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July 9, 2010

By Messenger

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

Re: Docket No. ER10-1250-___; Errata to the Informational Filing of Contract between ISO
New England Inc. and Potomac Economics, Ltd.

Dear Secretary Bose:

On May 14, 2010, ISO New England Inc. (the "ISO") submitted in the docket referenced above as an informational filing Amendment No. 1 to its contract with its External Market Monitor, Potomac Economics, Ltd. The ISO has since discovered the word "exploitation" was misspelled in Exhibit A ("Scope of Work"), Section B(i) of the contract. Please accept the enclosed corrected version of the contract amendment (Attachment 1), plus a corrected, blacklined version of the Scope of Work demonstrating the changes made by Amendment No. 1 (Attachment 2).

An electronic copy of this filing is being sent to the Governance Participants, as well as the governors and utility regulatory agencies in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont listed in Attachment 3.

Sincerely,



Daniel R. Simon
Counsel for ISO New England Inc.

DRS/

Enclosure

cc: Governance Participants; Governors and Utility Regulatory Agencies listed in Attachment 3

DMEAST #12682725 v1

Attachment 1

**AMENDMENT NO. 1 TO SERVICES AGREEMENT BETWEEN
POTOMAC ECONOMICS, LTD. AND ISO NEW ENGLAND INC.**

This AMENDMENT NO. 1 (the "Amendment") is dated as of January 21, 2010 by and between POTOMAC ECONOMICS, LTD. (the "External Market Monitor") and ISO NEW ENGLAND INC. ("ISO-NE").

WHEREAS, reference is hereby made to that certain Services Agreement effective January 1, 2009 between the External Market Monitor and ISO-NE (the "Agreement"); and

WHEREAS, the parties have agreed that the Agreement should be amended in order to comply with the January 21, 2010 Order of the Federal Energy Regulatory Commission regarding ISO-NE's compliance with Order No. 719; and

WHEREAS, capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Agreement.

NOW THEREFORE, in consideration of the agreements of the parties, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties mutually covenant and agree as follows:

1. The Agreement, this Amendment, and all previous and future amendments to the Agreement may be filed with the Federal Energy Regulatory Commission.
2. All references to the "Independent Market Monitoring Unit" or "IMMU" in the Agreement shall be changed to "External Market Monitor."
3. Exhibit A of the Agreement shall be replaced with the Scope of Work attached as Exhibit A hereto, and said Scope of Work shall be made part of the Agreement as if fully set forth therein.
4. All other terms and conditions of the Agreement not specifically modified herein shall remain in full force and effect.
5. This Amendment may be executed in counterparts.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 1 to be duly executed as of the date first above-written.

POTOMAC ECONOMICS, LTD.

ISO NEW ENGLAND INC.

By: _____

Name:

Title:

By: _____

Robert Ludlow

Vice President and Chief Financial
Officer

EXHIBIT A

SCOPE OF WORK

Capitalized terms not otherwise defined in the Agreement or this Scope of Work shall have the meanings set forth in the Participants Agreement. As set forth in Section 9.4.5 of the Participants Agreement, any limitation or modification to this Scope of Work shall be subject to the prior approval of the FERC.

A. REPORTING RELATIONSHIP

The External Market Monitor reports directly to the Markets Committee of the ISO-NE Board of Directors. The External Market Monitor will attend all meetings of the Markets Committee (including those held with Governance Participants) and report on the performance of the markets and on market power mitigation. The External Market Monitor may be asked to participate in preparatory meetings with ISO-NE staff regarding related issues. The External Market Monitor shall submit to the Office of the General Counsel for distribution to the Markets Committee, eight (8) days in advance of each regularly-scheduled meeting of the Markets Committee or at such other interval as the parties may agree, a set of PowerPoint slides in a form to be agreed by the parties.

B. REQUIRED FUNCTIONS OF THE EXTERNAL MARKET MONITOR PER THE PARTICIPANTS AGREEMENT

As set out in Section 9.4.3 of the Participants Agreement, the External Market Monitor shall undertake the following functions:

(i) Review the competitiveness of the New England Electricity Markets, the impact that the Market Rules and/or changes to the Market Rules will have on the New England Markets and the impact that ISO-NE's actions have had on the New England Markets. In the event that the External Market Monitor uncovers problems with the New England Markets, the External Market Monitor shall promptly inform the Commission, the Commission's Office of Energy Market Regulation staff, ISO-NE Board, the public utility commissions for each of the six New England states, and the Governance Participants of its findings in accordance with the procedures outlined in Sections III.A.14 and III.A.15 of Appendix A of the Market Rules, provided that, in the case of Governance Participants and the public utility commissions, information in such findings shall be redacted as necessary to comply with the Information Policy. Notwithstanding the foregoing, in the event the External Market Monitor believes broader dissemination could lead to exploitation, it shall limit distribution of its identifications to ISO-NE and to the Commission, with an explanation of why broader dissemination should be avoided at that time.

(ii) Perform independent evaluations and prepare annual and ad hoc reports on the overall competitiveness and efficiency of the New England Markets or particular aspects of the New England Markets, including the adequacy of the Market Rules on

Monitoring and in accordance with the provisions of Section III.A.12 of Appendix A of the Market Rules. The External Market Monitor shall have the sole discretion to determine whether and when to prepare ad hoc reports and may prepare such reports on its own initiative or pursuant to requests by ISO-NE, state public utility commissions or one or more Governance Participants. Final versions of such reports shall be disseminated contemporaneously to the Commission, the ISO-NE Board, the Governance Participants, and state public utility commissions for each of the six New England states, provided that, in the case of the Governance Participants and public utility commissions, such information shall be redacted as necessary to comply with the Information Policy. Such reports shall, at a minimum, include:

(a) Review and assessment of the practices, Market Rules, procedures, protocols and other activities of ISO-NE insofar as such activities, and the manner in which ISO-NE implements such activities, affect the competitiveness and efficiency of the New England Markets.

(b) Review and assessment of the practices, procedures, protocols and other activities of any ITC or ITCs, transmission provider or similar entity insofar as its activities affect the competitiveness and efficiency of the New England Markets.

(c) Review and assessment of the activities of Governance Participants insofar as these activities affect the competitiveness and efficiency of the New England Markets.

(d) Review and assessment of the effectiveness of the Market Rules on Market Monitoring and Mitigation and the administration of the Market Rules on Market Monitoring and Mitigation by the Internal Market Monitor for consistency and compliance with the terms of the Market Rules on Market Monitoring and Mitigation.

(e) Review and assessment of the relationship of the New England Markets with any ITC or ITCs and with adjacent markets.

The External Market Monitor, subject to confidentiality restrictions, may decide whether and to what extent to share drafts of any report or portions thereof with the Commission, ISO-NE, one or more state public utility commission(s) in New England or Governance Participants for input and verification before the report is finalized. The External Market Monitor shall keep the Governance Participants informed of the progress of any report being prepared pursuant to the terms of this Agreement.

(iii) Conduct evaluations and prepare reports on its own initiative or at the request of others.

(iv) Prepare recommendations to the ISO-NE Board and the Governance Participants on how to improve the overall competitiveness and efficiency of the New

England Markets or particular aspects of the New England Markets, including improvements to the Market Rules on Market Monitoring and Mitigation.

(v) Recommend actions to the ISO-NE Board and the Governance Participants to increase liquidity and efficient trade between regions and improve the efficiency of the New England Markets.

(vi) Review ISO-NE's filings with the Commission from the standpoint of the effects of any such filing on the competitiveness and efficiency of the New England Markets. The External Market Monitor will have the opportunity to comment on any filings under development by ISO-NE and may file comments with the Commission when the filings are made by ISO-NE. The subject of any such comments will be the External Market Monitor's assessment of the effects of any proposed filing on the competitiveness and efficiency of the New England Markets, or on the effectiveness of the Market Rules on Market Monitoring and Mitigation, as appropriate.

(vii) Provide information to be directly included in the monthly market updates that are provided at the meetings of the Governance Participants.

C. ADDITIONAL FUNCTIONS

(i) The External Market Monitor will review the quality and appropriateness of the mitigation conducted by the Internal Market Monitor. In the event that the External Market Monitor discovers problems with the quality or appropriateness of such mitigation, the External Market Monitor shall promptly inform the Commission, the Commission's Office of Energy Market Regulation staff, the ISO Board of Directors, the public utility commissions for each of the six New England states, and the Governance Participants of its findings in accordance with the procedures outlined in Sections III.A.14 and/or III.A.15 of this Appendix A of the Market Rules, provided that in the case of Governance Participants and the public utility commissions, information in such findings shall be redacted as necessary to comply with the Information Policy. Notwithstanding the foregoing, in the event the External Market Monitor believes broader dissemination could lead to exploitation, it shall limit distribution of its identifications to the ISO and to the Commission, with an explanation of why broader dissemination should be avoided at that time.

(ii) The External Market Monitor will review relevant reports and analysis done by ISO-NE staff, and will consult with staff at staff's request, including about general analysis issues, and, per Section 9.4.4(c) of the Participants Agreement, the implementation and application of the Market Rules on Market Monitoring and Mitigation.

(iii) The External Market Monitor will assess the impact of market rules and design on market efficiency within and across control area regions. This includes analysis of and recommendations for addressing interregional market monitoring and seams issues with neighboring electricity markets and control areas. The External Market

Monitor will likely be required to participate in meetings with representatives of other ISOs to seek coordinated market monitoring.

(iv) As set forth in Section 10.4.2 of the Participants Agreement, Governance Participants in the New England markets may request that the External Market Monitor report whether the current market design/rules support efficient and competitive outcomes. If the External Market Monitor determines that the Market Rules do not support competitive outcomes, the External Market Monitor may recommend changes to ISO-NE that will address the problem. However, in all such interactions, the External Market Monitor shall comply with the terms of the Information Policy.

(v) The External Market Monitor shall:

(a) document core business processes (e.g., those deemed critical to performing market monitoring and mitigation functions) with sufficient detail to support the monitoring and mitigation of the New England Markets, including sufficient details on software analytics being utilized;

(b) develop coordinated process flow diagrams supporting business processes performed by the Internal Market Monitor and External Market Monitor, including the transfer of data, information, conclusions and recommendations between the Internal Market Monitor and External Market Monitor; and

(c) perform a “gap analysis” to ensure that all requirements set forth in governing documents are addressed in the written documentation supporting market monitoring and mitigation processes.

Attachment 2

EXHIBIT A

SCOPE OF WORK

Capitalized terms not otherwise defined in the Agreement or this Scope of Work shall have the meanings set forth in the Participants Agreement. As set forth in Section 9.4.5 of the Participants Agreement, any limitation or modification to this Scope of Work shall be subject to the prior approval of the FERC.

A. REPORTING RELATIONSHIP

The IMMUExternal Market Monitor reports directly to the Markets Committee of the ISO-NE Board of Directors. The IMMUExternal Market Monitor will attend all meetings of the Markets Committee (including those held with Governance Participants) and report on the performance of the markets and on market power mitigation. The IMMUExternal Market Monitor may be asked to participate in preparatory meetings with ISO-NE staff regarding related issues. The IMMUExternal Market Monitor shall submit to the Office of the General Counsel for distribution to the Markets Committee, eight (8) days in advance of each regularly-scheduled meeting of the Markets Committee or at such other interval as the parties may agree, a set of PowerPoint slides in a form to be agreed by the parties.

B. REQUIRED FUNCTIONS OF THE IMMUEXTERNAL MARKET MONITOR PER THE PARTICIPANTS AGREEMENT

As set out in Section 9.4.3 of the Participants Agreement, the IMMUExternal Market Monitor shall undertake the following functions:

(i) Review the competitiveness of the New England Electricity ~~Market~~Markets, the impact that the Market Rules and/or changes to the Market Rules will have on the New England ~~Electricity Market~~Markets and the impact that ISO-NE's actions have had on the New England ~~Electricity Market~~Markets. In the event that the IMMUExternal Market Monitor uncovers problems with the New England ~~Electricity Market~~Markets, the IMMUExternal Market Monitor shall promptly inform the Commission, the Commission's Office of Energy Market Regulation staff, ISO-NE Board, statethe public utility commissions for each of the six New England states, and the Governance Participants of its findings in accordance with the procedures outlined in Sections III.A.14 and III.A.15 of Appendix A of the Market Rules, provided that, in the case of Governance Participants and the public utility commissions, information in such findings shall be redacted as necessary to comply with the Information Policy. Notwithstanding the foregoing, in the event the External Market Monitor believes broader dissemination could lead to exploitation, it shall limit distribution of its identifications to ISO-NE and to the Commission, with an explanation of why broader dissemination should be avoided at that time.

(ii) Perform independent evaluations and prepare annual and ad hoc reports on the overall competitiveness and efficiency of the New England ~~Electricity Market~~Markets or particular aspects of the New England ~~Electricity Market~~Markets, including the adequacy of the Market Rules on Monitoring and Mitigation Plan~~in accordance with the provisions of Section III.A.12 of Appendix A of the Market Rules.~~ The ~~IMMU~~External Market Monitor shall have the sole discretion to determine whether and when to prepare ad hoc reports and may prepare such reports on its own initiative or pursuant to requests by ISO-NE, state public utility commissions or one or more Governance Participants. Final versions of such reports shall be disseminated contemporaneously to the Commission, the ISO-NE Board, the Governance Participants, and state public utility commissions for each of the six New England states, provided that, in the case of the Governance Participants and public utility commissions, such information shall be redacted as necessary to comply with the Information Policy. Such reports shall, at a minimum, include:

(a) Review and assessment of the practices, Market Rules, procedures, protocols and other activities of ISO-NE insofar as such activities, and the manner in which ISO-NE implements such activities, affect the competitiveness and efficiency of the New England ~~Electricity Market~~Markets.

(b) Review and assessment of the practices, procedures, protocols and other activities of any ITC or ITCs, transmission provider or similar entity insofar as its activities affect the competitiveness and efficiency of the New England ~~Electricity Market~~Markets.

(c) Review and assessment of the activities of Governance Participants insofar as these activities affect the competitiveness and efficiency of the New England ~~Electricity Market~~Markets.

(d) Review and assessment of the effectiveness of the Market Rules on Market Monitoring and Mitigation Plan and the administration of the Market Rules on Market Monitoring and Mitigation Plan by ISO-NE Staff the Internal Market Monitor for consistency and compliance with the terms of the Market Rules on Market Monitoring and Mitigation Plan.

(e) Review and assessment of the interrelationship relationship of the New England ~~Electricity Market~~Markets with any ITC or ITCs and with adjacent markets.

~~The IMMU in its sole discretion~~The External Market Monitor, subject to confidentiality restrictions, may decide whether and to what extent to share drafts of any report or portions thereof with the Commission, ISO-NE, one or more state public utility commission(s) in New England or Governance Participants for input and verification before the report is finalized. The ~~IMMU~~External Market Monitor shall keep the Governance Participants informed of the progress of any report being prepared pursuant to the terms of this Agreement.

(iii) Conduct evaluations and prepare reports on its own initiative or at the request of others.

(iv) Prepare recommendations to the ISO-NE Board and the Governance Participants on how to improve the overall competitiveness and efficiency of the New England ~~Electricity Market~~Markets or particular aspects of the New England ~~Electricity Market~~Markets, including improvements to the Market Rules on Market Monitoring and Mitigation-Plan.

(v) Recommend actions to the ISO-NE Board and the Governance Participants to increase liquidity and efficient trade between regions and improve the efficiency of the New England ~~Electricity Market~~Markets.

(vi) Review ISO-NE's filings with the Commission from the standpoint of the effects of any such filing on the competitiveness and efficiency of the New England ~~Electricity Markets~~. ~~The External Market~~. ~~The IMMU Monitor~~ will have the opportunity to comment on any filings under development by ISO-NE ~~during the Governance Participant process~~ and may file comments with the Commission when the filings are made by ISO-NE. The subject of any such comments will be the ~~IMMU's~~External Market Monitor's assessment of the effects of any proposed filing on the competitiveness and efficiency of the New England ~~Electricity Market~~Markets, or on the effectiveness of the Market Rules on Market Monitoring and Mitigation-Plan, as appropriate.

(vii) Provide information to be directly included in the monthly market updates that are provided at the meetings of the Governance Participants~~Committee~~.

~~(viii) If and when established, participate in a committee of regional market monitors to review issues associated with interregional transactions, including any barriers to efficient trade and competition.~~

C. ADDITIONAL FUNCTIONS

~~(i) The IMMU will review and discuss with ISO-NE Market Monitoring staff any decision by ISO-NE staff to mitigate bids prior to the imposition of the mitigation. The timing of these decisions requires the IMMU to be available and on-call for consultations at all times. The IMMU may also propose specific mitigation actions to ISO-NE Market Monitoring and Mitigation staff, including those that may require a Section 205 filing.~~

(i) The External Market Monitor will review the quality and appropriateness of the mitigation conducted by the Internal Market Monitor. In the event that the External Market Monitor discovers problems with the quality or appropriateness of such mitigation, the External Market Monitor shall promptly inform the Commission, the Commission's Office of Energy Market Regulation staff, the ISO Board of Directors, the public utility commissions for each of the six New England states, and the Governance Participants of its findings in accordance with the procedures outlined in Sections III.A.14 and/or III.A.15 of this Appendix A of the Market Rules, provided that in the case of Governance Participants and the public utility commissions, information in such findings shall be redacted as necessary to comply with the Information Policy. Notwithstanding the foregoing, in the event the External Market Monitor believes broader dissemination could lead to exploitation, it shall limit distribution of its identifications to the ISO and to the Commission, with an explanation of why broader dissemination should be avoided at that time.

(ii) The ~~IMMU~~External Market Monitor will review relevant reports and analysis done by ISO-NE staff, and will consult with staff at staff's request, including about general analysis issues, ~~specific market monitoring and mitigation activities,~~ and, per Section 9.4.4(c) of the Participants Agreement, the implementation and application of the Market Rules on Market Monitoring and Mitigation-Plan.

(iii) The ~~IMMU~~External Market Monitor will assess the impact of market rules and design on market efficiency within and across control area regions. This includes analysis of and recommendations for addressing interregional market monitoring and seams issues with neighboring electricity markets and control areas. The ~~IMMU~~External Market Monitor will likely be required to participate in meetings with representatives of other ISOs to seek coordinated market monitoring.

(iv) As set forth in Section 10.4.2 of the Participants Agreement, Governance Participants in the New England markets may request that the ~~IMMU~~External Market Monitor report whether the current market design/rules support efficient and competitive outcomes. If the ~~IMMU~~External Market Monitor determines that the Market Rules do not support competitive outcomes, the ~~IMMU~~External Market Monitor may recommend changes to ISO-NE that will address the problem. However, in all such interactions, the ~~IMMU~~External Market Monitor shall comply with the terms of the Information Policy.

(v) The ~~IMMU~~External Market Monitor shall:

(a) document core business processes (e.g., those deemed critical to performing market monitoring and mitigation functions) with sufficient detail to support the monitoring and mitigation of the New England ~~Electricity~~ MarketMarkets, including sufficient details on software analytics being utilized;

(b) develop coordinated process flow diagrams supporting business processes performed by ~~ISO-NE~~the Internal Market Monitoring staff ~~Monitor~~ and ~~IMMU~~External Market Monitor, including the transfer of data, information,

conclusions and recommendations between ~~ISO-NE~~the Internal Market
~~Monitoring staff~~Monitor and ~~IMMU~~External Market Monitor; and

(c) perform a “gap analysis” to ensure that all requirements set forth in governing documents are addressed in the written documentation supporting market monitoring and mitigation processes.

Attachment 3

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