

ISO New England

Forward Capacity Market Reconfiguration Auctions

October 6, 2006

Background

- ISO will conduct annual, seasonal and monthly Reconfiguration Auctions
- Only capacity supply obligations can be traded in Reconfiguration Auctions, not load obligations
- Reconfiguration Auctions allow:
 - Capacity Resources to sell capacity not cleared in the FCA
 - Capacity Resources to relieve themselves of previously acquired capacity supply obligations
 - ISO to buy additional capacity to satisfy inadequate supply in the FCA
 - ISO to buy additional capacity if the required capacity has increased and sell excess capacity if required capacity has decreased
- Participation in Reconfiguration Auctions is voluntary

Settlement Agreement Reference
Section III.M

Overview

- Qualification and Financial Assurance
- Reconfiguration Auctions sequence and timing
- Capacity zones in Reconfiguration Auctions
- Supply offers and demand bids
- Reconfiguration Auction mechanics
- ISO Participation in Reconfiguration Auction
- Reconfiguration Auction Settlement

Qualification and Financial Assurance

- Qualification of supply offers includes:
 - Verification of capacity qualified in the FCA Qualification Process but without a capacity obligation
 - Qualification review for New Resources as appropriate
- All demand bids are subject to qualification by ISO to assess its reliability impact
 - A demand bid is a desire to shed a capacity obligation
- Capacity must meet the requirements contained in the Financial Assurance Policy (“FAP”)

Reconfiguration Auctions Sequence and Timing

- After the FCA for each Commitment Period, the ISO will conduct:
 - Three annual Reconfiguration Auctions *
 - Two seasonal Reconfiguration Auctions
 - Twelve monthly Reconfiguration Auctions
- Annual Reconfiguration Auctions will be held approximately 2 years, 1 year and several months before the start of the Commitment Period
- Seasonal Reconfiguration Auctions (Summer & Winter) for capacity commitments covering periods June-September and October-May will be held prior to the start of each corresponding period
- Monthly Reconfiguration Auctions will be held prior to the Obligation Month

* For the first four FCAs, there will be two annual reconfiguration auctions

Capacity Zones in Reconfiguration Auctions

- Reconfiguration Auctions will be conducted for each Capacity Zone that experienced price separation in the FCA for the corresponding Commitment Period
- Capacity obligations can be exchanged within each Capacity Zone or across Capacity Zones, subject to interface constraints
- If there are no Supply Offers or Demand Bids in a Capacity Zone, a Reconfiguration Auction will not be held for that Capacity Zone

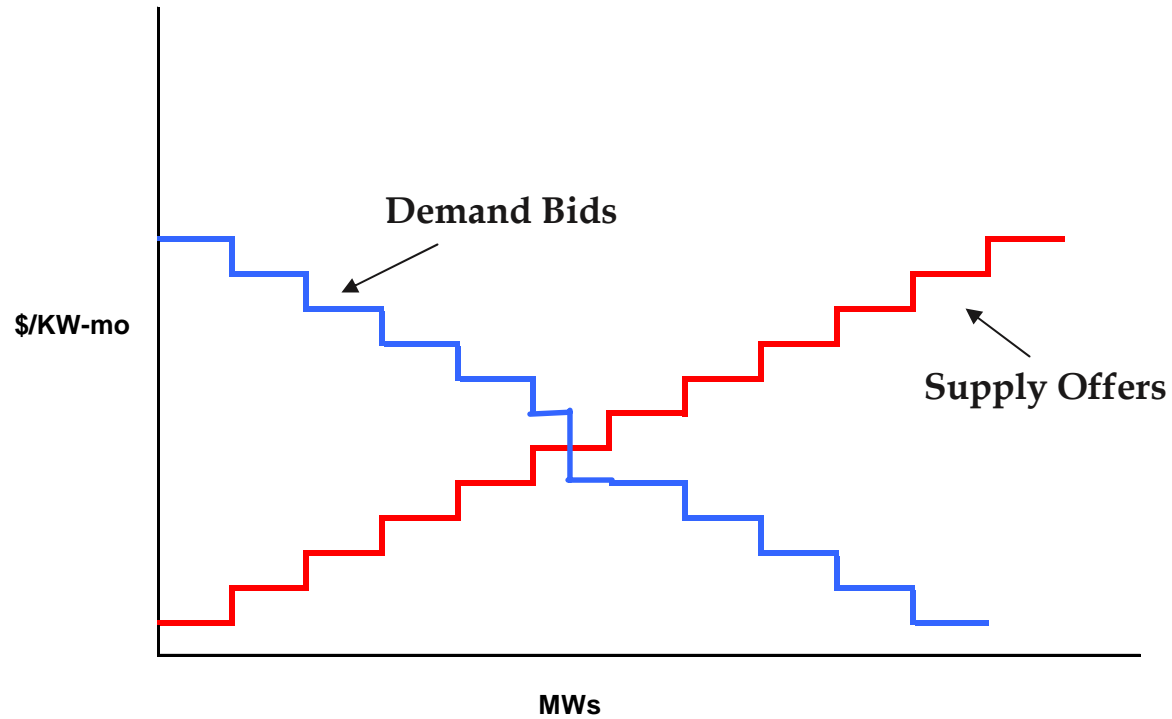
Supply Offers and Demand Bids

- Supply Offers
 - Represent a desire to acquire a supply obligation
 - Must be associated with a capacity resource
 - Cannot exceed the portion of the resource that is able to take on a supply obligation for the corresponding Commitment Period
- Demand Bids
 - Represent a desire to shed a supply obligation
 - Must be associated with a capacity resource
 - Cannot exceed the portion of the resource that is assigned a supply obligation
- Supply Offers/Demand Bids are submitted into the Reconfiguration Auction as price/MW pairs

Reconfiguration Auction Mechanics

- Standard supply-demand auction, where sellers and buyers submit offers and bids simultaneously
- Auction clears independently in each Capacity Zone
- Auction clearing price is determined by the balance of supply and demand
- All Supply Offers and Demand Bids are subject to rationing

Reconfiguration Auction Mechanics (cont'd)

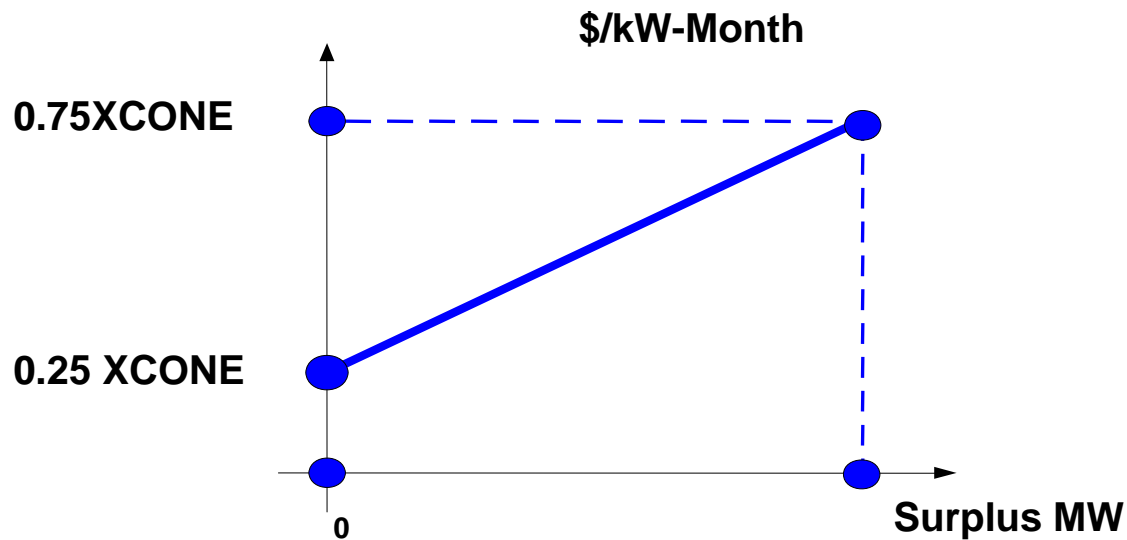


ISO Participation in Reconfiguration Auction

- ISO may offer and bid in Reconfiguration Auctions to address:
 - Changes in the forecasted capacity requirement for the associated Commitment Period (applies only to Annual Reconfiguration Auctions)
 - Inadequate Supply in the FCA
 - Incomplete replacement of Permanent, Static De-list, and/or Export Bids
 - Significant decreases in capacity associated with a resource that has acquired a capacity obligation
- If the forecasted capacity requirement increases, the ISO will seek to buy additional capacity and submit a demand bid into Reconfiguration Auction for the amount of deficit at a price of $2.0 \times \text{CONE}$

ISO Participation in Reconfiguration Auction (cont)

- If the forecasted capacity requirement decreases, the ISO will seek to sell the surplus capacity and submit a supply offer into Reconfiguration Auctions in the form of a Supply curve:



- Supply Curve shows that the ISO will offer the entire surplus at **0.75 x CONE** or higher and will offer no surplus capacity at **0.25 x CONE** and below

Reconfiguration Auctions Settlement

- Supply Obligations of Capacity Resources will be increased by the amount of the supply offer that clears in Reconfiguration Auction
- Supply Obligations of Capacity Resources will be decreased by the amount of the demand bid that clears in Reconfiguration Auction
- Capacity Resources will receive or make payments during the Commitment Period based on the clearing price in the relevant Capacity Zone and the amount of capacity cleared
 - These payments will reflect the clearing price in that Reconfiguration Auction

