

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

July 9, 2004

In Reply Refer To: ISO New England, Inc.
Docket No. ER03-854-002

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Dear Sirs:

1. On August 25, 2003, in compliance with the Commission's July 25, 2003 Order accepting the Scarcity Pricing Proposal of ISO New England, Inc. (ISO-NE),¹ ISO-NE submitted modifications to section 2.5 of Market Rule 1 which expressly state the circumstances under which Reliability Regions will be excluded from Reserve Shortage Condition Pricing Events (*i.e.*, the circumstances under which generators within those regions will not be eligible to receive scarcity prices).² The proposed modifications provide that:

A Reliability Region will be excluded from the Reserve Shortage Condition Pricing Event when the Interface Limit Calculation software indicates that the Reliability Region is export-constrained. A Reliability Region is export-constrained when the sum of the actual flows on the transmission lines that comprise the interface is equal to the transfer limit for the interface.

Consistent with the July 25 Order, ISO-NE also proposes associated changes to the New England Power Pool (NEPOOL) Manual 11, which are identical to the changes submitted in this filing. The revisions are accepted for filing as submitted.

¹ ISO New England Inc., 104 FERC ¶ 61,130 (2003) (July 25 Order)

² See *id.* at P 56.

2. Notice of the filing was published in the Federal Register, with protests and interventions due on or before September 15, 2003.³ The NEPOOL Participants Committee filed a timely motion to intervene. NSTAR Electric & Gas (NSTAR) filed comments, and a motion to file comments, out of time. ISO-NE filed an answer to NSTAR's comments.

3. NSTAR states that the criteria set out in the compliance filing – considering a region to be "export-constrained" when the sum of the actual flows on the transmission lines that comprise the interface is equal to the transfer limit for the interface – does not address the potential for the exercise of market power in a region that may occur when there is such insufficient transfer capability. NSTAR asks the Commission to order ISO-NE to revise its criteria by adding a provision to restrict scarcity pricing in those regions in which there are insufficient generation resources to serve load at peak periods.

4. In response to NSTAR, ISO-NE states that the issue raised by NSTAR is beyond the scope of ISO-NE's compliance filing and is not properly raised in this proceeding. ISO-NE states that NSTAR's comments address a concern regarding the potential for the exercise of market power in regions that lack sufficient competition, and that, while this is a valid concern, the compliance filing does not implicate this issue and, thus, this compliance filing is not the proper forum to raise this issue.

5. We find that the instant compliance filing satisfactorily fulfills the obligation we placed on ISO-NE.⁴ Further, we agree with ISO-NE that the issue raised by NSTAR is beyond the limited scope of this filing, and we will therefore not grant the relief requested by NSTAR.

By direction of the Commission.

Linda Mitry,
Acting Secretary.

³ 68 Fed. Reg. 52,760 (2003).

⁴ See July 25 Order at P 56.