

120 FERC ¶ 61,210  
FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, D.C. 20426

September 4, 2007

In Reply Refer To:  
ISO New England, Inc.  
Docket Nos. ER06-613-002  
ER06-613-003

ISO New England, Inc.  
Attn: James H. Douglass, Esq.  
Senior Regulatory Counsel  
One Sullivan Road  
Holyoke, MA 01040

Dear Mr. Douglass:

1. On November 13, 2006, as supplemented on November 14, 2006 and December 7, 2006, ISO New England, Inc. (ISO-NE) submitted its initial semi-annual reserve market compliance report as required by the Commission's May 12, 2006 order on Phase II of the Ancillary Services Market (ASM).<sup>1</sup> Notice of ISO-NE's filing was published in the *Federal Register*, 71 Fed. Reg. 69,107 (2006), with comments, protests and interventions due on or before December 4, 2006. The NRG Companies<sup>2</sup> (NRG) filed timely comments, ISO-NE filed an answer to NRG, and the New England Power Pool (NEPOOL) responded to ISO-NE's answer.
2. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(a)(2)(2007), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept the answers of ISO-NE and NEPOOL because they have provided information that assisted us in our decision-making process.

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<sup>1</sup> *ISO New England, Inc.*, 115 FERC ¶ 61,175 (2006) (May 12 Order). The May 12 Order accepted proposed revisions to ISO-NE's tariff implementing Phase II of the ASM project. The order also required ISO-NE to report semi-annually on the performance of the new market, including recommendations for future improvements.

<sup>2</sup> The NRG Companies are NRG Power Marketing Inc., Connecticut Jet Power LLC, Devon Power LLC, Middletown Power LLC, Montville Power LLC, Norwalk Power LLC, and Somerset Power LLC.

3. On April 2, 2007, ISO-NE submitted its second reserve market compliance report. Notice of ISO-NE's second compliance filing was published in the *Federal Register*, 72 Fed. Reg. 19,487 (2007), with comments, protests and interventions due on or before April 23, 2007. None was filed. Both of ISO-NE's compliance reports are hereby accepted for filing by the Commission.

4. In its initial compliance report, ISO-NE provides *inter alia* an update on the implementation of a forward ten minute spinning reserve (Forward TMSR) market. ISO-NE states that in December 2005, the NEPOOL Markets Committee chartered a Forward Spinning Reserve (FSR) Working Group to identify any problems (e.g., pricing and effects on other markets) associated with resources providing spinning reserves and to determine whether the Markets Committee should support wholesale market design changes to address such problems. ISO-NE notes that the FSR Working Group prepared a report for the NEPOOL Markets Committee that outlined the status of the group's work to that point, including three different preliminary proposals for implementing a TMSR market.<sup>3</sup>

5. At the September 18, 2006 meeting of the FSR Working Group, ISO-NE indicated that it would not in the immediate future be able to provide the level of review and analysis necessary to form and present recommendations to the Markets Committee on the preliminary proposals. ISO-NE states that the FSR Working Group's members agreed to recommend to the Markets Committee that the FSR Working Group suspend further efforts until such time as ISO-NE is able to commit the resources to provide a thorough review of the design proposals. Based upon its limited analysis, however, ISO-NE finds that some of the issues raised in the FSR Working Group concerning the pricing of reserves and generator flexibility may be best addressed outside the FSR market design. ISO-NE believes a broader focus may be appropriate to address, in a comprehensive manner, the full range of flexibility-related market design issues raised by some market participants.

6. In terms of identifying impediments to the proposed Forward TMSR market, ISO-NE notes that neither the FSR Working Group nor ISO-NE has determined that specific features of the proposed markets represent impediments to implementation. Instead, each has made general observations about linkages between design objectives and market characteristics, including the observation that holding day-ahead TMSR auctions would make it difficult for prices to properly cascade to the Forward TMSR market where the auction is held semi-annually.

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<sup>3</sup> The three offered proposals came from the New England Power Generators Association, NRG, and ISO-NE.

7. ISO-NE indicates that during the previous 12 months it has had high-priority commitments to several major market design initiatives: the locational forward and real-time reserve markets implemented on October 1, 2006; the Forward Capacity Market Rules; the development of a new Long Term Transmission Right product on an expedited basis; and the Winter Action Plan. ISO-NE anticipates that some of the market design and development resources currently dedicated to these efforts will become available in the second quarter of 2007.

8. On December 4, 2006, NRG filed comments on ISO-NE's initial compliance report arguing that ISO-NE has made little progress in advancing the development of the Forward TMSR market, even suspending work on this issue because of its inability to commit resources. NRG contends that a lack of resources is not a valid reason for the "ongoing discrimination" that is caused by the failure to implement a Forward TMSR market. NRG notes that despite its lack of resources, ISO-NE was able to eliminate the Peaking Unit Safe Harbor (PUSH) mechanism, which was not a major market design initiative identified by ISO-NE. NRG asserts that since the spinning reserve market issue has existed for over four years, the Commission must require ISO-NE to dedicate the necessary resources to fulfill its previous commitment by a date certain. NRG also asks the Commission to reject ISO-NE's PUSH Elimination Filing of November 14, 2006.<sup>4</sup>

9. In its answer, ISO-NE states that the Commission should not order it to dedicate its limited resources to develop or implement a Forward TMSR market because such a requirement would be "extremely deleterious" to ISO-NE's ongoing efforts to meet a number of high priority commitments already established by the Commission. ISO-NE notes that the effort required to implement this market should not be underestimated. Further, ISO-NE states that the issues that need to be addressed by the proposed Forward TMSR market include the development of a means to avoid the suppression of energy market prices caused by the out of merit commitment of resources needed for local contingency reserves, and the desire for these out of merit costs to be reflected in real time energy prices. ISO-NE contends that, due to the complexity of the issues presented, no organized market has yet successfully implemented a market design which accomplishes these outcomes without severely disrupting the economic incentives essential to proper functioning of the energy market. According to ISO-NE, the potential problems noted by the FSR Working Group would have to be mitigated or eliminated through modifications to the proposed designs before it could recommend that any of the

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<sup>4</sup> On January 12, 2007, the Commission conditionally approved the elimination of PUSH bidding, explaining that ISO-NE has developed market mechanisms to provide more effective price signals and ensure adequate resources to support reliability. *See ISO New England, Inc.*, 118 FERC ¶ 61,018 (2007). NRG's Norwalk Harbor Units 1 & 2 operated under the PUSH mechanism until its recent termination.

designs should be implemented or, alternatively, that a Forward TMSR market should not be pursued.

10. In its answer, NEPOOL seeks to correct a "misstatement" in ISO-NE's answer. Specifically, NEPOOL states that neither the FSR Working Group nor the Markets Committee reached any conclusion as to whether ISO-NE should be currently dedicating substantive resources towards the development of the Forward TMSR market. Instead, NEPOOL contends that the FSR Working Group found that without ISO-NE involvement, further efforts to develop the Forward TMSR market would be ineffective.

11. While we recognize NRG's concerns over the lack of a Forward TMSR market, we do not agree with NRG that the absence of such a market results in discrimination. NRG has not demonstrated that those resources currently providing the TMSR product fail to receive just and reasonable compensation. As we mention above, ISO-NE (in conjunction with the FSR Working Group) has identified several obstacles associated with the potential implementation of a Forward TMSR market. The Commission recognizes that ISO-NE has numerous commitments before it, largely due to the implementation of the Forward Capacity Market, and we will not impose a date certain for the implementation of a Forward TMSR market. In addition, since the Commission has already issued an order terminating the PUSH mechanism, we need not address NRG's request to reject ISO-NE's PUSH elimination filing.<sup>5</sup>

12. ISO-NE's first compliance report also addresses Commission concerns regarding involuntary load shedding in Northeast Massachusetts/Boston and includes a discussion concerning the benefits associated with the ability of forward reserve suppliers to buy back their obligations in a future day-ahead spot market.

13. In its second compliance report, ISO-NE provides additional updates on the reserve markets, including details from its Reserve Markets Report.<sup>6</sup> Specifically, the second compliance report evaluates the performance of the new forward and real-time reserve markets, and provides details concerning the implementation of failure-to-reserve and failure-to-activate penalties.

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<sup>5</sup> See *supra* note 3.

<sup>6</sup> ISO New England Inc. - Markets Development, *A Report on the Operation of the New England Reserve Markets*, March 31, 2007 (Reserve Markets Report).

14. The Commission hereby accepts ISO-NE's first two compliance reports on the status of the implementation of the revised reserve markets under Phase II of ASM.

By direction of the Commission.

Nathaniel J. Davis, Sr.  
Acting Deputy Secretary.