

144 FERC ¶ 61,140  
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.

Docket No. ER13-1742-000

ORDER ON PROPOSED TARIFF REVISIONS

(Issued August 20, 2013)

1. On June 21, 2013, pursuant to section 205 of the Federal Power Act (FPA),<sup>1</sup> ISO New England Inc. (ISO-NE) and the New England Power Pool (NEPOOL) Participants Committee (collectively, Filing Parties) submitted revisions to ISO-NE's Transmission, Markets and Services Tariff (Tariff) to: (1) clarify and make minor clean-up changes to the baseline calculation provisions in the previously-accepted rules providing for full integration and compensation of demand response resources in the energy market (Fully Integrated Rules);<sup>2</sup> (2) address the treatment of demand response resources that can produce net supply (i.e., inject energy into the electrical grid) in the Forward Capacity Market (FCM); and (3) reinstate the adjustment for transmission losses for demand response resources participating in the FCM. For the reasons discussed below, the Commission accepts the proposed Tariff revisions, effective August 21, 2013, as requested.

**I. Background**

**A. Existing Fully Integrated Rules**

2. In August 2011, in compliance with Order No. 745,<sup>3</sup> ISO-NE filed Tariff revisions to implement its two-stage proposal to compensate demand response resources participating in wholesale energy markets, first through an interim set of rules, effective

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<sup>1</sup> 16 U.S.C. § 824d (2006).

<sup>2</sup> *ISO New England Inc.*, 138 FERC ¶ 61,042 (2012) (January 19, 2012 Order).

<sup>3</sup> *Demand Response Compensation in Organized Wholesale Energy Markets*, Order No. 745, 76 Fed. Reg. 16,658 (Mar. 24, 2011), FERC Stats. & Regs. ¶ 31,322, *order on reh'g and clarification*, Order No. 745-A, 137 FERC ¶ 61,215 (2011).

June 1, 2012 (Transition Period Rules), and subsequently through the Fully Integrated Rules that will fully integrate demand response resources into the energy market effective June 1, 2016. In the January 19, 2012 Order, the Commission accepted the rules subject to conditions not relevant here.

3. On April 26, 2012, ISO-NE filed a series of revisions to conform the FCM rules to the Fully Integrated Rules, and proposed to delay the effective date for the Fully Integrated Rules from June 2016 to June 2017.<sup>4</sup> On January 14, 2013, the Commission accepted the majority of the conforming changes and the June 2017 effective date for the Fully Integrated Rules, subject to ISO-NE making a compliance filing with additional explanation regarding some of the revisions, including justification for its proposal to remove the adjustment for transmission losses for demand response resources participating in the FCM.<sup>5</sup> However, the Commission rejected without prejudice ISO-NE's proposed treatment of net supply in the FCM, which would have required market participants to submit separate bids for demand response and net supply. The Commission found that, based on the record in that proceeding, ISO-NE did not adequately explain why the proposed changes were appropriate. The Commission noted that in the one example raised in the record, "ISO-NE's proposal would not fully recognize the capacity value of a demand response resource," which would result in ISO-NE procuring more capacity than needed.<sup>6</sup>

## **B. Instant Filing**

### **1. Baseline Calculation Provisions**

4. With respect to the baseline calculation provisions, the Filing Parties propose to: (1) clarify language pertaining to baseline calculation under the Fully Integrated Rules, to parallel language in the Transition Period Rules accepted for filing on May 29, 2012.<sup>7</sup>

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<sup>4</sup> ISO New England Inc., Market Rule 1 Price Responsive Demand FCM Conforming Changes for Full Integration, Docket No. ER12-1627-000 (filed Apr. 26, 2012) (April 26, 2012 Filing).

<sup>5</sup> *ISO New England Inc.*, 142 FERC ¶ 61,027 (2013) (January 14, 2013 Order). On January 15, 2013, the Commission issued an Errata Notice that deleted Paragraph 32 in its entirety and corrected Paragraph 33. All references to the January 14, 2013 Order are to the corrected version.

<sup>6</sup> *ISO New England Inc.*, 142 FERC ¶ 61,027 at P 45.

<sup>7</sup> *ISO New England Inc. and New England Power Pool Participants Committee*, Letter Order Accepting Clarifications to the Transition Period Rules for Price-Responsive Demand (PRD), Docket No. ER12-1550-000 (May 29, 2012) (delegated letter order).

The baseline calculation changes include using meter data in computing an asset's demand response baselines when the demand response resource or Real-Time Emergency Generation (RTEG) resource<sup>8</sup> to which the asset is associated is dispatched; applying the "seven of the prior 10 day" baseline refreshment criterion for assets reducing demand when the demand response resource to which they are mapped is dispatched; applying the baseline adjustment to RTEG assets interrupting demand in response to a capacity audit or when dispatched during a capacity deficiency; and clarifying the use of the terms "prior day," "present day," and "next day" in the baseline calculations to ensure consistency between the Fully Integrated and Transition Period rules. The changes also broaden application of an adjustment to the baseline to account for behind-the-meter generation not only when such generation is dispatched by ISO-NE but also when it is operating for other reasons, such as for a test of the generator or a power outage at the facility, since such operation could affect the accuracy of the baseline and measurement of the demand reduction.<sup>9</sup>

## 2. Net Supply Proposed Revisions

5. The proposed net supply revisions would no longer require a market participant to register in the FCM two resources (demand response and generation) in order to receive full credit for the capacity associated with net supply. Rather, the proposed revisions would allow market participants that are able to provide both demand response and net supply delivered by a demand response asset to contribute to the capacity of a Demand Response Capacity Resource<sup>10</sup> with which the demand response asset is associated.<sup>11</sup> Thus, unlike with the Filing Parties' prior proposal, capacity provided by net supply will participate in the FCM as part of a demand response resource, rather than as a separate generation resource. The Filing Parties state that this treatment helps ensure that the

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<sup>8</sup> A RTEG resource is defined as distributed generation whose federal, state and/or local air quality permits, rules or regulations limit operation in response to requests from the ISO to the times when the ISO implements voltage reductions of five percent of normal operating voltage that require more than 10 minutes to implement. ISO-NE Tariff section I.2.2.

<sup>9</sup> Transmittal Letter at 8-9.

<sup>10</sup> According to ISO-NE's Tariff section I.2.2, a Demand Response Capacity Resource "is one or more Demand Response Resources located within the same Dispatch Zone, that is registered with the ISO, assigned a unique resource identification number by the ISO, and participates in the Forward Capacity Market to fulfill a Market Participant's Capacity Supply Obligation pursuant to section III.13 of Market Rule 1."

<sup>11</sup> Transmittal Letter at 4.

market participant receives credit for the full capacity value of the demand response and generation assets.

6. The Filing Parties explain that this approach addresses concerns raised in response to the April 26, 2012 Filing that dividing the capacity of a demand response resource would be challenging and might result in under-counting the capacity value of the resource. Through testimony, the Filing Parties illustrate how an asset capable of delivering net supply would participate in the FCM, which, according to the Filing Parties, shows how relatively easy it is to predict the sum of demand reduction and net supply three years in advance of the delivery year. First, consider a demand response asset with overall (gross) energy consumption that normally varies between 45 to 55 MW each operating day. Second, the customer also has a distributed generator with a capacity of 30 MW that the customer runs in base-load fashion—i.e., the generator runs at 30 MW in each interval of each operating day—which reduces the net energy consumption placed on the wholesale power grid by 30 MW, which in turn lowers the customer's demand response potential. Third, assume the capability of reducing 20 MW of energy consumption in each interval, which reflects turning off specific machinery that normally run during the operating day and consume 20 MW.<sup>12</sup>

7. ISO-NE's analysis demonstrates that the values of demand reduction and net supply change from interval to interval (e.g., in some intervals there was 20 MW of demand reduction, while in other intervals demand was reduced by less than 20 MW), but 20 MW of total supply was provided in each interval either in the form of demand response or net supply. As a result, the Filing Parties posit that, while it is difficult to predict three years in advance the amount of demand reduction versus net supply, it is relatively easy to determine what the sum of demand reduction and net supply will likely be three years in advance of the delivery year.<sup>13</sup>

8. In order to implement this approach, ISO-NE proposes a number of additional Tariff revisions that address new and revised defined terms, baseline computations, Forward Capacity Auction qualification, availability calculation for supplemental bilaterals, energy market offer requirements, Demand Response Capacity Resource auditing requirements, avoided transmission and distribution loss adjustment, hourly availability calculations, settlement calculations, and conforming energy market rule changes.

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<sup>12</sup> See Joint Testimony of Henry Y. Yoshimura and Christopher A. Parent (Yoshimura-Parent Net Supply Testimony), June 21, 2013, at 11.

<sup>13</sup> *Id.* 12.

### 3. Adjustment to Transmission Losses for Demand Response Resources

9. The Filing Parties propose to reinstate the adjustment for transmission losses for demand response resources participating in the FCM to account for the fact that these resources avoid transmission and distribution losses. The Filing Parties state that the proposal in the April 26, 2012 Filing to remove the transmission loss adjustment for demand response resource capacity values was based on the notion that the energy and capacity models should be the same. However, they assert that ISO-NE reevaluated the issue and determined that it should reinstate the adjustment for transmission losses because transmission losses are accounted for differently in the FCM.

10. The Filing Parties explain that in the energy market, transmission losses are included in the real-time dispatch and each Locational Marginal Price (LMP). In the capacity market, however, transmission losses are included by increasing the Installed Capacity Requirement<sup>14</sup> by the average amount of transmission losses experienced on the transmission system.<sup>15</sup> The Filing Parties explain that 1 MW of load reduction by a demand response resource, as measured as the customer meter, avoids more than 1 MW of generation since load reductions avoid both distribution and transmission losses.<sup>16</sup> Thus, a demand response resource that reduces demand by 1 MW is entitled to receive credit for 1 MW reduction plus an extra amount to account for the avoided transmission and distribution losses. To make demand response resources equivalent to generation resources in the FCM, the Filing Parties believe that it is appropriate to increase load reductions for demand response resources by the historic average transmission and distribution losses.

11. The Filing Parties request that the Commission accept the proposed Tariff revisions to become effective August 21, 2013, stating that the requested effective date will not change the start date of the Fully Integrated Rules but will provide those

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<sup>14</sup> The Installed Capacity Requirement is the level of capacity required to meet the reliability requirements in the New England Control Area, such that the probability of disconnecting non-interruptible customers due to resource deficiency, on the average, will be no more than once in ten years. *See* ISO-NE Tariff, § III.12.

<sup>15</sup> *See* Joint Testimony of Henry Y. Yoshimura and Christopher A. Parent (Yoshimura-Parent PRD Testimony), June 21, 2013, at 26-27.

<sup>16</sup> The Filing Parties estimate that if transmission and distribution losses were eight percent, a 1 MW demand reduction measured at the retail delivery point would avoid 1.08 MW of generation. Transmittal Letter at 20 n. 71.

participating in the FCM for the 2017-2018 Capacity Commitment Period a complete set of rules explaining all the obligations in one place.<sup>17</sup>

## **II. Notice of Filing**

12. Notice of the proposed Tariff revisions was published in the *Federal Register*, 78 Fed. Reg. 40,135 (2013), with interventions and protests due on or before July 12, 2013. Exelon Corporation, Northeast Utilities Service Company, and Verso Paper Corporation (Verso) filed timely motions to intervene, and Verso also submitted comments.

## **III. Discussion**

### **A. Procedural Matters**

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

### **B. Comments**

14. Verso supports the Filing Parties' proposed revisions regarding the treatment of net supply, stating that the revised proposal addresses the concerns Verso raised regarding the April 26, 2012 Filing.<sup>18</sup> Verso also notes that it is not opposed to ISO-NE's clarifications to the baseline calculation in this instant filing. However, Verso does not believe that the clarifications address its challenges to ISO-NE's existing baseline refreshment methodology, which Verso has raised in Docket No. ER12-1627-001 with regard to ISO-NE's pending compliance filing to the January 14, 2013 Order.

### **C. Commission Determination**

15. The Commission will accept the Filing Parties' proposed Tariff revisions, effective August 21, 2013, as requested.

16. The Commission agrees with the Filing Parties that the proposed Tariff changes do not change the design of the Fully Integrated Rules, indeed parallel the previously-accepted provisions under the Transition Period Rules, and are consistent with the intent

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<sup>17</sup> Transmittal Letter at 4.

<sup>18</sup> See *ISO New England Inc.*, 142 FERC ¶ 61,027.

of the Fully Integrated Rules. Therefore, we find that the corresponding changes and minor clerical changes to the FCM rules are appropriate.

17. The Filing Parties' proposal to allow assets capable of delivering net supply to participate in the FCM as part of a demand response capacity resource, and to receive compensation for that capacity contribution, will accurately account for the full capacity value of such combined resource in the FCM. By adopting rules that allow net supply to participate in the FCM as part of a demand response resource, rather than as a separate generation resource, the proposal addresses the concerns raised in the Commission's January 14, 2013 Order by recognizing the full capacity value of these resources and thus ensuring that ISO-NE will not procure more capacity than necessary.<sup>19</sup>

18. The Commission also agrees with the Filing Parties' analysis regarding transmission losses for demand response resources participating in the FCM. As the Filing Parties, explain, like generation resources, demand response resources are capable of providing capacity to meet the Installed Capacity Requirement. However, the two types of resources have opposite effects on transmission losses. For example, an increase in generation resources tends to increase losses, whereas an increase in demand response resources tends to decrease losses, given that load reductions avoid both distribution and transmission system losses.<sup>20</sup> To ensure that demand response resources are credited for avoided transmission and distribution losses in the FCM, we agree that it is appropriate to increase load reductions for demand response resources by the historic average transmission and distribution losses. These revisions will credit demand response resources for the true amount of generation that they are replacing; specifically, a demand response resource that reduces demand by 1 MW is entitled to receive credit for 1 MW reduction plus an extra amount to account for the avoided transmission and distribution losses.

19. Finally, the Commission finds that Verso's concerns regarding the existing baseline refreshment methodology itself are beyond the scope of this proceeding. As Verso notes, it has raised substantive challenges to ISO-NE's existing baseline methodology with regard to ISO-NE's compliance filing in Docket No. ER12-1627-001.

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<sup>19</sup> Transmittal Letter at 14-16.

<sup>20</sup> As described above, the Filing Parties estimate that if transmission and distribution losses were eight percent, a 1 MW demand reduction measured at the retail delivery point would avoid 1.08 MW of generation.

The Commission orders:

The proposed Tariff changes are hereby accepted, to become effective August 21, 2013, as discussed in the body of this order.

By the Commission.

( S E A L )

Nathaniel J. Davis, Sr.,  
Deputy Secretary.