

To: Market Participants
From: Internal Market Monitor
Date: August 27, 2015
Subject: Monitoring of Forward Reserve Resources - Update

The Internal Market Monitor (“IMM”) is providing this update to the [July 28, 2015 memorandum](#) on the energy market mitigation of Forward Reserve Resources. This memorandum explains both a limited exemption from mitigation for certain Forward Reserve Market (“FRM”) resources for the winter 2015-16 Forward Reserve Procurement Period as well as additional evaluation the ISO and IMM intend to undertake regarding Forward Reserve Resource mitigation.

Limited Exemption for the Winter 2015-16 Forward Reserve Procurement Period:

The July 28, 2015 memorandum described the market power concerns raised by the flexibility that is afforded to participants under the current Forward Reserve Market construct and the practice of exempting Forward Reserve Resources from mitigation in the energy market. Market Participants with a Forward Reserve Obligation can assign multiple resources, representing capacity in excess of the Market Participant’s obligation, as available to support the obligation. If the IMM exempts the assigned resources in their entirety from energy market mitigation, then the Market Participant is able to have much of their portfolio exempted from energy market mitigation, even though only a portion of the portfolio is effectively meeting the participant’s Forward Reserve Obligation. This potential raises significant market power concerns.

The July 28, 2015 memorandum described the IMM’s consideration of the impact of energy market mitigation on Forward Reserve Resources. As the memo explained, consistent with its tariff authority under Section III.A.13.4, the IMM determined that it would no longer exempt Forward Reserve Resources from mitigation because of the market power concerns. The memo described how the risk

of a Failure-to-Reserve penalty resulting from mitigation can be factored into the Market Participant's Forward Reserve Auction offer.

Based, in part, on comments received from Market Participants following its issuance of the July 28, 2015 memorandum, the IMM has determined that, under the following specific conditions, it is appropriate not to apply energy market mitigation to Forward Reserve Resources if mitigation is otherwise warranted pursuant to Section III.A.5 of the tariff.

1. The Forward Reserve Resource's full Claim 10 or Claim 30 capability is greater than or equal to 75% of the resource's Economic Max capability offered in the Real-Time Energy Market in any hour of the operating day.¹
2. The Market Participant assigns 100% of the resource's Claim 10 or Claim 30 capability toward meeting its Forward Reserve Obligation.
3. The Market Participant requests a cost-based Reference Level, for the entire winter 2015-16 Forward Reserve Procurement Period, for any Forward Reserve Resource for which it requests mitigation exemption.
4. The Forward Reserve Resource's cost-based Reference Level is less than the Forward Reserve Threshold Price.
5. At any time during the operating day, the total Claim 10 and Claim 30 capability of the Market Participant's Forward Reserve Resources exempted from mitigation for the operating day does not exceed 110% of the Market Participant's Forward Reserve Obligation, adjusted for bilateral transactions, for the operating day and the Market Participant cannot satisfy its Forward Reserve Obligation without designating these resources as a Forward Reserve Resource.
6. No offer block price of the Forward Reserve Resource's Supply Offer exceeds 110% of the Forward Reserve Threshold Price and the resource's start-up and no-load costs are offered at the cost-based Reference Level.

The IMM has determined that Forward Reserve Resources satisfying these conditions do not have the same material opportunity for the exercise of market power as other Forward Reserve Resources described in the July 28, 2015 memorandum. Therefore, Market Participants with Forward Reserve

¹ Pursuant to Section III.13.6.1.1.1, a resource with a Capacity Supply Obligation must be offered into both the Day-Ahead Energy Market and Real-Time Energy Market at a MW amount equal to or greater than its Capacity Supply Obligation whenever the resource is physically available.

Resources satisfying all the conditions described above can request the IMM consider not applying energy market mitigation to their resources if mitigation is warranted pursuant to Section III.A.5 of the tariff. Market Participants with Forward Reserve Resources that do not satisfy all the conditions described above are still expected to factor into the Market Participant's Forward Reserve Auction offer, the risk of a Failure-to-Reserve penalty resulting from mitigation.

Market Participants must submit their requests in writing at least 30 minutes prior to the close of the Re-Offer Period, as prescribed in Section III.A.3.1 of the tariff, the day prior to the operating day. The request and attestation must be in the form and format described in Attachment A.

The IMM will begin this practice coincident with the start of the winter 2015-16 Forward Reserve Procurement Period.

Continued Evaluation of Forward Reserve Resource Mitigation:

The ISO has committed to work with the IMM over the coming months to evaluate alternative approaches to addressing the market power concerns raised in the July 28, 2015 memorandum, including the feasibility of modifying the existing automated mitigation systems to accommodate exempting, when appropriate, all or a portion of a Forward Reserve Resource's energy supply offer.

Attachment A

The following email message must be received by the IMM no later than 30 minutes prior to the close of the Re-Offer Period, as prescribed in Section III.A.3.1 of the tariff, the day prior to the operating day.

To: imm@iso-ne.com.

Subject: Forward Reserve Resource – Energy Market Mitigation Consideration

Pursuant to Section III.A.13.4, **[Market Participant]** requests the IMM consider the impact of energy market mitigation on the following Forward Reserve Resources:

| Asset ID | Asset Name | EcoMax (MW) | Claim 10 MW | Claim 30 MW | Designated FRM MW |
|----------|------------|-------------|-------------|-------------|-------------------|
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For each of the Forward Reserve Resources listed above, **[Market Participant]** attests to the following:

1. **[Market Participant]** requested the cost-based Reference Level for each Forward Reserve Resource.
2. The cost-based Reference Level is less than the Forward Reserve Threshold Price.
3. The Claim 10 or Claim 30 capability for each Forward Reserve Resource is greater than or equal to 75% of the resource’s Economic Maximum capability offered in the Real-Time Energy Market in any hour of the operating day
4. **[Market Participant]** has designated 100% of each resource’s Claim 10 or Claim 30 capability as a Forward Reserve Resource for the entire operating day.
5. As illustrated in the data provided below, the total Claim 10 or Claim 30 capability of **[Market Participant]’s** Forward Reserve Resources requesting consideration from the IMM prior to issuing a mitigation for the operating day does not exceed 110% of the **[Market Participant]’s** Forward Reserve Obligation, net of any bilateral transactions, for the operating day. **[Market Participant]** cannot satisfy its Forward Reserve Obligation without designating these resources as a Forward Reserve Resource.
6. **[Market Participant]** has not and will not offer any energy block price of the Forward Reserve Resource’s Supply Offer in excess of 110% of the Forward Reserve Threshold Price in the Re-Offer Period or the resource’s startup and no-load costs above the cost-based Reference Level.

[Market Participant]’s Total 10 Minute Forward Reserve Obligation (MW): _____

[Market Participant]’s Total 30 Minute Forward Reserve Obligation (MW): _____

Total Claim 10 of **[Market Participant]’s** resources eligible to and capable of providing Forward Reserves, including bilateral trades or swaps made or anticipated (MW): _____

Total Claim 30 of **[Market Participant]’s** resources eligible to and capable of providing Forward Reserves, including bilateral trades or swaps made or anticipated (MW): _____

Total Claim 10 of Forward Reserve Resources requested above (MW): _____

Total Claim 30 of Forward Reserve Resources requested above (MW): _____

In accordance with 18 C.F.R. 35.41 of FERC's Rules and Regulations, **[Market Participant]** has exercised due diligence in submitting this request to ensure request (1) is accurate and factual, (2) is not false or misleading, and (3) is complete and does not omit material information.

[Market Participant] acknowledges that under Section III.A.19 of the Tariff, the IMM is obligated to refer all violations of the Tariff or violations of FERC's rules and regulations, including any failure to exercise due diligence in submitting this request, to FERC's Office of Enforcement for further investigation.