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October 31, 2007

**VIA ELECTRONIC FILING**

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

**Re: ISO New England Inc., Docket No. ER08-61-000  
Motion for Leave to Answer and Answer of ISO New England Inc.**

Dear Ms. Bose:

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) 661-7640.

Very truly yours,

/s/

Jack N. Semrani  
Counsel for  
ISO New England Inc.

Enclosure

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

**ISO New England Inc.**

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**Docket No. ER08-61-000**

**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 ("Commission"), 18 C.F.R. § 385.213 (2007), ISO New England Inc. (the "ISO") hereby submits its Answer to the comments filed in the referenced proceeding by Constellation Energy Commodities Group, Inc. and Constellation NewEnergy, Inc. (collectively, "Constellation") and NSTAR Electric Company.<sup>1</sup>

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 (2004), for leave to file an answer. The Commission has the authority to waive the prohibition against answers to protests for good cause.<sup>2</sup> 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,<sup>3</sup> provide information helpful to the disposition of an issue,<sup>4</sup> permit the issues to be narrowed or clarified,<sup>5</sup> or aid the Commission in understanding and resolving issues.<sup>6</sup> The ISO believes that its answer will assure a more

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<sup>1</sup> Capitalized terms used but not defined in this answer filing are intended to have the same meaning given to such terms in the ISO's Transmission, Markets and Services Tariff, FERC Electric Tariff No. 3 (the "Tariff").

<sup>2</sup> See 18 C.F.R. § 385.101(e) (2007).

<sup>3</sup> See, e.g., *Pacific Interstate Transmission Co.*, 85 FERC ¶ 61,378, at 62,443 (1998), *reh'g denied*, 89 FERC ¶ 61,246 (1999).

<sup>4</sup> See, e.g., *CNG Transmission Corp.*, 89 FERC ¶ 61,100, at 61,287 n.11 (1999).

<sup>5</sup> 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).

<sup>6</sup> See, e.g., *Tennessee Gas Pipeline Co.*, 92 FERC ¶ 61,009, at 61,016 (2000).

complete record in this proceeding and otherwise assist the Commission in understanding and resolving the issues presented.

## **I. BACKGROUND**

On October 16, 2007, the ISO made an emergency filing of changes to Market Rule 1<sup>7</sup> to address a potential opportunity for market abuse that became apparent to the ISO after a very rare set of circumstances arose on October 3, 4 and 9, 2007, in the Day-Ahead Energy Market (the "October 16 Filing").

Under the market design in place in New England, congestion pricing is not used in managing flows from import and export transactions over interties with neighboring control areas. With respect to transactions between New York and New England, the locational marginal price ("LMP") is established at the Roseton External Node. In the Day-Ahead Energy Market, the physical limits (known as Total Transfer Capability or "TTC") over the New York interface are established and posted at approximately 10:30 a.m. for use in the Day-Ahead Energy Market, and offers into the Day-Ahead Energy Market are due by noon of the day prior to the Operating Day.

The Day-Ahead Energy Market clears transactions according to a security-constrained economic dispatch, and subject to a netting methodology for External Transactions. Net transactions (the difference between exports and imports) clearing at the External Node cannot exceed the TTC of the interface. Generally, the TTC on the AC ties between New York and New England is roughly 1,000 MW or more, and the type of netting that took place on those days (and that led to the October 16 Filing) is rarely required. That is, the net cleared Day-Ahead schedule is generally less than the TTC of the interface.

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<sup>7</sup> Market Rule 1 is Section III of the Tariff.

If transactions for net transfers exceeding the TTC of the tie are submitted, the Day-Ahead Energy Market will economically clear enough counter-flow to honor the TTC. Thus, for example, when fixed exports from New England to New York, net of fixed imports, exceed the TTC, then price-sensitive imports are cleared up to the point where the TTC is no longer violated.

Because congestion is not priced on the External Node, the offer price of the dispatchable imports required to clear the fixed exports will exceed the clearing price (that is, energy plus losses) and the balance will be paid as Net Commitment Period Compensation (“NCPC”). This NCPC is provided and paid as credits pursuant to Sections III.F.2.3 and III.F.2.4 of Market Rule 1, and is allocated and charged to Market Participants pursuant to Section III.F.3 of Market Rule 1 in proportion to the daily sum of their Day-Ahead Load Obligations.

Under the market rule changes proposed in the October 16 Filing (the "Market Rule Changes"), Sections III.F.2.3 and III.F.2.4 of Market Rule 1 would be modified to specify that if a constraint on an intertie between the New England Control Area and an adjacent Control Area is binding in the Day-Ahead Energy Market in a given hour, financially offsetting positions at the corresponding External Node by a Market Participant and/or its affiliates will not be eligible for receipt of Day-Ahead economic NCPC Credits under those sections. With these changes, the incentive to schedule offsetting transactions as discussed above – for the purpose of collecting NCPC payments – would be largely eliminated.

The ISO requested expedited Commission consideration and action on the filing.

## **II. ANSWER**

As noted above, the ISO wishes to respond to the comments filed by Constellation and NSTAR in response to the October 16 Filing.

**A. Constellation comments**

Constellation offers three comments in response to the October 16 Filing.

*First*, Constellation provides an example of how the Market Rule Changes would treat a Market Participant's offer of exports totaling 100 MW and the scheduling of 200 MW of the Market Participant's imports to balance a reduced TTC on the Roseton interface. Constellation notes that after the netting of these exports and imports, the Market Participant would be eligible to receive NCPC credits on the remaining 100 MW of imports. Constellation is correct that this would be the result of the ISO's proposal. However, Constellation objects to the imposition of NCPC charges on the 100 MW of exports, and implies that the export would bear the entire burden of the NCPC credits paid.

Constellation is mistaken about the impact of the Market Rule Changes. The allocation of NCPC charges to exports is not changed by the ISO's proposal. As is currently the case under Market Rule 1, those NCPC charges are spread over all Day-Ahead Load Obligation in New England. Since no changes are being made in the allocation of NCPC charges, contrary to Constellation's implication, the export transaction would not be charged directly for the NCPC credits granted to the imports.

*Second*, Constellation is concerned that an importer will not recover all of its costs due to LMP levels at the Roseton external node, and urges the Commission to require the ISO to compensate importers for such costs. However, in the case Constellation describes, the import is disallowed receipt of Day-Ahead NCPC credits precisely because the import is required to clear the fixed export that the same Market Participant has submitted. Constellation seeks compensation for the difference between the LMP and the offer price of the import on the "netted-out" 100 MW. However, this is exactly the compensation that the Market Rule Changes seek to preclude, in order to limit the incentives Market Participants might have to schedule

transactions for the purpose of generating large NCPC credits, for reasons explained in the October 16 Filing.

*Third*, Constellation asks the Commission to add a sunset date of April 17, 2008 to the Market Rule Changes. The ISO opposes this request on the basis that the stakeholder process that will be employed to review the changes, and the alternatives thereto, should not have an arbitrary deadline that could preclude full consideration of the issues and potential solutions.

**B. NSTAR comments**

NSTAR's comments recommend that the Commission condition the acceptance of the Market Rule Changes on: (i) an obligation to conduct an in-depth dialogue over the scheduling and pricing of external transactions, and (ii) an analysis by the ISO's internal market monitoring unit that the potential for abuse has been addressed comprehensively by those changes

In response, the ISO notes that it intends to undertake full consultation with the stakeholders regarding additional or preferable changes, and that both the internal market monitoring unit and the external independent market advisor for New England have already reviewed the Market Rule Changes and found them to be an appropriate interim response to a potential for market gaming.

### III. CONCLUSION

For the foregoing reasons, the ISO respectfully requests that the Commission accept its Answer and accept the ISO's position as expressed herein.

Respectfully submitted,

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*Counsel for ISO New England Inc.*

Dated: October 31, 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 31<sup>st</sup> day of October, 2007.

/s/

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