124 FERC ¶ 61,304
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Suedeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

ISO New England Inc. Docket No. ER08-1277-000

ORDER ACCEPTING TARIFF SHEETS FOR FILING

(Issued September 30, 2008)

1. On July 17, 2008, ISO New England Inc. (ISO-NE) and the New England Power Pool Participants' Committee (NEPOOL) (collectively, Filing Parities) submitted for filing revisions to sections II (Open Access Transmission Tariff (OATT)) and III (Market Rule 1) of ISO-NE's Transmission, Markets and Services Tariff (Tariff) that would authorize ISO-NE to schedule external transactions more frequently than once an hour (External Scheduling Proposal). For the reasons discussed below, we accept the revisions for filing, effective October 1, 2008, as requested.

I. Description of the Filing

2. External transactions are the means by which market participants import power into, or export power from, the New England Control Area. Currently, ISO-NE evaluates and schedules external transactions, accounting for economics and reliability, once per hour.[1] External transactions flow for the entire hour unless a reliability condition requires otherwise.

3. The External Scheduling Proposal authorizes ISO-NE to schedule external transactions more frequently than once per hour and permits transactions to flow for less than an hour. For example, ISO-NE could schedule transactions in 30 minute or shorter intervals and external transactions can start flowing at times other than the top of the

[1] The Filing Parties state that prior to each hour system operators estimate the locational marginal price (LMP) at each of the external nodes, use a scheduling algorithm to evaluate the economic merit of the external transactions relative to the expected LMPs, and schedule priced external transactions on an economic basis.

hour. The Filing Parties state that the ability to implement the External Scheduling Proposal depends on system operators in ISO-NE and neighboring systems establishing the necessary operating protocols and software.[2]

4. The Filing Parties claim that more frequent scheduling of external transactions will lead to export and import flow that better reflects changes in system conditions in real-time, such as changes in real-time prices, transfer capability and excess ramp conditions, reduce Net Commitment Period Compensation (NCPC) charges[3] incurred when external transactions scheduled to flow at the top of the hour are no longer economic in real-time, and enable market participants to take advantage of the market flexibility that exists in other markets. For example, the Filing Parties state that if a neighboring system allows external transactions to be scheduled every 30 minutes, operators in New England could accept changes by the neighboring system more than once an hour.

5. The Filing Parties state that the External Scheduling Proposal will not change how market participants submit external transactions to ISO-NE. The Filing Parties state that market participants will continue to submit external transactions on an hourly basis and that if Transmission reservations are necessary at the external interface, those reservations would be for the full amount and duration of the submitted transaction. The Filing Parties state that ISO-NE would provide notice to market participants before implementing more frequent scheduling on any external tie.

6. The Filing Parties explain that the External Scheduling Proposal has been vetted through the New England stakeholder process. The Filing Parties state that the NEPOOL Transmission Committee voted unanimously on June 3, 2008 to recommend that the Participants Committee support revisions to the OATT,[4] and that the Participants Committee voted on June 23, 2008 to support the OATT revisions (with one abstention and one opposition noted). The Filing Parties also state that the NEPOOL Markets Committee voted at its June 10-11, 2008 meeting (with 2 abstentions and 2 oppositions

---

[2] The Filing Parties note that operating protocols and software may differ from system to system and must be considered on a case-by-case basis. Currently, only ISO-NE and the New Brunswick System Operator are developing the necessary protocols.

[3] NCPC refers to payments made to a supplier to make up the shortfall between its total offer price and the revenues it would receive from market prices in ISO-NE's energy and ancillary services market.

[4] Specifically, the revisions to sections II.30 and II.40 of the OATT.

noted) to recommend that the Participants Committee support the changes to Market Rule 1, and that the Participants Committee voted on June 24, 2008 to support the Market Rule 1 revisions (with 3 abstentions and 4 oppositions noted).

7. Finally, the Filing Parties request an effective date of October 1, 2008.

II. Notice of Filing and Responsive Pleadings

8. Notice of the filing was published in the *Federal Register*,[5] with comments and interventions due on or before August 7, 2008. DC Energy, LLC, Dynegy Inc.,[6] H.Q. Energy Services (U.S.) Inc., the Northeast Utilities Service Company,[7] and the NRG Companies[8] filed timely motions to intervene. The New England Sellers[9] filed a timely motion to intervene and comments opposing the filing. NEPOOL filed a timely motion to intervene and comments supporting the filing. ISO-NE and NEPOOL filed separate answers to the protest.

9. The New England Sellers argue that the Commission should reject the External Scheduling Proposal as unsupported, one-sided, and lacking in sufficient detail. In the alternative, the New England Sellers argue that the External Scheduling Proposal should be implemented only as a limited pilot program for the New Brunswick interface, the Commission should convene a technical conference to clarify its scope and details, ISO-NE should make an additional filing defining its particulars, and ISO-NE should share the results of its last pilot program (the Intra-Hour Transaction Scheduling Pilot Program) with market participants.

---

[5] 73 Fed. Reg. 44,714 (2008).

[6] Dynegy Power Marketing, Inc., Casco Bay Energy Company, LLC and Bridgeport Energy, LLC.

[7] On behalf of the Northeast Utilities Companies: The Connecticut Light and Power Company, Western Massachusetts Electric Company, and Public Service Company of New Hampshire.

[8] For purposes of this filing, the NRG Companies are NRG Power Marketing LLC, Connecticut Jet Power LLC, Devon Power LLC, Middletown Power LLC, Montville Power LLC, Norwalk Power LLC, and Somerset Power LLC.

[9] The New England Sellers are: Constellation Energy Commodities Group, Inc.; Constellation NewEnergy, Inc.; PPL EngeryPlus, LLC; Shell Energy North America (U.S.), L.P.; and Brookfield Energy Marketing, Inc.

10. The New England Sellers argue that the External Scheduling Proposal is based on speculative benefits that are unsupported by any facts or data. The New England Sellers claim that the Filing Parties have provided no empirical evidence that the External Scheduling Proposal will create downward pressure on LMPs or result in other benefits.

11. The New England Sellers contend that the External Scheduling Proposal is one-sided because it lacks a critical market participants' component. The New England Sellers explain that while the External Scheduling Proposal is intended to benefit the market by giving ISO-NE the flexibility to schedule external transactions in response to changing real-time conditions, it may damage the market because it does not give market participants intra-hour scheduling rights.[10] The New England Sellers argue that unless market participants have intra-hour scheduling rights, ISO-NE risks scheduling "stale" bids that do not accurately reflect changing real-time conditions and that discourage market participants from entering into transactions that bring about true price convergence. The New England Sellers claim that price convergence is not even possible where ISO-NE and market participants engage in transactions with different sets of tools, and that price arbitrage based on different sets of rules will turn into a process where market participants try to second guess ISO-NE rather than arbitrage price differences. The New England Sellers also contend that ISO-NE has not established that it has superior knowledge, such that it should exclusively schedule the market on an intra-hour basis.

12. The New England Sellers argue that the filing lacks important details necessary for the Commission and market participants to evaluate its merits. For example, the New England Sellers claim that the Filing Parties fail to explain what price ISO-NE will look to as a trigger when evaluating whether to adjust schedules on an intra-hour basis. The New England Sellers note that during the stakeholder process the Filing Parties indicated that there would be no intra-hour adjustment if priced transactions were far from estimated LMPs. However, the New England Sellers note that the filing does not explain how ISO-NE will estimate LMPs or how close to the nodal LMP the price of an external transaction must be before ISO-NE makes an intra-hour adjustment. Similarly, the New England Sellers state that the filing does not indicate who will bear the risk if ISO-NE errs in evaluating whether priced transactions are close to the estimated LMP. The New England Sellers assert that such errors may expose market participants to increased burdens, such as NCPC charges or related failure penalties.

[10] Similarly, the New England Sellers argue that ISO-NE should consider allowing market participants to offer priced external transactions in the real-time market to create more flexibility and transparency.

13. The New England Sellers also contend that the filing lacks sufficient detail regarding how ISO-NE will implement the External Scheduling Proposal. For example, the New England Sellers state that the Filing Parties have not explained how ISO-NE will treat external transactions that were scheduled for the top of the hour, whether ISO-NE will curtail existing external transactions in order to schedule more efficient transactions on an intra-hour basis, or whether scheduled transactions that are deemed "uneconomic" will flow or be cut, and if cut, who will compensate the relevant market participants for its increased costs (such as make-whole payments, imbalance fees, or penalties) or under-recovery of costs.

14. The New England Sellers next argue that the filing lacks information about the impact intra-hour scheduling will have on LMPs and market prices and does not analyze whether the External Scheduling Proposal is likely to create new NCPC. Moreover, the New England Sellers assert that the filing fails to explain where the External Scheduling Proposal fits in ISO-NE's existing priorities and work backlog.

15. Finally, the New England Sellers alternatively argue that should the Commission decide to accept the External Scheduling Proposal, it should do so only as a limited pilot program for the New Brunswick interface starting in the coming winter period with a sunset date of spring 2009. Moreover, the New England Sellers assert that before ISO-NE initiates the new pilot program, the Commission should hold a technical conference to discuss the program's details and explore market tools for addressing the scheduling of external transactions, ISO-NE should make additional informational filings that define the particulars of the new pilot program, and ISO-NE should share the results of its previous Intra-Hour Transaction Scheduling Pilot Program[11] with market participants.

III. Answer

16. ISO-NE asserts that the New England Sellers' protest reflects a fundamental misunderstanding of the purpose of the External Scheduling Proposal. ISO-NE states that the External Scheduling Proposal does not change existing Tariff or Manual provisions regarding its evaluation and scheduling of priced real-time external transactions in relation to forecasted LMPs at external nodes and does not create any new class of ISO-NE formulated priced external transactions or permit ISO-NE to modify

---

[11] According to ISO-NE, the Intra-Hour Transaction Scheduling Pilot Program (also known as "ITS") involves changes to the flow of imports and exports between control areas based on differentials in the locational marginal price of energy at the corresponding external pricing nodes of each control area. Thus, while the terminology is similar, the proposed change to allow intrahour scheduling of market participants' external transactions is fundamentally different than the differential pricing evaluation of ITS.

external transactions as submitted by market participants. Rather, it produces efficiency benefits that are readily evident and can be implemented without disrupting or delaying other existing market rule initiatives. ISO-NE contends there is no need for a technical conference, pilot program, or limited application because the External Scheduling Proposal is straightforward and limited in scope.

17. ISO-NE asserts that the External Scheduling Proposal does not change how it will evaluate and schedule priced real-time external transactions in relation to forecasted LMPs at external nodes. ISO-NE explains that the External Scheduling Proposal will simply permit it to use existing mechanisms to evaluate hourly priced real-time external transactions—as submitted by market participants —to economically evaluate and schedule those transactions more than once an hour to account for the possibility that system conditions may change within the hour, thereby affecting the forecasted LMP at an external node. ISO-NE states that the evaluation and scheduling process will continue to be governed by the same existing Tariff and Manual provisions that currently govern it.

18. ISO-NE states that the External Scheduling Proposal does not permit it to "re-price" existing external transactions or to submit its own external transactions. ISO-NE argues that the New England Sellers misunderstand this point, and that their attempt to paint their request for market rule changes that permit them to submit external transactions with dispatchable bid and offer curves as an equitable mirror image of the External Scheduling Proposal illustrates their misunderstanding. ISO-NE states that the External Scheduling Proposal has the equitable impact of putting priced external transactions more on par with generation, which is re-dispatched every five minutes, but that market participants that submit external transactions are still treated on the same basis as generation owners in that neither can modify prices after the re-offer period.

19. ISO-NE contends that the efficiency benefits of the External Scheduling Proposal are readily evident and that no additional evidence is necessary. ISO-NE also rejects the New England Sellers' suggestion that the External Scheduling Proposal may increase NCPC costs. ISO-NE explains that more frequent scheduling (dispatch) of priced external transactions can better match submitted transaction prices and forecasted LMPs for the remaining portion of the hour, thereby reducing NCPC Charges that would otherwise occur when transactions are scheduled only on an hourly basis. ISO-NE states that under the External Scheduling Proposal, priced external transaction purchases could be dispatched to a value greater than zero during the hour when the forecasted real-time LMP is higher at the bottom of the hour than was expected at the top of the hour, thereby providing additional economic supply to the system. Similarly, ISO-NE states that priced external transaction purchases could be removed from the schedule during the hour when

the forecasted real-time LMP is lower at the bottom of the hour than was expected at the top of the hour, thereby reducing the NCPC that the external transaction purchase would have caused had it remained scheduled for the entire hour.[12]

20. ISO-NE argues that the External Scheduling Proposal will not adversely affect market participants, or trigger an entitlement to some sort of compensation, because it does not impose any risks that market participants do not already accept. ISO-NE explains that priced external transactions are dispatched for the whole hour and market participants currently accept the risk that their priced external transactions will not be scheduled *at all* during the hour, depending on the levels of the forecasted LMPs. ISO-NE claims that the External Scheduling Proposal simply permits it to evaluate external transactions more than once an hour, and that this could actually help market participants because part-hour scheduling of an external transaction at the price specified by the market participant is better than the transaction not being scheduled at all.

21. Finally, ISO-NE argues that implementing the External Scheduling Proposal will not disrupt or delay other existing market rule initiatives. ISO-NE explains that the External Scheduling Proposal is not a costly or complex undertaking, and that intra-hour rescheduling will only be implemented if it can work out an operational protocol with system operators in neighboring control areas. ISO-NE states that the External Scheduling Proposal is distinct from and has no bearing on revisions requested by the New England Sellers. ISO-NE states that it is willing to consider further revisions to the treatment of external transactions, but that these would be a far more complex undertaking, requiring considerable analysis and software/systems modification. However, ISO-NE asserts that the External Scheduling Proposal will facilitate any such eventual revisions.

22. NEPOOL agrees with ISO-NE and adds that the New England Sellers had the opportunity to present their arguments and concerns in the stakeholder process, and to the extent that they did, their concerns were fully considered and rejected by a large majority of market participants.

[12] For example, ISO-NE asserts that if the forecasted real-time LMP at the beginning of the hour were $100 then all priced external transaction purchases at a price up to $100 would be scheduled; if halfway through the hour the forecasted real-time LMP were to decrease to $90 (signifying that the ultimate LMP for that hour will be less than $100), it could remove external transactions priced between $90 and $100 from the schedule for the remainder of the hour.

IV. Discussion

23. We reject the New England Sellers' arguments and find that the External Scheduling Proposal is just and reasonable. Accordingly, we accept the External Scheduling Proposal for filing and reject the New England Sellers' alternate proposals.

24. The New England Sellers argue that the Filing Parties have failed to demonstrate that the External Scheduling Proposal will have actual benefits. We disagree and find that the External Scheduling Proposal can lead to increased efficiencies. Currently, if an external transaction is economic at the top of the hour, it flows even if it becomes uneconomic during the hour, which might occur when a real-time expected LMP falls. However, if another external transaction at a different time of day is uneconomic at the top of the hour it will not flow, even if it becomes economic later in the hour. Under the External Scheduling Proposal, the first transaction would stop flowing when it becomes uneconomic, and the second transaction would start flowing if it becomes economic within the hour. Removing uneconomic transactions and adding economic transactions increases efficiency.

25. We also disagree with the New England Sellers' claim that the Filing Parties have not provided enough detail about how the External Scheduling Proposal will work. The Filing Parties have explained that the External Scheduling Proposal does not change existing Tariff or Manual provisions regarding how ISO-NE will evaluate and schedule priced real-time external transactions in relation to forecasted LMPs at external nodes, does not permit ISO-NE to "re-price" existing external transactions, and does not permit ISO-NE to submit its own external transactions. It simply permits ISO-NE to adjust the frequency at which it evaluates transactions such that transactions scheduled to flow at the top of the hour may be curtailed if they become uneconomic, while transactions that are not scheduled at the top of the hour may flow later in the hour if they became economic within the hour.

26. As for the risk of ISO-NE scheduling errors, we agree with the Filing Parties that there is no increased risk of such errors because ISO-NE is only adjusting the frequency at which it evaluates transactions, not the criteria it uses to evaluate them. Similarly, we agree with the Filing Parties that the more efficient dispatch of resources is likely to decrease the risk of NCPC and other charges. Moreover, we reject the New England Sellers' claim that the External Scheduling Proposal may have a damaging effect on the market because they have failed to offer a persuasive explanation of how the External Scheduling Proposal could raise LMPs or suppress bid quantities and thereby damage the market.

27. We also disagree with the New England Sellers' claim that unless market participants have intra-hour scheduling rights, ISO-NE will base its intra-hour scheduling decisions on "stale" information and thereby discourage market participants from entering into transactions that bring about true price convergence. The External

Scheduling Proposal does not alter anything in the ISO-NE energy market other than how often external transactions are allowed to flow. In particular, the External Scheduling Proposal does not alter the current rules for bidders' adjusting prices or quantities for external transactions. As before, bid prices cannot be adjusted on the day an external transaction is scheduled to flow, and quantities can be changed up to an hour before the time the external transaction is scheduled to flow. Therefore, we do not expect that the External Scheduling Proposal will have an impact on convergence or arbitrage.[13] Market participants cannot currently adjust price offers in order to achieve convergence or arbitrage prices on the operating day, nor can they do so under the External Scheduling Proposal. Although they can adjust quantity offers, suppliers will still have the same incentive to offer all the energy that they do now. Nothing will have changed other than the frequency with which ISO-NE evaluates transactions. Moreover, the New England Sellers do not explain how the External Scheduling Proposal alters market participants' incentives to make quantity adjustments to their schedules. For example, the New England Sellers do not show how the quantity of self-scheduled and priced offers could decline if the External Scheduling Proposal is implemented, or that priced offers will be made at higher prices if the External Scheduling Proposal is adopted. Accordingly, we find that the New England Sellers have failed to demonstrate that the External Scheduling Proposal is unjust and unreasonable.

28. We reject the New England Sellers' argument that the market will suffer if ISO-NE and market participants operate with different sets of tools and that ISO-NE does not have superior information relative to the market participants. Under the status quo, ISO-NE, as an RTO, already plays a fundamentally different role in the market than market participants and already operates under a different set of rules. ISO-NE is responsible for, among other things, administering the Day-Ahead and Real-Time markets as well as the capacity markets. ISO-NE has confidential information about, among other market participants' bids.

29. Finally, we find no reason to limit application of the External Scheduling Proposal to the New Brunswick interface on a pilot program basis, to convene a technical conference, or to require ISO-NE to make another filing in this proceeding. The Filing Parties have not proposed the External Scheduling Proposal as a pilot program, and there is no change to the existing method for scheduling external transactions other than to

[13] Convergence and arbitrage are very similar. They both occur at the point when no further feasible transactions that are also profitable can be made. As a result, the difference between demand bid prices and supply offer prices narrow to almost zero. Convergence occurs between either the Day Ahead and Real Time Markets or among different nodes in the same time period. Arbitrage occurs at the same node at the same time.

allow ISO-NE to schedule external transactions more frequently than once per hour and to permit such transactions to flow for less than an hour. The External Scheduling Proposal has also been fully vetted through the New England stakeholder process. Moreover, because we find that the External Scheduling Proposal is just and reasonable and will improve market efficiency there is no need for a technical conference or an additional filing. Accordingly, we reject the New England Sellers' requests.

The Commission orders:

The External Scheduling Proposal is hereby accepted for filing, effective October 1, 2008, as requested.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.