

147 FERC ¶ 61,071
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Acting Chairman;
Philip D. Moeller, John R. Norris,
and Tony Clark.

ISO New England Inc.

Docket No. ER12-953-004

ORDER ACCEPTING COMPLIANCE FILING

(Issued April 28, 2014)

1. On January 31, 2014, ISO New England Inc. (ISO-NE) submitted proposed revisions to its Transmission, Markets, and Services Tariff (Tariff) to comply with the Commission's order issued in this proceeding on May 31, 2013.¹ In this order, the Commission accepts the proposed Tariff revisions to become effective April 28, 2014.

I. Background

A. Forward Capacity Market and Prior Orders

2. ISO-NE operates a Forward Capacity Market (FCM) that procures capacity on a three-year forward basis. Capacity suppliers make offers into a Forward Capacity Auction (FCA) in which ISO-NE procures the amount of capacity needed in a one-year period (the Installed Capacity Requirement or ICR), and suppliers of the capacity that clears each FCA are committed to, and receive payment for, providing capacity for that period three years in the future. The eighth FCA (FCA 8) was held in February 2014 and procured capacity for the June 1, 2017 - May 31, 2018 capacity commitment period. The ninth FCA (FCA 9) will take place in February 2015 and will procure capacity for the June 1, 2018 - May 31, 2019 capacity commitment period.

3. Relevant here, the FCM design incorporates locational pricing, in which capacity zones are modeled as either import- or export-constrained in order to permit zonal price separation when binding constraints arise. The most recent in a series of orders addressing the modeling of capacity zones (among other significant FCM issues), the May 31, 2013 Order accepted ISO-NE's proposal to retain its four capacity zones for

¹ *ISO New England Inc.*, 143 FERC ¶ 61,198 (2013) (May 31, 2013 Order).
ISO-NE's January 31, 2014 Filing (Compliance Filing).

FCA 8. While ISO-NE had previously proposed to transition to eight capacity zones based upon the eight existing energy load zones in New England² and the Commission had accepted that proposal,³ the Commission in the May 31, 2013 Order found that ISO-NE had sufficiently demonstrated that remaining with a four-zone model for FCA 8 would be just and reasonable.⁴

4. The Commission expressed lingering concerns, however, that despite having addressed zonal issues since 2010, ISO-NE had not developed an adequate process for determining the appropriate number of, and boundaries of, capacity zones in the New England region over time as conditions change. Noting ISO-NE's commitment to commencing a stakeholder process in the second quarter of 2013 to address how capacity zones and the associated zonal requirements will be determined,⁵ the Commission required ISO-NE to consider during that process: (1) the appropriate level of zonal modeling going forward; (2) the appropriate rules to govern intra- and inter-zonal transactions; and (3) whether objective criteria by which zones may automatically be created in response to rejected delist bids, generation retirements, or other changes in system conditions would be appropriate in New England, or if not, why not.⁶ The Commission also stated that ISO-NE must explain in a subsequent filing how it has addressed these items in its stakeholder process, and it must: (i) develop and file with the Commission revisions to the Tariff that articulate appropriate objective criteria to revise the number and boundaries of capacity zones automatically as the relevant conditions change, or (ii) file with the Commission an explanation as to why such criteria are unnecessary.⁷

² The eight energy load zones are Connecticut, Maine, New Hampshire, Rhode Island, Vermont, Northeastern Massachusetts/Boston (NEMA), Southeastern Massachusetts (SEMA) and Western/Central Massachusetts.

³ See *ISO New England Inc.*, 135 FERC ¶ 61,029, at P 272 (2011) (April 13, 2011 Order); *ISO New England Inc.*, 138 FERC ¶ 61,027, at P 102 (2012) (January 19, 2012 Order).

⁴ May 31, 2013 Order, 143 FERC ¶ 61,198 at PP 31-34 (discussing evidence that many constraints previously existing within New England region either have been or will be alleviated by new transmission upgrades).

⁵ December 3, 2012 filing at 41.

⁶ May 31, 2013 Order, 143 FERC ¶ 61,198 at P 35.

⁷ *Id.*

5. ISO-NE submitted the Compliance Filing in response to the directives in the May 31, 2013 Order.

II. Procedural Matters

6. Notice of the Compliance Filing was published in the *Federal Register*, 79 Fed. Reg. 7448 (2014), with interventions, comments and protests due on or before February 21, 2014. TransCanada Power Marketing, Ltd.; the United Illuminating Company; Brookfield Energy Marketing, LP; and GDF Suez Energy North America, Inc. filed timely motions to intervene.

7. The PSEG Companies (PSEG); the NRG Companies (NRG); the Eastern Massachusetts Consumer-Owned Systems (EMCOS); the New England Power Generators Association (NEPGA); and the Northeast Utilities Companies filed motions to intervene and protests. New England Power Pool Participants Committee (NEPOOL) filed a motion to intervene and comments.

8. On March 10, 2014, ISO-NE filed an answer to the comments and protests. On March 25, 2014, NRG filed an answer to ISO-NE's March 10, 2014 answer.

9. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2013), the timely-filed unopposed motions to intervene serve to make the entities that filed them a party to this proceeding.

10. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2013), prohibits an answer to a protest or an answer unless otherwise ordered by the decisional authority. We will accept the answers filed by ISO-NE and NRG because they have provided information that assisted us in our decision-making process.

III. Discussion

A. Compliance Filing

11. In its Compliance Filing, ISO-NE proposes a two-step process to automatically determine whether or not to model a zone for an upcoming FCA. Step One will be implemented by incorporating a transmission transfer capability assessment, pursuant to North American Electric Reliability Corporation (NERC) Standard FAC-013-2, into

section 3.1 of Attachment K to ISO-NE's Tariff.⁸ Under Step One, ISO-NE (with input from its stakeholders) will identify and evaluate potential zonal boundaries and associated transfer capabilities. The review will not be limited to existing energy Load Zone or Capacity Zone boundaries and will be focused on the actual constraints observed and expected on the New England system; ISO-NE proposes to use the eight existing energy Load Zones as the starting point for the analysis of transmission transfer capabilities for the ninth FCA.⁹ This assessment will include a review of rejected static and dynamic de-list bids from the most recent previous FCA or submitted permanent de-list bids and Non-Price Retirement Requests, including those received for the current FCA, in order to determine whether new interfaces (i.e., boundaries between potential zones) should be added.

12. Step Two will be implemented through revisions to section III.12 of ISO-NE's Tariff.¹⁰ Under Step Two, each year ISO-NE will apply the results of the transfer capability assessment conducted in Step One to automatic and objective criteria (or triggers) in order to determine whether a zone should be modeled. ISO-NE proposes triggers for modeling a zone as either import- or export-constrained.

13. For an import-constrained zone, the trigger to model the zone will be based on the quantity of existing resources in the zone compared with the capacity requirement in the zone.¹¹ Under ISO-NE's proposed revisions to section III.12.4(b) of the Tariff, a zone will automatically be modeled as import-constrained in an upcoming FCA when there is insufficient margin above the required amount of capacity in the zone to allow for the removal of the largest generation station from the zone. ISO-NE explains that the capacity of the largest generation station is added to the zone's capacity requirement in order to create a resource trigger threshold. If the total capacity of the existing resources in the zone exceeds the resource trigger threshold, the zone will not be modeled as

⁸ ISO-NE states that Attachment K describes ISO-NE's Regional System Plan. Section 3.1 of Attachment K requires the Regional System Plan to describe, for a ten-year horizon, the needs for resources over this period and how such resources are expected to be provided. Transmittal, Compliance Filing at 4.

⁹ ISO-NE March 10, 2014 Answer at 2.

¹⁰ ISO-NE notes that section III.12 of its Tariff describes the calculation of capacity requirements. Transmittal, Compliance Filing at 5.

¹¹ Transmittal, Compliance Filing at 5, citing to attached testimony by ISO-NE witness Alan McBride (McBride testimony) at 10.

import-constrained; but if the total capacity of the existing resources in the zone does not exceed the resource trigger threshold, the zone will be modeled as import-constrained.¹²

14. ISO-NE states that it proposes to use the largest generation station in a zone as the modeling margin in order to capture the effects of de-list bids or retirements on the system. ISO-NE believes that this modeling margin is appropriate given the recent retirements of full generation stations in New England, such as the retirement of all the resources at the Salem Harbor station and the announced imminent retirement of all the resources at the Brayton Point and Norwalk Harbor stations. In addition, ISO-NE points to PJM Interconnection, L.L.C.'s (PJM) Reliability Assurance Agreement, Schedule 10.1, to assert that ISO-NE's proposed modeling margin is similar to a margin used in PJM's automatic triggering mechanism.¹³

15. Regarding export-constrained zones, ISO-NE's proposed revisions to section III.12.4(a) of the Tariff automatically model a zone as export-constrained in an upcoming FCA when the total quantity of existing and proposed new capacity resources exceeds the Maximum Capacity Limit of the zone and insufficient transmission capability exists to export those excess capacity resources.¹⁴

16. In support of its proposal to determine before the start of each auction whether to model a zone instead of modeling all zones all the time, ISO-NE states that it would be burdensome to model unnecessary zones. ISO-NE argues that the boundaries of several of the existing Load Zones do not correspond to constraints on the real operating system, and Step One of its proposed zonal modeling process may result in future new zones with

¹² For example, if a zone's capacity requirement is 100 MW and the single largest resource in that zone is 5 MW, then that zone's trigger is 105 MW and would be import-constrained if the amount of capacity in the zone were less than 105 MW.

ISO-NE notes that a zone's capacity requirement is calculated using the "line-line" Transmission Security Assessment methodology. ISO-NE states that a "line-line" Transmission Security Assessment methodology determines an area's capacity requirement by evaluating the internal generation and import capability of the area. Transmittal, Compliance Filing at 5.

¹³ See PJM Reliability Assurance Agreement, Schedule 10.1 (identifying PJM's Locational Deliverability Areas and addressing Locational Deliverability Area requirements relative to PJM's capacity market).

¹⁴ Section III.12.2.2 of the current Tariff defines Maximum Capacity Limit as the maximum amount of capacity that can be procured in an export-constrained capacity zone to meet the Installed Capacity Requirement.

different boundaries, based on electrical characteristics. Further, ISO-NE states that many existing Load Zone boundaries do not have established interface transfer capabilities and, therefore, they do not provide meaningful information regarding the location of resources. In addition, ISO-NE contends that neither PJM nor the New York Independent System Operator, Inc. (NYISO) model all zones all the time. ISO-NE states that only areas in PJM and NYISO that activate the trigger mechanism are separately modeled as zones in the PJM and NYISO capacity markets.

17. Beginning with FCA 10, scheduled for February 2016, ISO-NE proposes to include the analysis of appropriate zonal boundaries into its annual process used to calculate transfer limits pursuant to Regional System Plan¹⁵ and NERC statutory requirements.¹⁶ Further, ISO-NE states that, pursuant to its proposed Tariff revisions, it will submit a section 205 filing to the Commission if its proposed automatic zonal modeling process identifies a potential new zone. ISO-NE also states that, if the Regional System Plan assessment identifies the need for a new zone, ISO-NE commits to presenting the results of the Regional System Plan assessment to the NEPOOL Reliability Committee prior to filing Tariff amendments describing the new zone. Indeed, ISO-NE states that it discussed its Tariff revisions proposed here, as well as transmission constraints and proposed transmission upgrades with the NEPOOL Reliability Committee. In addition, ISO-NE states that NERC Standard FAC-013-2 was reviewed during stakeholder discussions when examining potential future transmission system weaknesses, and stakeholders considered criteria used in PJM and NYISO to determine the appropriate number and boundaries of zones.

B. Comments and Protests

18. Protests focus largely on ISO-NE's proposal to automatically model a zone as import-constrained in an upcoming FCA when there is insufficient margin above the required amount of capacity in the zone to allow for the removal of the largest generation station from the zone.

19. The Northeast Utilities Companies contend that ISO-NE has not shown that use of the potential loss of a zone's largest generation station is a proper determinant of future capacity resource shortcomings for purposes of modeling an import-constrained zone.

¹⁵ Section 3.1 of Attachment K to ISO-NE's Tariff describes the Regional System Plan, which is based on periodic comprehensive assessments of system-wide needs "to maintain the reliability of the New England Transmission System while accounting for market efficiency, economic, environmental, and other considerations, as agreed to from time to time." *See* footnote 8, above.

¹⁶ Transmittal, Compliance Filing at 9.

The Northeast Utilities Companies request that the Commission direct ISO-NE to use a 15 percent capacity resource margin trigger to determine a new zonal boundary, which, according to the Northeast Utilities Companies, is similar to the trigger used in PJM.¹⁷ They state that ISO-NE has not provided evidence that the 15 percent margin used in PJM could not be employed in ISO-NE. They assert that as part of the stakeholder process, ISO-NE reviewed, but did not endorse, the 15 percent margin used in PJM, and that ISO-NE acknowledged that its proposed trigger would result in surplus margins greater than the PJM 15 percent surplus margin.¹⁸

20. The Northeast Utilities Companies further state that ISO-NE's reliance on the retirements of the Salem Harbor, Brayton Point, and Norwalk Harbor stations as justification for its decision to use the largest generation station as a trigger for zone formation is unreasonable.¹⁹ The Northeast Utilities Companies explain that the Salem Harbor and Brayton Point stations have retired or will retire due to lengthy service periods and the need for significant capital investment for environmental compliance in order to continue service. The Northeast Utilities Companies, as well as EMCOS,²⁰ argue that ISO-NE has not shown that other major generation stations will retire for similar reasons, with the Northeast Utilities Companies noting that several generation stations in New England recently placed into service or have operating licenses that expire well into the future.

21. NRG and PSEG assert that ISO-NE's proposed trigger for modeling an import-constrained zone is inadequate because it fails to identify the need for zonal modeling in a scenario where the number of megawatts (MW) produced by capacity resources attempting to de-list within a zone are collectively greater than the number of MW produced by the largest generation station within the zone.²¹ PSEG states that, under ISO-NE's proposal, the aforementioned scenario would result in a lack of price separation. NRG maintains that, in such a scenario, the zone should be modeled as import-constrained and allowed to experience price separation. Both NRG and PSEG

¹⁷ The Northeast Utilities Companies explain that PJM utilizes a 15 percent margin in the objective criteria for determining Locational Deliverability Areas in Schedule 10.1 of the PJM Reliability Assurance Agreement. Northeast Utilities Companies February 21, 2014 Protest at 4-5.

¹⁸ Northeast Utilities Companies February 21, 2014 Protest at 4-5.

¹⁹ Northeast Utilities Companies February 21, 2014 Protest at 6-7.

²⁰ EMCOS February 21, 2014 Protest at 17.

²¹ PSEG February 21, 2014 Protest at 8.

contend that the solution is to model all zones all the time in order to allow for more efficient market price outcomes.

22. NRG further states that the trigger for import-constrained zones should account for all retirement requests and de-list bids submitted in all previous FCAs as well as in the current FCA,²² and that ISO-NE should proactively identify resource units at risk of submitting de-list bids or retirement requests. NRG argues that ISO-NE's decision to not model all zones all the time based on current practices in NYISO and PJM is flawed. NRG explains that PJM automatically models a number of Locational Deliverability Areas in every auction regardless of the outcome of PJM's initial threshold tests.²³ NRG also asserts that PJM will model a Locational Deliverability Area in any auction when that Locational Deliverability Area bound in any one or more of the three immediately preceding auctions. NRG also states that NYISO continues to model a new capacity zone in perpetuity, once that zone is created via a deliverability test trigger.²⁴ NRG argues that ISO-NE's proposal, on the other hand, does not include the continuous modeling of zones that bound in prior auctions or those considered constrained historically. In light of its arguments, NRG asserts that ISO-NE should model all zones all of the time, not just when there is an insufficient margin above the local required amount of capacity.²⁵

23. NEPGA states that modeling of a zone should occur each time a transmission constraint is identified and when a supply shortfall exists due to an increase in the level of resource de-list bids, not when there is insufficient margin of capacity above the required capacity amount in the zone.²⁶ NEPGA asserts ISO-NE should not use the largest generation station margin and instead apply a reasonable buffer in addition to this margin.²⁷

24. Further, NEPGA argues that ISO-NE has not included all relevant information in its transfer capability assessment. Specifically, NEPGA states that ISO-NE should include all de-list bids (rejected or not), Non-Price Retirement Requests and permanent de-list bids in all prior FCAs, and "reasonably foreseeable or possible [Non-Price

²² NRG February 21, 2014 Protest at 5.

²³ NRG February 21, 2014 Protest at 6.

²⁴ NRG February 21, 2014 Protest at 6-7.

²⁵ NRG February 21, 2014 Protest at 4.

²⁶ NEPGA February 21, 2014 Protest at 4.

²⁷ NEPGA February 21, 2014 Protest at 6.

Retirement Requests] and de-list bids” when seeking to identify transmission constraints on the system.²⁸ NEPGA contends that ISO-NE should model all zones all the time by modeling resources that are at risk of submitting Non-Price Retirement Requests or de-list bids in upcoming FCAs as out of service, in order to ensure that it does not under-model zones. NEPGA explains that under-modeling a zone (i.e., failing to model a zone that would have price-separated if modeled) would drive the capacity market to under-value local resource adequacy.²⁹ NEPGA states that all relevant information must be included when modeling a capacity zone with transmission constraints that lead to price separation in order to avoid inefficient and price-suppressive outcomes.³⁰

25. NEPGA further maintains that ISO-NE has acknowledged an incongruity between its transmission planning and capacity zone modeling determinations. NEPGA posits that ISO-NE determines zonal capacity needs by assuming a loss of the two largest supply elements³¹ (e.g., the loss of the largest generation station and loss of the largest importing transmission line, or the loss of the two largest transmission lines) in the zone, but, for purposes of transmission planning, ISO-NE first assumes that the largest generation station is out of service, and then assumes that the next two largest supply elements are out of service.³² NEPGA argues that this incongruence demonstrates the need to model zones when there is a reasonable possibility that binding constraints may arise, which it believes is better revealed through the transmission planning process than by the process ISO-NE proposes here to use to determine the appropriate number of zones. NEPGA requests that the Commission direct ISO-NE to file status updates on its commitment to correct for what it views as an incongruence between the assumptions ISO-NE makes in planning for transmission reliability and the method it proposes to employ for modeling zones leading up to a capacity auction.

26. EMCOS, on the other hand, asserts that ISO-NE’s Transmission Security Assessment³³ already includes an evaluation of the loss of the most critical transmission element followed by the loss of the second most critical transmission element and that ISO-NE’s proposed trigger adds two unnecessary contingencies: (1) the largest

²⁸ NEPGA February 21, 2014 Protest at 7.

²⁹ NEPGA February 21, 2014 Protest at 6.

³⁰ NEPGA February 21, 2014 Protest at 6.

³¹ A supply element is a generator or transmission component.

³² NEPGA February 21, 2014 Protest at 8.

³³ See footnote 12, above.

generation station in the zone modeled as out-of-service, and (2) Non-Price Retirement Requests (including those received for the current FCA) and de-list bids from the most recent FCA modeled as out-of-service. EMCOS states that ISO-NE's proposal penalizes customers in the NEMA zone, by imposing costs on them for not having "overbuilt transmission so as to withstand extreme contingencies that have not occurred and likely never will occur."³⁴

27. EMCOS also challenges ISO-NE's proposed revisions to section 3.1 of Attachment K to the Tariff, which would incorporate a transmission transfer capability assessment conducted pursuant to NERC Standard FAC-013-2 into the Regional System Plan. EMCOS states that ISO-NE's proposed revisions do not indicate what can be expected from ISO-NE's Regional System Plan.³⁵ EMCOS argues that, although ISO-NE uses NERC Reliability Standard FAC-013 as a guideline to perform an annual transmission capability assessment, it does not disclose its underlying methodology for performing the annual assessment, as required under Requirement R1 of this NERC standard.

28. Further, EMCOS maintains that ISO-NE's proposal does not provide rules to govern intra- and inter-zonal transactions. EMCOS notes that, due to expected substantial increases in capacity prices emerging from FCA 7 and FCA 8, load-serving entities, like EMCOS, had anticipated that proposed intra- and inter-zonal transactions rules could provide some relief.³⁶ EMCOS argues that building new capacity resources in response to projected increases in capacity prices is not a viable alternative because changes to ISO-NE's FCM market rules, including ISO-NE's proposed Attachment K, section 3.1 Tariff revisions have created significant disincentives to long-term investment in generation units.³⁷

29. NEPOOL states that, following its stakeholder process, its participants failed to support ISO-NE's proposed Tariff revisions, further noting that several amendments to ISO-NE's proposal were offered throughout the stakeholder process, none of which

³⁴ EMCOS February 21, 2014 Protest at 15-16.

³⁵ EMCOS February 21, 2014 Protest at 19.

³⁶ EMCOS February 21, 2014 Protest at 22.

³⁷ EMCOS February 21, 2014 Protest at 20-21.

passed.³⁸ NEPOOL further asserts that ISO-NE made two commitments during the stakeholder process. First, NEPOOL states that ISO-NE communicated that it would support a proposal by NRG in time for use in the capacity commitment period covered by FCA 9, but requested that a vote on this proposal be deferred following discussions internally, and with NEPOOL, regarding supporting details.³⁹ Second, NEPOOL states that ISO-NE committed to bring any proposed change to boundaries of the capacity zones to NEPOOL's Reliability Committee for a vote prior to filing such a change with the Commission.⁴⁰ NEPOOL states that this commitment will allow for formal NEPOOL input into the decision to modify capacity zone boundaries early on in the development of FCM auction parameters.

C. Answers

30. In its answer, ISO-NE asserts that it is unnecessary to model all potential de-list bids and retirements as "out of service" in addition to using the modeling margin of the largest generation station in a zone.⁴¹ ISO-NE explains that several static de-list bids submitted during the auction cycles are not binding and can be withdrawn. Further, ISO-NE argues that the largest generation station margin is superior to a 15 percent margin

³⁸ NEPOOL explains that its participants failed to support a motion to approve ISO-NE's proposed changes to Section III.12 of the Tariff, with only a 34.53 percent vote in favor. A minimum 60 percent vote is required for NEPOOL support of Tariff revisions. NEPOOL also explains that its participants failed to support the proposed changes to Attachment K of the Tariff by a show of hands. NEPOOL February 21, 2014 Comments at 2.

³⁹ NEPOOL explains that NRG proposed an amendment to Section III.13 of the Tariff to eliminate the restriction on trading Capacity Supply Obligations between capacity zones. NEPOOL states that, on December 17, 2013, the Markets Committee, with a 74.2 percent vote in favor, recommended NEPOOL support for NRG's proposal. NEPOOL February 21, 2014 Comments at 6-7.

The Markets Committee provides input on procedures affecting the daily operation and administration of New England's bulk electric power market. ISO-NE, *Markets Committee*, http://www.iso-ne.com/committees/comm_wkgrps/mrks_comm/mrks/.

⁴⁰ NEPOOL February 21, 2014 Comments at 10.

⁴¹ ISO-NE March 10, 2014 Answer at 5-6.

because it is more indicative of a zone's resource characteristics.⁴² In response to arguments made by EMCOS regarding additional contingencies to those found in ISO-NE's Transmission Security Assessment, ISO-NE states that it developed its trigger mechanism in response to factual realities and objective reliability criteria.⁴³ ISO-NE explains that NERC, Northeast Power Coordinating Council, and ISO-NE planning requirements call for the inclusion of two contingencies in the Transmission Security Assessment methodology, while the largest generation station margin is an objective criterion needed to meet reliability issues.

31. ISO-NE disputes arguments seeking modeling of "all zones all the time," stating that the May 31, 2013 Order does not require ISO-NE to "model all zones all the time." Rather, ISO-NE states, it was directed to work with stakeholders to determine "the appropriate level of zonal modeling going forward."⁴⁴ ISO-NE also notes that it has previously explained why use of the eight load zones as capacity zone boundaries is not appropriate.⁴⁵ Further, ISO-NE reiterates that Step One of its proposed automatic zonal modeling process may result in future new zones with different boundaries based on electrical characteristics.

32. ISO-NE asserts that, contrary to PSEG's argument, price suppression will be avoided under its proposal because its proposed generation station margin accounts for potential retirements and de-list bids and can identify the need for the modeling of a zone that has not been separately modeled before.⁴⁶ Further, ISO-NE asserts that although the largest generation station margin is applied prior to an auction, use of the largest-station modeling margin will account for the possibility of de-list bids and retirement requests submitted during an auction.⁴⁷

⁴² ISO-NE explains that the 15 percent margin would not have forecast the recent whole-station retirements in New England, including the Salem Harbor and Brayton Point stations. ISO-NE March 10, 2014 Answer at 6.

⁴³ ISO-NE March 10, 2014 Answer at 6.

⁴⁴ ISO-NE March 10, 2014 Answer at 8.

⁴⁵ ISO-NE March 10, 2014 Answer at 8-9 (citing ISO New England Inc., 135 FERC ¶ 61,029 (2011); *ISO New England Inc.*, 138 FERC ¶ 61,027 (2012)).

⁴⁶ ISO-NE March 10, 2014 Answer at 9-10.

⁴⁷ ISO-NE March 10, 2014 Answer at 9.

33. In response to NRG's protest requesting that ISO-NE model all zones all the time based on the current zonal modeling approaches of PJM and NYISO, ISO-NE argues that NRG's protest in fact demonstrates that PJM and NYISO do not model all zones all the time, but instead use triggers or thresholds.⁴⁸

34. In response to arguments made by EMCOS asserting that ISO-NE has not provided objective modeling criteria, ISO-NE asserts that EMCOS erroneously reads revised section 3.2 of Attachment K of the Tariff in isolation.⁴⁹ ISO-NE explains that section 3.2 describes the Step One of ISO-NE's proposed automatic zonal modeling mechanism, while proposed section III.12 of ISO-NE's Tariff describes Step Two and contains objective criteria.

35. In addition, ISO-NE responds to EMCOS' arguments regarding ISO-NE's compliance and transparency with NERC Reliability Standard FAC-013-2.⁵⁰ ISO-NE notes that although the May 31, 2013 Order does not require ISO-NE to demonstrate compliance with this standard, it has documented a methodology for its compliance and has distributed this methodology to requesting entities that indicate a reliability-based need. In addition, ISO-NE explains that, under its proposal, the transparency of its annual Transmission Security Assessment process will increase through presentations and discussions with the Planning Advisory Committee.⁵¹

36. ISO-NE states that it will fulfill the commitments raised in NEPOOL's comments. Similarly, ISO-NE states that, in response to NEPGA's claim that incongruence exists between transmission planning and resource adequacy determinations, ISO-NE has agreed to discuss the appropriateness of different assumptions used in different studies.

⁴⁸ ISO-NE March 10, 2014 Answer at 10.

⁴⁹ ISO-NE March 10, 2014 Answer at 12.

⁵⁰ ISO-NE March 10, 2014 Answer at 12-13.

⁵¹ The Planning Advisory Committee serves as regional forum for interested parties to provide input to ISO-NE concerning the assessment and development of the Regional System Plan and the conduct of system enhancement and expansion studies. ISO-NE, *Planning Advisory Committee*, http://www.iso-ne.com/committees/comm_wkgrps/prtcpnts_comm/pac/.

37. In its answer, NRG argues that modeling all zones all the time would accurately reflect locational value in ISO-NE's capacity market and prevent market failures such as premature retirements and lack of timely market-based investments.⁵² NRG notes that in the near-term, the eight existing load zones are the appropriate starting point for a comprehensive review of zonal boundaries.⁵³ NRG also asserts that ISO-NE has not supported its claim that modeling all zones all the time requires "excessive implementation costs and efforts."⁵⁴ NRG argues that, in any event, the future application of a sloped demand curve in ISO-NE demonstrates that an overhaul of the current auction structure and related software equipment will be needed.

D. Commission Determination

38. The Commission will accept ISO-NE's Compliance Filing to become effective April 28, 2014. We find that ISO-NE has met its compliance obligation by filing Tariff revisions that articulate appropriate objective criteria to revise the number and boundaries of capacity zones automatically as the relevant conditions change, as directed in the May 31, 2013 Order. More specifically, ISO-NE's Compliance Filing reflects proposed standards for when new zones are created (or are not created), relying on objective or automatic triggers in response to delist bids, generation retirements, and other changes in system conditions.

39. Protestors' challenges are mostly directed toward the trigger for import-constrained zones – in essence, EMCOS suggests that the trigger will be struck too quickly, and generator parties argue that the trigger will not be reached soon enough. We find that ISO-NE has appropriately supported its proposed use of the largest generation station as the margin for triggering an import-constrained zone, as it strikes a reasonable balance between accounting for reliability planning criteria such as those required by NERC and Northeast Power Coordinating Council and the resource characteristics of a capacity zone. As ISO-NE explains, the purpose of the modeling margin (that is, the capacity amount of the largest generating station in the zone) in the import-constrained modeling mechanism is to capture changes in system conditions, consistent with the May 31, 2013 Order. These changes, such as de-list bids or retirements, could trigger the formation or dissolution of zones and thereby help ensure that capacity resources are compensated according to the value they bring to the system. While certain protestors argue that multiple smaller retirements should also trigger an import-constrained zone,

⁵² NRG March 25, 2014 Answer at 2.

⁵³ NRG March 25, 2014 Answer at 5.

⁵⁴ NRG March 25, 2014 Answer at 6-7.

evaluating a combination of smaller resources would involve subjective determinations and prediction, in other words, the opposite of the objective and clearly verifiable criteria that the Commission required in the May 31, 2013 Order. While ISO-NE's trigger event involves a single resource, whose number of MW is easily calculable, the use of "reasonably foreseeable" de-list bids as proposed by NEPGA would involve judgment calls about how reasonably foreseeable any de-list bid would be in a particular auction, how many such de-list bids would be likely to be reasonably foreseeable, and in general would introduce a much greater element of uncertainty to the process of zonal determination. To that end, because we find that ISO-NE has supported its Compliance Filing as just and reasonable and in compliance with the May 31, 2013 Order, we need not address the other trigger mechanisms advocated by protestors.⁵⁵

40. Similarly, we will not require ISO-NE to model all load zones all of the time. The May 31, 2013 Order did not require ISO-NE to do so, and we find that ISO-NE has supported its proposal to model zones prior to each auction rather than all of the time. As ISO-NE explains, many existing load zone boundaries do not have established interface transfer capabilities, so they do not provide meaningful information regarding the location of resources. Further, the boundaries of several of the existing load zones do not align with actual system constraints. Indeed, because the Compliance Filing reflects the Commission's directive that the Tariff articulate appropriate objective criteria that account for relevant changes in system conditions, we find it reasonable that ISO-NE would not model all zones all of the time and instead do so prior to each auction. As detailed in the May 31, 2013 Order and noted above, while ISO-NE had previously proposed to model all zones all of the time as part of its eight-zone model design, the May 31, 2013 Order allowed ISO-NE's then-existing Tariff provisions to remain in place (with four capacity zones), subject to ISO-NE wholly re-evaluating the appropriate level of zonal modeling going forward. We find that ISO-NE has met this compliance obligation and submitted Tariff revisions that address the Commission's concerns in the May 31, 2013 Order.

41. While EMCOS argues that the proposed Tariff revisions fail to set forth rules governing intra- and inter-zonal transactions, the May 31, 2013 Order required only that ISO-NE consider that issue, among others, in addressing how capacity zones and the associated zonal requirements will be determined. The May 31, 2013 Order did not require specific Tariff language in that regard. We additionally note with regard to

⁵⁵ See *Oxy USA, Inc. v. FERC*, 64 F.3d 679, 692 (1995) (where Commission finds methodology to be just and reasonable, that methodology "need not be the only reasonable methodology, or even the most accurate one"); cf. *City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984) (Commission not required to consider "whether a proposed rate schedule is more or less reasonable than alternative rate designs").

EMCOS' argument that ISO-NE's process failed to disclose its methodology for performing its annual transmission capability assessment as required under Requirement R1 of NERC Reliability Standard FAC-013, ISO-NE has stated that it will provide this information as necessary (see P 36 above).

42. As to protesters' statements that ISO-NE has committed to address various issues associated with restrictions on Capacity Supply Obligations, new capacity zone boundaries, and inconsistencies between transmission planning and resource adequacy studies, we note that ISO-NE is continuing to develop improvements to its use of capacity zones. As NEPOOL notes in its comments, ISO-NE has committed to revising its Tariff to eliminate the restriction on trading capacity supply obligations between capacity zones and to presenting any proposed changes to the capacity zone boundaries to the Reliability Committee for a vote before filing any proposed changes with the Commission.⁵⁶ We encourage the parties to work through the stakeholder process to develop ongoing improvements to ISO-NE's market rules, as they believe necessary.

43. Further, as ISO-NE and its stakeholders engage in such discussions, we encourage parties to consider the impact that implementing a sloped demand curve will have on decisions to retain or eliminate previously-created zones. While ISO-NE's capacity market is currently based on a vertical demand curve, ISO-NE recently submitted proposed Tariff revisions to implement a system-wide sloped demand curve, which are pending.⁵⁷ To the extent that zonal demand curves are based on entry costs, we encourage ISO-NE and its stakeholders to consider whether, or under what conditions, entry cost differences between zones should become an additional, independent factor in determining whether a previously-created zone that might otherwise be eliminated should instead remain in existence.

⁵⁶ NEPOOL comments at 9-10.

⁵⁷ ISO New England Inc. and New England Power Pool Participants Committee. Docket No. ER14-1639-000 (filed Apr. 1, 2014).

The Commission orders:

ISO-NE's proposed Tariff revisions are hereby accepted for filing, to become effective April 28, 2014, as discussed in the body of this order.

By the Commission.

Nathaniel J. Davis, Sr.,
Deputy Secretary.