May 27, 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. and New England Power Pool,
Docket No. ER10-_____-000, Various Revisions to the ISO New England Tariff

Dear Secretary Bose and Deputy Secretary Davis:

Pursuant to Section 205 of the Federal Power Act ("FPA"),[1] ISO New England Inc. (the "ISO") and the New England Power Pool Participants Committee ("NEPOOL") (together, the "Filing Parties") hereby submit to the Federal Energy Regulatory Commission ("FERC" or "Commission") revisions to the Forward Capacity Market ("FCM")[2] rules (the "FCM Rule Changes"), as well as a revision to Section III.12.7 of Market Rule 1 (the "ICR Rule Change") which, as explained in Section III.A below, is a companion revision to one of the FCM Rule Changes submitted in this filing.[3] The FCM Rule Changes and the ICR Rule Change are collectively referred to as the "Tariff Changes."[4] The Filing Parties request an effective date of August 1, 2010 for the Tariff Changes described herein.

Each of the Tariff Changes filed herewith is discussed in more detail below. The FCM Rule Changes are also explained in the Testimony of Janine Dombrowski (which is Attachment

[1] 16 U.S.C. § 824d (2000).

[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 "Tariff").

[3] *ISO New England Inc.*, 119 FERC ¶ 61,045, *order on reh'g*, 120 FERC ¶ 61,087 (2007).

[4] The new definition of the Handy-Whitman Index (which is explained in Section III.C), and the change to the definition of Lead Market Participant (which is explained in Section III.D) are revisions to Section I of the Tariff and are part of the FCM Rule Changes. All the other FCM Rule Changes and the ICR Rule Change are revisions to Section III of the Tariff, which is Market Rule 1.

3 to this letter and is solely sponsored by the ISO), and the ICR Rule Change is explained in the Testimony of Mark G. Karl (which is Attachment 4 to this letter and is solely sponsored by the ISO). As explained in Section IV below, both the FCM Rule Changes and the ICR Rule Change were supported by the Participants Committee at its meeting on May 7, 2010.

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 420 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,[5] 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:

[5] *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."[7] Under Section 205, the Commission "plays 'an essentially passive and reactive' role"[8] whereby it "can reject [a filing] only if it finds that the changes proposed by the public utility are not 'just and reasonable.'"[9] The Commission limits this inquiry "into whether the rates proposed by a utility

[6] Due to the joint nature of this filing, 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.

[7] *Atlantic City Elec. Co. v. FERC*, 295 F.3d 1, 9 (D.C. Cir. 2002).

[8] *Id.* at 10 (*quoting City of Winnfield v. FERC*, 744 F.2d 871, 876 (D.C. Cir. 1984)).

[9] *Id.* at 9.

are reasonable – and [this inquiry does not] extend to determining whether a proposed rate schedule is more or less reasonable than alternative rate designs."[10] The Tariff Changes filed herein "need not be the only reasonable methodology, or even the most accurate."[11] 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.[12]

III. DISCUSSION OF TARIFF CHANGES

A. Modifying the Qualification Requirements for Existing Import Capacity Resources and the Resource Modeling Assumptions to be used in the Calculation of the Installed Capacity Requirement and the Local Sourcing Requirements

The qualification requirements for import capacity, which depend on whether the import capacity is an Existing Import Capacity Resource or a New Import Capacity Resource, are set forth in Section III.13.1.3 of the FCM rules. If the import is an Existing Import Capacity Resource, then it must follow the qualification process described in Section III.13.1.3.3 of the FCM rules. Pursuant to that provision, the Market Participant submitting each Existing Import Capacity Resource must submit to the ISO: (i) documentation of a multi-year contract entered into before the Existing Capacity Qualification Deadline to provide capacity in the New England Control Area from outside the New England Control Area for a period including the whole Capacity Commitment Period, including documentation of the MW value of the contract; ***or*** (ii) proof of ownership or direct control over one or more External Resources that will be used to back the Existing Import Capacity Resource during the Capacity Commitment Period, together with information to establish the summer and winter ratings of the resource(s) backing the import.

Under the FCM Rule Change, the requirement of a multi-year commitment is being added for import capacity that seeks to qualify as an Existing Import Capacity Resource based on the second option available in Section III.13.1.3.3 (*i.e.*, qualification based on ownership or direct control over the resource(s) backing the import). Specifically, Sections III.13.1.3.1[13] and

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[10] *Cities of Bethany, Bushnell et al. v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir.), *cert. denied*, 469 U.S. 917 (1984) ("*Cities of Bethany*"); *see also ISO New England Inc.*, 114 FERC ¶ 61,315 at P 33 and n.35 (2005), citing *Pub. Serv. Co. of New Mexico v. FERC*, 832 F.2d 1201, 1211 (10th Cir. 1987) and *Cities of Bethany* at 1136.

[11] *Oxy USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995) (citing *Cities of Bethany* at 1136).

[12] *Cf. Southern California Edison Co., et al.*, 73 FERC ¶ 61,219 at 61,608 n.73 (1995) ("Having found the Plan to be just and reasonable, there is no need to consider in any detail the alternative plans proposed by the Joint Protesters.") (citing *Cities of Bethany* at 1136).

[13] Section III.13.1.3.1 currently provides, in relevant part, that "[c]apacity associated with a multi-year contract entered into before the Existing Capacity Qualification Deadline to provide capacity in the New England Control Area from outside of the New England Control Area for a period including the whole Capacity Commitment Period shall participate in the Forward Capacity Auction as an Existing Import Capacity Resource, except that if the import capacity has not cleared in a previous Forward

III.13.1.3.4[14] are being revised to state that capacity from an External Resource that is owned or directly controlled by the Lead Market Participant ***and*** which is committed for at least two whole consecutive Capacity Commitment Periods by the Lead Market Participant in the New Capacity Qualification Package shall participate in the Forward Capacity Auction as an Existing Import Capacity Resource. To implement this change, the ISO will require, in addition to proof of ownership or direct control of the resource(s) backing the import and information to establish the resource's summer and winter ratings, a statement signed by an officer of the Lead Market Participant committing to provide capacity in the New England Control Area for at least two whole consecutive Capacity Commitment Periods, including the whole Capacity Commitment Period for which the ISO is conducting the qualification review, and specifying the duration of the commitment.

It is important to note that, pursuant to the current language in Sections III.13.1.3.1 and III.13.1.3.4, if the Existing Import Capacity Resource has not cleared in a previous Forward Capacity Auction, then the import capacity must participate in the Forward Capacity Auction as a New Import Capacity Resource.[15] As a result, for the first Capacity Commitment Period associated with the resource's multi-year commitment, the resource must qualify as a New Import Capacity Resource. Accordingly, for that first Capacity Commitment Period, the resource must submit a New Capacity Show of Interest Form and a New Capacity Qualification Package as required by Sections III.13.1.1.2.1 and III.13.1.1.2.2 of the FCM rules. In summary, the instant FCM Rule Change serves to clarify that, while New Import Capacity Resources are committed for only one Capacity Commitment Period at a time, Existing Import Capacity Resources are associated with a contract or commitment to provide capacity for more than one Capacity Commitment Period.

The FCM Rule Change described above requires a companion change in Section III.12.7.2(c) of Market Rule 1. Generally, Section III.12.7.2 lists the existing capacity resources, (*i.e.*, generation capacity resources, demand resources, and import capacity resources) that must be used as inputs in the calculation of the Installed Capacity Requirement ("ICR") and the Local Sourcing Requirements ("LSR"). That Section currently provides, *inter alia*, that the resources included in the calculation of ICR and LSR shall include "Import Capacity Resources cleared in previous Forward Capacity Auctions and obligated for the relevant Capacity Commitment

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Capacity Auction, then the import capacity shall participate in the Forward Capacity Auction as a New Import Capacity Resource."

[14] Section III.13.1.3.4 currently provides, in relevant part, that "[f]or capacity associated with a multi-year contract entered into before the New Capacity Qualification Deadline to provide capacity in the New England Control Area from outside the New England Control Area for a period including the whole Capacity Commitment Period, if the import capacity has not cleared in a previous Forward Capacity Auction, then the import capacity shall participate in the Forward Capacity Auction as a New Import Capacity Resource."

[15] *See id.*

Period." This language is being revised to state that the resources included in the calculation of the ICR and the LSR shall include "all Existing Import Capacity Resources backed by a multi-year contract to provide capacity in the New England Control Area, where that multi-year contract requires delivery of capacity for the Commitment Period for which the [ICR] is being calculated." This is appropriate because it better ensures that the calculation of ICR only includes resources committed to New England for the relevant period. If an entity within the New England Control Area enters into a multi-year capacity contract then the Import Capacity Resource can be designated as counting towards meeting the ICR and LSR for the term of the multi-year contract. Thus, the ICR Rule Change makes clear that only those import capacity resources that are backed by a multi-year contract covering the relevant Capacity Commitment Period are to be used as inputs in the calculation of the ICR and LSR.

B. Revising the Formula for Prorationing of Capacity Offered by Certain Import Capacity Resources

Under the current FCM rules, when the Capacity Clearing Price reaches 0.6 times the Cost of New Entry ("CONE"), if the amount offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between an external Control Area and the New England Control Area is greater than that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection), the capacity offered at that price from New Import Capacity Resources and Existing Import Capacity Resources will be prorated as described in Section III.13.2.7.3(c). The amount of capacity that may be offered over an interface by a single resource is not limited to the interface's capacity transfer limit, but rather is only limited by the resource's qualified capacity amounts. This leads to the potentially inequitable situation in which a large resource can ensure a greater share of the capacity ultimately awarded over the interface by offering amounts of capacity in excess of what can possibly be accommodated over the interface. The current prorationing mechanism rewards such resources to the detriment of smaller resources.

To address this issue, the FCM rules are being revised so that the prorationing will not include any offered capacity from a resource that is above the external interface's approved capacity transfer limit. Specifically, language has been added to Section III.13.2.7.3(c) to provide that, if the capacity offered at 0.6 times CONE by any single New Import Capacity Resource or Existing Import Capacity Resource that is not associated with the contracts listed in Section III.13.1.3.3(c) is greater than the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection), then any capacity offered by that resource that is above the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection) shall not be included in the prorationing. In other words, before prorationing, the amount of capacity for such a resource will be reduced to the interface's capacity transfer limit.

C. Adding the Definition of Handy-Whitman Index

In the February 22, 2010 filing in Docket No. ER10-787-000, the Filing Parties included a change to the FCM rules to decouple the Forward Capacity Auction Starting Price from CONE.

Pursuant to that change, the Forward Capacity Auction Starting Price will continue to be set at two times the applicable CONE for three more FCAs. However, the starting price for each Capacity Zone for the FCA associated with the Capacity Commitment Period beginning on June 1, 2016 will be set to $15/kW-month. Thereafter, the Forward Capacity Auction Starting Price will be adjusted annually using a rolling three-year average of the Handy-Whitman Index of Public Utility Construction Costs. In the February 22, 2010 filing letter the Filing Parties committed to file additional detail on the appropriate Handy-Whitman Index that will be relied upon for FCM inflation adjustments.[16]

In its April 23, 2010 order, the Commission accepted the revisions described above and stated that it expects the Filing Parties to file later in 2010 the details regarding the appropriate Handy-Whitman Index to use.[17] Accordingly, the instant filing adds a definition in Section I of the Tariff to provide that "Handy-Whitman Index of Public Utility Construction Costs is the Total Other Production Plant index shown in the Cost Trends of Electric Utility Construction for the North Atlantic Region as published in the Handy-Whitman Index of Public Utility Construction Costs." Furthermore, all references in Section III.13.7 to this index are further clarified by indicating that the value to be used shall be the one that was in effect as of December 31 of the year preceding the Capacity Commitment Period.

D. Clarifying the Definition of Lead Market Participant

The current definition of Lead Market Participant in Section I of the Tariff does not appropriately reflect the meaning of that term as applied in the FCM, and for that reason, the definition is being revised. For purposes other than the FCM, the definition of Lead Market Participant is unchanged – it is the entity authorized to submit Supply Offers or Demand Bids for a Resource and to whom certain Energy TUs are assessed under Schedule 2 of Section IV.A of the Tariff. On the other hand, for purposes of the FCM, the Lead Market Participant is now defined as the entity designated to participate in that market on behalf of an Existing Capacity Resource or a New Capacity Resource.[18]

As reflected in the revised definition described above, in the FCM, the Lead Market Participant is the entity that participates in that market on behalf of a resource and, therefore, it is independent of the resource owner. Accordingly, the references to the resource owner that

[16] *See* February 22, 2010 Filing Letter in Docket No. ER10-787-000 at pp. 6-7.

[17] *See ISO New England Inc. and New England Power Pool Participants Committee*, 131 FERC ¶ 61,065 (2010) at PP 139, 141.

[18] The last sentence in the current definition of Lead Market Participant (*i.e.* "[t]he Lead Market Participant is designated for each Resource that is a Generator Asset or Dispatchable Asset Related Demand during the Asset Registration Process") is being deleted because it simply mentions the registration process that is fully described in the ISO New England Manual for Registration and Performance Auditing ("MRPA") and, therefore, it is unnecessary. The MRPA will become effective on June 1, 2010.

currently exist in the opening paragraphs of Section III.13.7 of the FCM Rules are being replaced with references to the Lead Market Participant for the resource.

E. Revising the Calculation of Load Serving Entities' Capacity Requirement

Under Section III.13.7.3.1 of the FCM rules, the ISO assigns each load serving entity a Capacity Requirement prior to the commencement of each Obligation Month for each Capacity Zone established in the FCA pursuant to Section III.13.2.3.4. The Capacity Requirement for each month and Capacity Zone shall equal the product of: (i) the total of the system-wide Capacity Supply Obligations ("CSOs") plus HQICCs; and (ii) the ratio of the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year ending December 31 of the second year prior to the start of the upcoming Capability Year to the system-wide sum of all load serving entities' annual coincident contributions to the system-wide annual peak load from the calendar year ending December 31 of the second year prior to the start of the upcoming Capability Year.

Also pursuant to current Section III.13.7.3.1, a load serving entity's Capacity Requirement for each month and Capacity Zone shall equal the product of: (i) the Capacity Zone's Capacity Requirement as calculated above and (ii) the ratio of the sum of the load serving entity's annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year ending December 31 of the year prior to the start of the upcoming Capability Year to the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year ending December 31 of the year prior to the start of the upcoming Capability Year.[19]

The FCM Rule Changes include two revisions to these provisions. First, as currently written, the calculation of the Capacity Zone's Capacity Requirement includes the total of the system-wide CSOs as an input in the formula. To address a potential imbalance in the FCM market settlement that could result from the termination (pursuant to Section III.13.3.4(c))[20] of a resource's CSO that has been acquired through a Capacity Supply Obligation Bilateral, the quantity of capacity associated with Capacity Supply Obligation Bilaterals is being excluded from the total system-wide CSOs used in calculating the Capacity Requirement.

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[19] Tariff Section III.13.7.3.1.

[20] Under Section III.13.3.4(c), if the steps described in Sections III.13.3.4(a) and III.13.3.4(b) do not cover the obligation for the Capacity Commitment Period and the Project Sponsor: (i) still has a Capacity Supply Obligation before the resource achieves Commercial Operation; or (ii) has successfully covered its Capacity Supply Obligation for two Capacity Commitment Periods but has not yet achieved Commercial Operation, then the ISO, after consultation with the Project Sponsor, shall have the right, through a filing with the Commission, to terminate the resource's Capacity Supply Obligation for any future Capacity Commitment Periods and the resource's right to any payments associated with that Capacity Supply Obligation in the Capacity Commitment Period, and, upon Commission ruling, the Project Sponsor shall forfeit any financial assurance provided with respect to that Capacity Supply Obligation.

Second, the reference to "the calendar year ending December 31 of the second year prior to the start of the upcoming Capability Year" could be read to imply that peak contribution values from different calendar years will be used, depending on the month within the Capacity Commitment Period in which the calculation is being performed. However, the peak contribution values in the formula should be consistent throughout a Capacity Commitment Period. For that reason, references to "the calendar year ending December 31 of the second year prior to the start of the upcoming Capability Year" are being revised to "the calendar year two years prior to the start of the Capability Year." Similarly, references to "the calendar year ending December 31 of the year prior to the start of the upcoming Capability Year" are being revised to "the calendar year prior to the start of the Capability Year." These changes should remove the potential ambiguity.

IV. STAKEHOLDER PROCESS

The NEPOOL Markets Committee, at its April 13-14, 2010 meeting, voted unanimously to recommend NEPOOL Participants Committee support for the FCM Rule Changes. The NEPOOL Participants Committee approved the FCM Rule Changes at its May 7, 2010 meeting as part of its Consent Agenda.[21] With respect to the ICR Rule Change, the Reliability Committee at its April 26, 2010 meeting voted to recommend its support for this change with no oppositions and only four abstentions (one in the Transmission Sector, one in the Supplier Sector, and two in the Publicly Owned Sector). The Participants Committee, at its May 7, 2010 meeting, voted unanimously with only one abstention to support the ICR Rule Change (with a minor revision from the version that was supported by the Reliability Committee).

V. REQUESTED EFFECTIVE DATE

The Filing Parties request that the Commission permit the Tariff Changes to become effective without suspension or hearing on August 1, 2010.

VI. 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.[22]

[21] 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. In this case, the Participants Committee's approval of the May 7, 2010 Consent Agenda included its support for the FCM Rule Changes. While approval of the May 7 Consent Agenda was with four oppositions and one abstention, those oppositions and abstentions were identified as related to one of the other items on the Consent Agenda. No Participant identified any concerns with the FCM Rule Changes.

[22] 18 C.F.R. § 35.13 (2009).

However, the FCM Rule Changes are associated with the FCM and are not traditional "rates." Further, the Filing Parties are not traditional investor-owned utilities. Therefore, to the extent necessary, the Filing Parties request waiver of 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 changes reflected in this filing;
- Attachment 2: Clean Tariff sheets incorporating the changes reflected in this filing;
- Attachment 3: Testimony of Janine Dombrowski, sponsored solely by the ISO;
- Attachment 4: Testimony of Mark G. Karl, sponsored solely by the ISO; and
- Attachment 5: List of governors and utility regulatory agencies in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont to which a copy of this filing is being e-mailed.

35.13(b)(2) – As noted above, the Filing Parties request that the modifications of the Tariff submitted with this filing become effective on August 1, 2010.

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_prtcpnts_eserved.pdf. A copy of this transmittal letter and the accompanying materials have also been e-mailed 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 5. In accordance with Commission rules and practice, there is no need for the Governance Participants or the entities identified on Attachment 5 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.

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

VII. CONCLUSION

For the foregoing reasons, the Filing Parties respectfully request that the Commission approve the Tariff Changes described herein, to become effective on August 1, 2010, without condition or change.

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Its Attorneys

Dated: May 27, 2010

ATTACHMENT 1

Blacklined Tariff Sheets

Good Utility Practice means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather includes all acceptable practices, methods, or acts generally accepted in the region, including those practices required by Federal Power Act Section 215(a)(4).

Governance Participant is defined in the Participants Agreement.

Grandfathered Agreements (GAs) is a transaction specified in Section II.45 for the applicable period specified in that Section.

Handy-Whitman Index of Public Utility Construction Costs is the Total Other Production Plant index shown in the Cost Trends of Electric Utility Construction for the North Atlantic Region as published in the Handy-Whitman Index of Public Utility Construction Costs.

Highgate Transmission Facilities (HTF) are existing U. S.-based transmission facilities covered under the Agreement for Joint Ownership, Construction and Operation of the Highgate Transmission Interconnection dated as of August 1, 1984 including (1) the whole of a 200 megawatt high-voltage, back-to-back, direct-current converter facility located in Highgate, Vermont and (2) a 345 kilovolt transmission line within Highgate and Franklin, Vermont (which connects the converter facility at the U.S.-Canadian border to a Hydro-Quebec 120 kilovolt line in Bedford, Quebec). The HTF include any upgrades associated with increasing the capacity or changing the physical characteristics of these facilities as defined in the above stated agreement

ISO New England Operating Documents are the Tariff and the ISO New England Operating Procedures.

ISO New England Operating Procedures are the ISO New England Planning Procedures and the operating guides, manuals, procedures and protocols developed and utilized by the ISO for operating the ISO bulk power system and the New England Markets.

ISO New England Planning Procedures are the procedures developed and utilized by the ISO for planning the ISO bulk power system.

ISO New England System Rules are Market Rule 1, the ISO New England Information Policy, the ISO New England Administrative Procedures, the ISO New England Manuals and any other system rules, procedures or criteria for the operation of the New England Transmission System and administration of the New England Markets and the Transmission, Markets and Services Tariff.

ITC Rate Schedule is defined in Section 3.1 of Attachment M to the OATT.

ITC System is defined in Section 2.2 of Attachment M to the OATT.

ITC System Planning Procedures is defined in Section 15.4 of Attachment M to the OATT.

Lead Market Participant, for purposes other than the Forward Capacity Market, is the entity authorized to submit Supply Offers or Demand Bids for a Resource and to whom certain Energy TUs are assessed under Schedule 2 of Section IV.A of the Tariff. For purposes of the Forward Capacity Market, the Lead Market Participant is the entity designated to participate in that market on behalf of an Existing Capacity Resource or a New Capacity Resource.~~The Lead Market Participant is designated for each Resource that is a Generator Asset or Dispatchable Asset Related Demand during the Asset Registration Process.~~

(b) resources cleared in previous Forward Capacity Auctions or obligated for the relevant Capacity Commitment Period,

(c) all Existing Import Capacity Resources backed by a multi-year contract to provide capacity in the New England Control Area, where that multiyear contract requires delivery of capacity for the Commitment Period for which the Installed Capacity Requirement is being calculated~~Import Capacity Resources cleared in previous Forward Capacity Auctions and obligated for the relevant Capacity Commitment Period~~, and

(d) Existing Demand Resources that are qualified to participate in the Forward Capacity Market and New Demand Resources that have cleared in previous Forward Capacity Auctions and obligated for the relevant Capacity Commitment Period and Other Demand Resources in existence during the ICAP Transition Period,

but shall exclude:

(e) capacity associated with Export Bids cleared in previous Forward Capacity Auctions and obligated for the relevant Capacity Commitment Period, and

(f) resources for which Permanent De-list Bids cleared in previous Forward Capacity Auctions.

The rating of Existing Generating Capacity Resources and Existing Import Capacity Resources used in the calculation of the Installed Capacity Requirement, Local Sourcing Requirements and Maximum Capacity Limits shall be the summer Qualified Capacity value of such resources for the relevant Load Zone. The rating of Demand Resources and Other Demand Resources shall be the summer Qualified Capacity value reduced by any reserve margin adjustment factor that is otherwise included in the summer Qualified Capacity value. The rating of resources, except for Demand Resources, cleared in previous Forward Capacity Auctions and obligated for the relevant Capacity Commitment Period shall be based on the amount of Qualified Capacity that cleared in previous Forward Capacity Auctions or obligated for the relevant Capacity Commitment Period. Resources are located within the Load Zones in which they are electrically located as determined during the qualification process.

New Import Capacity Resource. External nodes shall be mapped to Capacity Zones as shown in the following table:

External Node Common Name	Capacity Zone
NB-NE External Node	**Maine**
HQ Phase I/II External Node	**Rest-of-Pool**
Highgate External Node	**Rest-of-Pool**
NY-NE AC External Node	**Rest-of-Pool**
Cross Sound Cable External Node	**CT**

III.13.1.3.1. Definition of Existing Import Capacity Resource. Capacity associated with a multi-year contract entered into before the Existing Capacity Qualification Deadline to provide capacity in the New England Control Area from outside of the New England Control Area for a period including the whole Capacity Commitment Period, or capacity from an External Resource that is owned or directly controlled by the Lead Market Participant and which is committed for at least two whole consecutive Capacity Commitment Periods by the Lead Market Participant in the New Capacity Qualification Package, shall participate in the Forward Capacity Auction as an Existing Import Capacity Resource, except that if that Existing Import Capacity Resource~~the import capacity~~ has not cleared in a previous Forward Capacity Auction, then the import capacity shall participate in the Forward Capacity Auction as a New Import Capacity Resource. For the purposes of the Forward Capacity Auction for the Capacity Commitment Period beginning June 1, 2010, a multi-year contract to provide capacity in the New England Control Area from outside the New England Control Area for a period including the whole Capacity Commitment Period entered into before June 16,

III.13.1.3.4. Definition of New Import Capacity Resource. Capacity not associated with a multi-year contract entered into before the New Capacity Qualification Deadline to provide capacity in the New England Control Area from outside the New England Control Area for the whole Capacity Commitment Period, but that meets the requirements of Section III.13.1.3.5.1, shall participate in the Forward Capacity Auction as a New Import Capacity Resource. For capacity associated with a multi-year contract entered into before the New Capacity Qualification Deadline to provide capacity in the New England Control Area from outside the New England Control Area for a period including the whole Capacity Commitment Period, or capacity from an External Resource that is owned or directly controlled by the Lead Market Participant and which is committed for at least two whole consecutive Capacity Commitment Periods by the Lead Market Participant in the New Capacity Qualification Package, if the import capacity has not cleared in a previous Forward Capacity Auction, then the import capacity shall participate in the Forward Capacity Auction as a New Import Capacity Resource.

III.13.1.3.5. Qualification Process for New Import Capacity Resources. The qualification process for a New Import Capacity Resource, whether backed by a new External Resource, by one or more existing External Resources, or by an external Control Area, shall be the same as the qualification process for a New Generating Capacity Resource, as described in Section III.13.1.1.2, except as follows:

(v) Any election to prorate bid MWs associated with a New Capacity Offer that clears in the Forward Capacity Auction shall also apply in subsequent Forward Capacity Auctions for Capacity Commitment Periods for which the Project Sponsor elected to have the Capacity Supply Obligation and Capacity Clearing Price continue to apply pursuant to Section III.13.1.1.2.2.4 or Section III.13.1.4.2.2.5.

(c) Where the Capacity Clearing Price reaches 0.6 times CONE, if the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between an external Control Area and the New England Control Area is greater than that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection):

(i) the full amount of capacity offered at that price from Existing Import Capacity Resources associated with contracts listed in Section III.13.1.3.3(c) shall clear; and

(ii) the capacity offered at that price from New Import Capacity Resources and Existing Import Capacity Resources other than Existing Import Capacity Resources associated with the contracts listed in Section III.13.1.3.3(c) will be prorated such that the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection) is not exceeded. If the capacity offered at that price by any single New Import Capacity Resource or Existing Import Capacity Resource that is not associated with the contracts listed in Section III.13.1.3.3(c) is greater than the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection), then the capacity offered by that resource that is above the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the

~~(iii) Capacity remaining after the treatment described in Sections III.13.2.7.3(c)(i) and III.13.2.7.3(c)(ii) shall be subject to the proration described in Section III.13.2.7.3(b).~~

case of the HQ Interconnection) shall not be included in the prorationing.

(iii) Capacity remaining after the treatment described in Sections III.13.2.7.3(c)(i) and III.13.2.7.3(c)(ii) shall be subject to the proration described in Section III.13.2.7.3(b).

III.13.2.7.4. Effect of Capacity Rationing Rule on Capacity Clearing Price. Where the requirement that offers and bids clear or not clear in whole (Section III.13.2.6) prohibits the descending clock auction in its normal progression from clearing a Capacity Zone at the precise amount of capacity required, then the auctioneer shall analyze the aggregate supply curve to determine whether to clear more excess capacity at a lower Capacity Clearing Price or to clear less or no excess capacity at a higher Capacity Clearing Price, and shall choose the alternative that results in procuring at least the amount of capacity required while seeking to minimize the total cost for the associated Capacity Commitment Period by enumerating as many combinations of non-rationable offers and bids as practicable. De-list bids that would not be replaced in full upon clearing (Permanent De-List Bids when the Capacity Clearing Price is above 1.25 times CONE, Static De-List Bids, and Export Bids) will not clear if they are below the Capacity Clearing Price. In an import-constrained Capacity Zone, the cost minimization will not consider blocks of capacity not needed to meet the import-constrained Capacity Zone's Local Sourcing Requirement when price separation occurs between the import-constrained Capacity Zone and the Rest-of-Pool Capacity Zone. The cost minimization may result in offers below the Capacity Clearing Price not clearing, and in certain de-list bids (Permanent De-List Bids when the Capacity Clearing Price is equal to or below 1.25 times CONE and Dynamic De-List Bids) below the Capacity Clearing Price clearing.

III.13.2.7.5. Effect of Decremental Repowerings on the Capacity Clearing Price. Where the effect of accounting for certain repowering offers and bids (as described in Section III.13.2.3.2(e)) results in the auction not clearing at the lowest price for the required quantity of capacity, then the auctioneer will conduct additional auction rounds of the Forward Capacity Auction as necessary to minimize total capacity costs.

subject to any availability penalties under Section III.13 of this Tariff by such a request for failure to provide energy from that capacity that is not subject to a Capacity Supply Obligation. If such resource does provide energy from that capacity, the resource shall be paid based on its most recent offer and is eligible for NCPC.

III.13.6.4.1. Real-Time High Operating Limit. For purposes of facilitating ISO requests for energy under Section III.13.6.4, a Market Participant must report an up-to-date Real-Time High Operating Limit value at all times for a resource.

III.13.7. Performance, Payments and Charges in the Forward Capacity Market. During each month within each Capacity Commitment Period ("Obligation Month"), each resource that acquired or shed a Capacity Supply Obligation for that Capacity Commitment Period (or any portion thereof) will be subject to payments, charges, penalties and adjustments for such activity. In addition, all resources with a Capacity Supply Obligation as of the beginning of the Obligation Month shall have their performance measured throughout the month, based on the resource's availability during any Shortage Events in the Obligation Month.

In the event of a change in the Lead Market Participant for~~ownership of~~ a resource that has a Capacity Supply Obligation, the Capacity Supply Obligation shall remain associated with the resource and the new Lead Market Participant for the resource ~~owner~~ shall be bound by all provisions of this Section III.13 arising from such Capacity Supply Obligation. The Lead Market Participant for~~owner of~~ the resource at the start of an Obligation Month shall be responsible for all payments and charges associated with that resource in that Obligation Month.

III.13.7.1. Performance Measures.

III.13.7.1.1. Generating Capacity Resources. During each Capacity Commitment Period, each Generating Capacity Resource having a Capacity Supply Obligation for that Capacity Commitment Period (or any portion thereof) will have its performance measured during each Obligation Month based on the resource's availability during any Shortage Events during the month.

adjustments in Section III.13.7.2.7) or charge during the Capacity Commitment Period as follows:

(a) **Forward Capacity Auction**. For a resource whose offer has cleared in a Forward Capacity Auction, the monthly capacity payment shall equal the product of its cleared capacity (or in the case described in Section III.13.7.1.1.3(i), the lesser of the resource's Capacity Supply Obligation or its audited amount) and the Capacity Clearing Price in the appropriate Capacity Zone in the New England Control Area as adjusted pursuant to Section III.13.2.7.3(b) and as adjusted by applicable indexing for resources with additional Capacity Commitment Period elections pursuant to Section III.13.1.1.2.2.4 in the manner described below (the "FCA Payment"). For a resource that has elected to have the Capacity Clearing Price and the Capacity Supply Obligation apply for more than one Capacity Commitment Period, payments associated with the Capacity Supply Obligation and Capacity Clearing Price (indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period) shall continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which the offer clears, for up to four additional and consecutive Capacity Commitment Periods, in whole Capacity Commitment Period increments only.

(b) **Reconfiguration Auctions**. For a resource whose offer or bid has cleared in an annual or monthly reconfiguration auction, the monthly capacity payment or charge shall be equal to the product of its

Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period, applicable to the Demand Resource for the particular Capacity Commitment Period.

III.13.7.2.7.5.3. Positive Monthly Capacity Variances. With the exception of a Demand Resource that has elected to have the Capacity Supply Obligation and the Capacity Clearing Price applicable to an offer that cleared in the Forward Capacity Auction continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which that offer cleared, if a Demand Resource's Monthly Capacity Variance is a positive value, the Demand Resource shall be eligible to receive a Demand Resource Performance Incentive based on the Monthly Capacity Variance multiplied by the Capacity Clearing Price in the Forward Capacity Auction for the relevant Capacity Commitment Period, provided that the sum of the Demand Resource Performance Penalties in the month is equal to or greater than the sum of the Demand Resource Performance Incentives in the same month. If a Demand Resource that has elected to have the Capacity Supply Obligation and the Capacity Clearing Price applicable to an offer that cleared in the Forward Capacity Auction continue to apply after the Capacity

Commitment Period associated with the Forward Capacity Auction in which that offer cleared has a Monthly Capacity Variance with a positive value, the Demand Resource Performance Incentive for such a Demand Resource shall be set according to the Capacity Clearing Price applicable to the Demand Resource for the particular Capacity Commitment Period, indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period, provided that the sum of the Demand Resource Performance Penalties in the month is equal to or greater than the sum of the Demand Resource Performance Incentives in the same month.

III.13.7.2.7.5.4. Determination of Net Payment. If the sum of the Demand Resource Performance Penalties in a month is less than the sum of the Demand Resource Performance Incentives in the same month, the total amount of Demand Resource Performance Penalties shall be paid on a pro-rata basis, based on the Monthly Capacity Variance to each Demand Resource with a positive Monthly Capacity Variance. The total amount of the Demand Resource Performance Incentives in a month may not exceed the total amount of the Demand Resource Performance Penalties in the same month.

serving entities in this Section III.13.2.5.2.5, less PER adjustments for resources in the zone as defined in Section 13.7.2.7.1.1, adjusted for any Demand Resource Performance Penalties in excess of Demand Resource Performance Incentives as described in Section III.13.7.2.7.5.4, and including any applicable export charges or credits as determined pursuant to Section III.13.7.2.2.A divided by the sum of all Capacity Supply Obligations (except those for resources clearing as Self-Supplied FCA Resources) assumed by resources in the zone. A load serving entity satisfying its Capacity Load Obligation by a Self-Supplied FCA Resource shall not receive a credit for any PER payment for its Capacity Load Obligation so satisfied.

III.13.7.3.1. Calculation of Capacity Requirement and Capacity Load Obligation. The ISO shall assign each load serving entity a Capacity Requirement prior to the commencement of each Obligation Month for each Capacity Zone established in the Forward Capacity Auction pursuant to Section III.13.2.3.4. The Capacity Requirement for each month and Capacity Zone shall equal the product of: (i) the total of the system-wide Capacity Supply Obligations (excluding the quantity of capacity subject to Capacity Supply Obligation Bilaterals) plus HQICCs; and (ii) the ratio of the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year two years~~ending December 31 of the second year~~ prior to the start of the ~~upcoming~~ Capability Year to the system-wide sum of all load serving entities' annual coincident contributions to the system-wide annual peak load from the

calendar year two years~~ending December 31 of the second year~~ prior to the start of the ~~upcoming~~ Capability Year. The following loads are assigned a peak contribution of zero for the purposes of assigning obligations and tracking load shifts: Load associated with pumping of pumped hydro generators, if the resource was pumping; Station service load that is modeled as a discrete Load Asset and the Resource is complying with the maintenance scheduling procedures of the ISO; and Transmission losses associated with delivery of energy over the Control Area tie lines.

A load serving entity's Capacity Requirement for each month and Capacity Zone shall equal the product of: (i) the Capacity Zone's Capacity Requirement as calculated above and (ii) the ratio of the sum of the load serving entity's annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year ~~ending December 31 of the year~~ prior to the start of the ~~upcoming~~ Capability Year to the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year ~~ending December 31 of the year~~ prior to the start of the ~~upcoming~~ Capability Year.

A load serving entity's Capacity Load Obligation shall be its Capacity Requirement, adjusted as appropriate to account for any relevant Capacity Load Obligation Bilaterals, HQICCs, and Self-Supply FCA Resource designations. A Capacity Load Obligation can be a positive or negative value. A Market Participant that is not a load serving entity shall have a Capacity Load Obligation equal to the net obligation resulting from Capacity Load Obligation Bilaterals, HQICC, and Self-Supply FCA Resource designations.

A Demand Resource's Demand Reduction Value will not be reconstituted into the load of the Demand Resource for the Obligation Months in the first three FCA delivery

ATTACHMENT 2

Clean Tariff Sheets

Good Utility Practice means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather includes all acceptable practices, methods, or acts generally accepted in the region, including those practices required by Federal Power Act Section 215(a)(4).

Governance Participant is defined in the Participants Agreement.

Grandfathered Agreements (GAs) is a transaction specified in Section II.45 for the applicable period specified in that Section.

Handy-Whitman Index of Public Utility Construction Costs is the Total Other Production Plant index shown in the Cost Trends of Electric Utility Construction for the North Atlantic Region as published in the Handy-Whitman Index of Public Utility Construction Costs.

Highgate Transmission Facilities (HTF) are existing U. S.-based transmission facilities covered under the Agreement for Joint Ownership, Construction and Operation of the Highgate Transmission Interconnection dated as of August 1, 1984 including (1) the whole of a 200 megawatt high-voltage, back-to-back, direct-current converter facility located in Highgate, Vermont and (2) a 345 kilovolt transmission line within Highgate and Franklin, Vermont (which connects the converter facility at the U.S.-Canadian border to a Hydro-Quebec 120 kilovolt line in Bedford, Quebec). The HTF include any upgrades associated with increasing the capacity or changing the physical characteristics of these facilities as defined in the above stated agreement

ISO New England Operating Documents are the Tariff and the ISO New England Operating Procedures.

ISO New England Operating Procedures are the ISO New England Planning Procedures and the operating guides, manuals, procedures and protocols developed and utilized by the ISO for operating the ISO bulk power system and the New England Markets.

ISO New England Planning Procedures are the procedures developed and utilized by the ISO for planning the ISO bulk power system.

ISO New England System Rules are Market Rule 1, the ISO New England Information Policy, the ISO New England Administrative Procedures, the ISO New England Manuals and any other system rules, procedures or criteria for the operation of the New England Transmission System and administration of the New England Markets and the Transmission, Markets and Services Tariff.

ITC Rate Schedule is defined in Section 3.1 of Attachment M to the OATT.

ITC System is defined in Section 2.2 of Attachment M to the OATT.

ITC System Planning Procedures is defined in Section 15.4 of Attachment M to the OATT.

Lead Market Participant, for purposes other than the Forward Capacity Market, is the entity authorized to submit Supply Offers or Demand Bids for a Resource and to whom certain Energy TUs are assessed under Schedule 2 of Section IV.A of the Tariff. For purposes of the Forward Capacity Market, the Lead Market Participant is the entity designated to participate in that market on behalf of an Existing Capacity Resource or a New Capacity Resource.

(b) resources cleared in previous Forward Capacity Auctions or obligated for the relevant Capacity Commitment Period,

(c) all Existing Import Capacity Resources backed by a multi-year contract to provide capacity in the New England Control Area, where that multiyear contract requires delivery of capacity for the Commitment Period for which the Installed Capacity Requirement is being calculated, and

(d) Existing Demand Resources that are qualified to participate in the Forward Capacity Market and New Demand Resources that have cleared in previous Forward Capacity Auctions and obligated for the relevant Capacity Commitment Period and Other Demand Resources in existence during the ICAP Transition Period,

but shall exclude:

(e) capacity associated with Export Bids cleared in previous Forward Capacity Auctions and obligated for the relevant Capacity Commitment Period, and

(f) resources for which Permanent De-list Bids cleared in previous Forward Capacity Auctions.

The rating of Existing Generating Capacity Resources and Existing Import Capacity Resources used in the calculation of the Installed Capacity Requirement, Local Sourcing Requirements and Maximum Capacity Limits shall be the summer Qualified Capacity value of such resources for the relevant Load Zone. The rating of Demand Resources and Other Demand Resources shall be the summer Qualified Capacity value reduced by any reserve margin adjustment factor that is otherwise included in the summer Qualified Capacity value. The rating of resources, except for Demand Resources, cleared in previous Forward Capacity Auctions and obligated for the relevant Capacity Commitment Period shall be based on the amount of Qualified Capacity that cleared in previous Forward Capacity Auctions or obligated for the relevant Capacity Commitment Period. Resources are located within the Load Zones in which they are electrically located as determined during the qualification process.

New Import Capacity Resource. External nodes shall be mapped to Capacity Zones as shown in the following table:

External Node Common Name	Capacity Zone
NB-NE External Node	**Maine**
HQ Phase I/II External Node	**Rest-of-Pool**
Highgate External Node	**Rest-of-Pool**
NY-NE AC External Node	**Rest-of-Pool**
Cross Sound Cable External Node	**CT**

III.13.1.3.1. Definition of Existing Import Capacity Resource. Capacity associated with a multi-year contract entered into before the Existing Capacity Qualification Deadline to provide capacity in the New England Control Area from outside of the New England Control Area for a period including the whole Capacity Commitment Period, or capacity from an External Resource that is owned or directly controlled by the Lead Market Participant and which is committed for at least two whole consecutive Capacity Commitment Periods by the Lead Market Participant in the New Capacity Qualification Package, shall participate in the Forward Capacity Auction as an Existing Import Capacity Resource, except that if that Existing Import Capacity Resource has not cleared in a previous Forward Capacity Auction, then the import capacity shall participate in the Forward Capacity Auction as a New Import Capacity Resource. For the purposes of the Forward Capacity Auction for the Capacity Commitment Period beginning June 1, 2010, a multi-year contract to provide capacity in the New England Control Area from outside the New England Control Area for a period including the whole Capacity Commitment Period entered into before June 16,

III.13.1.3.4. Definition of New Import Capacity Resource. Capacity not associated with a multi-year contract entered into before the New Capacity Qualification Deadline to provide capacity in the New England Control Area from outside the New England Control Area for the whole Capacity Commitment Period, but that meets the requirements of Section III.13.1.3.5.1, shall participate in the Forward Capacity Auction as a New Import Capacity Resource. For capacity associated with a multi-year contract entered into before the New Capacity Qualification Deadline to provide capacity in the New England Control Area from outside the New England Control Area for a period including the whole Capacity Commitment Period, or capacity from an External Resource that is owned or directly controlled by the Lead Market Participant and which is committed for at least two whole consecutive Capacity Commitment Periods by the Lead Market Participant in the New Capacity Qualification Package, if the import capacity has not cleared in a previous Forward Capacity Auction, then the import capacity shall participate in the Forward Capacity Auction as a New Import Capacity Resource.

III.13.1.3.5. Qualification Process for New Import Capacity Resources. The qualification process for a New Import Capacity Resource, whether backed by a new External Resource, by one or more existing External Resources, or by an external Control Area, shall be the same as the qualification process for a New Generating Capacity Resource, as described in Section III.13.1.1.2, except as follows:

(v) Any election to prorate bid MWs associated with a New Capacity Offer that clears in the Forward Capacity Auction shall also apply in subsequent Forward Capacity Auctions for Capacity Commitment Periods for which the Project Sponsor elected to have the Capacity Supply Obligation and Capacity Clearing Price continue to apply pursuant to Section III.13.1.1.2.2.4 or Section III.13.1.4.2.2.5.

(c) Where the Capacity Clearing Price reaches 0.6 times CONE, if the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between an external Control Area and the New England Control Area is greater than that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection):

(i) the full amount of capacity offered at that price from Existing Import Capacity Resources associated with contracts listed in Section III.13.1.3.3(c) shall clear; and

(ii) the capacity offered at that price from New Import Capacity Resources and Existing Import Capacity Resources other than Existing Import Capacity Resources associated with the contracts listed in Section III.13.1.3.3(c) will be prorated such that the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection) is not exceeded. If the capacity offered at that price by any single New Import Capacity Resource or Existing Import Capacity Resource that is not associated with the contracts listed in Section III.13.1.3.3(c) is greater than the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection), then the capacity offered by that resource that is above the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the

case of the HQ Interconnection) shall not be included in the prorationing.

(iii) Capacity remaining after the treatment described in Sections III.13.2.7.3(c)(i) and III.13.2.7.3(c)(ii) shall be subject to the proration described in Section III.13.2.7.3(b).

III.13.2.7.4. Effect of Capacity Rationing Rule on Capacity Clearing Price. Where the requirement that offers and bids clear or not clear in whole (Section III.13.2.6) prohibits the descending clock auction in its normal progression from clearing a Capacity Zone at the precise amount of capacity required, then the auctioneer shall analyze the aggregate supply curve to determine whether to clear more excess capacity at a lower Capacity Clearing Price or to clear less or no excess capacity at a higher Capacity Clearing Price, and shall choose the alternative that results in procuring at least the amount of capacity required while seeking to minimize the total cost for the associated Capacity Commitment Period by enumerating as many combinations of non-rationable offers and bids as practicable. De-list bids that would not be replaced in full upon clearing (Permanent De-List Bids when the Capacity Clearing Price is above 1.25 times CONE, Static De-List Bids, and Export Bids) will not clear if they are below the Capacity Clearing Price. In an import-constrained Capacity Zone, the cost minimization will not consider blocks of capacity not needed to meet the import-constrained Capacity Zone's Local Sourcing Requirement when price separation occurs between the import-constrained Capacity Zone and the Rest-of-Pool Capacity Zone. The cost minimization may result in offers below the Capacity Clearing Price not clearing, and in certain de-list bids (Permanent De-List Bids when the Capacity Clearing Price is equal to or below 1.25 times CONE and Dynamic De-List Bids) below the Capacity Clearing Price clearing.

III.13.2.7.5. Effect of Decremental Repowerings on the Capacity Clearing Price. Where the effect of accounting for certain repowering offers and bids (as described in Section III.13.2.3.2(e)) results in the auction not clearing at the lowest price for the required quantity of capacity, then the auctioneer will conduct additional auction rounds of the Forward Capacity Auction as necessary to minimize total capacity costs.

subject to any availability penalties under Section III.13 of this Tariff by such a request for failure to provide energy from that capacity that is not subject to a Capacity Supply Obligation. If such resource does provide energy from that capacity, the resource shall be paid based on its most recent offer and is eligible for NCPC.

III.13.6.4.1. Real-Time High Operating Limit. For purposes of facilitating ISO requests for energy under Section III.13.6.4, a Market Participant must report an up-to-date Real-Time High Operating Limit value at all times for a resource.

III.13.7. Performance, Payments and Charges in the Forward Capacity Market. During each month within each Capacity Commitment Period ("Obligation Month"), each resource that acquired or shed a Capacity Supply Obligation for that Capacity Commitment Period (or any portion thereof) will be subject to payments, charges, penalties and adjustments for such activity. In addition, all resources with a Capacity Supply Obligation as of the beginning of the Obligation Month shall have their performance measured throughout the month, based on the resource's availability during any Shortage Events in the Obligation Month.

In the event of a change in the Lead Market Participant for a resource that has a Capacity Supply Obligation, the Capacity Supply Obligation shall remain associated with the resource and the new Lead Market Participant for the resource shall be bound by all provisions of this Section III.13 arising from such Capacity Supply Obligation. The Lead Market Participant for the resource at the start of an Obligation Month shall be responsible for all payments and charges associated with that resource in that Obligation Month.

III.13.7.1. Performance Measures.

III.13.7.1.1. Generating Capacity Resources. During each Capacity Commitment Period, each Generating Capacity Resource having a Capacity Supply Obligation for that Capacity Commitment Period (or any portion thereof) will have its performance measured during each Obligation Month based on the resource's availability during any Shortage Events during the month.

adjustments in Section III.13.7.2.7) or charge during the Capacity Commitment Period as follows:

(a) **Forward Capacity Auction**. For a resource whose offer has cleared in a Forward Capacity Auction, the monthly capacity payment shall equal the product of its cleared capacity (or in the case described in Section III.13.7.1.1.3(i), the lesser of the resource's Capacity Supply Obligation or its audited amount) and the Capacity Clearing Price in the appropriate Capacity Zone in the New England Control Area as adjusted pursuant to Section III.13.2.7.3(b) and as adjusted by applicable indexing for resources with additional Capacity Commitment Period elections pursuant to Section III.13.1.1.2.2.4 in the manner described below (the "FCA Payment"). For a resource that has elected to have the Capacity Clearing Price and the Capacity Supply Obligation apply for more than one Capacity Commitment Period, payments associated with the Capacity Supply Obligation and Capacity Clearing Price (indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period) shall continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which the offer clears, for up to four additional and consecutive Capacity Commitment Periods, in whole Capacity Commitment Period increments only.

(b) **Reconfiguration Auctions**. For a resource whose offer or bid has cleared in an annual or monthly reconfiguration auction, the monthly capacity payment or charge shall be equal to the product of its

Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period, applicable to the Demand Resource for the particular Capacity Commitment Period.

III.13.7.2.7.5.3. Positive Monthly Capacity Variances. With the exception of a Demand Resource that has elected to have the Capacity Supply Obligation and the Capacity Clearing Price applicable to an offer that cleared in the Forward Capacity Auction continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which that offer cleared, if a Demand Resource's Monthly Capacity Variance is a positive value, the Demand Resource shall be eligible to receive a Demand Resource Performance Incentive based on the Monthly Capacity Variance multiplied by the Capacity Clearing Price in the Forward Capacity Auction for the relevant Capacity Commitment Period, provided that the sum of the Demand Resource Performance Penalties in the month is equal to or greater than the sum of the Demand Resource Performance Incentives in the same month. If a Demand Resource that has elected to have the Capacity Supply Obligation and the Capacity Clearing Price applicable to an offer that cleared in the Forward Capacity Auction continue to apply after the Capacity

Commitment Period associated with the Forward Capacity Auction in which that offer cleared has a Monthly Capacity Variance with a positive value, the Demand Resource Performance Incentive for such a Demand Resource shall be set according to the Capacity Clearing Price applicable to the Demand Resource for the particular Capacity Commitment Period, indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period, provided that the sum of the Demand Resource Performance Penalties in the month is equal to or greater than the sum of the Demand Resource Performance Incentives in the same month.

III.13.7.2.7.5.4. Determination of Net Payment. If the sum of the Demand Resource Performance Penalties in a month is less than the sum of the Demand Resource Performance Incentives in the same month, the total amount of Demand Resource Performance Penalties shall be paid on a pro-rata basis, based on the Monthly Capacity Variance to each Demand Resource with a positive Monthly Capacity Variance. The total amount of the Demand Resource Performance Incentives in a month may not exceed the total amount of the Demand Resource Performance Penalties in the same month.

serving entities in this Section III.13.2.5.2.5, less PER adjustments for resources in the zone as defined in Section 13.7.2.7.1.1, adjusted for any Demand Resource Performance Penalties in excess of Demand Resource Performance Incentives as described in Section III.13.7.2.7.5.4, and including any applicable export charges or credits as determined pursuant to Section III.13.7.2.2.A divided by the sum of all Capacity Supply Obligations (except those for resources clearing as Self-Supplied FCA Resources) assumed by resources in the zone. A load serving entity satisfying its Capacity Load Obligation by a Self-Supplied FCA Resource shall not receive a credit for any PER payment for its Capacity Load Obligation so satisfied.

III.13.7.3.1. Calculation of Capacity Requirement and Capacity Load Obligation. The ISO shall assign each load serving entity a Capacity Requirement prior to the commencement of each Obligation Month for each Capacity Zone established in the Forward Capacity Auction pursuant to Section III.13.2.3.4. The Capacity Requirement for each month and Capacity Zone shall equal the product of: (i) the total of the system-wide Capacity Supply Obligations (excluding the quantity of capacity subject to Capacity Supply Obligation Bilaterals) plus HQICCs; and (ii) the ratio of the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year two years prior to the start of the Capability Year to the system-wide sum of all load serving entities' annual coincident contributions to the system-wide annual peak load from the

calendar year two years prior to the start of the Capability Year. The following loads are assigned a peak contribution of zero for the purposes of assigning obligations and tracking load shifts: Load associated with pumping of pumped hydro generators, if the resource was pumping; Station service load that is modeled as a discrete Load Asset and the Resource is complying with the maintenance scheduling procedures of the ISO; and Transmission losses associated with delivery of energy over the Control Area tie lines.

A load serving entity's Capacity Requirement for each month and Capacity Zone shall equal the product of: (i) the Capacity Zone's Capacity Requirement as calculated above and (ii) the ratio of the sum of the load serving entity's annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year prior to the start of the Capability Year to the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year prior to the start of the Capability Year.

A load serving entity's Capacity Load Obligation shall be its Capacity Requirement, adjusted as appropriate to account for any relevant Capacity Load Obligation Bilaterals, HQICCs, and Self-Supply FCA Resource designations. A Capacity Load Obligation can be a positive or negative value. A Market Participant that is not a load serving entity shall have a Capacity Load Obligation equal to the net obligation resulting from Capacity Load Obligation Bilaterals, HQICC, and Self-Supply FCA Resource designations.

A Demand Resource's Demand Reduction Value will not be reconstituted into the load of the Demand Resource for the Obligation Months in the first three FCA delivery

ATTACHMENT 3

Prepared Testimony of Janine Dombrowski, sponsored by the ISO

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

ISO New England Inc. and	**)**	**Docket No. ER10-___-000**
New England Power Pool	**)**	

PREPARED TESTIMONY OF

Ms. JANINE DOMBROWSKI, Ph. D.

I. INTRODUCTION

Q: PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A: My name is Janine Dombrowski. I am Principal Market Design Analyst in the Market Development department with ISO New England Inc. (the "ISO"). My business address is One Sullivan Road, Holyoke, Massachusetts 01040.

Q: PLEASE DESCRIBE YOUR WORK EXPERIENCE AND EDUCATIONAL BACKGROUND.

A: I have a Bachelor of Science degree in Physics and a Ph.D. in Resource Economics from the University of Massachusetts. I have been with the ISO since 2001. Between 2001 and 2007, I held several positions in the Market Monitoring department including Manager, Emerging Markets, where I was responsible for evaluating new markets and implementing the market monitoring provisions for the Forward Capacity Market ("FCM"). I have worked in Market Development since July 2007, supporting the FCM design and implementation. During this time I have led the development of FCM design solutions, providing design

options and coordinating changes with ISO business owners and New England market participants. I supported the effort to develop the rule changes that are the subject of this proceeding.

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

A: The purpose of this testimony is to explain a number of relatively minor changes that are being made to the FCM rules in this filing, which I will refer to as FCM Rule Changes. Generally, the FCM Rule Changes provide further needed details in the rules, conform and clarify existing provisions, and provide minor corrections.

II. DISCUSSION OF FCM RULE CHANGES

Q: PLEASE EXPLAIN WHY THE ISO IS MODIFYING THE QUALIFICATION REQUIREMENTS FOR EXISTING IMPORT CAPACITY RESOURCES.

A: The qualification requirements for import capacity, which depend on whether the import capacity is an Existing Import Capacity Resource or a New Import Capacity Resource, are set forth in Section III.13.1.3 of the FCM rules. If the import is an Existing Import Capacity Resource, then it must follow the qualification process described in Section III.13.1.3.3 of the FCM rules. Pursuant to that provision, the Market Participant submitting each Existing Import Capacity Resource must submit to the ISO: (i) documentation of a multi-year contract

entered into before the Existing Capacity Qualification Deadline to provide capacity in the New England Control Area from outside the New England Control Area for a period including the whole Capacity Commitment Period, including documentation of the MW value of the contract; ***or*** (ii) proof of ownership or direct control over one or more External Resources that will be used to back the Existing Import Capacity Resource during the Capacity Commitment Period, together with information to establish the summer and winter ratings of the resource(s) backing the import.

Under the FCM Rule Changes, the requirement of a multi-year commitment is being added for import capacity that seeks to qualify as an Existing Import Capacity Resource based on the second option available in Section III.13.1.3.3 (*i.e.*, qualification based on ownership or direct control over the resource(s) backing the import). Specifically, Sections III.13.1.3.1 and III.13.1.3.4 are being revised to state that capacity from an External Resource that is owned or directly controlled by the Lead Market Participant ***and*** which is committed for at least two whole consecutive Capacity Commitment Periods by the Lead Market Participant in the New Capacity Qualification Package shall participate in the Forward Capacity Auction as an Existing Import Capacity Resource.

Q: HOW WILL IMPORT CAPACITY RESOURCES BE TREATED FOR THE FIRST CAPACITY COMMITMENT PERIOD ASSOCIATED WITH THE RESOURCE'S MULTI-YEAR COMMITMENT?

A: The instant FCM Rule Change serves to clarify that, while New Import Capacity Resources are committed for only one Capacity Commitment Period at a time, Existing Import Capacity Resources are associated with a contract or commitment to provide capacity for more than one Capacity Commitment Period. This is required because pursuant to the current language in Sections III.13.1.3.1 and III.13.1.3.4, if the Existing Import Capacity Resource has not cleared in a previous Forward Capacity Auction, then the import capacity must participate in the Forward Capacity Auction as a New Import Capacity Resource. As a result, for the first Capacity Commitment Period associated with the resource's multi-year commitment, the resource must qualify as a New Import Capacity Resource. Accordingly, for that first Capacity Commitment Period, the resource must submit a New Capacity Show of Interest Form and a New Capacity Qualification Package as required by Sections III.13.1.1.2.1 and III.13.1.1.2.2 of the FCM rules.

Q: WHY IS THE ISO REVISING THE FORMULA FOR PRORATIONING OF CAPACITY OFFERED BY CERTAIN IMPORT CAPACITY RESOURCES?

A: Currently, when the Capacity Clearing Price reaches 0.6 times the Cost of New Entry ("CONE"), if the amount offered from New Import Capacity Resources and

Existing Import Capacity Resources over an interface between an external Control Area and the New England Control Area is greater than that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection), the capacity offered at that price from New Import Capacity Resources and Existing Import Capacity Resources will be prorated as described in Section III.13.2.7.3(c). The amount of capacity that may be offered over an interface by a single resource is not limited to the interface's capacity transfer limit, but rather is only limited by the resource's qualified capacity amounts. This leads to the potentially inequitable situation in which a large resource can ensure a greater share of the capacity ultimately awarded over the interface by offering amounts of capacity in excess of what can possibly be accommodated over the interface. The current prorationing mechanism rewards such resources to the detriment of smaller resources. The FCM Rule Change to Section III.13.2.7.3(c) is intended to address this issue.

Q: PLEASE EXPLAIN THE CHANGES TO THE FORMULA FOR PRORATIONING OF CAPACITY OFFERED BY CERTAIN IMPORT CAPACITY RESOURCES.

A: To address this issue, the FCM rules are being revised so that the prorationing will not include any offered capacity from a resource that is above the external interface's approved capacity transfer limit. Specifically, language has been added to Section III.13.2.7.3(c) to provide that, if the capacity offered at 0.6 times

CONE by any single New Import Capacity Resource or Existing Import Capacity Resource that is not associated with the contracts listed in Section III.13.1.3.3(c) is greater than the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection), then any capacity offered by that resource that is above the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection) shall not be included in the prorationing. In other words, before prorationing, the amount of capacity for such a resource will be reduced to the interface's capacity transfer limit.

Q: WHY IS THE ISO ADDING A DEFINITION OF HANDY-WHITMAN INDEX?

A: This change is being introduced to identify the index that will be relied upon for FCM inflation adjustments, which was required by a Commission order. In the February 22, 2010 filing in Docket No. ER10-787-000, the Filing Parties included a change to the FCM rules to decouple the Forward Capacity Auction Starting Price from CONE. Pursuant to that change, the starting price for each Capacity Zone for the FCA associated with the Capacity Commitment Period beginning on June 1, 2016 will be set to $15/kW-month. Thereafter, the Forward Capacity Auction Starting Price will be adjusted annually using a rolling three-year average of the Handy-Whitman Index of Public Utility Construction Costs. In the February 22, 2010 filing letter the Filing Parties committed to file additional

detail on the appropriate Handy-Whitman Index that will be relied upon for FCM inflation adjustments.

In its April 23, 2010 order, the Commission accepted the revisions described above and stated that it expects the Filing Parties to file later in 2010 the detail regarding the appropriate Handy-Whitman Index to use. Accordingly, the instant filing adds a definition in Section I of the Tariff to provide that "Handy-Whitman Index of Public Utility Construction Costs is the Total Other Production Plant index shown in the Cost Trends of Electric Utility Construction for the North Atlantic Region as published in the Handy-Whitman Index of Public Utility Construction Costs."

Q: ARE THERE ANY RELATED CHANGES REQUIRED AS A RESULT OF DEFINING THE HANDY-WHITMAN INDEX?

A: Yes. All references in Section III.13.7 to this index are further clarified by indicating that the value to be used shall be the one that was in effect as of December 31 of the year preceding the Capacity Commitment Period.

Q: WHY IS THE ISO PROPOSING TO MODIFY THE DEFINITION OF LEAD MARKET PARTICIPANT?

A: The current definition of Lead Market Participant in Section I of the Tariff does not appropriately reflect the meaning of that term as applied in the FCM, and for that reason, the definition is being revised.

Q: PLEASE DESCRIBE THE REVISIONS TO THE DEFINITION OF LEAD MARKET PARTICIPANT.

A: For purposes other than the FCM, the definition of Lead Market Participant is unchanged – it is the entity authorized to submit Supply Offers or Demand Bids for a Resource and to whom certain Energy TUs are assessed under Schedule 2 of Section IV.A of the Tariff. On the other hand, for purposes of the FCM, the Lead Market Participant is now defined as the entity designated to participate in that market on behalf of an Existing Capacity Resource or a New Capacity Resource.

Q: ARE THERE ANY RELATED CHANGES REQUIRED AS A RESULT OF REVISING THE DEFINITION OF LEAD MARKET PARTICIPANT?

A: Yes. As reflected in the revised definition described above, in the FCM, the Lead Market Participant is the entity that participates in that market on behalf of a resource and, therefore, it is independent of the resource owner. Accordingly, the

references to the resource owner that currently exist in the opening paragraphs of Section III.13.7 of the FCM Rules are being replaced with references to the Lead Market Participant for the resource. In addition, the reference to the registration process in the current definition of Lead Market Participant is being deleted.

Q: WHY IS THE REFERENCE TO THE REGISTRATION PROCESS IN THE CURRENT DEFINITION OF LEAD MARKET PARTICIPANT BEING DELETED?

A: The last sentence in the current definition of Lead Market Participant (*i.e.*, "[t]he Lead Market Participant is designated for each Resource that is a Generator Asset or Dispatchable Asset Related Demand during the Asset Registration Process") is being deleted because it simply mentions the registration process that is fully described in the ISO New England Manual for Registration and Performance Auditing ("MRPA")[1] and, therefore, it is unnecessary. The MRPA will become effective on June 1, 2010.

Q: PLEASE EXPLAIN THE REVISION TO THE CALCULATION OF LOAD SERVING ENTITIES' CAPACITY REQUIREMENTS.

A: Under Section III.13.7.3.1 of the FCM rules, the ISO assigns each load serving entity a Capacity Requirement prior to the commencement of each Obligation Month for each Capacity Zone established in the FCA pursuant to Section

III.13.2.3.4. The Capacity Requirement for each month and Capacity Zone shall equal the product of: (i) the total of the system-wide Capacity Supply Obligations ("CSOs") plus HQICCs; and (ii) the ratio of the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year ending December 31 of the second year prior to the start of the upcoming Capability Year to the system-wide sum of all load serving entities' annual coincident contributions to the system-wide annual peak load from the calendar year ending December 31 of the second year prior to the start of the upcoming Capability Year.

Also pursuant to current Section III.13.7.3.1, a load serving entity's Capacity Requirement for each month and Capacity Zone shall equal the product of: (i) the Capacity Zone's Capacity Requirement as calculated above and (ii) the ratio of the sum of the load serving entity's annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year ending December 31 of the year prior to the start of the upcoming Capability Year to the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year ending December 31 of the year prior to the start of the upcoming Capability Year.

The FCM Rule Changes include two revisions to these provisions. First, as currently written, the calculation of the Capacity Zone's Capacity Requirement includes the total of the system-wide CSOs as an input in the formula. To address a potential imbalance in the FCM market settlement that could result from the termination (pursuant to Section III.13.3.4(c)) of a resource's CSO that has been

acquired through a Capacity Supply Obligation Bilateral, the quantity of capacity associated with Capacity Supply Obligation Bilaterals is being excluded from the total system-wide CSOs used in calculating the Capacity Requirement.

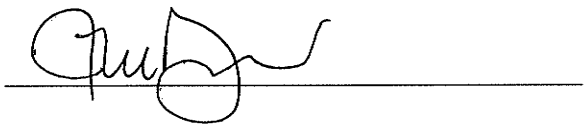
Second, the reference to "the calendar year ending December 31 of the second year prior to the start of the upcoming Capability Year" could be read to imply that peak contribution values from different calendar years will be used, depending on the month within the Capacity Commitment Period in which the calculation is being performed. However, the peak contribution values in the formula should be consistent throughout a Capacity Commitment Period. For that reason, references to "the calendar year ending December 31 of the second year prior to the start of the upcoming Capability Year" are being revised to "the calendar year two years prior to the start of the Capability Year." Similarly, references to "the calendar year ending December 31 of the year prior to the start of the upcoming Capability Year" are being revised to "the calendar year prior to the start of the Capability Year." These changes should remove the potential ambiguity.

Q: DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A: Yes.

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

Executed on May 26, 2010.



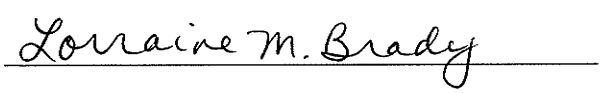
Janine Dombrowski, Ph. D.

Principal Market Design Analyst

Commonwealth of Massachusetts

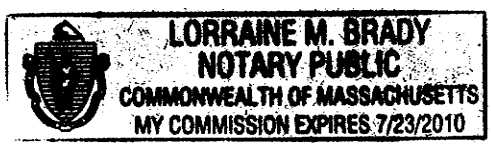
Hampden ss.

On this 26th day of May, 2010, before me, the undersigned notary public, personally appeared Janine Dombrowski, proved to me through satisfactory evidence of personal knowledge of identity, to be the person who signed the preceding or attached document in my presence, and who swore or affirmed to me that the contents of the document are truthful and accurate to the best of his knowledge or belief.



Lorraine Brady, Notary Public

My Commission Expires: 7/23/2010



ATTACHMENT 4

Prepared Testimony of Mark G. Karl, sponsored by the ISO

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

ISO New England Inc. and	**)**	**Docket No. ER10-___-000**
New England Power Pool	**)**	

PREPARED TESTIMONY OF

Mr. MARK G. KARL

I. INTRODUCTION

Q: PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A: My name is Mark G. Karl. I am the Senior Director of Resource Adequacy with ISO New England Inc. (the "ISO"). My business address is One Sullivan Road, Holyoke, Massachusetts 01040.

Q: PLEASE DESCRIBE YOUR WORK EXPERIENCE AND EDUCATIONAL BACKGROUND.

A: I have nearly 28 years of diverse experience in the electric utility industry, of which 9 years have been with the ISO. I earned my Bachelor's Degree in Mechanical/Aerospace Engineering from the University of Pittsburgh in 1980, and my Master's Degree in Business Administration from the University of Pittsburgh in 1989, and I am a registered Professional Engineer in the Commonwealth of Pennsylvania.

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

A: The purpose of this testimony is to explain a change to the resource modeling assumptions to be used in the calculation of the Installed Capacity Requirement and the Local Sourcing Requirements that are contained in Section III.12.7.2(c) of the Tariff.

II. DISCUSSION OF TARIFF CHANGE

Q: PLEASE EXPLAIN WHY THE ISO IS MODIFYING THE RESOURCE MODELING ASSUMPTIONS TO BE USED IN THE CALCULATION OF THE INSTALLED CAPACITY REQUIREMENT AND THE LOCAL SOURCING REQUIREMENTS.

A: As described in the filing letter and the Testimony of Ms. Janine Dombrowski, Ph.D., which are being submitted with this filing, under Section III.13.1.3.3 of Market Rule 1, Existing Import Capacity Resources may qualify for the Forward Capacity Auction by submitting to the ISO: (i) documentation of a multi-year contract entered into before the Existing Capacity Qualification Deadline to provide capacity in the New England Control Area from outside the New England Control Area for a period including the whole Capacity Commitment Period, including documentation of the MW value of the contract; ***or*** (ii) proof of ownership or direct control over one or more External Resources that will be used to back the Existing Import Capacity Resource during the Capacity Commitment

Period, together with information to establish the summer and winter ratings of the resource(s) backing the import.

As further explained in the filing letter and in the Testimony of Ms. Dombrowski, the ISO is revising Section III.13.1.3.3 of the Tariff to require a multi-year commitment for import capacity that seeks to qualify as an Existing Import Capacity Resource based on ownership or direct control over the resource(s) backing the import. This revision requires a companion change in Section III.12.7.2(c) of Market Rule 1. Generally, Section III.12.7.2 lists the existing capacity resources, (*i.e.* generation capacity resources, demand resources, and import capacity resources) that must be used as inputs in the calculation of the Installed Capacity Requirement ("ICR") and the Local Sourcing Requirements ("LSR"). That Section currently provides, *inter alia*, that the resources included in the calculation of ICR and LSR shall include "Import Capacity Resources cleared in previous Forward Capacity Auctions and obligated for the relevant Capacity Commitment Period."

This language is being revised to state that the resources included in the calculation of the ICR and the LSR shall include "all Existing Import Capacity Resources backed by a multi-year contract to provide capacity in the New England Control Area, where that multiyear contract requires delivery of capacity for the Commitment Period for which the [ICR] is being calculated." This is appropriate because it better ensures that the calculation of ICR only includes resources committed to New England for the relevant period. If an entity within the New England Control Area enters into a multi-year capacity contract then the

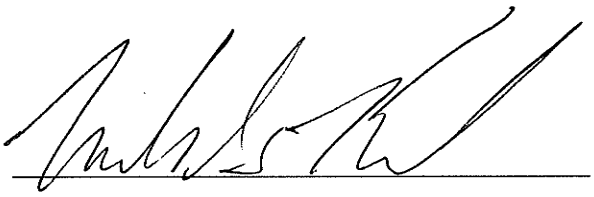
Import Capacity Resource can be designated as counting toward meeting the ICR and LSR for the term of the multi-year contract. Thus, the ICR Rule Change makes clear that only those import capacity resources that are backed by a multi-year contract covering the relevant Capacity Commitment Period are to be used as inputs in the calculation of the ICR and LSR.

Q: DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A: Yes.

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

Executed on May 26, 2010.



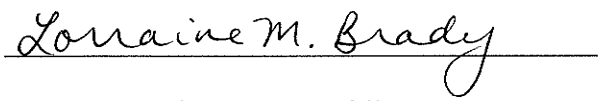
Mark G. Karl

Senior Director of Resource Adequacy

Commonwealth of Massachusetts

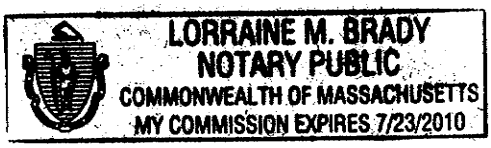
Hampden ss.

On this 26th day of May, 2010, before me, the undersigned notary public, personally appeared Mark G. Karl, proved to me through satisfactory evidence of personal knowledge of identity, to be the person who signed the preceding or attached document in my presence, and who swore or affirmed to me that the contents of the document are truthful and accurate to the best of his knowledge or belief.



Lorraine Brady, Notary Public

My Commission Expires: 7/23/2010



ATTACHMENT 5

List of New England Governors and Regulatory Agencies

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Connecticut Dept. of Public Utilities
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