



October 18, 2007

The Honorable Kimberly D. Bose
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-_____-000; Market Rule Revisions Regarding the
Reporting Obligations of the Internal Market Monitoring Unit

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act (“Section 205”),¹ ISO New England Inc. (the “ISO”) and the New England Power Pool (“NEPOOL”) Participants Committee² hereby jointly submit an original and six copies of this transmittal letter, revised tariff sheets and supporting testimony of Hung-po Chao, the Director of the ISO’s Internal Market Monitoring Unit, reflecting proposed revisions to Market Rule 1 related to the reporting obligations of the Internal Market Monitoring Unit. The revisions remove a biennial reporting requirement that is largely duplicative of other reporting performed by the Internal Market Monitoring Unit on an annual basis, and add additional clarity to the issues that should be covered in such annual reports.

I. DESCRIPTION OF THE FILING PARTIES; COMMUNICATIONS

The ISO is the private, non-profit entity that serves as the regional transmission organization (“RTO”) for New England. The ISO operates the New England bulk power system and administers New England’s organized wholesale electricity market pursuant to the Tariff and the Transmission Operating Agreement with the New England

¹ 16 U.S.C. § 824d (2000).

² 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. Market Rule 1 is Section III of the Tariff.

Participating Transmission Owners. In its capacity as an RTO, the ISO has the responsibility to protect the short-term reliability of the New England Control Area and to operate the system according to reliability standards established by the Northeast Power Coordinating Council (“NPCC”) and the North American Electric Reliability Council (“NERC”).

NEPOOL is a voluntary association organized in 1971 pursuant to the New England Power Pool Agreement that has grown to include more than 300 members. The Participants include all of the electric utilities rendering or receiving service under the Tariff, as well as independent power generators, marketers, load aggregators, brokers, consumer-owned utility systems, end users, demand resource providers and a merchant transmission provider. Pursuant to revised governance provisions accepted by the Commission,³ the Participants act through the NEPOOL Participants Committee. The Participants Committee is authorized by Section 6.1 of the Second Restated NEPOOL Agreement and Section 8.1.3(c) of the Participants Agreement to represent NEPOOL in proceedings before the Commission.

All correspondence and communications in this proceeding should be addressed to the undersigned for the ISO as follows:

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And to NEPOOL as follows:

³ *ISO New England Inc. et al.*, 109 FERC ¶ 61,147 (2004)

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II. STANDARD OF REVIEW

The ISO submits the proposed changes pursuant to Section 205 of the FPA, which “gives a utility the right to file rates and terms for services rendered with its assets.”⁵ Under Section 205, the Commission “plays ‘an essentially passive and reactive’ role”⁶ whereby it “can reject [a filing] only if it finds that the changes proposed by the public utility are not ‘just and reasonable.’”⁷ The Commission limits this inquiry “into whether the rates proposed by a utility are reasonable – and [this inquiry does not] extend to determining whether a proposed rate schedule is more or less reasonable than alternative rate designs.”⁸ The change proposed herein “need not be the only reasonable methodology, or even the most accurate.”⁹ As a result, even if an intervenor or the

⁴ Due to the joint nature of this filing, the ISO and NEPOOL respectfully request a waiver of Section 385.203 of the Commission’s regulations to allow the inclusion of more than two persons on the service list in this proceeding.

⁵ *Atlantic City Elec. Co. v. FERC*, 295 F.3d 1, 9 (D.C. Cir. 2002).

⁶ *Id.* at 10 (*quoting City of Winnfield v. FERC*, 744 F.2d 871, 876 (D.C. Cir. 1984)).

⁷ *Id.*

⁸ *See ISO New England Inc.*, 114 FERC ¶ 61,315 at P 33 and n.35 (2005), *citing Pub. Serv. Co. of New Mexico v. FERC*, 832 F.2d 1201, 1211 (10th Cir. 1987) and *City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984) (“*City of Bethany*”), *cert. denied*, 469 U.S. 917 (1984).

⁹ *Oxy USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995).

Commission develops an alternative proposal, the Commission must accept the ISO's Section 205 filing if it finds that the filing is just and reasonable.¹⁰

III. BACKGROUND AND DESCRIPTION OF CHANGES

The ISO and NEPOOL are proposing changes to Market Rule 1 to: (i) eliminate Section 2.10 and (ii) add language to Section A.11.3 of Appendix A to clarify certain annual reporting obligations. As explained in the attached testimony of Hung-po Chao, Section 2.10 requires a biennial evaluation of the procedures for the determination of Locational Marginal Prices and Real-Time Reserve Clearing Prices, as well as the procedures for determining and awarding Financial Transmission Rights and associated Congestion Costs and Transmission Congestion Costs. This requirement was implemented as part of New England's Standard Market Design, but has proved to be of little value given that such evaluation is largely contained within the annual reports produced by the Internal Market Monitoring Unit. Accordingly, the ISO and NEPOOL propose to delete Section 2.10 of Market Rule 1.

At the same time, ISO and NEPOOL propose to revise Section A.11.3 of Appendix A of Market Rule 1, which requires an annual report by the Internal Market Monitoring Unit of the operations of the New England Markets, to clarify what matters should be contained within the annual reports. Specifically, the revised Section A.11.3 requires that the annual reports cover "the determination of energy, reserve and regulation clearing prices, NCPC costs and the performance of the Forward Capacity Market and FTR Auctions." These topics cover the evaluation that was formerly required under Section 2.10. Cumulatively, the proposed changes add clarity and specificity to the reporting requirements, which will improve the overall reporting on New England wholesale electricity market.

IV. STAKEHOLDER PROCESS

After review and comment, the NEPOOL Markets Committee recommended at its August 14, 2007 meeting that the NEPOOL Participants Committee support the proposed changes, with two abstentions. The NEPOOL Participants Committee subsequently voted to unanimously support the proposed changes at its September 7, 2007 meeting.

V. REQUESTED EFFECTIVE DATE

Pursuant to Section 35.11 of the Commission's rules and regulations, 18 C.F.R. § 35.11, the ISO and NEPOOL request that the Commission permit the proposed revisions to the reporting provisions to become effective on December 20, 2007.

¹⁰ Cf. *Southern California Edison Co., et al.*, 73 FERC ¶ 61,219 at 61,608 n. 73 (1995) ("Having found the Plan to be just and reasonable, there is no need to consider in any detail the alternative plans proposed by the Joint Protesters." (citing *City of Bethany*, 727 F.2d at 1136)).

VI. ADDITIONAL SUPPORTING INFORMATION

The ISO and NEPOOL submit the following additional information in substantial compliance with relevant provisions of Section 35.13 of the Commission's regulations:¹¹

35.13(b)(1) - Materials included herewith are as follows:

- ◆ This transmittal letter;
- ◆ Attachment 1: Redlined Tariff Sheets reflecting the changes proposed by this filing
- ◆ Attachment 2: Revised Tariff Sheets reflecting the changes proposed by this filing
- ◆ Attachment 3: Testimony of Hung-po Chao
- ◆ Attachment 4: List of governors and utility regulatory agencies in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont to which a copy of this filing has been sent

35.13(b)(2) - As set forth in Section V above, the ISO and NEPOOL request that the proposed changes become effective on December 20, 2007.

35.13(b)(3) - Pursuant to Section 17.11(e) of the Participants Agreement, Governance Participants are being served electronically rather than by paper copy. The names and addresses of the Governance Participants are posted on the ISO's website at http://www.iso-ne.com/regulatory/ferc/nepool/gov_ptcpts_eserved.pdf. A paper copy of this transmittal letter and the accompanying materials have also been sent to the governors and electric utility regulatory agencies for the six New England states that comprise the New England Control Area, and to NECPUC. The names and addresses of these governors and regulatory agencies are shown in Attachment 4. In accordance with Commission rules and practice, there is no need for the Governance Participants or the entities identified on Attachment 4 to be included on the Commission's official service list in the captioned proceeding unless such entities become intervenors in this proceeding.

35.13(b)(4) - A description of the materials submitted pursuant to this filing is contained in Section VI of this transmittal letter.

¹¹ 18 C.F.R. § 35.13 (2005).

35.13(b)(5) - The reasons for this filing are discussed in Section III of this transmittal letter.

35.13(b)(6) - The ISO's approval of this change is evidenced by this filing. This change reflects the results of the Participant Processes required by the Participants Agreement and reflect the support of Participants Committee.

35.13(b)(7) - Neither the ISO nor NEPOOL has knowledge of any relevant expenses or costs of service that have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

35.13(b)(8) - A form of notice and electronic media are no longer required for filings in light of the Commission's Combined Notice of Filings notice methodology.

35.13(c)(1) - The proposed changes will not effect any rate increase.

35.13(c)(2) - The ISO does not provide services under other rate schedules that are similar to the wholesale resale and transmission services it provides under the Tariff.

35.13(c)(3) - No specifically assignable facilities have been or will be installed or modified in connection with the proposed changes.

VII. CONCLUSION

The ISO and NEPOOL request that the Commission accept the proposed reporting revisions for filing to become effective on December 20, 2007.

The Honorable Kimberly D. Bose
October 18, 2007
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Please acknowledge receipt of the foregoing by date-stamping and returning to our messenger the enclosed extra copies of this filing.

Respectfully submitted,

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Attachments

cc : Governance Participants (electronically) and entities listed in Attachment 4

Attachment 1
Redlined Tariff Sheets

III.1.11.5	Regulation.....	7117
III.1.11.6	[Reserved].....	7119
III.1.12	Dynamic Scheduling.....	7120
III.2	Calculation Of Locational Marginal Prices and Real-Time Reserve Clearing Prices.....	7122
III.2.1	Introduction.....	7122
III.2.2	General.....	7122
III.2.3	Determination of System Conditions Using the State Estimator.....	7126
III.2.4	Determination of Energy Offers Used in Calculating Real-Time Prices and Real-Time Reserve Clearing Prices.	7129
III.2.5	Calculation of Real-Time Nodal Prices.	7132A
III.2.6	Calculation of Day-Ahead Nodal Prices.....	7138
III.2.7	Reliability Regions, Load Zones, Reserve Zones, Zonal Prices and External Nodes.....	7144
III.2.7A	Calculation of Real-Time Reserve Clearing Prices.....	7149
III.2.8	Hubs and Hub Prices.....	7149F
III.2.9A	Final Real Time Prices, Real-Time Reserve Clearing and Regulation Clearing Prices.....	7151
III.2.9B	Final Day Ahead Energy Market Results.....	7152
III.2.10	Performance Evaluation.....	7155
III.3	Accounting And Billing.....	7156
III.3.1	Introduction.....	7156
III.3.2	Market Participants.....	7156
III.3.2.1	ISO Energy Market.....	7156
III.3.2.2	Regulation.....	7167
III.3.2.3	NCPC Credits.....	7173
III.3.2.4	Transmission Congestion.....	7189

[Sheet reserved for future use.]

~~**III.2.10 — Performance Evaluation.** The ISO shall undertake an evaluation of the foregoing procedures for the determination of Locational Marginal Prices and Real-Time Reserve Clearing Prices, as well as the procedures for determining and awarding Financial Transmission Rights and associated Congestion Costs and Transmission Congestion Credits, not less often than every two years. The ISO, in conjunction with the Independent Market Monitoring Unit, will conduct a review of the market after 6 months of operation, or after the first summer of operations, whichever occurs first. To the extent practical, the ISO shall retain all data needed to perform comparisons and other analyses of locational marginal pricing. The ISO shall report the results of its evaluation to the Market Participants, along with its recommendations, if any, for changes in the procedures.~~

III.A.11.3. Annual Reviews. The INTMMUIISO will present an annual review of the operations of the New England Markets, which will include an evaluation of the procedures for the determination of energy, reserve and regulation clearing prices, NCPC costs and the performance of the Forward Capacity Market and FTR Auctions. The review will include a public forum to discuss the performance of the New England Markets, the state of competition, and the ISO's priorities for the coming year. In addition, the ISO will arrange a non-public meeting open to appropriate state or federal government agencies, including the Commission and state regulatory bodies, attorneys general, and others with jurisdiction over the competitive operation of electric power markets, subject to the confidentiality protections of the ISO New England Information Policy, to the greatest extent permitted by law.

III.A.11.4. Other ISO Communications With Government Agencies.

III.A.11.4.1. Routine Communications. The periodic reviews are in addition to any routine communications the ISO may have with appropriate state or federal government agencies, including the Commission and state regulatory bodies, attorneys general, and others with jurisdiction over the competitive operation of electric power markets.

III.A.11.4.2. Additional Communications. The ISO is not a regulatory or enforcement agency. However, it will monitor market trends, including changes in Resource

Attachment 2
Revised Tariff Sheets

III.1.11.5	Regulation.....	7117
III.1.11.6	[Reserved].....	7119
III.1.12	Dynamic Scheduling.....	7120
III.2	Calculation Of Locational Marginal Prices and Real-Time Reserve Clearing Prices.....	7122
III.2.1	Introduction.....	7122
III.2.2	General.....	7122
III.2.3	Determination of System Conditions Using the State Estimator.....	7126
III.2.4	Determination of Energy Offers Used in Calculating Real-Time Prices and Real-Time Reserve Clearing Prices.	7129
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III.A.11.4.2. Additional Communications. The ISO is not a regulatory or enforcement agency. However, it will monitor market trends, including changes in Resource

Attachment 3

Testimony of Hung-po Chao

1 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 **A.** My testimony discusses proposed “housekeeping” revisions to several market rule
3 provisions relating to periodic reporting obligations.¹

4

5 **Q: PLEASE DESCRIBE THE PROPOSED CHANGES TO THE MARKET**
6 **RULES**

7 **A.** The proposed changes would eliminate the largely duplicative reporting provision
8 that is included as Section III.2.10 of Market Rule 1, while at the same time
9 clarifying certain annual reporting obligations that are included in Appendix A,
10 Section III.A.11.3 of Market Rule 1.

11

12 **Q: WHY IS THE ISO PROPOSING TO ELMINATE SECTION 2.10?**

13 **A.** Section 2.10 was originally adopted as part of the implementation of New
14 England’s Standard Market Design in March 2003. Section 2.10 generally
15 provides for a biennial “report on reporting activity.” In practice, the reporting
16 required by Section 2.10 has proved to be of little value since it simply duplicates
17 other reporting performed by the ISO and/or Internal Market Monitoring Unit.
18 Accordingly, the ISO is proposing to eliminate Section 2.10 from the market
19 rules.

20

21 **Q: PLEASE DESCRIBE THE CHANGES TO SECTION A.11.3**

22 **A.** Section A.11.3 is the market rule provision that sets out the requirement that the
23 ISO produce annual reports on the operations of New England’s competitive

¹ Capitalized terms used but not defined in this filing are intended to have the meaning given to such terms in the ISO New England Inc. Transmission, Markets and Services Tariff, FERC Electric Tariff No. 3 (“ISO Tariff”), the Second Restated New England Power Pool Agreement, and the Participants Agreement.

1 wholesale electricity market. The annual markets reports required by Section
2 A.11.3 are compiled by the Internal Market Monitoring Unit. In the proposed
3 market rule changes, the ISO is proposing to clarify certain issues that should be
4 covered in the annual market reports. Specifically, the revised rule would require
5 that the annual reports cover, “the determination of energy, reserve and regulation
6 clearing prices, NCPC costs and the performance of the Forward Capacity Market
7 and FTR Auctions.” The Internal Market Monitoring Unit’s annual market
8 reports have covered the specified topics in the past. The market rule revision
9 simply formalizes the existing reporting practice.

10

11 **Q: DOES THIS CONCLUDE YOUR TESTIMONY?**

12 **A.** Yes.

13

1 Q: DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes.

3

4 I declare under penalty of perjury that the foregoing is true and correct.

5 Executed on: Oct 16, 2007

6

7

8



Hung-po Chao

Attachment 4

List of governors and utility regulatory agencies in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont to which a copy of this filing has been sent

**New England Governors
and Utility Regulatory
and Related Agencies
Connecticut**

The Honorable M. Jodi Rell
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Maine

The Honorable John E. Baldacci
One State House Station
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Maine Public Utilities Commission
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The Honorable Deval Patrick
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The Honorable John H. Lynch
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Rhode Island

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State House Room 115
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Rhode Island Public Utilities Commission
89 Jefferson Boulevard
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Vermont

The Honorable James H. Douglas
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**New England Governors
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