



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

October 1, 2009

**Via Hand Delivery**

The Honorable Kimberly D. Bose, Secretary  
The Honorable Nathaniel J. Davis, Sr., Deputy 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. ER06-613-\_\_\_-- Seventh Compliance Report of ISO New England  
Inc. Regarding Performance of Reserve Markets**

Dear Secretary Bose and Deputy Secretary Davis:

Pursuant to the Federal Energy Regulatory Commission's ("Commission") orders issued in this proceeding,<sup>1</sup> ISO New England Inc. (the "ISO") hereby submits its seventh compliance report on the status of stakeholder consideration of the possible implementation in New England of a forward Ten-Minute Spinning Reserve ("TMSR") market.<sup>2</sup>

**I. COMMUNICATIONS**

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

---

<sup>1</sup> In 2006, the Commission required the ISO to provide semi-annual reports on certain issues associated with the real-time and forward reserve markets. *New England Power Pool and ISO New England Inc.*, Order Accepting Ancillary Services Market Proposal, 115 FERC ¶ 61,175, *reh'g denied*, 117 FERC ¶ 61,106 (2006) ("May 12 Order"). On June 23, 2008, the Commission discontinued the ISO's reporting obligation except for the requirement to continue reporting on the status of the possible implementation of a forward spinning reserve market. *ISO New England Inc.*, 123 FERC ¶ 61,298 at P 9 (2008) ("June 23 Order").

<sup>2</sup> 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.

James H. Douglass, Esq.  
Senior Regulatory Counsel  
ISO New England Inc.  
One Sullivan Road  
Holyoke, MA 01040-2841  
Tel: (413) 540-4559  
Fax: (413) 535-4379  
E-mail: jdouglass@iso-ne.com

Sherry A. Quirk, Esq.  
Montina M. Cole, Esq.  
Schiff Hardin LLP  
1666 K St., NW, Suite 300  
Washington, DC 20006  
Tel: (202) 778-6475  
Fax (202) 778-6460  
E-mail: squirk@schiffhardin.com  
mcole@schiffhardin.com

## II. BACKGROUND

The May 12 Order required the ISO to report semi-annually on various issues related to the implementation of certain reserve markets. Specifically, the Commission directed the ISO to:

file a report semi-annually on the performance of the new market, including recommendations for future improvements. In addition, . . . these reports should provide: (1) updates on the implementation of a forward TMSR market, including descriptions of proposals that have been considered to date, impediments to implementation that still need to be resolved, and a proposed schedule to resolve such impediments; (2) details concerning ISO-New England's operational and economic rationale for considering involuntary load shedding in determining reserve requirements in NEMA/Boston and the effect on reliability of considering involuntary load shedding; (3) once ASM Phase II has been operational for at least six months, a summary on whether increased failure-to-reserve and failure-to-activate penalties have successfully created an incentive for sellers to include commitment costs in their forward reserve bids (allowing ISO-New England to select the lowest-cost resources to provide reserves); and (4) a discussion concerning whether allowing forward reserve suppliers to buy back their obligations in a future day-ahead spot market would promote or impede the objectives of (i) encouraging sellers to include their full costs (including commitment costs) in their forward reserve bids, and (ii) procuring the lowest-cost resources to provide reserves.<sup>3</sup>

---

<sup>3</sup> May 12 Order at P 110 (footnotes omitted).

The May 12 Order required that the first report be filed six months from the date of the issuance of the order, with each subsequent report due every six months.<sup>4</sup> This filing is the seventh semi-annual report that the ISO has submitted in compliance with the May 12 Order.

In the June 23 Order, the Commission limited the ISO's future reporting obligation to the issue of the potential establishment of a forward market for TMSR. Specifically, the Commission stated:

ISO-NE's fourth semi-annual compliance report sufficiently complies with the May 12 Order and is hereby accepted. Additionally, ISO-NE has shown that it has substantially satisfied the reporting requirements set forth in the May 12 Order, and that the remaining unsatisfied reporting requirements will be included in its periodic reports, which are issued more frequently than the semi-annual reports and are easily accessible. ISO-NE's answer satisfies the NEPOOL Participants Committee's objection to ISO-NE's motion to discontinue reporting on implementation of a forward TMSR market. Accordingly, ISO-NE's motion to discontinue the semi-annual reserve market compliance reports is hereby accepted, with the exception of the reporting requirement regarding the forward TMSR market issue, which will continue to be subject to the semi-annual reporting requirement established in the May 12 Order.<sup>5</sup>

The ISO's status report on stakeholder consideration of issues associated with the design and potential establishment of a forward spinning reserve market is discussed in the following section of this filing.

### **III. REPORT**

The May 12 Order stated that the ISO should provide semi-annual reports "on the implementation of a forward TMSR market, including descriptions of proposals that have been considered to date, impediments to implementation that still need to be resolved, and a proposed schedule to resolve such impediments."<sup>6</sup> As explained in prior status reports, a Forward Ten-Minute Spinning Reserve Market Working Group ("FSR Working Group") of the NEPOOL Markets Committee was formed to address, in coordination with the ISO, certain issues with respect to establishing any forward market for TMSR. The FSR Working Group's October 13, 2006 report to the Markets Committee was part of the ISO's first compliance report in this proceeding.<sup>7</sup> Consistent with the issues that the Commission directed the ISO to address in the

---

<sup>4</sup> *Id.* at Ordering Paragraph (B).

<sup>5</sup> June 23 Order at P 9.

<sup>6</sup> May 12 Order at P 110 (footnote omitted).

May 12 Order, the FSR Working Group Report described various market design proposals, potential impediments to implementation, and provided a proposed schedule to resolve impediments.

In 2006, the FSR Working Group suspended further efforts until such time as the ISO would be able to commit the resources to provide a thorough review and critique of the design proposals. As the ISO explained in its prior compliance reports, and as remains true, the ISO's market design and development resources have been devoted to many high-priority commitments regarding major market design initiatives. These initiatives include implementation of the Forward Capacity Market and its many components, including Forward Capacity Market conforming changes (which includes some changes to the Forward Reserve Market), preparation of the compliance response to Order No. 719, and work addressing the near and long-term treatment of price-responsive demand. Due to the ISO's efforts on these priority projects, work on the forward TMSR market issues is on hold, and the ISO has had no further discussions with the Markets Committee or the FSR Working Group since the prior compliance reports were filed. The ISO does not expect to have the available resources needed to revisit this issue until at least the second half of 2010.

## **V. CONCLUSION**

The ISO hereby submits this report in compliance with the Commission's prior orders in this proceeding. If you have any questions or need further information with respect to this filing, please contact James Douglass or Sherry Quirk at the telephone numbers below.

---

<sup>7</sup> Errata Compliance Report Attachment of ISO New England Inc., *ISO New England Inc. and New England Power Pool*, Docket No. ER06-613-002 (filed Nov. 14, 2006) (attaching Forward Ten-Minute Spinning Reserve Market Working Group Report dated October 13, 2006, hereinafter "FSR Working Group Report").

The Honorable Kimberly D. Bose  
The Honorable Nathaniel J. Davis, Sr.  
October 1, 2009  
Page 5

Please acknowledge receipt of the foregoing by date-stamping and returning to our messenger the enclosed extra two copies of this filing.

Respectfully submitted,

By: \_\_\_\_\_

James H. Douglass, Esq.  
Senior Regulatory Counsel  
ISO New England Inc.  
One Sullivan Road  
Holyoke, MA 01040-2841  
Tel: (413) 540-4559  
Fax: (413) 535-4379  
E-mail: jdouglass@iso-ne.com

By: \_\_\_\_\_

Sherry A. Quirk, Esq.  
Montina M. Cole, Esq.  
Schiff Hardin LLP  
1666 K St., NW, Ste. 300  
Washington, D.C. 20006  
Tel: (202) 778-6475  
Fax: (202) 778-6460  
E-mail: squirk@schiffhardin.com  
mcole@schiffhardin.com

Counsel for ISO New England Inc.

cc : Official Service List

**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 1st day of October, 2009.

\_\_\_\_\_  
Montina M. Cole