



October 15, 2009

VIA HAND DELIVERY

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

**Re: ISO New England Inc. and
New England Power Pool**

Docket No. ER07-476-___

**Long-Term Firm Transmission Rights
in Organized Electricity Markets**

Docket No. RM06-08-000

Dear Secretary Bose:

ISO New England Inc. (the “ISO”) hereby submits the fourth of its quarterly status reports on implementation of a long-term firm transmission rights (“LTTR”)¹ mechanism in New England.² The ISO’s commitment to submit quarterly status reports on LFTR implementation was recognized in the Commission’s October 16, 2008 order in this proceeding.³

I. COMMUNICATIONS

Correspondence and communications regarding this filing should be addressed to the following persons:

¹ To correlate the LTTR concept with existing New England terminology based on Financial Transmission Rights (“FTRs”), the market rules in New England refer to “Long-Term Financial Transmission Rights” or “LFTRs.”

² Capitalized terms used but not defined in this filing are intended to have the same meaning given to such terms in Section III.1.3 of the ISO New England Transmission, Markets and Services Tariff (the “ISO Tariff”), Section 1 of the Second Restated New England Power Pool Agreement, or ISO New England Manual M-35.

³ *ISO New England Inc. and New England Power Pool*, 125 FERC ¶ 61,069 at P 35, 37 (2008) (“October 16 Order”).

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II. PRESENT STATUS AND TIMELINE FOR LFTR IMPLEMENTATION

A. Overview and Present Status

The ISO described the status of LFTR implementation while discussing the effective date of required market rule changes in the compliance filing that the ISO and New England Power Pool (“NEPOOL”) Participants Committee submitted in this proceeding on May 27, 2008. At that time, and at present, the ISO anticipates that implementation of the LFTR project will require an 18-month process. The ISO is proceeding with the steps necessary to achieve implementation within that period. As an initial matter, LFTR project implementation is critically dependent on developing and finalizing the specific requirements of the ISO’s LFTR financial assurance policies. In other words, the 18-month implementation process can begin once the related financial assurance issues have been resolved. As previously reported, LFTR implementation will have a substantial impact on the ISO’s existing FTR, settlements, billing and financial assurance software applications. Additionally, various database and data bridges that connect different applications need to be modified. The market and financial software system changes will affect virtually every software development and support department of the ISO.

The ISO currently expects to initiate the stakeholder review of financial assurance policy alternatives during the fourth quarter of 2009 and corresponding ISO Tariff changes would be filed with the Commission shortly after the completion of that stakeholder process. The estimated 18-month implementation process would be initiated once the Commission accepts the revised financial assurance policies, which likely would occur within 60 days of the filing of the tariff changes, assuming that the revisions are acceptable to the Commission. Thus, the current best estimate for completion of the 18-month implementation process is no earlier than mid-2011. This would mean that the first LFTR auction could be administered no earlier than the

third quarter of 2011 for LFTRs that would be effective starting with the 2012 calendar year. The ISO will, of course, seek to proceed with implementation as promptly as feasible using the resources available to it.

The remainder of this report describes the details of the 18-month implementation process.

B. Explanation of Implementation Timeline

The implementation process will start with an internal software and business development phase, which will take a minimum of 12 months to complete due to the resource constraints described below. The primary vendor for the LFTR software package also will require between 12 and 13 months from contract execution to complete its portion of the project.

The ISO expects to require an additional six months to complete testing, prepare for cutover and “go-live” with the first LFTR auction following delivery of the software necessary to support the LFTR market rule changes. The testing requirements for LFTR implementation are considerable. Extensive data and testing is required to ensure the integrity and quality of the FTR allocation and auction software. Based on the current design, the process to convert from the Qualified Upgrade Award construct to the system of Incremental ARRs will take several months (including the need to set up an Incremental ARR study environment) and must be completed prior to opening the first LFTR auction bidding window. The testing phase for this market design must support the conversion and integration of the Allocated LFTRs and Auctioned LFTRs into the FTR Auction process and the settlement of those transactions. Furthermore, testing environments, which are critical to ensure the validity and quality of the software modifications, are limited and must be shared by various other projects at the ISO. These requirements and dependencies mean that the testing phase for the LFTR project needs to span several months. Because of the resource constraints described further below, the testing cannot overlap the internal ISO or vendor development phase.

ISO development resource constraints arise from scheduled work to implement several high-priority projects. The ISO is currently committed to implementing the full Forward Capacity Market (“FCM”) in June 2010. Additional FCM software releases are scheduled in 2010, and cannot be delayed if the implementation commitment is to be met. FCM has a substantial impact on all the departments within the ISO and is requiring the development of an entirely new infrastructure to support FCM. To ensure this complicated market operates successfully in accordance with ongoing market design improvements, the ISO must continue to dedicate a significant amount of its development and operations resources to the design, development and implementation of the FCM. In addition to FCM, the ISO has commenced additional critical projects and market enhancements described in the next paragraph that will impact the availability of the ISO’s information technology resources that would be required for LFTR implementation during 2010.


The additional critical projects and market enhancements discussed above arise from a number of sources. For instance, the Demand Response Integration project is a component of FCM and is required to ensure that the significant amount of demand resources that have cleared in FCM can be efficiently and effectively utilized in New England's electricity markets. The ISO has also committed development resources to the FOSS Phase 2 project, a Generator Maintenance and Flagging System. The FOSS Phase 2 project will also facilitate the implementation of FCM. This project is slated to be completed in the fourth quarter of 2010. Finally, the ISO has committed to undertake the SMD Software Upgrade (SSU) project in 2010, which will update critical market software to the version currently supported by the vendor.

From a timing perspective, it is important to note that an additional three months are needed for the ISO to administer the initial LFTR allocations and auctions, so the effective date for the LFTRs issued in the first long-term auction/allocation must be a minimum of three months after the "go-live" date. The current long-term auction period is from January 1 to December 31. Therefore, a "go-live" date of any time other than during the third quarter of a calendar year would require changes to the annual auction period.

III. CONCLUSION

The ISO hereby submits this status report in compliance with its prior commitment to New England's wholesale electricity market stakeholders and as recognized in the Commission's October 16, 2008 Order. Copies of this report are being served on all persons on the Commission's official service list in the captioned proceeding, as well as on the governors and electric utility regulatory agencies for the six New England states that comprise the New England Control Area. All NEPOOL Participants Committee members are being furnished with an electronic copy of this report. In accordance with the Commission's rules and practice, there is no need for these entities to be included on the Commission's official service list in this proceeding unless such entities already are or become intervenors in this proceeding.

Respectfully submitted,



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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 these proceedings.

Dated at Washington, D.C. this 15th day of October, 2009.



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