

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

June 27, 2005

In Reply Refer To:
Devon Power LLC *et al.*
Docket No. ER03-563-025

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Reference: Review of PUSH Implementation and Results

Gentlemen:

1. On December 4, 2003, ISO New England, Inc. (ISO-NE) filed a report entitled *Review of PUSH Implementation and Results* and a memorandum that discusses implementation of recommendations included in the report prepared by the ISO-NE market monitor. The report was filed pursuant to the Commission's order in *Devon Power Company*.¹ In the report, ISO-NE reviews the operation of the Peaking Unit Safe Harbor (PUSH) mechanism during the summer of 2003 and identifies several market design issues for further consideration.
2. The report states that units operating under the PUSH mechanism did not significantly affect locational marginal prices (LMP) because they were dispatched for operating reserves and, as a result, did not receive their compensation through the energy market. The report goes on to state that, in aggregate, PUSH units were only able to recover 35 percent of the fixed costs included in their PUSH bid levels, which was well below the estimated going forward costs.

¹ 104 FERC ¶ 61,123 at ordering paragraph (C) (2003) (July 24 Order).

3. Additionally, ISO-NE, in the report, identifies revisions that could be made to the PUSH mechanism until the locational installed capacity (LICAP) mechanism is implemented. These include expanding the pool of units eligible for PUSH treatment and making short-term changes to the bidding or mitigation rules to enable LMP to reflect out-of-merit dispatch. The report also addresses certain recommendations, including: (a) replacing the PUSH mechanism with a LICAP mechanism, (b) implementing a locational reserves market or adding a locational component to the forward reserves market, (c) re-evaluating the allocation of reliability must run (RMR) costs to target them more locally, and (d) evaluating mechanisms to reduce the need for out-of-merit dispatch.

4. Notice of the filing was published in the *Federal Register* on December 16, 2003, with comments, protests, and interventions due on or before December 29, 2003.² Comments were filed by Northeast Utilities Service Company and Select Energy, Inc. (NU) and Connecticut Jet Power LLC, Devon Power LLC, Middletown Power LLC, Montville Power LLC, and Norwalk Power LLC (collectively, NRG). Connecticut Municipal Electric Energy Cooperative (CMEEC) and Massachusetts Municipal Wholesale Electric Company (MMWEC) filed a motion to intervene,³ motion to reject, and comments. ISO-NE filed a response to the CMEEC and MMWEC pleading.

5. CMEEC and MMWEC urge the Commission to reject the report, stating that the July 24 Order did not obligate ISO-NE to produce the report. CMEEC and MMWEC also state that while the report implies that PUSH units are entitled to recover their fixed costs, the Commission's orders state that the PUSH mechanism was not a guarantee but only an opportunity to recover costs through the market and that this should not be considered a failure of the PUSH mechanism. In its comments, NRG supports the analysis presented in the report, and states that ISO-NE should focus on implementing LICAP. NU, in its comments, states that ISO-NE's report should not be used to impose interim adjustments, because load serving entities are not able to respond quickly enough to the resulting price signals. NU states that the Commission should consider using RMR contracts until LICAP is implemented.

6. In its response, ISO-NE argues that the CMEEC and MMWEC motion to reject is groundless because ISO-NE has not requested that the Commission act on the PUSH report and the information contained in the report is valuable to the Commission and to all market participants.⁴

² 68 Fed. Reg. 74,571 (2003).

³ CMEEC and MMWEC filed a motion to intervene that was granted in Docket No. ER03-563-000, which also makes them parties to this proceeding. *See New England Power Pool/ISO New England Inc.*, 87 FERC ¶ 61,244 (1999).

⁴ Response of ISO-NE at 3.

7. The Commission accepts the ISO New England report for informational purposes only, and takes no other action. We believe the information contained in the report has likely proved useful to market participants in subsequent debates regarding capacity market development.

By direction of the Commission. Commissioner Kelly not participating.

Magalie R. Salas,
Secretary.