

123 FERC ¶ 61,298
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

June 23, 2008

In Reply Refer To:
ISO New England Inc.
Docket No. ER06-613-005

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

Dear Mr. Douglass:

1. On April 1, 2008, ISO New England Inc. (ISO-NE) submitted its fourth 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),¹ and a motion to discontinue the semi-annual reserve market compliance reports. Notice of ISO-NE's filing was published in the *Federal Register*, 72 Fed. Reg. 19,210 (2008), with comments, protests and interventions due on or before April 22, 2008. The New England Power Pool (NEPOOL) Participants Committee filed timely comments, to which ISO-NE filed an 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 answer of ISO-NE because it has provided information that assists us in our decision-making process.
3. In its fourth compliance report, ISO-NE explains that its reserve markets have generally performed as designed, although ISO-NE identifies four issues for further analysis: (1) the appropriateness of the \$50/MWh reserve constraint penalty factor for local reserve zones; (2) the once-a-month method for setting the forward reserve

¹ *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 ASM and include recommendations for future improvement.

threshold price for bidding into the real-time reserve market; (3) practices related to self-scheduling that result in high real-time reserve payments during off-peak hours; and (4) the continued monitoring of claimed 10-minute and claimed 30-minute capability. In addition, ISO-NE reports on the implementation of a forward ten minute spinning reserve (TMSR) market, stating that, consistent with its discussions in prior compliance reports,² ISO-NE market design and development resources are committed to major market design initiatives, such as implementation of the forward capacity market and long term transmission rights, and therefore, efforts on the forward TMSR market are on hold.

4. In addition to reporting on the performance of the reserve markets and recommendations thereto, the May 12 Order required the compliance reports to provide (1) updates on the implementation of a forward TMSR market; (2) ISO-NE's operational and economic rationale for considering involuntary load shedding in determining reserve requirements in the Northeast Massachusetts (NEMA)/Boston load zone and the effect on reliability of considering involuntary load shedding; (3) once ASM Phase II has been operational for at least six months, a summary on whether increased failure-to-reserve and failure-to-activate penalties have successfully created an incentive for sellers to include commitment costs in their forward reserve bids; and (4) a discussion concerning whether allowing forward reserve suppliers to buy back their obligations in a future day-ahead spot market would promote or impede the objectives of (i) encouraging sellers to include their full costs (including commitment costs) in their forward reserve bids, and (ii) procuring the lowest-cost resources to provide reserves.³

5. ISO-NE contends that it has substantially fulfilled its reporting requirements as set forth in the May 12 Order, and thus, requests to discontinue the compliance reports. First, ISO-NE states that it has met the reporting requirements regarding load shedding in determining reserve requirements in the NEMA/Boston load zone. In its November 13, 2006 compliance report, ISO-NE explained that load shedding in load pockets like the NEMA/Boston load zone is a reasonable option following a second contingency, and such load shedding is expected to rarely be practiced.⁴ Second, regarding the reporting obligation of buy-back of obligations in a day-ahead spot market, ISO-NE explained in the November 13, 2006 compliance report that the current market design already allows for the buy-back of forward reserve obligations through bilateral trading. ISO-NE further

² November 13, 2006 Compliance Report at 5 and 6; April 2, 2007 Compliance Report at 7 and 8; October 1, 2007 Compliance Report at 7.

³ May 12 Order, 115 FERC ¶ 61,175 at P 110.

⁴ November 13, 2006 Compliance Report (accepted for filing by *ISO New England, Inc.*, 120 FERC ¶ 61,210 (2007)).

explained that most costs, excluding unit commitment costs, of providing resources are sunk costs in the day-ahead timeframe, and thus, are not rationally included in offer prices. Therefore, ISO-NE argued, a day-ahead spot market to allow for the buy-back of obligations would not lead to the procurement of the lowest cost resources, nor would it provide a useful capability to the market than what is already available. Third, responding to the reporting requirement regarding whether increased failure-to-reserve and failure-to-activate penalties have successfully created an incentive for sellers to include commitment costs in their forward reserve bids, ISO-NE explained in its October 1, 2007 compliance report that forward reserve market penalties are intended to provide incentives for participants to make resources available for reserve, rather than encouraging particular offer strategies.⁵

6. ISO-NE asserts that the remaining reserve market information required by the May 12 Order, i.e., implementation of a forward TMSR market and the performance of the reserve markets, is either already being provided or will be provided through periodic reports that ISO-NE otherwise issues.⁶ ISO-NE explains that its monthly and quarterly reports contain descriptive information about reserve requirements and clearing prices, while the annual market report, which is filed with the Commission, includes detailed analysis of market performance, recommendations for market improvements, and descriptive information. ISO-NE notes that the periodic market reports are posted and easily accessible on the ISO-NE website and include more frequent analysis than the currently required semi-annual reports.⁷

7. On April 22, 2008, the NEPOOL Participants Committee filed comments stating that it does not object to ISO-NE's motion to discontinue its compliance reports with respect to all items other than the forward TMSR market. The NEPOOL Participants Committee contend that the requirement for a filing on the forward TMSR market

⁵ October 1, 2007 Compliance Report (accepted for filing by *ISO New England, Inc.*, Docket No. ER06-613-004 (November 7, 2007) (unpublished letter order)).

⁶ ISO-NE further commits to including information on the outcome of the demand response reserve pilot in one of its periodic reports after completion of the pilot this summer.

⁷ Monthly Market Performance Reports, *available at* http://www.iso-ne.com/markets/mkt_anlys_rpts/mnly_mktops_rtps/index.html; Quarterly Market Performance Reports, *available at* http://www.iso-ne.com/markets/mkt_anlys_rpts/qtrly_mktops_rtps/index.html; Annual Market Performance Reports, *available at* http://www.iso-ne.com/markets/mkt_anlys_rpts/annl_mkt_rpts/index.html.

provides assurance to interested market participants that ISO-NE will continue to pursue the initiative. The NEPOOL Participants Committee further contend that requiring a filing provides the opportunity for the Commission to be advised in a transparent, public, and specific way about ISO-NE's efforts and plans.

8. On May 6, 2008, ISO-NE filed an Answer to the NEPOOL Participants Committee's comments, stating that ISO-NE is willing to continue to report on the forward TMSR market issue in the manner directed by the Commission.

9. ISO-NE's fourth semi-annual compliance report sufficiently complies with the May 12 Order and is hereby accepted. Additionally, ISO-NE has shown that it has substantially satisfied the reporting requirements set forth in the May 12 Order, and that the remaining unsatisfied reporting requirements will be included in its periodic reports, which are issued more frequently than the semi-annual reports and are easily accessible. ISO-NE's answer satisfies the NEPOOL Participants Committee's objection to ISO-NE's motion to discontinue reporting on implementation of a forward TMSR market. Accordingly, ISO-NE's motion to discontinue the semi-annual reserve market compliance reports is hereby accepted, with the exception of the reporting requirement regarding the forward TMSR market issue, which will continue to be subject to the semi-annual reporting requirement established in the May 12 Order.

By direction of the Commission.

Kimberly D. Bose,
Secretary.