Areas shall be based on the LOLE calculated before and after interconnecting the New England Control Area to the surrounding Control Areas.¹⁹

The tariff language in Section III.12.9 of Market Rule 1 does not exempt tie benefits associated with the HQ Interconnection from this calculation requirement, a conclusion that NSTAR stretches to reach by resorting to reliance on extraneous past ISO studies and other materials that do not support the relevant rules at issue, or the October 11 Filing, as is discussed in more detail below, in Section III.A.5 of this Answer.²⁰

NSTAR also selectively uses certain tariff language in an effort to support its proposed hybrid approach to calculating total tie benefits. NSTAR maintains that “[f]or the HQ Interconnection, Section III.12.9.2 of Market Rule 1 provides in relevant part:

¹⁹ Section III.12.9 of the ISO Tariff (emphasis added).

²⁰ NSTAR Protest at 14-17.

Tie Benefits Over the HQ Interconnection. The ISO shall calculate the MW value of the tie benefits over the HQ Interconnection and determine the Hydro-Quebec Interconnection Capability Credits using a **deterministic** methodology that uses forecasted load and capacity for the Quebec Control Area and the HQ Interconnection transfer limit as determined by the ISO.” (emphasis added)²¹

What NSTAR selectively ignores, however, is that Section III.12.9.2 of Market Rule 1, as well as the section preceding it that NSTAR does not reference, Section III.12.9.1 of Market Rule 1, addresses the ISO’s required methodology for *allocating* tie benefits – not the methodology for calculating overall tie benefits. The methodology for allocating tie benefits differs from the methodology for calculating total tie benefits. Unlike the methodology for calculating overall tie benefits, the methodology for allocating tie benefits does use the deterministic methodology, solely with respect to HQICCs. The two sections of Market Rule 1 provide, in full, as follows:

III.12.9.1 Individual Control Area Contributions to the Total Tie Benefits. The contribution of an external Control Area directly connected to the New England Control Area to the total amount of tie benefits, as determined in accordance with Section III.12.9, shall be determined based on engineering studies conducted by the ISO. The contributions to the tie benefits from each Control Area directly connected to the New England Control Area shall be used in the calculation of the Local Sourcing Requirements. The external Control Area contributions shall account for tie benefits associated with the HQ Interconnection as determined in accordance with Section III.12.9.2.²²

III.12.9.2 Tie Benefits Over the HQ Interconnection. The ISO shall calculate the MW value of the tie benefits over the HQ Interconnection and determine the Hydro-Quebec Interconnection Capability Credits using a deterministic methodology that uses forecasted load and capacity for the Quebec Control Area and the HQ Interconnection transfer limit as determined by the ISO. **The tie benefits shall be allocated to the Interconnection Rights Holders or their designees**, in the form of reduced capacity requirements, in proportion to their respective percentage shares of the HQ Phase I and the HQ Phase II facilities, in accordance with Section I of the Transmission, Markets and Services Tariff.²³

²¹ *Id.* at 17.

²² Section III.12.9.1 of the ISO Tariff.

²³ Section III.12.9.2 of the ISO Tariff (emphasis added).

As the heading of III.12.9.1 clearly states, these two sections describe how the previously determined total is allocated, and that the “contribution” of each control area is to be based on engineering studies, with the “contributions” from the HQ Phase II facilities “as determined in accordance with Section III.12.9.2.” Section III.12.9.2, which is the crux of the NSTAR argument, is clearly identified in Section III.12.9.1 as a mechanism to allocate the total tie benefits, nothing more.

2. ISO’s Methodology is in Accordance with Applicable Commission Precedent

NSTAR erroneously claims that the ISO’s tie benefits calculation methodology is inconsistent with Commission precedent. The probabilistic methodology has been applied over the past several years to develop assumptions regarding total tie benefits that were used in developing other Installed Capacity Requirement values that have been filed with and accepted by the Commission. The ISO in the October 11 Filing referenced past ISO filings and Commission orders wherein the Commission accepted values based on the very tie benefits calculation methodology that NSTAR seeks to circumvent.²⁴ Despite this fact, NSTAR persists in claiming that the ISO’s tie benefits calculation methodology is inconsistent with past

²⁴ See, e.g., *ISO New England Inc.*, 119 FERC ¶ 61,161 (2007) (2007/2008 Capability Year Installed Capacity Requirements); *ISO New England Inc.*, 111 FERC ¶ 61,185, *reh’g denied*, 112 FERC ¶ 61,254 (2005), *appealed on jurisdictional grounds, Conn. Dept. of Pub. Util. Control v. FERC*, 484 F.3d 558 (D.C. Cir. 2007), *reh’g denied*, 2007 U.S. App. LEXIS 17020 (July 13, 2007), *mandate issued* (July 27, 2007) (2005/2006 Capability Year Installed Capacity Requirements). The Commission has accepted the ISO’s probabilistic methodology used to develop tie benefits assumptions in prior years. “ISO-NE states that the study reflects a probabilistic analysis and methodology. ISO-NE states that the values produced by the study reflect the amount of emergency assistance that . . . could be assumed to be potentially available to New England from that neighboring control area during the period of interest.” *ISO New England Inc.*, 111 FERC ¶ 61,185 at P 4, n4 (2005).

Commission orders. It is notable that no Commission order referenced by NSTAR supports or requires the tie benefits calculation approach that NSTAR seeks to impose.²⁵

For example, NSTAR's reliance on the Commission's ICR Rules Order, in which the Commission adopted Installed Capacity market rules, is misplaced.²⁶ NSTAR claims that the order supports NSTAR's hybrid methodology for calculating overall tie benefits. However, the Commission in the ICR Rules Order did not discuss the calculation methodology for total tie benefits, and the order is inapposite. The order instead included a discussion, referenced but misconstrued by NSTAR, regarding why HQICCs are calculated using the deterministic approach.²⁷ Moreover, the thrust of the Commission's discussion on this point involved distinguishing two kinds of transmission facilities and explaining why the Commission deemed only one kind, the HQ Interconnection, eligible for treatment under the deterministic methodology. The ISO uses the deterministic methodology in the context of calculating HQICCs, consistent with FERC's directives.

Similarly, the underlying filings which the Commission approved in prior orders demonstrate that the ISO has used the same probabilistic tie benefits calculation methodology to identify total tie benefits used in the October 11 filing, contrary to NSTAR's claims.²⁸ For instance, as the ISO indicated in its filing regarding the 2005/2006 Capability Year Installed

²⁵ See NSTAR Protest at 12, fn.28, referencing *New England Power Pool*, 104 FERC ¶ 61,204 at P 2, 29 (2003); *NSTAR Electric & Gas Corp. v. New England Power Pool*, 103 FERC ¶ 61,093 at n.6 and PP 14 and 16 (2003); and *PG&E National Energy Group v. ISO New England Inc.*, 100 FERC ¶ 61,227 at P 24 (2002).

²⁶ NSTAR Protest at 16, referencing ICR Rules Order.

²⁷ NSTAR Protest at 15-16.

²⁸ NSTAR maintains that the ISO has changed the tie benefits calculation methodology "dramatically." NSTAR Protest at 20.

Capacity Requirement, the ISO's tie benefits study "reflects a probabilistic analysis and methodology."²⁹ This probabilistic analysis and methodology calculates the total tie benefits and then allocates the total tie benefits to the individual control areas using an allocation process.³⁰ The ISO has always used this methodology for developing total and individual control area tie benefits. To reflect HQICCs, the total tie benefits obtained through probabilistic simulations are allocated to individual control areas using the HQICC value. This allocation process, reflecting HQICCs, was used to develop the tie benefit assumptions for the 2006/2007 Installed Capacity Requirements which were accepted by the Commission in 2006.³¹ This allocation process is documented in the "Report on the ISO New England Installed Capacity Requirements for the 2006-2007 Power Year."³² The methodology to calculate total tie benefits and the allocation process used to develop individual control area tie benefits documented in the above referenced report is the same methodology filed under the Forward Capacity Market rules and used to

²⁹ 2005/2006 Power Year Installed Capacity Requirements (Objective Capability Values), *ISO New England Inc.*, Docket No. ER05-715-000, Transmittal Letter at 8 (filed Mar. 21, 2005) ("March 21, 2005 Filing"). *See also* March 21, 2005 Filing, Attachment 6 (2002 tie benefits study for the 2002-2003 Capability Year); March 21, 2005 Filing, Attachment 7 (2003 tie benefits study for the 2003/2004 Capability Year); and 2004/2005 Power Year Objective Capability Values, *New England Power Pool*, Docket No. ER04-670-000, Transmittal Letter at 8 (filed Mar. 23, 2004) (tie benefits study "reflects a probabilistic analysis and methodology).

³⁰ Copies of these studies can be obtained at http://www.iso-ne.com/genrtion_resrcs/reports/nepool_oc_review/2002/NEPOOL_Tie_Reliability_Benefits_Study_Review.doc and http://www.iso-ne.com/genrtion_resrcs/reports/nepool_oc_review/2003/tiebenefit2003summary.pdf

³¹ A copy of the order accepting the ISO Installed Capacity Requirements for 2006/07 Capability Year can be found at http://www.iso-ne.com/regulatory/ferc/orders/2006/may/er06-656-000_001_5-5-06.doc

³² Page 24 of this report documents the allocation process. A copy of this report can be obtained at http://www.iso-ne.com/genrtion_resrcs/reports/nepool_oc_review/2006/isone_icr_2006-2007.pdf

develop the total tie benefits associated with the development of the Installed Capacity Requirements for the 2010/2011 Capability Year filed with the Commission.

3. ISO's Probabilistic Methodology Lacks the Flaws of NSTAR's Proposed Approach

NSTAR erroneously construes the ISO's tie benefits calculation methodology as one which understates tie benefits and overstates the Installed Capacity Requirement, due to a failure to employ NSTAR's advocated hybrid approach to calculating total tie benefits.³³ NSTAR would combine the results of a deterministic methodology to calculate HQICCS with the results of a probabilistic methodology to calculate New Brunswick and New York tie benefits.³⁴ The results of these two distinct methods would be summed to give the total tie benefits value.³⁵

NSTAR's approach is flawed. The hybrid approach would overstate the total tie benefits available to New England by assuming that the potential capacity available for sales from Quebec would be dedicated to serving New England needs, while in reality control areas interconnected with Quebec (*e.g.*, New York) would have equal right to expect emergency assistance from the same surplus. The use of this hybrid approach would increase the chances of producing erroneous total tie benefit projections. The Commission-approved deterministic methodology, which is used solely to calculate HQICCs for purposes of assigning these HQ

³³ NSTAR Protest at 10-11.

³⁴ *Id.* at 12.

³⁵ According to NSTAR in its protest, application of NSTAR's proposal would increase the total tie benefits by 390 MW above the 1,860 MW for the 2010/2011 Capability Year that is reflected in the ISO-NEPOOL October 11 Filing. NSTAR Protest at 10-11. NSTAR previously maintained in its proposal presented during the stakeholder process that total tie benefits should increase by 260 MW. *See* October 11 Filing at 22. During consideration of tie benefits by the Power Supply Planning Committee, NSTAR asked the ISO to perform a study reflecting application of the methodology proposed by NSTAR. The 260 MW increase in tie benefits under NSTAR's methodology was the result of the study performed at NSTAR's request.

Interconnection-associated tie benefits to certain market participants, does not simulate the uncertainties associated with future load and capacity resource conditions. The deterministic calculation methodology is unable to capture the sharing of the Quebec resources by the other interconnected Control Areas.

The ISO's approach to calculating total tie benefits does not suffer from these flaws because the probabilistic model better captures the range of possible outcomes. The probabilistic methodology is better able to simulate the simultaneous uncertainties associated with the interconnected control areas' future load and resource capacity conditions, account for inter-area firm capacity contracts and reflect their impacts on the simulated Control Areas. The proposed hybrid approach advocated by NSTAR would be identical to the approach used to model inter-area capacity contracts that are explicitly supported by capacity obligations of the provider, such as were modeled for the Vermont Joint Owners capacity purchase over Highgate and the NYPA purchase across the New York interconnection. However, these contracts place specific requirements on suppliers that warrant special treatment in the tie benefits determination. When calculating total tie benefits, it is inappropriate to pretend that the tie benefits from Quebec are backed by the same obligations as firm capacity contracts, but this is what NSTAR's tie benefits methodology would do.

The ISO's tie benefits calculation methodology does not understate tie benefits, nor does it result in a corresponding overstatement of the Installed Capacity Requirement, as NSTAR claims. Indeed, New England's Installed Capacity Requirement is the lowest among similar control areas in the Northeast Power Coordinating Council ("NPCC"). Specifically, the Installed Capacity Requirement, expressed in terms of the percentage of the forecast 50/50 peak for the

2010/2011 Capability Year, is 11.3%.³⁶ This is lower than the current reserve requirements of 13.4% to 15.4% for Ontario,³⁷ 16.5% for New York,³⁸ and 20% for the Maritimes.³⁹ Only Quebec's 10% reserve requirement⁴⁰ is lower than New England's. In terms of tie benefit assumptions, New England will rely on 1,860 MW (6.4 % of peak load) of tie benefits to meet the once in 10 years disconnection of firm load criterion as compared to 0 MW used by Quebec and the Maritimes, up to 1,200 MW (up to 4.6% of the peak load) used by Ontario and 1,300 MW (3.8 % of peak load) used by New York.⁴¹

While NSTAR seeks to cloak itself as the sole protector of customers,⁴² using inflated and unsupportable numbers to cast the ISO and all NEPOOL members except NSTAR as

³⁶ This is based on 32,305 MW of capacity to be purchased in the FCA and the forecast 50/50 peak of 29,035 MW.

³⁷ Based on a range of weekly required reserves during July and August 2008 from the IESO "18-Month Outlook: An assessment of the Reliability of the Ontario Electric System from October 2007 to March 2009." A copy of this report can be obtained at http://www.theimo.com/imoweb/pubs/marketReports/18MonthOutlook_2007sep.pdf

³⁸ Based on the New York State Reliability Council's January 12, 2007 FERC filing in Docket No. ER07-429-000. A copy of this filing can be obtained at <http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=11229324>.

³⁹ Based on the December 2006 "NPCC Maritimes Area Interim Review of Resource Adequacy." A copy of this report can be obtained at <https://www.npcc.org/publicFiles/documents/adequacy/Maritimes%20Interim%202006.pdf>

⁴⁰ Based on the January 2007 "Quebec Control Area 2006 Interim Review of Resource Adequacy." A copy of this report can be obtained at <https://www.npcc.org/publicFiles/documents/adequacy/Quebec%20Interim%202006.pdf>

⁴¹ For Quebec and Maritimes tie benefit assumptions please see footnotes 39 and 38, respectively. Ontario tie benefit assumptions are based on the "IESO 2006 Comprehensive Review of Ontario Resource Adequacy for the period 2007 to 2011." A copy of this report can be obtained at <https://www.npcc.org/publicFiles/documents/adequacy/Ontario%20Comprehensive%202006.pdf>. For New York tie benefit assumptions, please see footnote 37.

⁴² NSTAR Protest at 2.

uncaring of customers, the opposite is far more the case. Overstating tie benefits, as NSTAR seeks to do, could have a significant, negative impact on all customers in New England. This negative impact is a degradation of reliability, caused by inadequate resources, which in turn could necessitate the shedding of load during times when electricity use is at its peak or at times of other emergencies. Ensuring adequate resources is critical to the ISO in fulfilling its obligations and must remain foremost in the Commission's mind.

4. The "At Criteria" Methodology is Properly Applied by ISO

NSTAR also claims that the ISO has erroneously and "dramatically" changed the tie benefits calculation methodology with respect to assumptions used in the tie benefits calculations.⁴³ NSTAR maintains that the ISO's evaluation of the "outcome of the probabilistic model under 'at criteria' conditions" to determine overall tie benefits differs from the ISO's past evaluation under the "at criteria" assumption.⁴⁴ The "at criteria" assumption underlying the calculations in the October 11 Filing reflects the capacity of all the interconnected control areas having a Loss of Load Expectation ("LOLE") of once in ten years, or 0.1 days per year. NSTAR states that the "at criteria" assumption previously "reflected the planning required reserve margins" of the interconnected systems,⁴⁵ and charges that the ISO "divulged this change in the 'at criteria' definition" in an ISO presentation to the PSPC.⁴⁶ NSTAR, however, fails to recognize that the correct way to model the NPCC areas "at criteria" is to assume that the control areas' resulting LOLE would be at the 0.1 days per year since the ISO does not know what the

⁴³ *Id.* at 20.

⁴⁴ *Id.* at 20-21.

⁴⁵ *Id.* at 21.

⁴⁶ *Id.*

future required reserves of the neighboring control areas may be as system conditions change through time.⁴⁷ For example, New York's required reserves were 22 % until 2001, when they were reduced to 18%.⁴⁸ For the current capability year (May 2007 through April 2008) New York further reduced their required reserves to 16.5%. Furthermore, more recent studies suggest that if transmission constraints internal to New York were to be alleviated then the required reserves could drop to 13.9%.⁴⁹

In the past, tie benefit assumptions were determined and used for calculating Installed Capacity Requirements less than a year in advance. In such a situation, it was appropriate to use resource assumptions based on known required reserves of the neighboring control areas. Now, the Installed Capacity Requirement is calculated multiple years in advance and future reserve requirements for the neighboring control areas are less predictable. It is infeasible to model any control area-specific required reserve requirements, and these control areas must instead be modeled as meeting the NPCC resource adequacy criterion. Modeling a control area's current required reserves may over or under state the area's future capacity situation since the required reserve values are generally unknown at present. The reliability coordinators for some of the

⁴⁷ New York's required reserves used to be 18% for the Capability Year beginning May 2006 and now it is 16.5% for the Capability Year beginning May 2007, as noted in the New York State Reliability Council's January 12, 2007 filing in Docket No. ER07-429-000.

⁴⁸ "The IRM of 15.5% determined in this study compares to the current 22% requirement, which is based on a 1987 study prepared by the New York Power Pool ("NYPP") and an 18% requirement based on a NYPP study conducted in 1996. This latest study's six and one-half percentage point reduction in the required IRM from the current 22% requirement can be attributed primarily to the present use of smaller generating units and higher actual average system unit availability and lower system load factor (sharper peak) than represented in the 1987 study." http://www.nysrc.org/pdf/Reports/nysrc_icareport.pdf, at 1.

⁴⁹Based on the "New York Control Area Installed Capacity Requirements for the Period May 2007 through April 2008 Technical Study Report" dated January 5, 2007. A copy of this report can be obtained at http://www.nysrc.org/pdf/Reports/2007_08IRMReportFinal011707.pdf.

control areas that may not have adequate resources to meet the resource adequacy criterion in the future have indicated that there are tie benefits that could be relied on for them to meet the resource adequacy criterion instead of installing resources. Not knowing the expected installed capacity of the neighboring control areas, the approach of modeling the control areas to meet the 0.1 days per year LOLE would not deliberately overstate or understate a control area's reserve requirements before the resulting percent reserve requirement is known. Additionally, under the rules an "as is" methodology is to be used for the reconfiguration auction closest to the Capacity Commitment Period. An "as is" approach captures that current state of a control area and would reflect the effects of any control area-specific required reserves. This shows that during the ICR rule development process stakeholders were aware of this issue and the distinction between "as is" and "at criteria" considered different approaches, and indeed chose different approaches as appropriate for different time horizons.

Finally, NSTAR noted in its protest that the proposed tie benefit levels used in the past "are well below the maximum of 3975 MW that the NPCC indicated was reasonable."⁵⁰ However, the value indicated to be reasonable by NPCC refers to the 2,000 MW of tie benefits used in the 2003 study and not the 3,975 MW referred in the sentence. The ISO has calculated the tie benefits based on the best load and resource assumptions available for the 2010/2011 Capability Year; therefore, NSTAR's complaint regarding the "at criteria" methodology is inappropriate.

⁵⁰ NSTAR Protest at 22.

5. Extrinsic ISO Materials Offered in Support of NSTAR's Proposal are Irrelevant

In a further attempt to promote the use of its alternative tie benefits calculation methodology, NSTAR endeavors to make relevant certain presentations, studies and other documents that the ISO has previously prepared with respect to tie benefits calculations and the development of the Installed Capacity Requirement.⁵¹ NSTAR indicates that the materials do not support the ISO's total tie benefits calculations, as presented in the October 11 Filing, and instead demonstrate a different and accurate approach which is consistent with NSTAR's proposed calculation methodology. However, NSTAR's reliance on these extrinsic past ISO studies and other materials, which do not support the October 11 Filing or the relevant rules at issue, is misplaced. Such materials, which are produced during the course of the stakeholder deliberation process, are not representative of the ISO's proposal as presented in the October 11 Filing and are a part of the stakeholder deliberation process to develop a set of results that are deemed right by the ISO and the stakeholders and consistent with the market rules. The ISO routinely performs studies and discusses alternatives as part of its deliberations process. This process and the information produced during the deliberations process should not be held against the ISO and participants, particularly when the results are deemed incorrect by the stakeholders and by the ISO and are ultimately not the basis of the ISO's final proposals submitted to the Commission. The various extrinsic documents which NSTAR extrapolates from in an effort to support its proposed tie benefits calculation methodology are not representative of, or offered in support of the ISO's proposed Installed Capacity Requirement, HQICCs and related values

⁵¹ NSTAR Protest at 14-20.

presented in the October 11 Filing. Thus, the materials are not relevant for purposes of the Commission's review.

B. ISO's Tie Benefits Calculation Methodology Is Consistent with Prudent New Investment in Tie Lines

NSTAR maintains that the ISO has calculated capacity requirements in a way that understates the reliability benefits provided by the New York and New Brunswick ties, thus increasing near term generating capacity costs and chilling future investment in interconnections.⁵² Application of NSTAR's proposal would increase the total tie benefits by 390 MW above the 1,860 MW for the 2010/2011 Capability Year that is reflected in the ISO-NEPOOL October 11 Filing, according to NSTAR's Protest, although NSTAR maintained during the stakeholder process that tie benefits should be increased by 260 MW.⁵³

Contrary to NSTAR's claims, the ISO's tie benefits calculation methodology is consistent with promoting new investment in tie lines, but only when such investment is warranted. NSTAR makes much of the need to promote new transmission interconnections,⁵⁴ but tie benefits should not be inflated for this purpose. The decision to construct new ties must be based upon whether such ties are needed for reliability purposes and/or whether the ties pass the appropriate economic tests. NSTAR's flawed total tie benefits calculation methodology could jeopardize reliability in New England by overstating tie benefits and understating the Installed Capacity Requirement. The ISO's probabilistic tie benefits calculation methodology, however, provides appropriate accounting of the reliability benefits available in the neighboring Control

⁵² *Id.* at 3, 23.

⁵³ October 11 Filing at 22.

⁵⁴ NSTAR Protest at 23.

Areas. NSTAR’s proposal could also promote bad policy decisions by creating the incentive to construct interconnections without regard to whether such investment is justified economically. The ISO’s methodology provides no such incentives.

C. Concerns of the Maine Parties are Unlikely to be Realized, But Any Commission Determination to Address the Issues Should Require Consideration Through the Stakeholder Process

The Maine Parties have filed a joint protest with respect to the ISO’s methodology used to allocate total tie benefits, maintaining that the tie benefits assigned to New Brunswick understate the available benefits from the New Brunswick Control Area.⁵⁵ The Maine Parties indicate that the tie benefits are understated due to the aspect of the tie benefits allocation methodology that “deduct[s] the deterministically determined HQICCs from the total benefits,” and reduces the New Brunswick tie benefit from 715 MW to 360 MW.⁵⁶ This, in turn, according to the Maine Parties, “serves to *understate* the amount of capacity available from New Brunswick by 355 MW.”⁵⁷ The understating of New Brunswick tie benefits causes the amount of capacity that can be delivered from the export constrained zone to be overstated, the Maine Parties state.⁵⁸

The reduction in tie benefits attributed to the New Brunswick AC tie to Maine and the New York AC ties due to the treatment of HQICCs has been present in past years, but was not raised as a concern in the absence of a zonal capacity market. With the introduction of a zonal capacity market, however, Maine stakeholders are concerned that the reduced tie benefits

⁵⁵ Maine Protest at 8.

⁵⁶ *Id.*

⁵⁷ *Id.*

⁵⁸ Maine Protest at 8 (emphasis in original).

assigned to the New Brunswick tie, which results in an increase in the Maximum Capacity Limit of the Maine Load Zone, could potentially raise the Maine capacity price.⁵⁹ The ISO acknowledges that the tie benefits allocation could increase prices for Maine consumers if the Maine export constraint does not bind due to the Maximum Capacity Limit and if it would have been binding if the Maximum Capacity Limit were lower. However, as indicated in the October 11 Filing, changing the allocation of total tie benefits will result in only modest changes to the Maximum Capacity Limit for the Maine Load Zone.⁶⁰ Based on information known to date, including the capacity qualified to participate in the first Forward Capacity Auction, the ISO does not believe the lower Maximum Capacity Limit that would be associated with higher tie benefits and lower capacity imports from New Brunswick would materially change the results of the Forward Capacity Auction. The Maine Parties indicate that the ISO has not demonstrated that no material change will occur.⁶¹

The ISO continues to believe that it is unlikely that the Maine Maximum Capacity Limit would bind even if a lower Maximum Capacity Limit were utilized, as the following discussion demonstrates. The Maximum Capacity Limit for Maine, calculated in accordance with the Market Rules, is 3,855 MW. The ISO calculated for information purposes what the Maximum Capacity Limit would be using an assumed 715 MW of the tie benefits from New Brunswick, which is the tie benefits that would likely be assigned absent the need to reallocate to accommodate HQICCs. The Maximum Capacity Limit for Maine using 715 MW would be

⁵⁹ Maine Protest at 8.

⁶⁰ October 11 Filing, Transmittal Letter at 24-25.

⁶¹ Maine Protest at 9.

3,517 MW, slightly higher than the estimated Maximum Capacity Limit of 3,500 MW using the “one-for-one” approximation described in the October 11 Filing.⁶²

This 3,517 MW Maximum Capacity Limit can be compared with 3,398.402 MW of existing capacity, net of any de-list bids submitted prior to the Forward Capacity Auction. It is reasonable to net these de-list bids because the Pool-wide existing capacity, after adjusting for de-list bids, exceeds the required purchases in the first Forward Capacity Auction. This means that the first Forward Capacity Auction must drop below 0.8 times the Cost of New Entry (“CONE”), at which point all previously submitted de-lists will have cleared. In addition, there are 174.821 MW of new resources in Maine with the ability to offer below 0.75 times CONE. This totals 3,578 MW, only 61 MW greater than the Maximum Capacity Limit calculated assuming the greater tie benefits number. Given that all new and existing resources may withdraw at-will below 0.8 times CONE, it is probable that the Maine Maximum Capacity Limit will not bind. In addition, the floor price applicable in the first auction, 0.6 times CONE, is applicable everywhere, so the range of concern is from 0.6 to 0.8 times CONE. For Maine’s fears to be realized, the Rest-of-Pool Zone would need to be short of capacity above the floor price, meaning that no new resources would clear and a substantial number of existing resources must withdraw. Using the totals provided in the ISO’s Informational Filing for Qualification in the Forward Capacity Market, there are 34,695 MW of resources being treated as existing in the first Forward Capacity Auction, and 32,305 MW of need, so nearly 2,400 MW of capacity would

⁶² October 11 Filing, Transmittal Letter at 23. If the tie reliability contributions from the neighboring Control Areas are based on the results of the probabilistic calculation without using the deterministically-calculated HQICCs, the tie benefits assumption would be, approximately, 715 MW from New Brunswick. This is in contrast to the 360 MW assigned to New Brunswick after accounting for HQICCs. There would be an approximately one-for-one decrease in the Maximum Capacity Limit for each MW increase in tie benefits assigned to the New Brunswick ties.

need to de-list in the Rest-of-Pool Zone to avoid reaching the floor price, and the over 2,500 MW of resources seeking to offer below 0.75 times CONE would also need to withdraw before the price reached the floor.⁶³ Maine, on the other hand, would need all of its existing resources to stay in the auction plus nearly all the new qualified resources in Maine would need to clear. While existing resources might de-list only in the Rest-of-Pool and new resources might seek to clear only in Maine, this seems unlikely.

The Maine stakeholders unfortunately raised their concerns at a very late point in the stakeholder review process. The proper method for addressing the issues raised with respect to the allocation of total tie benefits begins with a proposal that can be vetted through the stakeholder process, and the ISO and NEPOOL expressed a willingness in the October 11 Filing to entertain any prospective proposals for market rules changes within that process. The tie benefits values submitted and allocation methodology employed are in accordance with the filed rate and Commission precedent. Maine does not argue that the filed Maximum Capacity Limit is not consistent with the Market Rules, just that they have belatedly realized that it may financially disadvantage them. As the Maine Parties realize, “there may not be enough time before the first FCM auction to change the allocation of tie benefits.”⁶⁴ However, the ISO does not concur with the Maine Parties’ “short-term solution” of having the Commission “direct ISO-NE to reduce the proposed Maximum Capacity Limit to reflect the *actual* tie benefits available from New

⁶³ Informational Filing for Qualification in the Forward Capacity Market, *ISO New England Inc.*, Docket No. ER08-190-000 (filed Nov. 6, 2007); and Errata to Informational Filing for Qualification in the Forward Capacity Market, *ISO New England Inc.*, Docket No. ER08-190-000 (filed Nov. 14, 2007),

⁶⁴ Maine Protest at 11.

Brunswick.”⁶⁵ Without the benefit of voluntary changes to the filed rate, the Commission should not adjust the HQICCs and resulting remaining tie benefits that are to be used for the rapidly approaching Forward Capacity Auction for the 2010/2011 Capability Year. If the Commission considers any changes, it is critical to the successful and timely completion of the first Forward Capacity Auction that the current filed rate be followed where applicable and that any changes be prospective only. Concerns at this point are properly addressed through the stakeholder process, with the benefit of any guidance that the Commission may wish to provide regarding the treatment of HQICCs and the Maine Parties’ concerns.

⁶⁵ *Id.* at 11-12 (emphasis in original).

IV. CONCLUSION

For the foregoing reasons, the ISO respectfully requests that the Commission: (i) grant the ISO's Motion for Leave to Answer; and (ii) reject the protests of NSTAR and the Maine Parties.

Respectfully submitted,

/s/ Sherry A. Quirk, Esq.

Sherry A. Quirk, Esq.

Montina M. Cole, Esq.

Schiff Hardin LLP

1666 K Street, N.W., Suite 300

Washington, D.C. 20006

Tel: (202) 778-6475

Fax: (202) 778-6460

Email: squirk@schiffhardin.com

mcole@schiffhardin.com

/s/ Raymond W. Hepper, Esq.

Raymond W. Hepper, Esq.

ISO New England Inc.

One Sullivan Road

Holyoke, MA 01040-2841

Tel: (413) 540-4585

Fax: (413) 535-4379

Email: rhepper@iso-ne.com

Counsel for ISO New England Inc.

Dated: November 16, 2007

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 (2006), 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 16th day of November, 2007.

/s/ Sherry A. Quirk
Sherry A. Quirk

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