



January 14, 2010

VIA HAND DELIVERY

The Honorable Kimberly D. Bose, Secretary
The Honorable Nathaniel J. Davis, Sr., Deputy Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, D.C. 20426

Re: ISO New England Inc. and New England Power Pool, Docket No. ER08-41-____, ISO New England Inc. Update to Compliance Report Regarding a Timetable for a Stakeholder Process on Issues Pertaining to Calculating Tie Benefits

Dear Secretary Bose and Deputy Secretary Davis:

Pursuant to the Federal Energy Regulatory Commission's ("Commission") order issued on September 29, 2008 in this proceeding,¹ ISO New England Inc. (the "ISO") hereby submits an update to the report filed by the ISO and the New England Power Pool ("NEPOOL") Participants Committee on November 26, 2008² regarding "a timetable for a stakeholder process to study modeling of internal transmission constraints and tie benefits associated with individual lines and develop proposals to resolve these issues."³

In the 2008 Tie Benefits Report, the ISO and NEPOOL committed to a stakeholder process to address certain so-called "Reserved Issues" regarding the methodology employed by the ISO for calculating tie benefits, which are inputs into the ISO's calculation of the Installed Capacity Requirement.⁴ As explained in this update to the 2008 Tie Benefits Report, progress

¹ *ISO New England Inc. and New England Power Pool*, 124 FERC ¶ 61,298 (2008), *order on reh'g*, 126 FERC ¶ 61,180 (2009) (the "2008 Tie Benefits Order").

² *ISO New England Inc. and New England Power Pool*, 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 November 26, 2008) (the "2008 Tie Benefits Report").

³ 2008 Tie Benefits Order at P 58.

⁴ 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.

has been made in the resolution of the Reserved Issues. However, during 2009 additional issues have arisen concerning tie benefits. As reflected in the December 15, 2009 filing (the “December 15 ICR Filing”) of the Installed Capacity Requirement and related values for the 2010/2011 third annual reconfiguration auction in Docket No. ER10-438-000, the ISO believes that continued consideration of the Reserved Issues should take place as part of a stakeholder process in 2010 to address more comprehensively all outstanding issues pertaining to tie benefits. Also in the December 15 ICR Filing, NEPOOL expressed its support for a stakeholder process in 2010 to address the calculation of tie benefits for third annual reconfiguration auctions in the Forward Capacity Market. This filing (1) explains the status of the stakeholder process on the Reserved Issues and the additional issues that have arisen in 2009 regarding tie benefits, and (2) provides an update to the timetable detailed in the 2008 Tie Benefits Report to permit the Reserved Issues to be addressed as part of a single comprehensive process for the review and proposed resolution of the outstanding tie benefits issues.

I. BACKGROUND

A. Docket No. ER08-41 – The “Reserved” Tie Benefits Issues

On July 31, 2008, the ISO and NEPOOL (the “Filing Parties”) submitted to the Commission a compliance filing in Docket No. ER08-41-002 to report on the stakeholder process undertaken during the first half of 2008 regarding the methodology for calculating tie benefits and to propose modifications to the manner in which tie benefit contributions are allocated to individual Control Areas.⁵ In that filing, the Filing Parties noted that during the stakeholder process a number of issues were identified that, by consensus agreement, were reserved for further discussion in future stakeholder processes. The Filing Parties expressed their support for continued stakeholder discussions regarding those issues (the “Reserved Issues”). 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.

On September 29, 2008, the Commission issued the 2008 Tie Benefits Order accepting the July 31, 2008 compliance filing and directed the parties to file a report on “a timetable for a stakeholder process to study modeling of internal transmission constraints and tie benefits associated with individual lines and develop proposals to resolve these issues.”⁶ On November 26, 2008, the Filing Parties in compliance with the 2008 Tie Benefits Order filed a Report setting out such timetable in Docket No. ER08-41-004. The Filing Parties stated that the process was

⁵ *ISO New England Inc. and New England Power Pool, Market Rule 1 Revisions Concerning the Calculation and Allocation of Tie Benefits*, Docket No. ER08-41-002 (filed July 31, 2008).

⁶ 2008 Tie Benefits Order at Ordering Paragraph B.

planned to commence early during the second quarter of 2009, and that any required NEPOOL Committee vote would be completed in time for any proposed Market Rule 1 or other ISO tariff changes to be filed with the Commission before February 1, 2010. In a February 26, 2009 order the Commission accepted the Filing Parties' Report,⁷ stating that the Filing Parties "have fully complied" with the Commission's directive in the 2008 Tie Benefits Order.

In April 2009, the ISO and stakeholders, through the NEPOOL Power Supply Planning Committee ("PSPC"), commenced a series of meetings to address the Reserved Issues. To date, eleven meetings have been held on the Reserved Issues by the PSPC, during which discussion has been had on all three of the Reserved Issues. As explained in more detail below, a final consensus has not been reached on how to deal with any of the Reserved Issues, although the ISO believes that the progress made to date indicates that consensus might be reached on at least some of the issues. Because consensus has not yet been reached, no formal action by stakeholders has been proposed on the Reserved Issues.

B. Docket No. ER10-438 – Additional 2009 Tie Benefit Issues

In the December 15 ICR Filing, the ISO filed the ICR-Related Values⁸ for the 2010/2011 third annual reconfiguration auction and proposed modifications to Section 12.9 of Market Rule 1 on the calculation of tie benefits, noting that the filing was being tendered while the ISO and New England stakeholders were in the midst of a series of stakeholder processes vetting certain tie benefits related issues affecting that filing.⁹ The ISO noted that the ICR-Related Values and proposed modifications to Section 12.9 of Market Rule 1 were filed before the ISO and stakeholders have completed discussions on how to resolve the outstanding issues.

Among other issues, the ISO noted that during 2009 the ISO, NEPOOL stakeholders and State Regulators have been involved in an effort to address certain features of the Forward Capacity Market, and that in this effort it has become apparent that concerns exist over the use of "as is" versus "at criteria" assumptions in the probabilistic resource adequacy studies used to set tie benefits.¹⁰ The ISO also explained in the December 15 ICR Filing that the ISO and

⁷ *ISO New England Inc. and New England Power Pool*, 126 FERC ¶ 61,180 at P 23 (2009).

⁸ The ICR-Related Values include the Installed Capacity Requirement, Local Sourcing Requirements and Maximum Capacity Limits. The ISO in its December 15 Filing also submitted the values for Hydro Quebec Interconnection Capability Credits ("HQICCs").

⁹ Filings of ISO New England Inc. and New England Power Pool Concerning the Installed Capacity Requirement and Related Values for the Final Reconfiguration Auction for the 2010/2011 Capability Year and Certain Market Rule Changes, Docket No. ER10-438-000 (filed Dec. 15, 2009) ("December 15 ICR Filing"), Attachment I-1a, Transmittal Letter of ISO New England Inc. regarding 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, at p. 10.

¹⁰ December 15 ICR Filing, Attachment I-1a at p. 10.

stakeholders had been engaged in discussions over the use of the “as is” calculation methodology for determining the ICR-Related Vales for the 2010/2011 third annual reconfiguration auction, which were the subject of the December 15 ICR Filing.¹¹ As discussed in the testimony of Mark G. Karl, Senior Director of Resource Adequacy at the ISO, filed as part of the December 15 ICR Filing, the ISO has raised with stakeholders concerns with the use of the “as is” calculation methodology, as well as concerns with the requirement that tie benefits be recalculated for each annual reconfiguration auction.¹² The testimony of Peter T Brandien, Vice President of System Operations, filed as part of the December 15 ICR Filing, also describes certain practical limitations on the operation of the electrical system that ultimately impact New England’s reliance on tie benefits.¹³

In addition, during a series of meetings during June, July and August of 2009, the NEPOOL Reliability Committee developed a list of issues pertaining to tie benefits, Local Sourcing Requirements, reliability reviews, and capacity zones. The Reliability Committee contemplated that the identified issues would be divided for further consideration among the Reliability Committee, the Power Supply Planning Committee, and the Markets Committee.¹⁴ Some of the issues pertaining to Local Sourcing Requirements, reliability reviews and capacity zones were addressed as part of the ISO’s and NEPOOL’s meetings on the Forward Capacity Market through the FCM Working Group, but the issues pertaining to tie benefits were not part of these discussions.

The ISO believes that a stakeholder process is needed to comprehensively address all outstanding tie benefits issues (the “Tie Benefits Issues”), including: (i) the Reserved Issues; (ii) those issues that have been raised in the various stakeholder meetings in 2009; and (iii) those tie benefits related issues that are raised in connection with the December 15 ICR Filing. The ISO proposes to conduct this stakeholder process during 2010 and to make a filing with the Commission by the end of the year to address any required Tariff changes.¹⁵ In the materials included with the December 15 ICR Filing, NEPOOL also expressed its support for a

¹¹ December 15 ICR Filing, Attachment I-1a at pp. 10-11.

¹² December 15 ICR Filing, Testimony of Mark G. Karl, Senior Director of Resource Adequacy at the ISO (“Karl Testimony”), Attachment I-1b at pp. 22-26. The ISO in the December 15 ICR Filing underscored that it had not taken the explicit position that the “as is” methodology should be jettisoned in favor of the “at criteria” methodology, as some aspects of the problems with the “as is” calculation methodology may apply to the “at criteria” calculation methodology in certain circumstances. *Id.* at p. 23.

¹³ December 15 ICR Filing, Attachment I-1d.

¹⁴ See the materials posted for the June 15, July 13 and August 4 Reliability Committee meetings, available at http://www.iso-ne.com/committees/comm_wkgrps/reblty_comm/reblty/mtrls/2009/index.html.

¹⁵ December 15 ICR Filing, Attachment I-1a at p. 12.

stakeholder process during 2010 to review and potentially revise the methodology for calculating tie benefits for third annual reconfiguration auctions in the Forward Capacity Market.¹⁶

II. UPDATE TO REPORT ON RESERVED ISSUES STAKEHOLDER PROCESS

As explained in the December 15 ICR Filing, progress has been made in discussions on each of the Reserved Issues, however the discussions before the PSPC have not reached a point where stakeholders have developed a consensus position. Nevertheless, while no formal vote has been taken by stakeholders, the ISO believes that consensus might be achieved on the following propositions: (1) it is appropriate to develop a methodology to calculate tie benefit contributions from individual tie lines, and work is nearly complete on the calculation methodology to do so; (2) to the extent the tie line in question is a merchant line, rather than a regionally planned line, recognition of the tie benefit provided by the merchant owners is appropriate; (3) it is not necessary or appropriate to model electric systems beyond those directly interconnected to New England; and (4) transmission constraints internal to the interconnected systems and New England, to the extent that they are not addressed by Local Sourcing Requirements, should be recognized in the calculation of tie benefits.

A number of factors have contributed to the need for additional time for consideration of the Reserved Issues. At times, the more fundamental question about the use of the “at criteria” versus “as is” methodology has overtaken the discussions on the Reserved Issues. The ISO also spent more time than anticipated completing tie benefit simulations to evaluate the various proposals pertaining to the Reserved Issues. These simulations were performed both at the ISO’s own initiative and at the request of PSPC members. Additional time was also required to complete evaluations of four separate Installed Capacity Requirement calculations that were required for the Forward Capacity Market, and it was difficult to predict with accuracy the time required to complete each of these calculations. The Installed Capacity Requirement calculations are a top priority for the PSPC because the values must be available for use in the Forward Capacity Auction and annual reconfiguration auction processes.

While progress has been made in resolving the Reserved Issues, as explained in the December 15 ICR Filing for several reasons the ISO is proposing to continue consideration of these issues as part of a more comprehensive stakeholder process on tie benefits to take place in 2010. First, while agreement might be achievable on the Reserved Issues under consideration, once these individual pieces are completed and put before stakeholders other related issues might become apparent. The Reserved Issues are inter-related with the more fundamental issues that have been raised in 2009, *i.e.* the current manner in which the “at criteria” and “as is” calculation methodologies are employed for the calculation of tie benefits and the concerns raised by the ISO in the December 15 ICR Filing. Accordingly, as addressed in the December 15 ICR Filing, the ISO is proposing to formally initiate a discussion within the appropriate NEPOOL

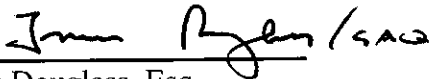
¹⁶ December 15 ICR Filing, Attachment N-1a at p. 2 and Attachment N-1b-N-1c.


committees to review and attempt to resolve the Tie Benefits Issues, and to file any Tariff amendments that result from that process with the Commission by the end of the year 2010.

III. CONCLUSION

The ISO reiterates here its proposal in the December 15 ICR Filing to undertake an effort to comprehensively review and resolve the Tie Benefits Issues with the appropriate NEPOOL Committees, and to file any resulting Tariff changes with the Commission in time for use in the Installed Capacity Requirements calculations for the fifth Forward Capacity Auction *i.e.*, by the end of 2010. This filing updates the plan for addressing the Reserved Issues that was presented in the November 26, 2008 Tie Benefits Report compliance filing and accepted by the Commission in the February 26, 2009 order. The ISO does not believe that any action is required by the Commission in response to this filing.

Respectfully submitted,

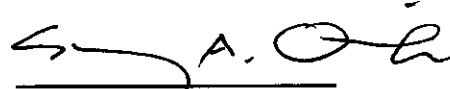
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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §385.2010 (2009), upon each person designated on the official service list in this proceeding as compiled by the Secretary of the Federal Energy Regulatory Commission.

Dated at Washington, D.C., this 14th day of January 2010.



Sherry A. Quirk