

143 FERC ¶ 61,065
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

ISO New England Inc. and
New England Power Pool

Docket Nos. ER13-895-000
ER13-895-001

ORDER ON PROPOSED TARIFF REVISIONS

(Issued April 24, 2013)

1. On February 7, 2013, ISO New England, Inc. (ISO-NE) and the New England Power Pool (NEPOOL) Participants Committee jointly submitted, pursuant to section 205 of the Federal Power Act (FPA) and section 11.1.5 of the Participants Agreement,¹ two alternative sets of proposed revisions² to Market Rule 1 of ISO-NE's Transmission, Markets and Services Tariff (Tariff). Each proposal provides for earlier clearing of the day-ahead energy market and earlier completion of the initial Reserve Adequacy Analysis (RAA) process than under the existing Tariff, for purposes of coordinating the timing of the gas and electricity markets. In this order, the Commission accepts the

¹ Section 11.1.5 of the Participants Agreement provides, in pertinent part, that if a Market Rule proposal that differs from that proposed by ISO-NE is approved by a Participants Committee vote of 60 percent or more, ISO-NE "shall, as part of any required Section 205 filing," describe the alternate Market Rule proposal in sufficient detail to permit reasonable review by the Commission and also explain its reasons for not adopting the alternate proposal and why it believes its own proposal is superior. Section 11.1.5 provides that the Commission may "adopt all or any of ISO[-NE]'s Market Rule proposal or the alternate Market Rule proposal as it finds . . . to be just and reasonable and preferable."

² As further described below, these proposals will be referred to respectively as the ISO-NE Proposal and the NEPOOL Proposal.

NEPOOL Proposal, effective on or after May 1, 2013, as requested, with two weeks' notice of the actual effective date to be provided by ISO-NE.

I. Background

2. Under the existing Tariff, the day-ahead energy market bidding window closes at 12:00 noon, and ISO-NE clears the market and posts results at 4:00 p.m.³ A re-offer period occurs between 4:00 p.m. and 6:00 p.m., during which time market participants may submit changes to their original supply offers. Following the re-offer period, ISO-NE conducts the initial RAA process to determine whether it is necessary from a reliability perspective to commit more resources in addition to those that were committed through the day-ahead market. The initial RAA process is completed at 10:00 p.m., and market participants are notified if any of their resources have been committed through the RAA process to operate for the next operating day starting at 12:00 midnight.

3. ISO-NE and NEPOOL state that the proposed changes are intended to address concerns with the current day-ahead market schedule and increased reliance on natural-gas fired generators at times when there is an increasingly tight availability of pipeline capacity to deliver gas. ISO-NE and NEPOOL agree that, to ensure there is enough generation in operation during the early morning hours as load increases for the day, ISO-NE must be able to commit resources with long start-up times well before completing the initial RAA process at 10:00 p.m. Nevertheless, because ISO-NE and its stakeholders did not agree as to precisely when several of the day-ahead market activities should occur, ISO-NE and NEPOOL submitted the alternative schedules proposed here, one propounded by ISO-NE and the other propounded by NEPOOL. As compared to the existing tariff, both proposals provide for earlier clearing of the day-ahead energy market and earlier completion of the initial RAA, but, as further detailed below, the ISO-NE Proposal would begin and end the processes one hour sooner than under the NEPOOL Proposal.

II. Proposed Tariff Revisions

A. The ISO-NE Proposal

4. The ISO-NE Proposal⁴ provides for the bidding window to close at 9:00 a.m., the day-ahead market to clear by 12:30 p.m., and completion of the initial RAA process by

³ All times mentioned in this order are Eastern Time.

⁴ In support of its filing, ISO-NE submitted testimony from Peter T. Brandien (Brandien Testimony) and Richard L. Levitan (Levitan Testimony).

4:00 p.m. The re-offer period would be compressed from the current two hours to a minimum of a half hour and occur between the posting of the day-ahead results (i.e., by 12:30 p.m.) and 1:00 p.m.

5. ISO-NE states that completing the initial RAA at 4:00 p.m. will provide reliability benefits by allowing market participants with gas-fired resources additional time to procure gas and arrange transportation before the North American Energy Standards Board (NAESB) Intraday 2 and Evening natural gas nomination cycles.⁵ ISO-NE argues that the additional time should result in fewer instances in which market participants declare their gas-fired resources to be unavailable due to inability to obtain fuel. ISO-NE also posits that the additional time will better enable it to address natural gas availability issues, by providing adequate time for long-lead time units to be ready to meet electricity demand as they ramp-up early in the morning (as early as 4:00 a.m. during the winter season) so that ISO-NE can commit those resources if necessary. In addition, ISO-NE states that the additional time will better enable it to coordinate and make appropriate arrangements with neighboring control areas to address projected reliability problems.

6. ISO-NE asserts that it becomes significantly more difficult after 5:00 p.m., which is when the initial RAA would close under the NEPOOL Proposal, to take all of the necessary steps to purchase, schedule, and nominate fuel prior to the 6:00 p.m. Intraday 2 and 7:00 p.m. Evening nomination deadlines, as normal business hours are coming to an end. Furthermore, ISO-NE states that the one-hour delay in completing the initial RAA process under the NEPOOL Proposal significantly reduces market participants' ability to procure and nominate gas before the NAESB Intraday 2 nomination cycle at 6:00 p.m., which is the last opportunity to procure gas for the 12:00 midnight to 10:00 a.m. period. ISO-NE notes that it can take up to two hours to make all of the necessary arrangements for gas purchase and delivery.

7. ISO-NE further argues that completing the initial RAA process at 4:00 p.m. is necessary to allow for an additional 1,000 MW of non-gas-fired resources with the longest start-up times to be available during the early morning ramp period. Moreover, ISO-NE states that the relatively recent reduction in the usage of oil- and coal-fired plants

⁵ There are two day-ahead natural gas pipeline capacity nomination cycles: "Timely" cycle bids are due at 12:30 p.m. and "Evening" cycle bids are due at 7 p.m.; both cycles deliver gas beginning at 10:00 a.m. the next day. There are also two within-day, or "intraday," nomination cycles through which a pipeline customer can receive new or alter existing transportation service. Nominations for the "Intraday 1" cycle are due at 11:00 a.m. for deliveries beginning at 6:00 p.m. the same day and nominations for the "Intraday 2" cycle are due at 6:00 p.m. for deliveries beginning at 10:00 p.m. on the same day.

means that those resources are more likely to experience problems during start-up than in the past. According to ISO-NE, several plants have experienced lengthy outages in the past year. ISO-NE also states that there is the potential for retirement of older, non-gas-fired resources, which could make completing the initial RAA process by 4:00 p.m. more important in the future, for purposes of committing the additional 1,000 MW of resources.

8. ISO-NE posits that generation companies, marketers, and traders are already working in the early morning hours to assess price, next day loads, and the market and operating conditions affecting day-ahead market bids. ISO-NE states that gas markets are workably competitive and expects that potential trading counterparties will adjust to accommodate the earlier 9:00 a.m. day-ahead market bidding window without exposing the electricity market to a significant risk premium.

9. ISO-NE also proposes to delete existing Appendix H (Operations During Cold Weather Conditions), regardless of which proposal the Commission accepts, and relocate the few provisions that remain relevant to other sections of Market Rule 1. ISO-NE states that both its and the NEPOOL Proposal largely obviate the need for the special cold weather procedures.⁶

10. Also regardless of which proposal the Commission accepts, ISO-NE commits to reviewing system performance under the day-ahead market schedule changes a year after they are implemented. ISO-NE will then share the results of that review with stakeholders and, together with stakeholders, determine if future changes are appropriate.

⁶ Provision III.H.3.2 is being moved to III.1.7.20(f); provisions III.H.3.4(b)(ii) and part of III.H.3.4(c)(ii) are being moved to III.1.11.3(f); part of provision III.H.3.4(c)(ii) is being moved to III.1.7.20(f); and part of III.H.3.4(c)(ii) is being moved to III.13.6.1.1.5(b). Appendix H addresses system operations during Cold Weather Conditions and includes provisions for coordination of the different scheduling timeframes between the gas and electric systems, as well as the formal processes that exist among ISO-NE, owners of gas-fired generation, and the natural gas industry during Cold Weather Conditions.

B. The NEPOOL Proposal

11. The NEPOOL Proposal⁷ provides for the bidding window to close at 10:00 a.m., the day-ahead market to clear by 1:30 p.m., and completion of the initial RAA process by 5:00 p.m. The re-offer period would occur between the posting of the day-ahead results (i.e., by 1:30 p.m.) and 2:00 p.m. NEPOOL states that the additional hour in the morning beyond that provided for in the ISO-NE Proposal will allow gas-fired generators to submit offers based on more price information developed during the most liquid (or active) portion of the gas trading day.

12. NEPOOL states that both proposals address reliability concerns by shifting the current deadlines earlier, but that the extra hour between 9:00 a.m. and 10:00 a.m. provided under the NEPOOL Proposal is critical, because it enables gas-fired units to benefit from reasonable transparency, robust price discovery, and competition in the natural gas commodity marketplace when formulating day-ahead energy bids. NEPOOL asserts that an illiquid natural gas market reflects higher risk premiums, and, together with inaccurate gas price forecasts, is likely to result in sub-optimal dispatch and higher energy prices, to the detriment of consumers and the marketplace. NEPOOL adds that the additional hour allotted with the NEPOOL Proposal will better allow entities with responsibility for serving load in the region to collect hourly load data from the previous day for use in preparing day-ahead demand bids for the day-ahead market, resulting in bids better representing actual real-time loads.

13. NEPOOL disagrees with ISO-NE's assertion that active next-day trading in the northeast gas markets sometimes begins as early as 7:00 a.m. NEPOOL states that active trading in the natural gas market for next day gas does not occur until around 8:30 to 8:45 a.m. the day prior to the electric operating day, with the greatest liquidity in the natural gas commodity market occurring from about 9:00 a.m. through 10:30 a.m.⁸ NEPOOL argues that, even if the gas commodity market presents some liquidity at 9:00 a.m., day-ahead bidders could not take full advantage of the limited information. According to NEPOOL, gas market participants generally need at least 30 minutes to an hour or longer to complete and verify their trades, reflect those trades in offers for their generation units, receive the necessary internal approvals, and enter the offers reliably and accurately in

⁷ In support of its filing, NEPOOL submitted testimony of Leslie O. Dedrickson (Dedrickson Testimony), Gordon Barr (Barr Testimony), and James A. Ginnetti (Ginnetti Testimony).

⁸ NEPOOL notes that, while it is true that some trades will take place early in the morning before the time of peak liquidity, those trades provide much less insight into the true price of gas for large volumes.

the ISO-NE bidding system. NEPOOL also states that there is no reasonable basis upon which to conclude that the gas markets, which are national in scope, would adapt to ISO-NE's earlier regional offer deadline.

14. NEPOOL further asserts that closing the bidding window at 9:00 a.m. as under the ISO-NE Proposal could actually magnify challenges related to coordinating the timing of gas and electric markets and lead to market inefficiencies. NEPOOL argues that the ISO-NE Proposal shifts the offer deadline too early and would require gas-fired generator owners to formulate their day-ahead offers based on very limited, if any, gas market information and expose those in the gas market to materially increased price risk due to lack of liquidity in the gas market, all resulting in higher risk premiums in their day-ahead market offers. NEPOOL states that, not only would load servers be in a worse, riskier position, but also the increased difference between the cleared day-ahead loads and the actual real-time loads would create a larger variance between day-ahead market and final RAA schedules.

15. NEPOOL avers that there is no meaningful distinction from a reliability perspective in completing the initial RAA at 5:00 p.m., one hour later than under the ISO-NE Proposal. NEPOOL asserts that the NEPOOL Proposal will capture the vast majority of long-lead-time units needed for the next day's morning ramp in the initial RAA process. NEPOOL argues that under the NEPOOL Proposal, ISO-NE would have complete and undiminished access to the remaining long start-up time units and would be able to commit those few extra units "manually" prior to the completion of the initial RAA, just as it does today, without compromising reliability. NEPOOL argues that even under the ISO-NE Proposal's 4:00 p.m. RAA, ISO-NE acknowledges that it will need to issue reliability commitments for some long lead-time resources before the release of the initial RAA.

16. NEPOOL notes that during the stakeholder process, some market participants questioned the need to move the day-ahead market timing at all, positing that ISO-NE can already shift the timing under its emergency procedures but that, to date, it has not done so. NEPOOL further states that those market participants argued that ISO-NE has not fully accessed approximately 900 MW of demand response resources and approximately 1,665 MW of tie benefits that are available to address the reliability concerns that ISO-NE identified in support of its proposal.

III. Notice of Filing, Interventions, Comments, Protests, and Answers

17. Notice of the ISO-NE and NEPOOL Proposals was published in the *Federal Register*, 78 Fed. Reg. 11,635 (2013), with interventions and comments due on or before February 28, 2013. On February 19, 2013, ISO-NE and NEPOOL amended both proposals to include several Tariff revisions that were originally omitted. Notice of the amended filing was published in the *Federal Register*, 78 Fed. Reg. 13,335 (2013), with interventions and comments also due on or before February 28, 2013.

18. Calpine Corporation (Calpine); Capital Power Corporation; DC Energy, LLC; GDF Suez Energy North America, Inc.; Hess Corporation; HQ Energy Services (US) Inc; Northeast Utilities Service Company; and The NRG Companies⁹ filed timely motions to intervene. Algonquin Gas Transmission, LLC and Maritimes & Northeast Pipeline, L.L.C.; BP Energy Company; Consolidated Edison Solutions, Inc., Consolidated Edison Energy, Inc., and the Long Island Power Authority (together, ConEd and LIPA); Dominion Resources Services, Inc. (Dominion);¹⁰ Dominion, Calpine, and Exelon Corporation (together, Joint Parties); Dynege Marketing and Trade, LLC; Massachusetts Municipal Wholesale Electric Company (MMWEC); and jointly, New England Power Generators Association, Inc. (NEPGA) and Electric Power Supply Association (EPSA) (NEPGA/EPSA Comments) filed timely motions to intervene and comments. Brookfield Energy Marketing LP filed a motion to intervene and limited protest. Vitol Inc. (Vitol) filed a motion to intervene, protest and comments. ISO-NE and NEPOOL filed comments. NEPOOL filed an answer to comments.

IV. Discussion

A. Procedural Issues

19. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2012), the timely-filed unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

20. Rule 213(a)(2) of the Commission's Rules of Practice and Procedures, 18 C.F.R. § 385.213(a)(2) (2012), prohibits answers to protests unless otherwise ordered by the decisional authority. We will accept NEPOOL's answer, because it has provided information that assisted us in the decision-making process.

B. Protests and Comments

21. In its comments, ISO-NE states that its proposal will minimize the need to take out-of-market actions, while, under the NEPOOL Proposal, ISO-NE will have less information available to determine how many supplemental commitments (commitment of resources outside of the normal RAA processes) are required and would need to

⁹ NRG Power Marketing LLC; GenOn Energy Management, LLC; Connecticut Jet Power LLC; Devon Power LLC; GenOn Canal, LLC; GenOn Kendall, LLC; Middletown Power LLC; Montville Power LLC; and Norwalk Power LLC.

¹⁰ Dominion Energy Brayton Point, LLC; Dominion Energy Manchester Street, Inc.; Dominion Energy Marketing, Inc.; and Dominion Nuclear Connecticut, Inc.

procure more supplemental commitments than necessary to ensure reliability. ISO-NE states that committing resources outside the normal RAA processes tends to suppress real-time wholesale electricity prices, increase Net Commitment Period Compensation (NCPC, or uplift) costs, and send inappropriate price signals. ISO-NE indicates that a higher level of supplemental commitments can also suppress real-time prices because more resources are likely to be operating in real-time at their economic minimum level and would be ineligible to set price.¹¹ ISO-NE asserts that its proposed schedule should minimize the need for ISO-NE to take out-of-market actions. ISO-NE further asserts that it should only need to commit resources manually in unusual circumstances, e.g., when there is substantial operational uncertainty, such as notices of potential pipeline curtailments, abnormally cold or hot weather, or a strong storm that is forecast to have a major impact on the region's infrastructure.

22. ISO-NE also disputes NEPOOL's assertion that current gas market trading patterns will not change if the electricity market schedule changes. ISO-NE asserts that there is no structural reason that prevents the gas market from adjusting to provide more liquidity at times corresponding to the revised day-ahead market bidding schedule. In addition, ISO-NE states that electronic and broker price quotes are available well before ISO-NE's proposed 9:00 a.m. bidding deadline, and it is reasonable to conclude that there will be adequate gas market information to support submission of electricity market offers by 9:00 a.m. ISO-NE points to the New York Independent System Operator, Inc. (NYISO), which ISO-NE describes as having a 5:00 a.m. day-ahead market bidding deadline. ISO-NE states that the NYISO experience does not provide any evidence that an earlier bidding deadline will lead to gas market liquidity problems and associated risk premiums included in electricity market offers, asserting that NYISO's market functions efficiently, and its day-ahead and real-time prices generally converge.¹²

23. In its comments,¹³ NEPOOL argues that quantitative analysis of the data predicts that the ISO-NE Proposal would result in greater price risk for generators, translating into additional costs to consumers in the range of \$36 to \$86 million annually.¹⁴ NEPOOL states that it examined actual trading data for next-day gas trading on the Intercontinental

¹¹ ISO-NE Comments at 3-4.

¹² *Id.* at 5-6.

¹³ In support of its comments, NEPOOL submitted testimony of Richard Tabors and Seabron Adamson (Tabors/Adamson Testimony). Commenters in support of the NEPOOL Proposal largely reiterate the same reasons put forth by NEPOOL.

¹⁴ Tabors/Adamson Testimony at 8-9, 23.

Exchange, Inc. (ICE), which shows no trades before 8:00 a.m. and limited activity between 8:00 a.m. and 9:00 a.m., with the majority of trades occurring between 9:00 a.m. and 10:00 a.m. Thus, NEPOOL asserts, if gas-fired generators must submit offers at 9:00 a.m., they will not have any useful current gas trading information upon which to base their offers, and instead will use gas prices for the prior day.¹⁵

24. NEPOOL further argues that ISO-NE provides no empirical evidence to support its assertion that gas markets will shift to accommodate an earlier deadline. NEPOOL explains that the various natural gas trading hubs across North America are interconnected, and trades at relatively small hubs, like New England's Algonquin Hub, do not materialize until there is liquidity and price transparency at much larger hubs, like Henry Hub. According to NEPOOL, because New England is essentially at the end of the pipeline, there is no reason to believe New England will trade ahead of, or influence, national gas trading.¹⁶

25. To that end, NEPOOL also argues that, contrary to ISO-NE's assertions, the NYISO market experience demonstrates that next-day gas trading will not shift to support an earlier day-ahead offer deadline. NEPOOL notes that the majority of transactions in 2012 between the Algonquin and New York Transco Zone 6 hubs took place between 8:30 a.m. and 10:30 a.m., despite the 5:00 a.m. NYISO day-ahead market close. NEPOOL further argues that the differences between the NYISO and ISO-NE markets underscores why the NEPOOL Proposal would better serve New England. Specifically, NEPOOL argues that NYISO has more fuel diversity and more bidding flexibility, allowing its market participants to better account for and manage fuel costs and risks; as well as a robust virtual trading market that allows market participants to arbitrage price differences between day-ahead and real-time, which increases liquidity, reduces market inefficiencies, and mitigates market power.¹⁷ Similarly, several generators note that the NYISO market has closed at 5:00 a.m. for years without influencing the natural gas market to become more active earlier in the morning.

26. NEPOOL further disagrees with ISO-NE's assertion that completing the initial RAA process at 5:00 p.m. would mean that about 1,000 MW of non-gas fired generation with the longest start-up times would not be available during the morning ramp period.¹⁸

¹⁵ NEPOOL Comments at 4-7; 11-13.

¹⁶ *Id.* at 4-7; 14-15.

¹⁷ *Id.* at 15-21.

¹⁸ NEPGA and EPSA argue that ISO-NE's exhibit ISO-23 shows that approximately an additional 400-500 MW would be available at the beginning of the

NEPOOL argues that the hours in which the additional 1,000 MW would be needed for reliability are rare, and ISO-NE can continue to schedule the 1,000 MW in advance of the RAA as it currently does. NEPOOL asserts that several infrequent circumstances would need to occur concurrently for 1,000 MWs to make a difference for the one hour in question, including: (1) high demand days; (2) during a time of year when there is a very early morning ramp; (3) when a large proportion of the existing gas and hydro fleet, as well as imports, would be unavailable to meet the morning ramp; and (4) virtually the entire oil- and coal-fired fleet is in cold shutdown, requiring the maximum time needed to fully ramp-up. NEPOOL adds that, under either proposal, a minimum of 2,500 MW currently dispatched outside the RAA process will be captured in the initial RAA process going forward, and the NEPOOL Proposal would capture between 70 percent and 100 percent of the benefit of ISO-NE's Proposal, depending on when in the morning ramp period each particular MW is needed.

27. NEPOOL adds, and MMWEC agrees, that accepting the NEPOOL Proposal has several advantages, including allowing ISO-NE to: (1) collect and present data concerning the actual hours and conditions under which it is required to manually dispatch generation because of a 5:00 p.m. versus 4:00 p.m. initial RAA; (2) submit a unilateral filing under FPA section 205 if it determines that a one hour difference would substantially and adversely impact system reliability or security; (3) further accelerate its own processes and to implement hardware and software improvements to produce an initial RAA earlier than the 5:00 p.m. deadline; and (4) develop and implement other changes that could have a more meaningful and direct impact on the problems the two proposals at hand seek to address.¹⁹

28. Generators largely favor the NEPOOL Proposal, arguing that it strikes the appropriate balance between system reliability and market efficiency.²⁰ Generators argue that the benefits of an additional afternoon hour to make gas supply and transportation arrangements following the RAA are outweighed by the substantial risk that suppliers will bear if they must submit day-ahead offers by 9:00 a.m. NEPGA and EPSA²¹ explain that the process for procuring gas in the morning and evening are very different, noting that in the morning, generators are engaged in the more time-consuming process of

4:00 a.m. ramp cycle, not the additional 1,000 MW that ISO-NE claims would be available under the ISO-NE Proposal. *See* NEPGA/EPGA Comments at 13.

¹⁹ NEPOOL Comments at 8-10.

²⁰ Joint Parties Comments at 8-9.

²¹ Dominion and Dynegy support the NEPGA/EPGA comments.

analyzing energy prices, whereas in the afternoon they must only finalize supply and transportation of fuel arrangements, a less time-consuming process.

29. Generators argue that ISO-NE's assertion that the natural gas markets are adequately liquid at 9:00 a.m. is not sufficiently supported by testimony and is in fact contradicted by the testimony provided by NEPOOL.²² Generators argue that the NEPOOL testimony reflects substantial, direct business experience participating in natural gas markets and is, therefore, more credible than the ISO-NE testimony given the lack of similar experience by ISO-NE or its witnesses.²³

30. Algonquin and Maritimes state that, while both proposals provide earlier information on the final dispatch commitments, neither proposal will enable gas-fired generators to submit pipeline capacity nominations by the deadline for the Timely cycle for service beginning the next gas day. Algonquin and Maritimes state that, depending on the particular pipeline, the alternatives proposed may, in limited circumstances, improve the accuracy of the generators' nominations in the Evening nomination cycle for service beginning the next gas day or by the Intraday 2 nomination cycle for service the same gas day. However, Algonquin and Maritimes note, for many pipeline systems and especially those with constrained capacity such as the west-to-east flows on Algonquin's system, a gas-fired generator that knows the dispatch decision at 4:00 p.m. will have severely limited capability to secure pipeline capacity.

31. Arguing against both proposals, Vitol asserts that neither schedule would allow market participants to consider day-ahead external transactions with NYISO when formulating ISO-NE day-ahead offers, affecting ISO-NE's ability to make informed, least-cost dispatch decisions. Vitol states that the ISO-NE Proposal sacrifices economic day-ahead external transactions that yield up to approximately 1,650 MW of transfer capability from NYISO to ISO-NE. Vitol takes issue with both proposals, stating that ISO-NE has recognized the importance of these day-ahead external transactions and relied on that benefit when it recently sought, and received, Commission approval for the Coordinated Transaction Scheduling (CTS) process for real-time external transactions.²⁴

²² Vitol states that natural gas trading volumes grow in the 9:00 to 9:30 a.m. time period and, thus, the NEPOOL Proposal is preferable, although the timing still is tight.

²³ MMWEC Comments at 5; BP Energy Company Comments at 2-3; Joint Parties Comments at 27; NEPGA/EPSCA Comments at 15.

²⁴ Vitol Comments at 5 (citing *ISO New England Inc.*, 139 FERC ¶ 61,047, at P 5 (2012)).

Vitol instead offers its own third proposal, which would establish a 10:30 a.m. day-ahead offer deadline and a corresponding 5:30 p.m. initial RAA.

32. Similarly, ConEd and LIPA request that the Commission require ISO-NE and NEPOOL to evaluate how their respective proposals will affect scheduling external transactions with NYISO prior to accelerating the day-ahead schedule, asserting that both proposals will adversely affect interregional energy transactions to the detriment of reliability and prices in both NYISO and ISO-NE. ConEd and LIPA state that, under the current day-ahead market timelines in both NYISO and ISO-NE, generators are aware of their NYISO day-ahead market commitments prior to the day-ahead bidding deadline in ISO-NE. ConEd and LIPA request that the Commission defer implementation of any change to the day-ahead market schedule until October 1, 2013 (the beginning of the New England winter season) and to direct ISO-NE to develop additional strategies, in coordination with NYISO, that maintain a time difference between the NYISO day-ahead award and the ISO-NE day-ahead offer deadline.²⁵

33. Brookfield objects to both proposals' reduction of the re-offer period from the current 120 minutes to 30 minutes. Brookfield asserts that this reduction would significantly impede the ability of an entire resource class²⁶ to participate in ISO-NE's wholesale energy markets and would require risk premiums in their day-ahead offers. Brookfield states that the proposed 30-minute period would not allow it sufficient time to complete necessary analyses to revise offers, since it needs a minimum of 47 minutes to complete analyses (under optimal operating conditions), and it frequently needs more than one hour given communications delays and software and electronic malfunctions. Brookfield notes that, without revised offers, resources like pumped storage may not be dispatched even though they may be more efficient and less expensive than resources dispatched in their place. Brookfield requests that the Commission instead adopt a re-

²⁵ BP Energy Company also argues that the ISO-NE Proposal virtually eliminates the ability to consider day-ahead external transactions with the NYISO market, which is economically inefficient and could potentially raise electric prices.

²⁶ Brookfield contends that, while testimony does not suggest that gas-fired resources use the re-offer period to a significant degree, other generation resource categories such as pumped storage and hydroelectric resources do rely on the re-offer period to optimize bids and offers. Brookfield notes that for pumped storage the cost of fuel is determined by information that changes throughout the day (such as pond levels, gas prices, and peak and off-peak energy prices) and must be updated after day-ahead market results are posted to determine day-ahead offers that are more representative of actual operating day conditions.

offer period of at least 60 minutes until ISO-NE develops market rules allowing modifications to offers in the real-time market.

34. In its answer, NEPOOL notes that Brookfield raised this issue in the stakeholder process, and its proposal did not receive stakeholder support. NEPOOL states that, while more time for the re-offer period, in the abstract, might be reasonable, given the broader market concerns, NEPOOL is justified in compressing the re-offer period in favor of the much better market information available with a later day-ahead market offer deadline and an earlier initial RAA.

C. Commission Determination

35. The Commission is presented with competing proposals filed pursuant to FPA section 205, both of which propose to modify the day-ahead market schedule timeline. After evaluating the proposals and with consideration given to ISO-NE's commitment to review after a year of implementation the system performance under the day-ahead market schedule changes, regardless of which proposal is accepted by the Commission, we accept the proposal by NEPOOL as just and reasonable,²⁷ to become effective on or after May 1, 2013, with two weeks' notice of the actual effective date to be provided by ISO-NE.²⁸

36. Both proposals provide an increased opportunity for ISO-NE to manage its system by providing for clearing the day-ahead market and issuing the initial RAA earlier in the day. The central issue presented by the two proposals is the effect of the one-hour difference in the proposed schedules; all of the day-ahead market processes would occur one hour earlier under the ISO-NE Proposal than under the NEPOOL Proposal. We find that the NEPOOL Proposal has the potential to not only enhance reliability but also better account for market efficiency. To the extent that there could be incremental benefits associated with issuing an initial RAA at 4:00 p.m. under the ISO-NE Proposal, as opposed to 5:00 p.m. under the NEPOOL Proposal, we do not believe that these potential benefits outweigh the market inefficiencies associated with the earlier submission

²⁷ Where alternative proposals are submitted pursuant to section 11.1.5 of the Participants Agreement, that section provides, the Commission may "adopt all or any of ISO[-NE]'s Market Rule proposal or the alternate Market Rule proposal as it finds . . . to be just and reasonable and preferable." *See ISO New England Inc.*, 130 FERC ¶ 61,105 (2010).

²⁸ As ISO-NE states, ISO-NE and market participants need sufficient time to adjust their business processes in advance of the implementation of the schedule changes, which is expected to occur between May 1 and June 1 of this year.

deadline for day-ahead offers. As noted in commenter testimony, the earlier deadline may give rise to gas-fired generators adding risk premiums to offers in the day-ahead market, raising the day-ahead clearing price and increasing costs.²⁹ Such a risk premium could cause the most efficient gas-fired generators to not clear in the day-ahead market, leading to an inefficient clearing of the market, improper market price signals, and the operation of less efficient generators.³⁰ Moreover, we share concerns with generators that the natural gas market is a national market and may not adjust sufficiently to a 9:00 a.m. day-ahead market offer deadline in New England to allow for adequate gas market transparency for informed day-ahead market offers. With regard to the 1,000 MW of long-start resources that ISO-NE claims it would not have access to if the initial RAA is not issued until 5:00 p.m., we note that under the NEPOOL Proposal ISO-NE would have the same access it has today, although some of it may be outside the normal RAA process. The RAA will, however, be completed five hours earlier than under the current schedule. With an initial RAA completed by 5:00 p.m., we expect, as NEPOOL asserts, the frequency of committing resources manually will be significantly less than under the current schedule.

37. In light of the foregoing considerations, we find on balance the NEPOOL Proposal presents a just and reasonable approach. We note that accepting the NEPOOL Proposal now will allow ISO-NE to observe the impacts of the new schedule, review system performance a year after implementation, share the results with stakeholders, and together with stakeholders determine whether further changes are appropriate. After a review of gas market data and system performance in response to the schedule changes adopted here, ISO-NE and stakeholders will have statistical information to determine whether and, if so, how much the gas market adapts to a new day-ahead market schedule in New England. Accordingly, we will require ISO-NE to submit an informational report detailing the impact of the schedule changes on system operations, within one (1) year of the effective date of the Tariff revisions accepted here. The report must include supporting data regarding the impact of the schedule changes on system operations, the amount of long-lead-time generation dispatched outside of the RAA process, the effects on the gas market, and an assessment of the new re-offer period and any impacts on electric market efficiency.

38. The Commission rejects ConEd and LIPA's proposition that ISO-NE should delay any changes to its day-ahead market schedule to allow for further discussion with NYISO

²⁹ See, e.g., Adamson/Tabors Testimony; Dedrickson Testimony at 8, 11-3; Ginnetti Testimony at 3, 5, 8; Barr Testimony at 2-5; Supplemental Barr Testimony at 1-3.

³⁰ Ginnetti Testimony at 6.

regarding coordinating the two markets' schedules. We believe the reliability benefits of the schedule changes adopted here are significant, and outweigh any benefits that may accrue from additional synchronization between the two system operators at this time. Additionally, adopting the NEPOOL Proposal here will give ISO-NE and NYISO the real-world experience to see the effects of ISO-NE's revised schedule and does not foreclose further efforts to coordinate the two markets' activities if either organization believes it will enhance reliability and market efficiency. We encourage ISO-NE and NYISO to explore how best to coordinate their respective markets to foster greater reliability and market efficiency.

39. Similarly, with respect to concerns regarding market participants' ability to consider external transactions with NYISO before submitting day-ahead offers in ISO-NE's market, we recognize that coordinating transaction schedules between regions can be beneficial to both markets. We acknowledge that the schedule changes adopted here may limit market participants' ability to concurrently engage in transactions in ISO-NE and NYISO, but believe that the reliability benefits of the day-ahead market schedule changes outweigh these concerns. Additionally, ConEd, LIPA, and Vitol's concerns seem to be mitigated by adopting the NEPOOL Proposal rather than the ISO-NE Proposal, especially on days when NYISO clears its day-ahead market earlier than the time specified in its Tariff.³¹ Also, nothing in the day-ahead market schedule changes precludes market participants from participating in both ISO-NE's and NYISO's real-time markets.

40. While Brookfield contests shortening the re-offer period to 30 minutes (under either proposal), we find that the system-wide benefits provided by the timing changes outweigh any difficulty the shortened re-offer period may pose for Brookfield. All market participants will need to adjust their processes for submitting day-ahead offers to reflect the reduced time within which to review gas market prices and develop their offers, and their processes for submitting re-offers. Additionally, we note that the 30 minutes allotted to the re-offer period is a minimum number. Should ISO-NE clear the market earlier than the 1:30 p.m. deadline, generators will have additional time in which to submit re-offers.

41. We note that ConEd and LIPA, as well as Vitol, have asserted that ISO-NE already has the tools available to it to clear the market more quickly under the Cold Weather Conditions rules contained in Appendix H to Market Rule 1, which ISO-NE and NEPOOL propose to remove in large part. However, under section 205 of the FPA, an

³¹ See ConEd and LIPA Comments at 9 and Vitol Comments at 7-8. We note that NYISO is under no obligation to clear early but simply observe that it periodically does so, and we recognize the benefits that may accrue if this occurs.

applicant may seek to modify or even delete its own existing tariff provisions where it supports such changes as just and reasonable, and, for the reasons stated above, we find that the NEPOOL Proposal was so supported here. Further, we agree with ISO-NE and NEPOOL that the NEPOOL Proposal eliminates the need for many provisions in Appendix H – which was originally intended for dispatching and operating the New England bulk power system during extreme cold weather provisions – and keeping Appendix H would be redundant.

42. Finally, since we have determined that the NEPOOL Proposal is just and reasonable, we will not consider Vitol's alternative proposal.³²

The Commission orders:

(A) The NEPOOL Proposal and associated proposed Tariff revisions are hereby accepted, effective on or after May 1, 2013, with two weeks' notice of the actual effective date to be provided by ISO-NE, as discussed in the body of this order.

(B) ISO-NE is hereby directed to submit an informational report detailing the impact of the schedule changes on system operations, within one (1) year of the effective date of the Tariff revisions, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

³² See, *Oxy USA, Inc. v. FERC*, 64 F.3d 679, 691 (D.C. Cir. 1995); *City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984).