



March 19, 2008

Via Electronic Filing

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

Re: ISO New England Inc., FERC Docket Nos. ER08-61-000 and ER08-61-001; Post-Technical Conference Comments

Dear Secretary Salas:

Pursuant to the notice issued by the Federal Energy Regulatory Commission (“Commission”) in this proceeding on March 6, 2008, ISO New England Inc. (the “ISO”) hereby submits its post-technical conference comments regarding the treatment of External Transactions¹ in New England’s wholesale energy markets.

On October 16, 2007, the ISO filed proposed rule changes concerning the treatment of External Transactions between New England and neighboring control areas. On January 25, 2008, the Commission issued an order accepting and suspending for a nominal period the ISO’s filing and ordering staff to convene a technical conference, which was held on March 5, 2008. During the technical conference, the ISO presented information on the treatment of External Transactions and a copy of the presentation was filed by the ISO on March 6, 2008.

After considering the issues discussed during the technical conference, the ISO provides the following additional comments for the Commission’s consideration. The

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.

ISO's comments concern two issues: (1) the potential for improvements to the manner in which External Transactions are integrated into the pricing results and resource commitment schedule of the Day-Ahead Energy Market, and; (2) the possible clarification of the existing market rules to describe in more detail the manner in which External Transactions are treated in the Day-Ahead Energy Market.

On the issue of potential improvements to the manner in which External Transactions are integrated into the results of the Day-Ahead Energy Market, the ISO and New England's stakeholders have committed to a review of this issue beginning in the third quarter of this year. The timing for taking up this issue has been determined after considering and prioritizing other competing issues and projects that the ISO and stakeholders plan to take up during the course of 2008 and 2009. At this point, neither the ISO nor any stakeholders have identified any specific improvements to the treatment of External Transactions. Rather, the ISO expects to explore this issue with stakeholders in order to determine whether there are any improvements that can or should be made later in the year. Taking any further action would be premature at this time. Accordingly, the ISO requests that the Commission allow the ISO to consider potential improvements to the treatment of External Transactions through the stakeholder process as currently planned.

On the issue of possible clarification of the existing market rules, the ISO is prepared to work with its stakeholders in the near-term to develop and file clarifying rule changes over the next several months. As discussed during the technical conference, the existing rules do not include details concerning the process by which External Transactions are priced and scheduled through the Day-Ahead Energy Market. Nor do the existing rules fully reflect the manner in which Real-Time operating practices associated with external tie lines are reflected in the Day-Ahead Energy Market and affect how any Congestion Costs are included in the prices at External Nodes. As part of these comments, the ISO is attaching draft rule changes that would clarify the treatment of External Transactions and the pricing of External Nodes (attached hereto as Attachment 1). The draft market rule text describes in greater detail the method by which External Transactions are cleared and attempts to distinguish more clearly between the concept of nodal constraints (*i.e.*, a limit on the total net injections at a node) and transmission constraints (*i.e.*, limits on the flow over a line or set of lines). However, the ISO is not proposing that the Commission take any action on the draft rule changes at this time because the draft changes have not been reviewed by stakeholders. Instead, the ISO requests that the Commission allow the ISO to work with its stakeholders to consider the draft rule changes (and potential modifications thereto) and to submit final rule changes after the completion of the stakeholder process.

Respectfully submitted,

/s/ Raymond W. Hepper
Raymond W. Hepper
James H. Douglass
ISO New England Inc.
One Sullivan Road
Holyoke, MA 01040-2841
(413) 540-4559

/s/ Howard H. Shafferman
Howard H. Shafferman
Jack N. Semrani
Ballard Spahr Andrews & Ingersoll, LLP
601 13th Street, N.W., Suite 1000 South
Washington, D.C. 20005
(202) 661-2205

Counsel for ISO New England Inc.

Attachment

cc: All parties to this proceeding (electronically)

Attachment 1

**Draft Rule Changes That Would Clarify The Treatment Of External Transactions
And The Pricing Of External Nodes**

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III.2.6 Calculation of Day-Ahead Nodal Prices.

- (a) For the Day-Ahead Energy Market, Day-Ahead Prices shall be determined on the basis of the least-cost, security-constrained unit commitment and dispatch, model flows and system conditions resulting from the load

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specifications submitted by Market Participants, Supply Offers and Demand Bids for Resources, Increment Offers, Decrement Bids, and External Transactions submitted to the ISO and scheduled in the Day-Ahead Energy Market.

Such prices shall be determined in accordance with the provisions of this Section applicable to the Day-Ahead Energy Market and shall be the basis for the settlement of purchases and sales of energy, costs for losses and Congestion Costs resulting from the Day-Ahead Energy Market. This calculation shall be made for each hour in the Day-Ahead Energy Market by applying a linear optimization method to minimize energy, congestion and transmission loss costs, given scheduled system conditions, scheduled transmission outages, and any transmission limitations that may exist. In performing this calculation,

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the ISO shall calculate the cost of serving an increment of load at each Node and External Node from each Resource associated with an eligible energy offer or bid as the sum of: (1) the price at which the Market Participant has offered to supply an additional increment of energy from the Resource or reduce consumption from the Resource; (2) the effect on transmission Congestion Costs (whether positive or negative) associated with increasing the output of the Resource or reducing consumption of the Resource, based on the effect of increased generation from that Resource or reduced consumption from a Resource on transmission line loadings; and (3) the effect on transmission losses caused by the increment of load and generation. The energy offer or offers and energy bid or bids that can serve an increment of load at a Node or

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External Node at the lowest cost, calculated in this manner, shall determine the Day-Ahead Price at that Node.

The process for clearing External Nodes differs from the process for clearing other Nodes in that, rather than determining the quantity cleared via the application of transmission constraints (i.e., limits on the flow over a line or set of lines), the quantity cleared is limited via the application of a nodal constraint (i.e., a limit on the total net injections at a node) that restricts the net amount of cleared transactions to the transfer capability of the external interface. Clearing prices at all Nodes will reflect the marginal cost of energy at the reference bus plus a marginal loss component plus a congestion component that reflects the sensitivity of the solution to any binding transmission constraints. A binding nodal constraint will result in

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interface limits being followed, but will not affect the
congestion component of an LMP at an External Node.