

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

ISO New England, Inc.
New England Power Pool

Docket No. ER04-1255-001

ORDER GRANTING REQUEST FOR EXTENSION OF TIME

(Issued November 3, 2006)

1. In this order, the Commission grants a request filed on August 15, 2006 from ISO New England, Inc. (ISO-NE) for an extension of time regarding the Day-Ahead Load Response Program (DALRP) integrated clearing approach compliance filing required by the Commission's April 18, 2005 Order in this docket.¹ The April 18 Order conditionally accepted revisions to Appendix E of Market Rule 1² related to the DALRP filing submitted by ISO-NE on February 18, 2005.

Background

2. On September 29, 2004, ISO-NE filed revisions to Appendix E of Market Rule 1 related to the DALRP. The Commission issued an order on December 21, 2004 rejecting the proposed revisions and directed the ISO and the New England Power Pool (NEPOOL) to file either: (1) revisions to incorporate integrated market clearing³ of

¹ *New England Power Pool and ISO New England, Inc.*, 111 FERC ¶ 61,064 (2005) (April 18 Order).

² Section III of the ISO-NE Transmission, Markets, and Services Tariff.

³ In an "integrated" clearing methodology, DALRP offers would compete directly with supply offers in the Day-Ahead Energy Market and have an impact on Day-Ahead Energy Market prices. ISO-NE, however, currently uses a "sequential" clearing
(continued)

demand resources in the Day-Ahead market or (2) detailed support for the claim that the costs outweigh the benefits, including an assessment of appropriate business processes and sequencing of software enhancements.⁴

3. In conformity with this order, ISO-NE and NEPOOL submitted a compliance filing on February 18, 2005 requesting approval of a sequential clearing methodology for the DALRP which would be replaced with an integrated clearing methodology after the infrastructure for direct demand participation is in place as part of the Ancillary Services Market (ASM). ISO-NE states that it is currently in the midst of major wholesale market improvements, especially with regard to the capacity and ancillary services markets, including a Forward Capacity Market (FCM), which is scheduled to occur on October 1, 2006.

Request for Extension of Time

4. In the April 18 Order, the Commission required ISO-NE to implement an integrated clearing approach by the earlier of: (1) one year after the implementation of Asset Related Demand⁵ or (2) June 1, 2007. The Commission further ordered ISO-NE to file a plan and any requisite conforming tariff revisions no later than 60 days prior to implementation of the integrated clearing approach. ISO-NE states that in light of the developments in related proceedings through which it believes that the goals of a DALRP integrated clearing approach will be accomplished, and in order to ensure the most efficient use of resources, ISO-NE states that good cause exists to allow ISO-NE to file a report no later than December 28, 2007 on the integration of demand resources into the Day-Ahead market and the implementation of appropriate solutions.

5. ISO-NE states that the goal of integrating demand resources into the Day-Ahead Market has been achieved with parallel market enhancements including ASM Phase II and the Demand Response Reserve Pilot Program. The implementation of ASM Phase

methodology, in which DALRP offers are accepted after an approved solution to the Day-Ahead Energy Market has been determined.

⁴ See *ISO New England, Inc.*, 109 FERC ¶ 61,314 (2004) (December 21 Order).

⁵ An Asset Related Demand Resource is defined in ISO-NE's Manual 35 as a physical load that is 5 MW or greater, either dispatchable or non-dispatchable, that has been discretely modeled within the ISO New England's Energy Management and Settlement systems that settles at a nodal location.

II, scheduled to commence in October 2006, allows for the integration of demand resources in the Day-Ahead energy market through Asset Related Demand.

6. Further, ISO-NE states that since the DALRP commenced on June 1, 2005, three Market Participants have participated in the program with a total of seven demand response resources. According to ISO-NE, on August 2, 2006, the day of the system peak during which there were extremely high energy prices, only one Market Participant submitted an offer in the DALRP which was for 100 kW. Given the small number of demand response resources participating in the DALRP, ISO-NE believes that, in practice, it is unlikely that full integration of demand resources in the DALRP would have a significant impact on Day-Ahead Market prices.

7. ISO-NE asserts that implementation of ASM Phase II and the FCM, which will integrate demand resources into the energy, reserves, and capacity markets, will require all of ISO-NE's resources to implement. Many of the same software developers and subject matter experts that would be working on the DALRP integration are fully engaged in designing and developing the software and administrative systems needed to support Demand Resources (energy efficiency, load management, distributed generation and Real-Time Demand Response) in ASM Phase II and the FCM.

8. ISO-NE believes that December 28, 2007 is a reasonable date by which to report to the Commission how the implementation of a separate integrated clearing methodology in the DALRP should be addressed. Rather than be required to make an integrated clearing methodology compliance filing at a particular date in the future, ISO-NE believes that it should be required to file a report no later than December 28, 2007, concerning how, in light of pending developments in the energy, capacity and reserve markets associated with demand response resources, integrated clearing in the DALRP should be addressed.

Discussion

9. We will grant the request for an extension of time. Relating to the DALRP, the December 21 Order states:

There must be a direct mechanism in place within the structure of the program that ensures market clearing prices are impacted by demand reductions, instead of simply allowing for the possibility that this will occur through the demand forecasting of market participants as currently proposed. The sequential clearing methodology as described in the DALRP fails to accomplish this, and fails to

comply with Commission directives in the June 6, 2003 order.⁶ Commission policy and previous direction to NEPOOL and ISO-NE has been to ensure that demand response resources are treated on an equal basis with supply resources.⁷

10. The Commission has stated and still believes that such equal footing would be accomplished via an integrated clearing methodology for implementation in the DALRP, rather than by means of the sequential clearing methodology. However, given that ISO-NE's implementation of ASM Phase II and the FCM have the potential to integrate certain demand resources into the energy, reserves, and capacity markets we will, therefore, direct ISO-NE to file a report no later than September 1, 2007, updating the Commission on its progress towards integrated clearing in the DALRP. The report should also include information regarding how the implementation of ASM Phase II and FCM integrates demand resources into ISO-NE's markets and affects resources participating in the DALRP.

The Commission orders:

ISO-NE is directed to file a report no later than September 1, 2007, as described herein.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.

⁶ See *New England Power Pool and ISO New England, Inc.*, 103 FERC ¶ 61,304 (2003) (June 6, 2003 Order) (footnote not in original).

⁷ December 21 Order, 109 FERC ¶ 61,314 at P 22 (footnote omitted).