

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

October 22, 2003

In Reply Refer To: ISO New England, Inc.
Docket Nos. ER02-2330-010, ER02-2330-011,
ER02-2330-012, and ER02-2330-014

Attention: ISO New England, Inc.

Reference: Status Reports on the Implementation of New England's Standard
Market Design

Dear Sirs:

1. On March 20, March 25, and June 18, 2003, in compliance with the Commission's Orders of September 20, 2002 and December 20, 2002 approving the Standard Market Design (NE-SMD) for ISO New England, Inc. (ISO-NE), you submitted reports informing the Commission of the status of the implementation of NE-SMD and the status of certain market enhancements. NE-SMD was implemented on March 1, 2003. The reports are accepted for informational purposes and are in compliance with the Commission's Orders.
2. Notice of the filing was published in the Federal Register, with comments, protests, and interventions due on or before the dates reflected in Appendix A. A list of entities filing motions to intervene, and in some cases comments or protests, is also provided in Appendix A. Pursuant to Rule 214 of the Commission's rules of Practice and Procedure, 18 C.F.R. § 385.214 (2003), the timely unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.
3. In its status report filed on March 20, 2003 (Docket No. ER02-2330-010) and supplemented on March 25, 2003 (Docket No. ER02-2330-012) and in its further status report filed on June 18, 2003 (Docket No. ER02-2330-014), ISO-NE states that the March 1, 2003 implementation of NE-SMD was successful, with electricity prices consistent with prices in other wholesale markets in the Northeast. ISO-NE notes that volatility in natural gas prices has resulted in a corresponding general increase in electricity prices relative to prices prior to the implementation. ISO-NE provides additional detail on the progress towards implementation of an Information Policy, full nodal pricing for load, a replacement for the Qualified Upgrade Awards calculation, reporting those resources which are ineligible to set clearing prices, scarcity pricing, regional resource adequacy requirements, partial delisting, operating reserves markets,

mileage payment for regulation service, transmission upgrade cost allocation, and the payment of operating reserve credits to self-scheduled resources.

4. In a separate filing made on March 20, 2003 (Docket No. ER02-2330-011), ISO-NE addresses the Commission's concern that ISO-NE's approach to scarcity pricing, the Proxy CT, may not represent the best choice.¹ ISO-NE states that it examined, in addition to the scarcity premium proposal set forth in the Commission's December 20 Order, the mitigation proposal of Midwest Independent Transmission System Operator, Inc., ERCOT's RMR methodology, locational ICAP as reflected in the NYISO market, and a broader proposal under development by ISO-NE and its market advisor Dr. David Patton. ISO-NE reports that in the long run, locational ICAP appears to be the best solution to signal for investment in constrained areas.

5. Intervenors filing comments on the status reports generally give support to the proposed enhancements and raise issues related to timing of the implementation of various enhancements. Only those proposals relating to scarcity pricing elicited critical comments.

6. With regard to the scarcity pricing proposal in Docket No. ER02-2330-011, the PSEG Companies (PSEG) supports the locational ICAP approach to resource adequacy in the ISO-NE market. PSEG finds that the locational ICAP requirement will send price signals that reflect the cost of maintaining or building capacity in constrained areas and can be used as a basis for evaluating congestion alternatives. NSTAR Electric and Gas Corporation (NSTAR), however, is concerned that the scarcity pricing approach ISO-NE has under consideration is a short-term approach to a systemic problem. Further, NSTAR does not consider the Proxy CT to be a long term solution. NSTAR requests ISO-NE to focus on development of a proposal that efficiently provides incentives for reserve capacity. The Connecticut Municipal Electric Energy Cooperative (CMEEC) protests the characterization of locational ICAP as the only solution to the scarcity premium issue and notes that the locational ICAP mechanism has not been fully vetted by the NEPOOL market participants, nor has any proposal been voted on by the NEPOOL Participants Committee

7. The Connecticut Department of Public Utility Control (CT DPUC) along with the Connecticut Attorney General (CTAG) in a separately filed protest state that ISO-NE's report on alternatives to scarcity pricing in the Designated Congested Areas (DCAs) does not adequately respond to the Commission's concerns. CT DPUC suggests limits on the number and types of resources that are eligible to bid up to the threshold without scrutiny. Further CT DPUC notes a lack of detail and discussion of the impact of a locational ICAP requirement and thus finds the merit of locational

¹ In any event, the issue of the Proxy CT has been addressed in Devon Power LLC, 103 FERC ¶ 61,082 (2003), reh'g, 104 FERC ¶ 61,123 (2003) (Devon).

ICAP difficult to assess. Northeast Utilities Service Company (NU) agrees and questions whether locational ICAP would be superior to the current and proposed methods of incenting construction of new facilities. NU additionally desires sufficient notice to the markets before any broad reaching market rule such as locational ICAP will be implemented.

8. Massachusetts Municipal Wholesale Electric Company (MMWEC) has requested that ISO-NE provide information on the costs associated with the implementation of any of the proposed enhancements. MMWEC states that it has raised this issue through the stakeholder process and that ISO-NE has committed to make this information available. MMWEC does not seek any Commission action on this matter.

9. In response to the status report filed on June 18, 2003 (Docket No. ER02-2330-014), CMEEEC states that it finds no barrier to implementation of nodal pricing for load for many of its customers. CMEEEC requests that ISO-NE make nodal pricing available to certain of its nodes/customers immediately, or, in the event that this is not possible, provide a time line as to when this will be available. New England Industrial Customer Coalition (NICC) asserts ISO-NE has made virtually no progress in implementing nodal pricing for load. NICC notes that ISO-NE has discussed the possibility of alternatives to full nodal pricing, and stresses that it opposes any attempt to retreat from full nodal pricing.

10. The Commission accepts ISO-NE's reports for informational purposes. Additionally, the Commission instructs ISO-NE to take consideration of the comments of the intervenors and address these concerns when filing tariff revisions to implement the various enhancements. We note that CTAG's concerns regarding scarcity pricing and the DCA mechanism have already been addressed in Devon, supra n. 1. Lastly, in response to several of the intervenors, the recently issued "White Paper on Bulk Power Market Design"² provides discussion of the Commission's evolving position with respect to many issues addressed in the reports including resource adequacy and nodal pricing.

² See in particular, Appendix A.

11. This letter order terminates Docket Nos. ER02-2330-010, ER02-2330-011, ER02-2330-012, and ER02-2330-014.

By direction of the Commission.

Linda Mitry,
Acting Secretary.

cc: All Parties

Attachment A

Docket Number	Federal Register Cite	Comments Due Date
ER02-2330-010	68 FR 16,014	April 2, 2003
ER02-2330-011	68 FR 16,014	April 2, 2003
ER02-2330-012	68 FR 17,622	April 10, 2003
ER02-2330-014	68 FR 38,708	June 30, 2003

Subdocket

Intervenor	010	011	012	014	Comments	Protest
Attorney General of the State of Connecticut (CTAG)	X	X			X	X
Connecticut Department Of Public Utility Control (CDPUC)	X	X			X	
Connecticut Municipal Electric Energy Cooperative (CMEEC)	X	X			X	X
Exelon Corporation (Exelon)	X	X				
Massachusetts Municipal Wholesale Elect Company (MMWEC)		X			X	
NSTAR Electric and Gas Corporation (NSTAR)	X	X			X	
NEPOOL Industrial Customer Coalition (NICC)				X		
Northeast Utilities Service Company and Select Energy (NU)		X			X	
PSEG Companies (PSEG)	X	X	X		X	