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January 5, 2010

VIA ELECTRONIC FILING

The Honorable Kimberly D. Bose, Secretary
The Honorable Nathaniel J. Davis, Sr., Deputy Secretary
Federal Energy Regulatory Commission
Room 1A-East, First Floor
888 First Street, N.E.
Washington, D.C. 20426

Re: *ISO New England Inc.*, Docket No. ER10-438-000, Errata to Filing of Installed Capacity Requirement, Hydro Quebec Interconnection Capability Credits and Related Values for the 2010/2011 Capability Year and Related Market Rule Revisions

Dear Secretary Bose and Deputy Secretary Davis:

Enclosed for filing in the above captioned docket, please find an Errata to the Filing of Installed Capacity Requirement, Hydro Quebec Interconnection Capability Credits and Related Values for the 2010/2011 Capability Year and Related Market Rule Revisions (“ICR Filing”) filed by ISO New England Inc. (the “ISO”) on December 15, 2009. The ICR Filing is attachment I-1a of the materials included with the December 15, 2009 filing. The Errata substitutes pages 2, 9, 13 - 16, and 18 of the ICR Filing to correct minor grammatical errors and page number references for footnoted citations to supporting testimony. The Errata has no effect on the substance of assertions made or information provided in the ICR Filing. Attached are clean copies of substitute pages 2, 9, 13 - 16, and 18 as well as blacklined copies reflecting the changes.

A copy of the foregoing has been served upon all parties on the Commission’s official service list in this proceeding and on all parties that were served the ICR Filing, including the New England Power Pool Participants Committee. The ISO sincerely appreciates the Commission’s attention to this matter. If you have any questions or concerns regarding this filing, please feel free to contact me. Thank you for

your assistance in this matter.

Respectfully submitted,

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Attachments

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addition, the ISO proposes modifications to Section 12 of Market Rule 1 that address the manner in which tie benefits from adjacent Control Areas are determined for purposes of calculating the ICR-Related Values for annual reconfiguration auctions. The ISO provides the testimonies of Mark G. Karl, Peter K. Wong, and Peter T. Brandien on behalf of the ISO. The ISO requests that the Federal Energy Regulatory Commission (“Commission”) accept the modifications to Market Rule 1 and the ICR-Related Values reflected herein for filing effective sixty days from the date of filing.⁶

In addition, while the ISO does not interpret the Participants Agreement to require it to do so in this case, the ISO is presenting in this filing alternative tie benefits and ICR-Related Values calculated under a proposed rule change that is different from the changes to Section 12 of Market Rule 1 proposed by the ISO (the “NEPOOL Amendment”). The NEPOOL Amendment is being submitted pursuant to Section 11.1.5 of the NEPOOL Participants Agreement⁷ (referred to as the “jump ball provision”). For the reasons set forth below, the ISO submits that Section 11.1.5 does **not** apply to the NEPOOL Amendment. However, the ISO has included the elements required by Section 11.1.5 in the event that the Commission disagrees with the ISO’s interpretation of the Participants Agreement.

I. INTRODUCTION

As referenced in the joint ISO-NEPOOL cover letter, this submittal involves the ISO’s filing of the Installed Capacity Requirement and related values for the third annual reconfiguration auction for the 2010/2011 Capability Year. The materials that the ISO typically includes in its periodic filings of ICR-Related Values are presented in Sections VI through VIII of this transmittal letter. In the stakeholder process leading up to this filing the ISO identified problems with the Installed Capacity Requirement value that would be produced under the existing market rules. The problems relate to the manner in which “tie benefits” are calculated.⁸

Capability Years, the first of the three annual reconfiguration auctions will not be conducted. Therefore, the Installed Capacity Requirement and related values addressed in the instant filing are for the second annual reconfiguration auction to be held for the 2010/2011 Capability Year. Under Section 13 of Market Rule 1 (which contains the rules for the Forward Capacity Market), this reconfiguration auction is technically defined as the “third” reconfiguration auction for the 2010/2011 Capability Year and is referred to in this filing as such. Testimony of Peter K. Wong, Manager of Resource Adequacy for the ISO, Attachment 1b at p. 4 (“Wong Testimony”).

⁵ The 2010/2011 Capability Year runs from June 1, 2010 to May 31, 2011. Pursuant to Section III.12.3 of Market Rule 1, the Installed Capacity Requirement must be filed 90 days prior to the applicable Forward Capacity Auction. The third annual reconfiguration auction for the 2010/2011 Capability Year is to be held from March 1 through 3, 2010.

⁶ 18 C.F.R. § 35.3 (2009).

⁷ Participants Agreement at Section 11.1.5 (Alternative Committee Market Rule Proposal).

⁸ Tie benefits from neighboring Control Areas reflect the amount of emergency assistance that it is assumed will be available to New England from its neighboring Control Areas, without jeopardizing reliability in New England or its neighboring Control Areas, in the event of a capacity shortage in New England. The amount of tie benefits reduces the Installed Capacity Requirement, or the needed capacity to meet the resource adequacy criterion for the New England Control Area.

the first two annual reconfiguration auctions²⁷ are to be calculated using “at criteria” assumptions for purposes of modeling adjacent Control Areas.²⁸ The current market rules call for a departure from this approach for the third annual reconfiguration auction, requiring that tie benefits for the third annual reconfiguration auction be calculated using “as is” modeling assumptions about adjacent Control Areas.²⁹

“As is” and “at criteria” are two ways of modeling neighboring control areas to determine the amount of tie benefits that may be available to the ISO for purposes of calculating the Installed Capacity Requirements.³⁰ “As is” assumes that neighboring Control Areas will have resources and demands equal to those that are forecasted for the time of the New England Capacity Commitment Period,³¹ and that all those resources will be available to meet load within the neighboring control area. Stated another way, those resources will be obligated to serving load of that area and will not be otherwise committed to serving load of another region, or unable to respond to the local need. These forecasted resources and demands could be more or less than those needed to meet the reliability requirements defined for the New England Control Area of disconnecting non-interruptible customers no more than once every ten years (“0.1 LOLE”).³² “At criteria” assumes that neighboring Control Areas will have enough resources so that each area meets the reliability standard of 0.1 LOLE based on forecasted load for the capacity period.³³ By performing the study “at criteria” the impact of transient shortages or surpluses in the external Control Area is lessened.

When the ISO proposed and supported the use of “as is” in the third annual reconfiguration auction, its belief was that such a methodology made theoretical sense because of the close proximity of the auction to the relevant Forward Capacity Market Capacity Commitment Period. At the time the ISO also considered the practical outcome of using an “as is” calculation in the final annual reconfiguration auction. Based on the assumptions used at the time, the ISO believed the change in tie benefits was relatively small, and thus there was no concern about excessive levels of tie benefits. Upon the first application of the “as is” methodology to a third annual reconfiguration auction (*i.e.*, for the 2010/2011 Capability Year), it was discovered that the resulting tie benefits value and Installed Capacity Requirement could

²⁷ An annual reconfiguration auction is an auction conducted after the primary Forward Capacity Auction for a Capability Year and before the start of that Capability Year. The annual reconfiguration auctions generally serve to reflect changes in the Installed Capacity Requirement quantity and afford participants an opportunity to modify or acquire obligations subsequent to the conduct of the Forward Capacity Auction.

²⁸ Market Rule 1, Section 12.9.

²⁹ *Id.*

³⁰ *ISO New England Inc. and New England Power Pool*, 118 FERC ¶ 61,157 at P 44 (2007).

³¹ A “Capacity Commitment Period” is the terminology used in the Forward Capacity Market context for a “Capability Year.” Hence, the 2010/2011 Capacity Commitment Period is equivalent to (*i.e.*, the same period of time as) the 2010/2011 Capability Year.

³² 118 FERC ¶ 61,157 at P 44.

³³ *Id.*

methodology yielded a value of 1,860 MW, resulting in an Installed Capacity Requirement of 33,705 MW for the primary auction and 33,537 MW for the reconfiguration auction.⁵³

The ISO cannot support the use of the 3,415 MW tie benefits value or the resulting Installed Capacity Requirement value. The testimonies of Peter T. Brandien, Vice President of System Operations, and Mark G. Karl, Senior Director of Resource Adequacy, explain why calculating the ICR-Related Values for the 2010/2011 third annual reconfiguration auction with a tie benefits value of 3,415 MW is unacceptable and why, therefore, the ISO seeks the instant rule change:

- As Mr. Brandien explains, New England’s location at the northeast end of the Eastern Interconnection can limit New England’s ability to obtain support from neighboring Control Areas and can limit New England’s ability to utilize the full output of its larger sources of power. Given these normal challenges of operating the New England electric system, reducing New England’s reserve margin to 4.3%, which could occur when 3,415 MW of tie benefits are relied upon, presents an unacceptable risk to the reliable operation of New England’s electric system.⁵⁴ Reducing the reserve margin to 4.3% will effectively mean reducing the resources available to meet operating reserves by approximately 1,520 MW. Mr. Brandien explains that with this reserve margin it would be very difficult to operate the New England electric system in accordance with NERC and NPCC Reliability Standards.⁵⁵
- Relying on 3,415 MW of tie benefits will require more frequently requesting assistance from neighboring Control Areas without certainty that the system operators in those areas will be in a position to provide this assistance. As Mr. Karl explains, reliance on 3,415 MW of tie benefits severely jeopardizes the reliable operation of the New England system because it assumes that 3,415 MW of emergency assistance is always available at a moment’s notice to meet New England’s requirements.⁵⁶ The ISO does not believe that 3,415 MW of tie benefits are realistic or achievable.⁵⁷ New England has never been in a position of needing to request 3,415 MW of emergency assistance. Moreover, there is no historical record to indicate whether this could be achieved.⁵⁸

⁵³ *Id.* at pp. 11-12.

⁵⁴ Testimony of Peter T. Brandien, Vice President of System Operations at the ISO, Attachment 1c at pp. 4-5, 10-11 (“Brandien Testimony”).

⁵⁵ *Id.*

⁵⁶ Karl Testimony at pp. 14-15.

⁵⁷ See Wong Testimony at pp. 23-24. See also Tie Benefits Assumptions for the 2010/2011 Third Annual Reconfiguration Auction, Presentation before Reliability Committee Meeting (Oct. 22, 2009) Peter Wong, at p. 9, available at http://www.iso-ne.com/committees/comm_wkgrps/relbty_comm/relbty/mtrls/2009/oct222009/index.html

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As the above analysis indicates, the ISO has significant concerns with relying on the use of the “as is” calculation methodology for calculating tie benefits for the present auction. However, the ISO is not proposing at this time to discard the “as is” calculation methodology in favor of the “at criteria” calculation methodology because it does not want to prejudice the ongoing discussions on a number of outstanding issues pertaining to the calculation of tie benefits. Moreover, the outcome of those discussions needs to be considered before any final decisions are made about how to revise the calculation methodology. The concerns raised regarding the potential impact of the tie benefits calculation methodology on the reliable operation of the New England system during both peak and off-peak periods serves to highlight the need to expand the ongoing stakeholder proceeding on tie benefits to include a more comprehensive evaluation of the “as is” and “at criteria” calculation methodologies.

b. The ISO is Proposing to Continue Using a 1,860 MW Tie Benefits Value and is Proposing a Rule Change that Would Continue the Use of the Tie Benefits Value Calculated for the Primary Auction.

In light of the ISO’s opposition to the use of 3,415 MW of tie benefits (a point on which NEPOOL agrees) and the ongoing stakeholder process on tie benefits, the ICR-Related Values for the 2010/2011 third annual reconfiguration auction have been determined using a tie benefits value of 1,860 MW, which was the value that the ISO used and that the Commission accepted in calculating the ICR-Related Values for the primary Forward Capacity Auction and second annual reconfiguration auction for the 2010/2011 Capability Year. There are several reasons why the ISO believes that this tie benefits value, as well as the accompanying rule change that supports the use of this value, are just and reasonable.

As a general matter, when tie benefits are calculated on an “at criteria” basis, the potential for year-to-year changes and the magnitude of change in the level of tie benefits is significantly reduced.⁵⁹ Mr. Karl explains that because the external systems are assumed to be “at criteria,” changes in the level of external surplus or shortage have no impact on the tie benefits calculation.⁶⁰ Some second order changes, such as a change in the relative mix of external resources, will have minimal impacts on the calculated tie benefit value.⁶¹

Moreover, the 1,860 MW tie benefits value was utilized in calculating the Commission-approved ICR-Related Values for the 2010/2011 primary Forward Capacity Auction and the second annual reconfiguration auction. The ISO believes that this level of tie benefits remains available from neighboring Control Areas and does not believe that system conditions have changed sufficiently to warrant a departure from this value.⁶²

⁵⁹ Karl Testimony at p. 15.

⁶⁰ *Id.*

⁶¹ *Id.* at 16.

⁶² *ISO New England Inc. and New England Power Pool*, Filing of (1) Installed Capacity Requirement, Hydro Quebec Interconnection Capability Credits and Related Values for the 2010/2011 Capability Year and (2) Related Market Rule Revisions, Docket No. ER09-640-000, Transmittal Letter at pp. 17-18 and

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Furthermore, the use of the 1,860 MW value will provide stability to the marketplace, ISO operators and operators in adjacent control areas.⁶³ Resources having a Capacity Supply Obligation, the ISO, and system operators from neighboring control areas will have some certainty as to the level of resources that the ISO will have within the region and the level of emergency support that the ISO will be expecting during the Capability Year.

Finally, the 1,860 MW value results in an acceptable reserve margin for operational purposes. With 1,860 MW of tie benefits, the net (of HQICCs) Installed Capacity Requirement is 31,110 MW and the resulting reserve margin is 9.7%.⁶⁴ This reserve margin is still significantly below the reserve margins required in neighboring Control Areas. For example, the New York State Reliability Council has recently proposed raising the New York margin to 18%. The 9.7% margin is similar, however, to the level of reserves required within New England for the past three other Power Years.⁶⁵ Accordingly, the ISO believes that it can reliably operate the New England system with a reserve margin of 9.7%, for the 2010/2011 Capability Year.⁶⁶

4. The ISO's Proposed Rule Change.

To support utilizing the tie benefits value used for the primary Forward Capacity Auction and the second annual reconfiguration auction, the ISO proposes to revise Section III.12.9 of Market Rule 1 to require the use of the tie benefits value that was calculated in the primary Forward Capacity Auction for all three annual reconfiguration auctions. The ISO believes that the stability gained from utilizing the tie benefits value from the primary auction for the reconfiguration auctions, for Market Participants, for the ISO and for system operators and resource planners in adjacent Control Areas, justifies the proposed rule change, as noted below:

- For Market Participants that have taken on Capacity Supply Obligations for the relevant Capability Year, the stability provides a degree of certainty in planning for performance during that Capability Year.⁶⁷
- For the ISO, the stability allows planners to increase the efficient use of ISO and market participants' resources by reducing the number of studies that are required to develop tie benefit assumptions for the same study year, since the use of "at criteria" conditions should

Peter K. Wong Testimony at pp. 29-30 (filed Jan. 30, 2009) ("2010/2011 Second Annual Reconfiguration Auction Installed Capacity Requirement Filing") (noting that during the review of the assumptions for the calculation of Installed Capacity Requirement for the 2010/2011 second annual reconfiguration auction, the ISO determined that there was no need to update the tie reliability benefits study for the 2010/2011 Capability Year).

⁶³ Karl Testimony at p. 17.

⁶⁴ Wong Testimony at p. 12; Brandien Testimony at p. 3

⁶⁵ Brandien Testimony at p. 4.

⁶⁶ *Id.* at 12.

⁶⁷ Karl Testimony at p. 17.

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produce relatively similar results for the same study year.⁶⁸

- For system operators in adjacent Control Areas, the stability provides system operators with sufficient time to factor New England’s expectations with respect to emergency assistance from adjacent Control Areas into their resource and operational planning and to address any concerns raised by New England’s proposed tie benefits expectations.⁶⁹

With this rule change, the ISO is explicitly not pre-judging the outcome of the ongoing stakeholder discussions on tie benefits. The ISO believes that in light of these ongoing discussions, any larger-scale changes to the tie benefits calculation methodology is premature. As explained above, the PSPC has been engaged in an eight-month discussion on one of the Reserved Issues,⁷⁰ which is development of a methodology for assignment of tie benefits to individual ties. The PSPC is only now coming to the point of considering a straw proposal from the ISO.⁷¹ The results of the vote on this proposal will need to be considered within the larger review of tie benefits proposed to take place over the upcoming year. In addition, the ISO’s concerns with the potential impact of tie benefits on the reliable operation of the New England electric system require further evaluation to consider whether and how these concerns have an impact on the use of the overall “at criteria” and “as is” calculation methodologies for tie benefits. This evaluation should be factored into any final series of rule changes that are presented to stakeholders for their consideration.

In conclusion, the ISO believes that its proposed rule change is just and reasonable because it provides a level of stability to the calculation of tie benefits and, accordingly, the ICR-Related Values. This stability is beneficial to stakeholders, system operators in neighboring Control Areas, and the ISO. In addition, the proposed rule change has the benefit of preserving the status quo for a period of time necessary for the ISO and the New England stakeholders to complete the ongoing analysis of the tie benefits calculation methodology. The ISO is committed to completing a full review of the various tie benefit issues and plans to file with the Commission a comprehensive approach to the interrelated issues by the end of the year 2010.⁷²

⁶⁸ *Id.* Tie Benefits Assumptions for the 2010/11 Third Annual Reconfiguration Auction, Presentation before Reliability Committee Meeting (Oct. 22, 2009) Peter Wong, at p. 16.

⁶⁹ Karl Testimony at p. 17.

⁷⁰ The Reserved issues include (1) modeling internal transmission constraints in control areas in tie benefits calculations; (2) allocating tie benefit contributions to individual interconnections with neighboring Control Areas, rather than by Control Area; and (3) modeling capacity and transmission capabilities and constraints for other neighboring Control Areas including those that are not directly interconnected to New England, for use in developing tie benefits.

⁷¹ Wong Testimony at p. 38.

⁷² The ISO and NEPOOL filed in Docket No. ER08-41-004 a report on a timetable for a stakeholder process to study the Reserved Issues and committed to submit a filing with the Commission no later than February 1, 2010. Compliance Report of ISO New England Inc. and New England Power Pool Regarding a Timetable for a Stakeholder Process on Issues Pertaining to Calculating Tie Benefits, Docket No. ER08-41-004 (filed Nov. 26, 2008). The ISO and NEPOOL will file with the Commission a request for an extension of that deadline in that docket shortly after submitting the instant filing herein.

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This proposal received 66.612% support of the Participants Committee and was subsequently converted into the market rule changes contained in Attachments 1b and 1c to NEPOOL’s filing submitted concurrently herein, *NEPOOL Amendment to Market Rule 1 of the ISO New England Inc. Transmission, Markets, and Services Tariff* (“NEPOOL Filing”).

2. The ISO’s Reasons for Not Adopting the NEPOOL Amendment.

The ISO does not support the NEPOOL Amendment because, contrary to Commission precedent, it “was not supported by any study” applicable for the 2010/2011 Capability Year, nor was it grounded in a fully developed or vetted calculation methodology.⁷⁶ Instead, the value represents a compromise proposal intended to garner the support of the ISO and stakeholders.⁷⁷ Furthermore, given the flaws with the “as is” calculation methodology, as demonstrated by its use for the third annual reconfiguration auction for the 2010/2011 Capability Year, the ISO does not support its continued use without first subjecting the “as is” methodology to scrutiny as part of a larger stakeholder process on the calculation of tie benefits.

a. There is No Sound Methodological Basis for the 2,286 MW Tie Benefits Value.

While the MA AG’s proposed tie benefits value was re-characterized as a “cap” for the second presentation to the Participants Committee, there is no question that the value itself drives the NEPOOL Amendment. A value of 3,415 MW in tie benefits has been calculated under the “as is” methodology for 2010/2011. Accordingly, unless there is a dramatic shift in surplus conditions in neighboring Control Areas, the 2,286 MW “cap” value calculated by the MA AG will be utilized for the 2010/2011 and 2011/2012 third annual reconfiguration auctions under the NEPOOL Amendment.

There is, however, no sound methodological basis for using 2,286 MW, and no tie benefits study supports its use for either 2010/2011 or 2011/2012. As the MA AG presentation to the Reliability Committee and Participants Committee indicates, the 2,286 MW value was calculated by applying a 10% discount to the values presented as part of a PSPC discussion on the many different directions that might be taken for developing LIPA’s idea to calculate tie benefits for individual tie lines.⁷⁸ In his testimony filed herewith, Peter K. Wong, Manager of Resource Adequacy for the ISO and Chair of the PSPC, explains that 2,540 MW (to which the 10% discount was applied to obtain 2,286 MW) was the value calculated using “Case 1” of a total of five cases presented for the PSPC’s discussion regarding LIPA’s proposal.⁷⁹ LIPA proposed including in the modeling assumptions for the “at criteria” calculation methodology the

⁷⁶ See Wong Testimony at pp. 32-38 (describing the circumstances and context in which the NEPOOL Amendment was developed).

⁷⁷ See 2005/2006 Order at PP 14, 30 (finding that that the ISO failed to exercise independent judgment when it lowered the tie benefits value from 2,000 MW to 1,800 MW because the ISO’s tie benefits study supported the 2000 MW value while the 1,800 MW level “was not supported by any study but rather was reached by the PC’s consensus vote.”).

⁷⁸ Attachment 6 at pp. 2-3.

⁷⁹ Wong Testimony at p. 35.

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addition, the ISO proposes modifications to Section 12 of Market Rule 1 that address the manner in which tie benefits from adjacent Control Areas are determined for purposes of calculating the ICR-Related Values for annual reconfiguration auctions. The ISO provides the testimonies of Mark G. Karl, Peter K. Wong, and Peter T. Brandien on behalf of the ISO. The ISO requests that the Federal Energy Regulatory Commission (“Commission”) accept the modifications to Market Rule 1 and the ICR-Related Values reflected herein for filing effective sixty days from the date of filing.⁶

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⁵³ *Id.* at pp. 11-12.

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⁵⁷ See Wong Testimony at pp. 23-24. See also Tie Benefits Assumptions for the 2010/2011 Third Annual Reconfiguration Auction, Presentation before Reliability Committee Meeting (Oct. 22, 2009) Peter Wong, at p. 9, available at http://www.iso-ne.com/committees/comm_wkgrps/reלבlty_comm/reלבlty/mtrls/2009/oct222009/index.html

⁵⁸ See Tie Benefits Assumptions for the 2010/2011 Third Annual Reconfiguration Auction, Presentation before Reliability Committee Meeting (Oct. 22, 2009) Peter Wong, at p. 9, available at http://www.iso-ne.com/committees/comm_wkgrps/reלבlty_comm/reלבlty/mtrls/2009/oct222009/index.html.

As the above analysis indicates, the ISO has significant concerns with relying on the use of the “as is” calculation methodology for calculating tie benefits for the present auction. However, the ISO is not proposing at this time to discard the “as is” calculation methodology in favor of the “at criteria” calculation methodology because it does not want to prejudice the ongoing discussions on a number of outstanding issues pertaining to the calculation of tie benefits. Moreover, the outcome of those discussions needs to be considered before any final decisions are made about how to revise the calculation methodology. The concerns raised regarding the potential impact of the tie benefits calculation methodology on the reliable operation of the New England system during both peak and off-peak periods serves to highlight the need to expand the ongoing stakeholder proceeding on tie benefits to include a more comprehensive evaluation of the “as is” and “at criteria” calculation methodologies.

b. The ISO is Proposing to Continue Using a 1,860 MW Tie Benefits Value and is Proposing a Rule Change that Would Continue the Use of the Tie Benefits Value Calculated for the Primary Auction.

In light of the ISO’s opposition to the use of 3,415 MW of tie benefits (a point on which NEPOOL agrees) and the ongoing stakeholder process on tie benefits, the ICR-Related Values for the 2010/2011 third annual reconfiguration auction have been determined using a tie benefits value of 1,860 MW, which was the value that the ISO used and that the Commission accepted in calculating the ICR-Related Values for the primary Forward Capacity Auction and second annual reconfiguration auction for the 2010/2011 Capability Year. There are several reasons why the ISO believes that this tie benefits value, as well as the accompanying rule change that supports the use of this value, are just and reasonable.

As a general matter, when tie benefits are calculated on an “at criteria” basis, the potential for year-to-year changes and the magnitude of change in the level of tie benefits is significantly reduced.⁵⁹ Mr. Karl explains that because the external systems are assumed to be “at criteria,” changes in the level of external surplus or shortage have no impact on the tie benefits calculation.⁶⁰ Some second order changes, such as a change in the relative mix of external resources, will have minimal impacts on the calculated tie benefit value.⁶¹

Moreover, the 1,860 MW tie benefits value was utilized in calculating the Commission-approved ICR-Related Values for the 2010/2011 primary Forward Capacity Auction and the second annual reconfiguration auction. The ISO believes that this level of tie benefits remains available from neighboring Control Areas and does not believe that system conditions have changed sufficiently to warrant a departure from this value.⁶²

⁵⁹ Karl Testimony at p. 15.

⁶⁰ *Id.*

⁶¹ *Id.* at 16.

⁶² *ISO New England Inc. and New England Power Pool*, Filing of (1) Installed Capacity Requirement, Hydro Quebec Interconnection Capability Credits and Related Values for the 2010/2011 Capability Year and (2) Related Market Rule Revisions, Docket No. ER09-640-000, Transmittal Letter at pp. 17-18 and

Furthermore, the use of the 1,860 MW value will provide stability to the marketplace, ISO operators and operators in adjacent control areas.⁶³ Resources having a Capacity Supply Obligation, the ISO, and system operators from neighboring control areas will have some certainty as to the level of resources that the ISO will have within the region and the level of emergency support that the ISO will be expecting during the Capability Year.

Finally, the 1,860 MW value results in an acceptable reserve margin for operational purposes. With 1,860 MW of tie benefits, the net (of HQICCs) Installed Capacity Requirement is 31,110 MW and the resulting reserve margin is 9.7%.⁶⁴ This reserve margin is still significantly below the reserve margins required in neighboring Control Areas. For example, the New York State Reliability Council has recently proposed raising the New York margin to 18%. The 9.7% margin is similar, however, to the level of reserves required within New England for the past three other Power Years.⁶⁵ Accordingly, the ISO believes that it can reliably operate the New England system with a reserve margin of 9.7%, for the 2010/2011 Capability Year.⁶⁶

4. The ISO's Proposed Rule Change.

To support utilizing the tie benefits value used for the primary Forward Capacity Auction and the second annual reconfiguration auction, the ISO proposes to revise Section III.12.9 of Market Rule 1 to require the use of the tie benefits value that was calculated in the primary Forward Capacity Auction for all three annual reconfiguration auctions. The ISO believes that the stability gained from utilizing the tie benefits value from the primary auction for the reconfiguration auctions, for Market Participants, for the ISO and for system operators and resource planners in adjacent Control Areas, justifies the proposed rule change, as noted below:

- For Market Participants that have taken on Capacity Supply Obligations for the relevant Capability Year, the stability provides a degree of certainty in planning for performance during that Capability Year.⁶⁷
- For the ISO, the stability allows planners to increase the efficient use of ISO and market participants' resources by reducing the number of studies that are required to develop tie benefit assumptions for the same study year, since the use of "at criteria" conditions should

Peter K. Wong Testimony at pp. 29-30 (filed Jan. 30, 2009) ("2010/2011 Second Annual Reconfiguration Auction Installed Capacity Requirement Filing") (noting that during the review of the assumptions for the calculation of Installed Capacity Requirement for the 2010/2011 second annual reconfiguration auction, the ISO determined that there was no need to update the tie reliability benefits study for the 2010/2011 Capability Year).

⁶³ Karl Testimony at p. 17.

⁶⁴ Wong Testimony at p. 12; Brandien Testimony at p. 3

⁶⁵ Brandien Testimony at p. 4.

⁶⁶ *Id.* at 12.

⁶⁷ Karl Testimony at p. 17.

produce relatively similar results for the same study year.⁶⁸

- For system operators in adjacent Control Areas, the stability provides system operators with sufficient time to factor New England's expectations with respect to emergency assistance from adjacent Control Areas into their resource and operational planning and to address any concerns raised by New England's proposed tie benefits expectations.⁶⁹

With this rule change, the ISO is explicitly not pre-judging the outcome of the ongoing stakeholder discussions on tie benefits. The ISO believes that in light of these ongoing discussions, any larger-scale changes to the tie benefits calculation methodology is premature. As explained above, the PSPC has been engaged in an eight-month discussion on one of the Reserved Issues,⁷⁰ which is development of a methodology for assignment of tie benefits to individual ties. The PSPC is only now coming to the point of considering a straw proposal from the ISO.⁷¹ The results of the vote on this proposal will need to be considered within the larger review of tie benefits proposed to take place over the upcoming year. In addition, the ISO's concerns with the potential impact of tie benefits on the reliable operation of the New England electric system require further evaluation to consider whether and how these concerns have an impact on the use of the overall "at criteria" and "as is" calculation methodologies for tie benefits. This evaluation should be factored into any final series of rule changes that are presented to stakeholders for their consideration.

In conclusion, the ISO believes that its proposed rule change is just and reasonable because it provides a level of stability to the calculation of tie benefits and, accordingly, the ICR-Related Values. This stability is beneficial to stakeholders, system operators in neighboring Control Areas, and the ISO. In addition, the proposed rule change has the benefit of preserving the status quo for a period of time necessary for the ISO and the New England stakeholders to complete the ongoing analysis of the tie benefits calculation methodology. The ISO is committed to completing a full review of the various tie benefit issues and plans to file with the Commission a comprehensive approach to the interrelated issues by the end of the year 2010.⁷²

⁶⁸ *Id.* Tie Benefits Assumptions for the 2010/11 Third Annual Reconfiguration Auction, Presentation before Reliability Committee Meeting (Oct. 22, 2009) Peter Wong, at p. 16.

⁶⁹ Karl Testimony at p. 17.

⁷⁰ The Reserved issues include (1) modeling internal transmission constraints in control areas in tie benefits calculations; (2) allocating tie benefit contributions to individual interconnections with neighboring Control Areas, rather than by Control Area; and (3) modeling capacity and transmission capabilities and constraints for other neighboring Control Areas including those that are not directly interconnected to New England, for use in developing tie benefits.

⁷¹ Wong Testimony at p. 38.

⁷² The ISO and NEPOOL filed in Docket No. ER08-41-004 a report on a timetable for a stakeholder process to study the Reserved Issues and committed to submit a filing with the Commission no later than February 1, 2010. Compliance Report of ISO New England Inc. and New England Power Pool Regarding a Timetable for a Stakeholder Process on Issues Pertaining to Calculating Tie Benefits, Docket No. ER08-41-004 (filed Nov. 26, 2008). The ISO and NEPOOL will file with the Commission a request for an extension of that deadline in that docket shortly after submitting the instant filing herein.

This proposal received 66.612% support of the Participants Committee and was subsequently converted into the market rule changes contained in Attachments 1b and 1c to NEPOOL's filing submitted concurrently herein, *NEPOOL Amendment to Market Rule 1 of the ISO New England Inc. Transmission, Markets, and Services Tariff* ("NEPOOL Filing").

2. The ISO's Reasons for Not Adopting the NEPOOL Amendment.

The ISO does not support the NEPOOL Amendment because, contrary to Commission precedent, it "was not supported by any study" applicable for the 2010/2011 Capability Year, nor was it grounded in a fully developed or vetted calculation methodology.⁷⁶ Instead, the value represents a compromise proposal intended to garner the support of the ISO and stakeholders.⁷⁷ Furthermore, given the flaws with the "as is" calculation methodology, as demonstrated by its use for the third annual reconfiguration auction for the 2010/2011 Capability Year, the ISO does not support its continued use without first subjecting the "as is" methodology to scrutiny as part of a larger stakeholder process on the calculation of tie benefits.

a. There is No Sound Methodological Basis for the 2,286 MW Tie Benefits Value.

While the MA AG's proposed tie benefits value was re-characterized as a "cap" for the second presentation to the Participants Committee, there is no question that the value itself drives the NEPOOL Amendment. A value of 3,415 MW in tie benefits has been calculated under the "as is" methodology for 2010/2011. Accordingly, unless there is a dramatic shift in surplus conditions in neighboring Control Areas, the 2,286 MW "cap" value calculated by the MA AG will be utilized for the 2010/2011 and 2011/2012 third annual reconfiguration auctions under the NEPOOL Amendment.

There is, however, no sound methodological basis for using 2,286 MW, and no tie benefits study supports its use for either 2010/2011 or 2011/2012. As the MA AG presentation to the Reliability Committee and Participants Committee indicates, the 2,286 MW value was calculated by applying a 10% discount to the values presented as part of a PSPC discussion on the many different directions that might be taken for developing LIPA's idea to calculate tie benefits for individual tie lines.⁷⁸ In his testimony filed herewith, Peter K. Wong, Manager of Resource Adequacy for the ISO and Chair of the PSPC, explains that 2,540 MW (to which the 10% discount was applied to obtain 2,286 MW) was the value calculated using "Case 1" of a total of five cases presented for the PSPC's discussion regarding LIPA's proposal.⁷⁹ LIPA proposed including in the modeling assumptions for the "at criteria" calculation methodology the

⁷⁶ See Wong Testimony at pp. 32-38 (describing the circumstances and context in which the NEPOOL Amendment was developed).

⁷⁷ See 2005/2006 Order at PP 14, 30 (finding that that the ISO failed to exercise independent judgment when it lowered the tie benefits value from 2,000 MW to 1,800 MW because the ISO's tie benefits study supported the 2000 MW value while the 1,800 MW level "was not supported by any study but rather was reached by the PC's consensus vote.").

⁷⁸ Attachment 6 at pp. 2-3.

⁷⁹ Wong Testimony at p. 35.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served via electronic mail the forgoing document and attachments upon all parties on the Commission's official service list in this proceeding and the individuals identified in Attachment I-1h to the ICR Filing. Dated at Washington, DC this 5th day of January, 2010.

Sherry A. Quirk
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