



July 15, 2010

VIA HAND DELIVERY

Honorable 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 seventh 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 PP 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. 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, based on its discussion of regional priorities for the 2010-2011 period with stakeholders, currently expects to initiate the stakeholder review of financial assurance policy alternatives during the fourth quarter of 2010. Corresponding ISO Tariff changes would be filed with the Commission 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-2012. This would

mean that the first LFTR auction could be administered no earlier than the third quarter of 2012 for LFTRs that would be effective starting with the 2013 calendar year.

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 of replacing Qualified Upgrade Awards with Incremental ARR for entities that have paid for transmission upgrades 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.

Several Market Participants have asked the ISO to determine if it might be possible to implement the replacement of Qualified Upgrade Awards with Incremental ARRs prior to the implementation of Long Term FTRs. While the Market Rules do not create impediments to a staged implementation, the software tools required to conduct the Qualified Upgrade Award to Incremental ARR conversion would only become available as part of the implementation of systems to support LFTRs or as part of a separate stand-alone development effort that would become obsolete when the LFTR systems are in place. If implemented on a stand-alone basis, every effort would be made to reuse the developed technology in the LFTR implementation, if and as appropriate, but early implementation of Incremental ARRs is not considered a practical alternative unless done as part of other modifications to the existing FTR systems.

ISO development resource constraints arise from scheduled work to implement several high-priority projects. Following implementation of the 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 ongoing modification of existing infrastructure and development of new infrastructure to support FCM enhancements and design reforms. 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. After stakeholder review and Commission acceptance of the revised of financial assurance policy is completed, the ISO can initiate the estimated 18-month LFTR implementation process. As discussed in the ISO's 2010 Wholesale Markets Plan, the ISO has also committed development resources to additional critical projects and market enhancements during this same 2011 timeframe, including price-responsive demand, Net Commitment-Period Compensation restructuring, real-time reoffers, pricing of Demand Response Program activation and non-market operator actions, integration of wind resources, and pricing of congestion at External Nodes.

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.

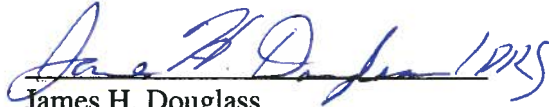
III. CONCLUSION

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. Electronic 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

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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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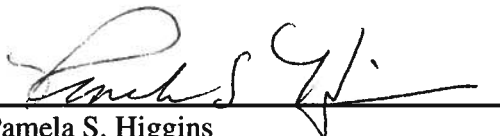
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CERTIFICATE OF SERVICE

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 July, 2010.

A handwritten signature in cursive script, appearing to read "Pamela S. Higgins", is written over a horizontal line.

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