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VIA HAND DELIVERY

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

Re: Report on Intra-zonal Deliverability of ISO New England Inc.
New England Power Pool, Docket Nos. ER04-433-000, *et al.*
Bangor Hydro-Electric Company, Docket Nos. ER04-432-000, *et al.*

Dear Secretary Bose:

Pursuant to Rule 1907 of the Federal Energy Regulatory Commission's ("FERC" or "Commission") Rules of Practice and Procedure, 18 C.F.R. § 385.1907 (2007), ISO New England Inc. (the "ISO") respectfully files an original and five copies of this Report on Intra-zonal Deliverability ("Report") concerning the intra-zonal deliverability compliance filing directed by the Commission's order issued on November 8, 2004 ("November 8 Order"),¹ and the related Notice of Extension of Time issued on June 28, 2007 ("June 28 Notice") in the above captioned dockets. The ISO previously, on June 5, 2007, filed a motion for an extension of time concerning the intra-zonal deliverability compliance filing. In the June 28 Notice, the Commission granted the ISO's request and directed the ISO to file a report on or before February 29, 2008, on how intra-zonal deliverability should be addressed within the New England markets and the time frame for implementation. The ISO submits this Report in compliance with the November 8 Order and the Commission's June 28 Notice.

I. Introduction

The ISO files this Report in compliance with the Commission's November 8 Order and June 28 Notice which required the ISO to file a report on or before February 29, 2008, on how intra-zonal deliverability should be addressed within the New England markets and the time frame for implementation. The ISO is currently engaged in a stakeholder process wherein interested parties are considering the interrelated issues of an appropriate deliverability standard

¹ *New England Power Pool*, 109 FERC ¶ 61,155 at P 43 (2004) ("November 8 Order"), *order on reh'g*, 110 FERC ¶ 61,335 (2005).

and redesign of the interconnection queue. These discussions are part of the ongoing Forward Capacity Market (“FCM”)/Generator Interconnection Process Stakeholder Group (“Stakeholder Group”) process.

The Stakeholder Group has implemented a three phase process. Phase I consists of information sharing and establishing process details. During Phase I, the Stakeholder Group identified and established certain guiding principles and issues for resolution. The redesign of the interconnection queue and development of an intra-zonal deliverability standard were prioritized for consideration and resolution. The Stakeholder Group has transitioned into Phase II of the stakeholder discussions, which consists of the development and review of proposals that address the established criteria, issues and principles. The Stakeholder Group will be initiating discussion on alternative proposals at the next meeting scheduled for February 29, 2008. The formulation of solutions is expected by the end of the second quarter in 2008.

Phase III of the stakeholder process consists of the development of tariff amendments necessary to support the interconnection queue redesign and intra-zonal deliverability standard with a filing of those amendments by October 1, 2008. This timing is consistent with the ISO’s Compliance Filing Setting Forth Prioritization of Issues and Requesting Technical Conference² (“Compliance Filing”) filed on June 21, 2007, in Docket No. ER07-546-002, and the Commission’s October 19, 2007 Order Accepting Compliance Filings (“October 19 Order”).³ The stakeholder discussions concerning how intra-zonal deliverability should be addressed within the New England markets and the time frame for implementation are discussed further below.

II. Background

On January 20, 2004, the New England Power Pool (“NEPOOL”) Participants Committee submitted a compliance filing in response to the Commission’s Final Rule on Generator Interconnection Agreements and Procedures.⁴ A contemporaneous compliance filing was made by the NEPOOL transmission owners⁵ concerning the local facilities subject to their

² *ISO New England Inc.*, Compliance Filing Setting Forth Prioritization of Issues and Requesting Technical Conference, Docket Nos. ER07-546-002, ER07-547-001, and RM06-8-000 (filed June 21, 2007) (“Compliance Filing”).

³ *ISO New England Inc. and New England Power Pool*, 121 FERC ¶ 61,070 at P 19 (2007) (“October 19 Order”).

⁴ Standardization of Generator Interconnection Agreements and Procedures, Order No. 2003, 104 FERC ¶ 61,103, (2003), FERC Stats. & Regs. ¶ 31,146 (2003), *order on reh’g*, Order No. 2003-A, 106 FERC ¶ 61,220 (2004), *order on reh’g*, Order No. 2003-B, 109 FERC ¶ 61,287 (2004), *order on reh’g*, Order No. 2003-C, 111 FERC ¶ 61,401 (2005); *see also* Notice Clarifying Compliance Procedures, 106 FERC ¶ 61,009 (2004).

⁵ Bangor Hydro-Electric Company; Central Maine Power Company; Fitchburg Gas and Electric Light Company; Maine Electric Power Company; New England Power Company; Northeast Utilities Service Company (on behalf of The Connecticut Light and Power Company, Western Massachusetts Electric Company, Public Service Company of New Hampshire,

control. On November 8, 2004, the Commission issued an order addressing both of these compliance filings, and required the ISO to file, no later than September 1, 2005 for implementation on January 1, 2006, a mechanism that will ensure generators meet an intra-zonal deliverability test in order to qualify as installed capacity resources.⁶ The Commission intended this mechanism to complement the locational installed capacity (“LICAP”) market proposed by the ISO in a separate proceeding⁷ by addressing the issue of deliverability within LICAP zones.

Because the issue of an appropriate intra-zonal deliverability requirement is closely related to the development of regional capacity markets, the ISO, on December 8, 2004, requested an extension of time in which to make the deliverability compliance filing to no earlier than July 1, 2006, six months after the date the Commission mandated for implementation of LICAP in New England. The Commission granted the ISO’s request by notice issued January 5, 2005.⁸

As the capacity market design has evolved from a LICAP to a FCM design, embodied in the Settlement Agreement filed on March 6, 2006 (“FCM Settlement”),⁹ and as the ISO has engaged in the process of developing rules for the FCM and addressing other regional priorities, the ISO has sought several extensions of the compliance filing deadline.¹⁰ Most recently, on June 5, 2007, the ISO filed a motion for an extension of time, and in the June 28 Notice, the Commission granted its request and directed the ISO to file a report on or before February 29, 2008, on how intra-zonal deliverability should be addressed within the New England markets and the time frame for implementation.¹¹

Holyoke Power and Electric Company, and Holyoke Water Power Company); NSTAR Electric and Gas Corporation (on behalf of Boston Edison Company, Cambridge Electric Light Company, and Commonwealth Electric Company); The United Illuminating Company; Unitil Energy Systems, Inc.; and Vermont Electric Power Company.

⁶ November 8 Order at PP 43-50.

⁷ *Devon Power LLC, et al.*, 107 FERC ¶ 61,240 (2004).

⁸ Notice of Extension of Time, Docket Nos. ER04-433-000 *et al.* (Jan. 5, 2005).

⁹ Explanatory Statement in Support of Settlement Agreement of the Settling Parties and Request for Expedited Consideration and Settlement Agreement Resolving All Issues, *Devon Power LLC, et al.*, Docket Nos. ER03-563-000, *et al.* (March 6, 2006).

¹⁰ See Request for Extension of Time of ISO New England Inc., Docket Nos. ER04-433-000 *et al.* (filed Dec. 8, 2004); Notice of Extension of Time, Docket Nos. ER04-433-000 *et al.* (Jan. 5, 2005); Motion for Extension of Time of ISO New England Inc., Docket Nos. ER04-433-000 *et al.* (filed June 9, 2006); Notice of Extension of Time, Docket Nos. ER04-433-000 *et al.* (June 26, 2006).

¹¹ Motion for Extension of Time and Request for Expedited Treatment and Shortened Comment Period of ISO New England Inc., Docket Nos. ER04-433-000 *et al.*, (filed June 5, 2007); Notice of Extension of Time, Docket Nos. ER04-433-000 *et al.*, (June 28, 2007).

Additionally, in response to the Commission's directive in its April 16 Order regarding the FCM rules,¹² the ISO submitted a Compliance Filing in which the timing of filing tariff provisions related to intra-zonal deliverability was discussed. The Compliance Filing noted that the intra-zonal deliverability issue is closely related to the interconnection queue redesign, which is also a high priority issue to be resolved by the region.¹³ That filing stated that a lengthy stakeholder process, extending through the third quarter of 2008, was necessary to address these complex and interrelated issues. The stakeholder process would culminate in a Commission filing during the third quarter of 2008.¹⁴ The Commission approved the Compliance Filing in its October 19 Order.

On November 6, 2007, the ISO filed an informational filing regarding the qualification of capacity resources to participate in the first Forward Capacity Auction ("FCA").¹⁵ Certain parties¹⁶ in that docket protested the ISO's filing, arguing that in implementing an overlapping interconnection impacts analysis, the ISO imposed a new deliverability standard on proposed resources, rather than using the deliverability standard currently in place.¹⁷ Those parties argued that the ISO violated its compliance obligations in the November 8 Order in the instant docket. One party also requested that the Commission require the ISO to file market rules governing intra-zonal deliverability for Commission review and approval prior to, and for use in, the second FCA (scheduled for December 1, 2008).¹⁸

The Commission on January 11, 2008 issued an order accepting the Informational Filing ("January 11 Order").¹⁹ In that Order, the Commission rejected arguments that the overlapping impacts test is a new deliverability standard.²⁰ The Commission also refused to require the ISO to file market rules governing intra-zonal deliverability for use in the second FCA, noting that

¹² *ISO New England Inc.*, 119 FERC ¶ 61,045 at P 60 (2007) ("April 16 Order").

¹³ Compliance Filing at 9.

¹⁴ *Id.*

¹⁵ *ISO New England Inc.*, Informational Filing for Qualification in the Forward Capacity Market, Docket No. ER08-190-000 (filed Nov. 6, 2007) ("Informational Filing").

¹⁶ *See, e.g.*, Motion to Intervene, Protest and Comments of Competitive Power Ventures, Inc., Docket No. ER08-190-000 (filed Nov. 21, 2007).

¹⁷ The deliverability standard for new generators is currently the Minimum Interconnection Standard ("MIS"). The MIS is defined as: "The minimum criteria required to permit the Interconnection Customer to interconnect in a manner that avoids any significant adverse effect on the reliability, stability, and operability of the New England Transmission System, including protecting against the degradation of transfer capability for interfaces affected by the unit." Open Access Transmission Tariff, Schedules 22 & 23.

¹⁸ Motion for Leave to Answer and Answer of Competitive Power Ventures, Inc., Docket No. ER08-190-000 (filed Dec. 14, 2007), at p. 3.

¹⁹ *ISO New England Inc.*, 122 FERC ¶ 61,018 (2008) ("January 11 Order").

²⁰ January 11 Order at P 58.

the ISO in its Compliance Filing has previously committed to, and the Commission has approved, a proposal to address intra-zonal deliverability as part of the interconnection queue stakeholder process already underway that will culminate in an October 1, 2008 filing.²¹

III. Report

In the November 8 Order, the Commission suggested differing interconnection standards for different levels of interconnection, reflecting a resource's ability to contribute to reliability and participate in different markets. The market rules implementing the FCM Settlement enhance the deliverability of the system by assuring that capacity resources participating in the FCA are able to interconnect and provide incremental useful capacity to the system, and thus provide a foundation for a deliverability requirement. The question is what requirements in addition to those contained in the FCM rules need to be adopted to comply with the November 8 Order.

Furthermore, intra-zonal deliverability is inextricably interrelated with the potential redesign of the interconnection queue. As the ISO explained in the Informational Filing docket, development of a deliverability standard relates to the type of product (capacity or energy) that a resource is capable of providing to the system, and contemplates that a resource compensated as a capacity resource will achieve full intra-zonal deliverability.²² The queue redesign issue addresses the related situation where several resources seeking to qualify for the FCA cannot all meet the deliverability standard applicable to capacity resources because of transmission limitations, and it is necessary to rely on a method for selecting among the proposed resources. This method necessarily will take into account intra-zonal deliverability. Consistent with the ISO's prioritization of issues in its Compliance Filing, the interconnection queue redesign and intra-zonal deliverability are being addressed concurrently.²³

As explained in the Compliance Filing, "[o]f all the issues presented for resolution with FCM, it is the ISO's expectation that the joint issues of deliverability and the queue will require the most thought, stakeholder input and ISO resources to address."²⁴ The Commission in its October 19 Order stated that the prioritization of issues outlined in the Compliance Filing and the specific deadlines proposed by the ISO met its requirements in the April 16 Order.²⁵ The Commission added, "[a]s we noted in the April 16 Order, the interconnection queue redesign issue should be a high priority for ISO-NE and its stakeholders, and ISO-NE has appropriately committed to address the issue and file any proposed changes to the market rules by October 1, 2008."²⁶ Thus, the ISO had dedicated a full and open stakeholder process to fully resolve both

²¹ January 11 Order at P 59.

²² Motion for Leave to Respond and Response of ISO New England Inc., Docket No. ER08-190-000 (filed Dec. 26, 2007), at pp. 5-6.

²³ Compliance Filing at 9.

²⁴ *Id.*

²⁵ October 19 Order at P 19.

²⁶ *Id.*

the interconnection queue redesign and the intra-zonal deliverability issue, and is committed to file market rule changes and tariff language no later than October 1, 2008.

The intra-zonal deliverability standard issue is part of the ongoing Stakeholder Group discussions that were initiated in September 2007. That group is chaired by and comprised of representatives from the ISO, New England Conference of Public Utilities Commissioners (“NECPUC”) and NEPOOL. The Stakeholder Group was convened to look for ways to improve the coordination between the requirements of the FCM and the current FERC-approved generator interconnection process. Since its inception, the group has met at least on a monthly basis. Its next meeting is scheduled for February 29, 2008.

The Stakeholder Group has implemented a three phase process to achieve its objectives.²⁷ Phase I consists of information sharing and establishing process details. During this phase, the Stakeholder Group shared background information pertaining to the development of the generator interconnection procedures that are in place in New England and FCM. With this background, the Stakeholder Group set out to define the scope and objectives of the overall process taking into account the Commission-approved generator interconnection process and the FCM resource qualification process, and established the appropriate context and criteria for considering alternate methodologies given existing Open Access Transmission Tariff (“OATT”) principles. During Phase I, the Stakeholder Group also developed and prioritized guiding principles and issues associated with the FCM and the interconnection queue. Among the top five issues (as ranked by stakeholders) for consideration and resolution are the interconnection queue redesign and development of an intra-zonal deliverability standard.

The background and sub-issues regarding the intra-zonal deliverability standard were discussed in depth at the January 10, 2008 stakeholder meeting.²⁸ In particular, the Stakeholder Group discussed, *inter alia*, the current MIS standard, the FCM Overlapping Impact Standard, and the requirements of the FCM Settlement. At the January 10, 2008 meeting the Stakeholder Group outlined options for consideration and discussed next steps.

The Stakeholder Group has transitioned into Phase II of the stakeholder discussions, which consists of the development and review of proposals that address the criteria, issues and principles established in Phase I. At this stage, the Stakeholder Group will focus its efforts on the development and review of approaches that address the established principles with the goal of reaching consensus among the group. These discussions are expected to take commence at the next meeting scheduled for February 29, 2008.²⁹

²⁷ See FCM Generator Interconnection Process Stakeholder Group Materials, FCM-Queue Overview Presentation, Sept. 27, 2007, available at <http://www.iso-ne.com/committees/comm_wkgrps/othr/fcm_gen/mtrls/sep272007/overview_presentation.pdf>.

²⁸ See FCM Generator Interconnection Process Stakeholder Group Materials, ISO New England Slide Presentation, Jan 10, 2008, available at <http://www.iso-ne.com/committees/comm_wkgrps/othr/fcm_gen/mtrls/jan102008/fcm_jan10.pdf>.

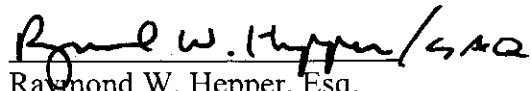
²⁹ FCM Generator Interconnection Process Stakeholder Group Materials, Principles and Issues (revised January 25, 2008), available at <<http://www.iso->

The formulation of solutions is expected by the end of the second quarter in 2008. Phase III of the stakeholder process will consist of the development of tariff language to support the intra-zonal deliverability standard, *inter alia*, to be filed by October 1, 2008.

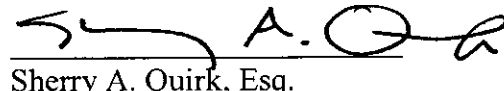
IV. Conclusion

The ISO files this Report in compliance with the Commission's November 8 Order and June 28 Notice which required the ISO to file a report on or before February 29, 2008, on how intra-zonal deliverability should be addressed within the New England markets and the time frame for implementation. As discussed herein, the ISO is currently engaged in a stakeholder process wherein the ISO is considering the interrelated issues of an appropriate deliverability standard and redesign of the interconnection queue. Under a three phase approach, the ISO has engaged in information sharing and establishing process details, and has identified several principles and issues for further discussion. The Stakeholder Group will continue to develop and review proposals that address the established criteria, issues and principles. The formulation of solutions is expected by the end of the second quarter in 2008, with a filing of the market rules and tariff language necessary to support the interconnection queue redesign and intra-zonal deliverability standard anticipated no later than October 1, 2008.

Respectfully submitted,



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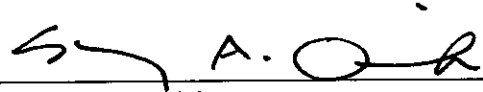
Counsel for ISO New England Inc.

February 29, 2008

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon the parties designated on the official service list for the above-captioned docket in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure. 18 C.F.R. § 385.2010 (2007).

Dated at Washington, D.C. on this the 29th day of February, 2008.

A handwritten signature in black ink, appearing to read "S. A. Quirk", written over a horizontal line.

Sherry A. Quirk
Attorney for ISO New England Inc.

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