



August 5, 2010

VIA HAND DELIVERY

The Honorable Kimberly D. Bose, Secretary
The Honorable Nathaniel J. Davis, Sr., Deputy Secretary
Federal Energy Regulatory Commission
Room 1A-East, First Floor
888 First Street, N.E.
Washington, D.C. 20426

**Re: ISO New England Inc., Docket No. ER10-____-000,
Revisions to the ISO New England Tariff Related to Loss Revenue Allocation**

Dear Secretary Bose and Deputy Secretary Davis:

Pursuant to Section 205 of the Federal Power Act (“FPA”),¹ ISO New England Inc. (the “ISO”) joined by the New England Power Pool (“NEPOOL”) Participants Committee² (together, the “Filing Parties”), hereby submit to the Federal Energy Regulatory Commission (“FERC” or “Commission”) revisions to the ISO Tariff related to the allocation of loss revenue (the “Tariff Changes”).³

As more fully explained in Section IV of this filing letter and in the Direct Testimony (solely sponsored by the ISO) of Jonathan B. Lowell, Principal Analyst in the ISO’s Market Development Department, under the Tariff Changes tendered in the instant filing, Market Participants will have the option to include or not include internal bilateral transactions for energy in the calculation of their allocated share of loss revenue. The Filing Parties request that the Tariff Changes become effective

¹ 16 U.S.C. § 824d (2006 and Supp. II 2009).

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 “ISO Tariff”). Section III of the ISO Tariff is Market Rule 1.

³ Under New England’s RTO arrangements, the rights to make this filing of changes to the Markets Rule under Section 205 of the Federal Power Act are the ISO’s. NEPOOL, which pursuant to the Participants Agreement provides the sole market participant stakeholder process for advisory voting on ISO matters, supported the changes reflected in this filing and accordingly, joins in this Section 205 filing.

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on or after December 1, 2010, with 60 days' notice to be provided by the ISO, as discussed in Section VI of this filing letter.

I. DESCRIPTION OF THE FILING PARTIES AND 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 ISO New England Transmission, Markets and Services Tariff and the Transmission Operating Agreement with the New England 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, and it has grown to include more than 440 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, developers, demand resource providers, and a merchant transmission provider. Pursuant to revised governance provisions accepted by the Commission,⁴ 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. Pursuant to Section 2.2 of the Participants Agreement, "NEPOOL provide[s] the sole Participant Processes for advisory voting on ISO matters and the selection of ISO Board members, except for input from state regulatory authorities and as otherwise may be provided in the Tariff, TOA and the Market Participant Services Agreement included in the Tariff."

Correspondence and communications in this proceeding should be addressed to:

⁴ *ISO New England Inc. et al.*, 109 FERC ¶ 61,147 (2004).

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II. STANDARD OF REVIEW

The ISO submits the Tariff 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.” Under Section 205, the Commission “plays ‘an essentially passive and reactive’ role” whereby it “can reject [a filing] only if it finds that the changes proposed by the public utility are not ‘just and reasonable.’” 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.” The Tariff Changes filed herein “need not be the only reasonable methodology, or even the most accurate.” As a result, even if an intervenor or the Commission develops an alternate proposal, the Commission must accept this Section 205 filing if it is just and reasonable.

⁵ The Filing Parties respectfully request a waiver of Section 385.203(b)(3) of the Commission’s regulations to allow the inclusion of more than two persons on the service list in this proceeding.

III. BACKGROUND

Market Participants that enter into internal bilateral transactions for energy may do so by using the ISO's Settlement Market System. The use of the ISO's Settlement Market System is optional, but can be a useful tool for Market Participants. In the last few years, however, the number of internal bilateral transactions for energy entered into and settled by using the ISO's Settlement Market System has decreased. Some Market Participants have indicated that they do not use the ISO's Settlement Market System because, as explained below, doing so has an effect on their allocated share of loss revenue.

Market Participants are allocated shares of a loss revenue fund that results from the settlement of the energy markets. By way of background, the energy markets are settled each hour by determining the charges and credits at the applicable Locational Marginal Price ("LMP") for every Market Participant at every pricing location in New England. The LMP has three components: energy, congestion, and losses.⁶ Loss revenue results from the settlement of the LMP's energy and loss components. Generally, credits and charges for the energy component of the LMP do not net to zero. This is because cleared generation does not equal cleared demand due to physical losses on the transmission system and, consequently, the settlement of the LMP's energy component⁷ results in under-collections.⁸ On the other hand, the settlement of the loss component is designed to result in over-collections. The over-collections from the loss component are used to offset the under-collections from the energy component,⁹ and any amount that remains after netting is credited to a loss revenue fund.

Currently, that loss revenue fund is allocated to all Market Participants based on an allocator called Real-Time Adjusted Load Obligation.¹⁰ A Market Participant's Real-Time Adjusted Load Obligation for each hour at each Location equals that Market Participant's Real-Time Load Obligation adjusted by any internal Real-Time bilateral transactions for energy at that Location that have been entered into the ISO's Settlement Market System.¹¹ Generally, an internal bilateral transaction for energy results in an increase to the energy seller's Real-Time Adjusted Load Obligation and a decrease in the energy buyer's Real-Time Adjusted Load Obligation. In turn,

⁶ The three LMP components are defined in Section I.2.2 of the Tariff. The loss component is commonly referred to as "marginal loss."

⁷ See Sections III.3.2.1(d) and III.3.2.1(e).

⁸ See Sections III.3.2.1(d) and III.3.2.1(e).

⁹ See Sections III.3.2.1(g) and III.3.2.1(i).

¹⁰ See Sections III.3.2.1(h) and III.3.2.1(m).

¹¹ Section III.3.2.1 (b) (iii).

because Real-Time Adjusted Load Obligation is used to allocate loss revenue, while the energy seller's share of loss revenue increases, the energy buyer's share of loss revenue decreases. In order to avoid this result, some Market Participants enter into and settle their internal bilateral transactions for energy without using the ISO's Settlement Market System.

To increase the usefulness of the ISO's Settlement Market System, the ISO and stakeholders agreed to add a functionality that will allow Market Participants to choose whether or not to include each internal bilateral transaction for energy in the calculation of their allocated share of loss revenue. Simply modifying the current allocator, Real-Time Adjusted Load Obligation, to allow for this election would not work because that allocator is also used in other settlements calculations, such as Real-Time Locational Adjusted Net Interchange and Real-Time Adjusted Load Obligation Deviation, which do not need to be modified. Accordingly, under the Tariff Changes, a new allocator for loss revenue will be used. That allocator will allow Market Participants to choose whether or not to include internal bilateral transactions for energy in their allocation of loss revenue.

IV. DESCRIPTION OF TARIFF CHANGES

Under the Tariff Changes, the allocation of loss revenue will be based on a new allocator called Marginal Loss Revenue Load Obligation, which will be defined as follows:

Each Market Participant shall have for each hour a Marginal Loss Revenue Load Obligation at each Location equal to the Real-Time Load Obligation adjusted by any energy related internal Real-Time bilateral transactions at that Location that the parties to those bilateral transactions have elected to include in their Marginal Loss Revenue Load Obligation for the purpose of allocating Day-Ahead Loss Revenue and Real-Time Loss Revenue.¹²

Unlike Real-Time Adjusted Load Obligation, which as discussed above must continue to include all bilaterals entered into the ISO's Settlement Market System, the new Marginal Loss Revenue Load Obligation will give Market Participants the choice to include or not include each internal bilateral transaction for energy in the allocation of Day-Ahead Loss Revenue and Real-Time Loss Revenue. By providing this choice, if the energy buyer wants to avoid a decrease in its share of loss revenue, then it can choose, with the energy seller's agreement, to not include the internal bilateral transaction for energy in the allocation of loss revenue.¹³ Hence, even when Market

¹² The Tariff Changes include revisions to Sections III.3.2.1(h) and III.3.2.1(m) to reflect the use of the new allocator. In addition, Marginal Loss Revenue Load Obligation is being added as a new defined term in Section I of the ISO Tariff.

¹³ The ISO's Settlement Market System Internal Bilateral Transaction User Interface will include a checkbox or similar mechanism that will allow the Market Participant submitting the transaction to elect the option of including it in the allocation of loss revenue. The option will be provided for each energy-related bilateral transaction, and may be elected for some but not for others, as confirmed by both

Participants choose not to include their internal bilateral transaction for energy in the allocation of loss revenue, they will still be able to enter into and settle that transaction by using the ISO's Settlement Market System if they so choose, without causing the effect described above.

V. STAKEHOLDER PROCESS

At its May 11-12, 2010 meeting, the Markets Committee voted unanimously by a show of hands to recommend Participants Committee approval of the Tariff Changes. That recommendation was placed on the Consent Agenda for the Participants Committee, and the Tariff Changes were approved by the Participants Committee at its June 4, 2010 meeting.¹⁴

VI. REQUESTED EFFECTIVE DATE

If accepted by the Commission, the ISO will implement the Tariff Changes at the same time as the amendments to the ISO New England Financial Assurance and Billing Policies (the "Policies") filed in Docket No. ER10-942-000, which were accepted in part and rejected in part by the Commission on July 15, 2010.¹⁵ Accordingly, the Filing Parties request that the Tariff Changes become effective on or after December 1, 2010, with 60 days' notice to be provided by the ISO, which is the same effective date that was accepted for those amendments to the Policies that the Commission found to be just and reasonable.¹⁶

VII. ADDITIONAL SUPPORTING INFORMATION

Section 35.13 of the Commission's regulations generally requires public utilities to file certain cost and other information related to an examination of traditional cost-of-service rates.¹⁷ However, the Tariff Changes do not modify a traditional "rate" and the ISO is not a traditional investor-owned utility. Therefore, to the extent necessary, the Filing Parties request waiver of

parties to each transaction. The counterparty will be able to see the selected option before the transaction is confirmed. A counterparty that does not want to consent to the selected option may choose not to confirm the transaction.

¹⁴ The Consent Agenda for a Participants Committee meeting, similar to the Consent Agenda for a Commission open meeting, is a group of actions (each recommended by a Technical Committee or subgroup established by the Participants Committee) to be taken by the Participants Committee through approval of a single motion at a meeting. All recommendations voted on as part of the Consent Agenda are deemed to have been voted on individually and independently. The Participants Committee's approval of the June 4, 2010 Consent Agenda included its support for the Tariff Changes.

¹⁵ *ISO New England Inc. and New England Power Pool*, 132 FERC ¶ 61,046 (2010).

¹⁶ *Id.*

¹⁷ 18 C.F.R. § 35.13 (2009).

Section 35.13 of the Commission's regulations. Notwithstanding their request for waiver, the Filing Parties submit the additional information enumerated below in substantial compliance with relevant provisions of Section 35.13.

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

- ♦ This transmittal letter;
- ♦ Attachment 1: Tariff sheets reflecting in blackline the Tariff Changes effected by this filing;
- ♦ Attachment 2: Clean Tariff sheets incorporating the Tariff Changes;
- ♦ Attachment 3: Testimony of Jonathan B. Lowell, solely sponsored by the ISO; and
- ♦ 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 e-mailed.

35.13(b)(2) – As noted above, the Filing Parties request that the Tariff Changes submitted with this filing become effective on or after December 1, 2010, with 60 days' notice.

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 copy of this transmittal letter and the accompanying materials have also been sent electronically to the governors and electric utility regulatory agencies for the six New England states that comprise the New England Control Area, and to the New England Conference of Public Utility Commissioners ("NECPUC"). The names and e-mail 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 this transmittal letter.

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

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

35.13(b)(7) - The Filing Parties have no 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.

VIII. CONCLUSION

For the foregoing reasons, the Filing Parties respectfully request that the Commission approve the Tariff Changes as described herein without condition or change.

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Its Attorneys

Dated: August 5, 2010

Attachment 1

Components of the nodal LMPs that comprise the Hub Price or Zonal Price, which Loss Components are averaged or weighted in the same way that nodal LMPs are averaged to determine Hub Price or weighted to determine Zonal Price.

Loss of Load Expectation (LOLE) is the probability of disconnecting non-interruptible customers due to a resource deficiency.

Marginal Loss Revenue Load Obligation is defined in Section III.3.2.1(b)(v) of Market Rule 1.

Market Efficiency Transmission Upgrade is defined as those additions and upgrades that are not related to the interconnection of a generator, and, in the ISO's determination, are designed to reduce bulk power system costs to load system-wide, where the net present value of the reduction in bulk power system costs to load system-wide exceeds the net present value of the cost of the transmission addition or upgrade. For purposes of this definition, the term "bulk power system costs to load system-wide" includes, but is not limited to, the costs of energy, capacity, reserves, losses and impacts on bilateral prices for electricity.

Market Participant is a participant in the New England Markets (including a FTR-Only Customer and/or a DRP-Only Customer and/or an ODR-Only Customer) that has executed a Market Participant Service Agreement, or on whose behalf an unexecuted Market Participant Service Agreement has been filed with the Commission.

Market Participant Obligations is defined in Section III.B.1.1 of Appendix B of Market Rule 1.

Market Participant Service Agreement (MPSA) is an agreement between the ISO and a Market Participant, in the form specified in Attachment A or Attachment A-1 to the Tariff, as applicable.

Issued by: Raymond W. Hepper, Effective: With notice, on or after December 1, 2010~~January 24, 2010~~
Vice President and General Counsel

Issued on: August 5, 2010~~October 26, 2009~~

any applicable energy related internal Real-Time bilateral transactions at that Location.

- (iv) **Real-Time Locational Adjusted Net Interchange** – Each Market Participant shall have for each hour a Real-Time Locational Adjusted Net Interchange at each Location equal to the Real-Time Adjusted Load Obligation plus the Real-Time Generation Obligation at that Location.

- (v) **Marginal Loss Revenue Load Obligation** – Each Market Participant shall have for each hour a Marginal Loss Revenue Load Obligation at each Location equal to the Real-Time Load Obligation adjusted by any energy related internal Real-Time bilateral transactions at that Location that the parties to those bilateral transactions have elected to include in their Marginal Loss Revenue Load Obligation for the purpose of allocating Day-Ahead Loss Revenue and Real-Time Loss Revenue.

Market Participant's pro rata share of the sum of all Market Participants' Marginal Loss Revenue ~~Real-Time Adjusted~~ Load Obligations.

- (i) For each hour, the ISO will determine the excess or deficiency in Loss Revenue associated with the Real-Time Energy Market. The Real-Time Loss Revenue shall be equal to the sum of all Market Participants' Real-Time Energy Market Deviation Energy Charge/Credit and Real-Time Energy Market Deviation Loss Charge/Credit plus Non-Market Participant Transmission Customer loss costs. The ISO will then adjust Real-Time Loss Revenue to account for Inadvertent Energy Revenue, as calculated under Section III.3.2.1(k) and Emergency transactions as described under Section III.4.3(a).
- (j) Non-Market Participant Transmission Customer loss costs shall be assessed for transmission use scheduled in the

- (m) For each hour for each Market Participant, the ISO shall calculate a Real-Time payment or charge associated with the excess or deficiency in Real-Time Loss Revenue (Section III.3.2.1(i)). The Real-Time Loss Revenue Charges or Credits shall be equal to the Real-Time Loss Revenue multiplied by the Market Participant's pro rata share of the sum of all Market Participants' Marginal Loss Revenue ~~Real-Time Adjusted~~ Load Obligations.

III.3.2.2 Regulation.

- (a) Each Market Participant shall have an hourly Regulation obligation equal to its pro rata share of the New England Control Area Regulation requirements for the hour, based on the Market Participant's total Real-Time Load Obligation in the New England Control Area for the hour. A Market Participant that does not meet its hourly

Attachment 2

Components of the nodal LMPs that comprise the Hub Price or Zonal Price, which Loss Components are averaged or weighted in the same way that nodal LMPs are averaged to determine Hub Price or weighted to determine Zonal Price.

Loss of Load Expectation (LOLE) is the probability of disconnecting non-interruptible customers due to a resource deficiency.

Marginal Loss Revenue Load Obligation is defined in Section III.3.2.1(b)(v) of Market Rule 1.

Market Efficiency Transmission Upgrade is defined as those additions and upgrades that are not related to the interconnection of a generator, and, in the ISO's determination, are designed to reduce bulk power system costs to load system-wide, where the net present value of the reduction in bulk power system costs to load system-wide exceeds the net present value of the cost of the transmission addition or upgrade. For purposes of this definition, the term "bulk power system costs to load system-wide" includes, but is not limited to, the costs of energy, capacity, reserves, losses and impacts on bilateral prices for electricity.

Market Participant is a participant in the New England Markets (including a FTR-Only Customer and/or a DRP-Only Customer and/or an ODR-Only Customer) that has executed a Market Participant Service Agreement, or on whose behalf an unexecuted Market Participant Service Agreement has been filed with the Commission.

Market Participant Obligations is defined in Section III.B.1.1 of Appendix B of Market Rule 1.

Market Participant Service Agreement (MPSA) is an agreement between the ISO and a Market Participant, in the form specified in Attachment A or Attachment A-1 to the Tariff, as applicable.

any applicable energy related internal Real-Time bilateral transactions at that Location.

- (iv) **Real-Time Locational Adjusted Net Interchange** – Each Market Participant shall have for each hour a Real-Time Locational Adjusted Net Interchange at each Location equal to the Real-Time Adjusted Load Obligation plus the Real-Time Generation Obligation at that Location.
- (v) **Marginal Loss Revenue Load Obligation** – Each Market Participant shall have for each hour a Marginal Loss Revenue Load Obligation at each Location equal to the Real-Time Load Obligation adjusted by any energy related internal Real-Time bilateral transactions at that Location that the parties to those bilateral transactions have elected to include in their Marginal Loss Revenue Load Obligation for the purpose of allocating Day-Ahead Loss Revenue and Real-Time Loss Revenue.

Market Participant's pro rata share of the sum of all Market Participants' Marginal Loss Revenue Load Obligations.

- (i) For each hour, the ISO will determine the excess or deficiency in Loss Revenue associated with the Real-Time Energy Market. The Real-Time Loss Revenue shall be equal to the sum of all Market Participants' Real-Time Energy Market Deviation Energy Charge/Credit and Real-Time Energy Market Deviation Loss Charge/Credit plus Non-Market Participant Transmission Customer loss costs. The ISO will then adjust Real-Time Loss Revenue to account for Inadvertent Energy Revenue, as calculated under Section III.3.2.1(k) and Emergency transactions as described under Section III.4.3(a).
- (j) Non-Market Participant Transmission Customer loss costs shall be assessed for transmission use scheduled in the

-
- (m) For each hour for each Market Participant, the ISO shall calculate a Real-Time payment or charge associated with the excess or deficiency in Real-Time Loss Revenue (Section III.3.2.1(i)). The Real-Time Loss Revenue Charges or Credits shall be equal to the Real-Time Loss Revenue multiplied by the Market Participant's pro rata share of the sum of all Market Participants' Marginal Loss Revenue Load Obligations.

III.3.2.2 Regulation.

- (a) Each Market Participant shall have an hourly Regulation obligation equal to its pro rata share of the New England Control Area Regulation requirements for the hour, based on the Market Participant's total Real-Time Load Obligation in the New England Control Area for the hour. A Market Participant that does not meet its hourly

Attachment 3

1 investment opportunities in competitive electricity markets, and 18 years with the
2 New England Electric System with responsibilities for resource planning and
3 portfolio management. I have testified before state regulatory commissions and
4 siting councils on issues including resource economics, integrated resource
5 planning and portfolio design and optimization, and have recently provided
6 testimony to the Commission supporting various changes to ISO New England's
7 Market Rule 1, including changes to modify the treatment of pumped storage
8 facilities with regard to the allocation of local second contingency protection costs
9 in the New England markets, and rules to implement a pilot program to evaluate
10 the ability of non-traditional resources to provide regulation services.

11

12 I hold a Sc.B. in Applied Mathematics from Brown University, and an MBA from
13 Worcester Polytechnic Institute.

14

15 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
16 **PROCEEDING?**

17 A: The purpose of this testimony is to explain Tariff Changes under which Market
18 Participants will have the option to include or not include internal bilateral
19 transactions for energy in the calculation of their allocated share of loss revenue.

20

1 **II. DISCUSSION OF TARIFF CHANGES**

2 **Q: PLEASE EXPLAIN WHY THE ISO IS PROVIDING MARKET**
3 **PARTICIPANTS WITH THE OPTION TO INCLUDE OR NOT INCLUDE**
4 **INTERNAL BILATERAL TRANSACTIONS FOR ENERGY IN THE**
5 **CALCULATION OF THEIR ALLOCATED SHARE OF LOSS REVENUE.**

6 A: Market Participants that enter into internal bilateral transactions for energy may
7 do so by using the ISO's Settlement Market System. The use of the ISO's
8 Settlement Market System is optional, but can be a useful tool for Market
9 Participants. In the last few years, however, the number of internal bilateral
10 transactions for energy entered into and settled by using the ISO's Settlement
11 Market System has decreased. Some Market Participants have indicated that they
12 do not use the ISO's Settlement Market System because, as explained below,
13 doing so has an effect on their allocated share of loss revenue. To increase the
14 usefulness of the ISO's Settlement Market System, the ISO and stakeholders
15 agreed to add a functionality that will allow Market Participants to choose
16 whether or not to include each internal bilateral transaction for energy in the
17 calculation of their allocated share of loss revenue.

18 **Q: HOW DOES THE ISO CALCULATE THE AMOUNT OF LOSS**
19 **REVENUE TO BE ALLOCATED AMONG MARKET PARTICIPANTS?**

20 A: Market Participants are allocated shares of a loss revenue fund that results from
21 the settlement of the energy markets. By way of background, the energy markets
22 are settled each hour by determining the charges and credits at the applicable

1 Locational Marginal Price (“LMP”) for every Market Participant at every pricing
2 location in New England. The LMP has three components: energy, congestion,
3 and losses. Loss revenue results from the settlement of the LMP’s energy and
4 loss components. Generally, credits and charges for the energy component of the
5 LMP do not net to zero. This is because cleared generation does not equal cleared
6 demand due to physical losses on the transmission system and, consequently, the
7 settlement of the LMP’s energy component results in under-collections. On the
8 other hand, the settlement of the loss component is designed to result in over-
9 collections. The over-collections from the loss component are used to offset the
10 under-collections from the energy component, and any amount that remains after
11 netting is credited to a loss revenue fund.

12 **Q: HOW IS THE LOSS REVENUE FUND ALLOCATED UNDER THE**
13 **CURRENT RULES?**

14 A: Currently, the loss revenue fund is allocated to all Market Participants based on an
15 allocator called Real-Time Adjusted Load Obligation. A Market Participant’s
16 Real-Time Adjusted Load Obligation for each hour at each Location equals that
17 Market Participant’s Real-Time Load Obligation adjusted by any internal Real-
18 Time bilateral transactions for energy at that Location that have been entered into
19 the ISO’s Settlement Market System.

1 **Q: WHAT IS THE EFFECT OF USING REAL-TIME ADJUSTED LOAD**
2 **OBLIGATION TO ALLOCATE LOSS REVENUE?**

3 Generally, an internal bilateral transaction for energy results in an increase to the
4 energy seller's Real-Time Adjusted Load Obligation and a decrease in the energy
5 buyer's Real-Time Adjusted Load Obligation. In turn, because Real-Time
6 Adjusted Load Obligation is used to allocate loss revenue, while the energy
7 seller's share of loss revenue increases, the energy buyer's share of loss revenue
8 decreases. In order to avoid this result, some Market Participants enter into and
9 settle their internal bilateral transactions for energy without using the ISO's
10 Settlement Market System.

11 **Q: COULD THIS BE ADDRESSED BY REVISING THE DEFINITION OF**
12 **REAL-TIME LOAD OBLIGATION?**

13 A: No. Simply modifying the current allocator, Real-Time Adjusted Load
14 Obligation, to allow Markets Participants to elect whether to include internal
15 bilateral transactions for energy in the calculation of their allocated share of loss
16 revenue would not work because that allocator is also used in other settlements
17 calculations, such as Real-Time Locational Adjusted Net Interchange and Real-
18 Time Adjusted Load Obligation Deviation, which do not need to be modified.

19 **Q: HOW DO THE TARIFF CHANGES ADDRESS THE ISSUE?**

20 A: Under the Tariff Changes, the allocation of loss revenue will be based on a new
21 allocator called Marginal Loss Revenue Load Obligation, which will be defined

1 as follows: “[e]ach Market Participant shall have for each hour a Marginal Loss
2 Revenue Load Obligation at each Location equal to the Real-Time Load
3 Obligation adjusted by any energy related internal Real-Time bilateral
4 transactions at that Location that the parties to those bilateral transactions have
5 elected to include in their Marginal Loss Revenue Load Obligation for the
6 purpose of allocating Day-Ahead Loss Revenue and Real-Time Loss Revenue.”

7 Unlike Real-Time Adjusted Load Obligation, which as discussed above must
8 continue to include all bilaterals entered into the ISO’s Settlement Market System,
9 the new Marginal Loss Revenue Load Obligation will give Market Participants
10 the choice to include or not include each internal bilateral transaction for energy
11 in the allocation of Day-Ahead Loss Revenue and Real-Time Loss Revenue. By
12 providing this choice, if the energy buyer wants to avoid a decrease in its share of
13 loss revenue, then it can choose, with the energy seller’s agreement, to not include
14 the internal bilateral transaction for energy in the allocation of loss revenue.
15 Hence, even when Market Participants choose not to include their internal
16 bilateral transaction for energy in the allocation of loss revenue, they will still be
17 able to enter into and settle that transaction by using the ISO’s Settlement Market
18 System if they so choose, without causing the effect described above.

1 **Q: WHAT MECHANISM WILL THE ISO USE TO PROVIDE MARKET**
2 **PARTICIPANTS WITH THE CHOICE OF INCLUDING OR NOT**
3 **INCLUDING INTERNAL BILATERAL TRANSACTIONS FOR ENERGY**
4 **IN THEIR ALLOCATION OF LOSS REVENUE?**

5 A: The ISO's Settlement Market System Internal Bilateral Transaction User Interface
6 will include a checkbox or similar mechanism that will allow the Market
7 Participant submitting the transaction to elect the option of including it in the
8 allocation of loss revenue. The option will be provided for each energy-related
9 bilateral transaction, and may be elected for some but not for others, as confirmed
10 by both parties to each transaction. The counterparty will be able to see the
11 selected option before the transaction is confirmed. A counterparty that does not
12 want to consent to the selected option may choose not to confirm the transaction.

13 **Q: DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

14 A: Yes.

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

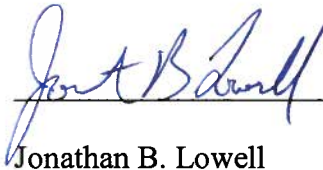
2

3 Executed on August 2, 2010.

4

5

6



7

Jonathan B. Lowell

8

Principal Analyst

9

10 Commonwealth of Massachusetts

11

Hampden ss.

12

13

On this 2nd day of August, 2010, before me, the undersigned notary public, personally

14

appeared Jonathan B. Lowell, proved to me through satisfactory evidence of personal

15

knowledge of identity, to be the person who signed the preceding or attached document

16

in my presence, and who swore or affirmed to me that the contents of the document are

17

truthful and accurate to the best of his knowledge or belief.

18

19



20

Linda Morrison, Notary Public

21

My Commission Expires: 01/28/2011

Attachment 4

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