



August 31, 2007

**VIA HAND DELIVERY**

The Honorable Kimberly D. Bose, 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. ER07-546-\_\_\_\_, Compliance Filing**

Dear Secretary Bose:

Pursuant to Rule 1907 of the Federal Energy Regulatory Commission's ("Commission") Rules of Practice and Procedure, 18 C.F.R. § 385.1907 (2007), ISO New England Inc. (the "ISO") and the New England Power Pool ("NEPOOL") Participants Committee<sup>1</sup> (collectively, the "Filing Parties") hereby submit an original and five copies of various Tariff and Market Rule 1<sup>2</sup> changes ("Compliance Changes") to comply with the Commission's April 16, 2007 Order conditionally accepting the Forward Capacity Market ("FCM") Market Rules and requiring a compliance filing.<sup>3</sup> The Compliance Changes contained herein address: (1) review of de-list bids; (2) revisions related to Static De-list Bids for rating reductions due to ambient air conditions; (3) capacity imports over the Phase I/II HVDC-TF interconnection with Hydro-Quebec ("HQ Interconnection"); and (4) various administrative and/or clarification revisions. As explained in further detail below, the Filing Parties request that the Commission issue an order on the Compliance Changes by October 31, 2007.

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<sup>1</sup> Capitalized terms used but not defined in this compliance filing are intended to have the same meaning given to such terms in the ISO's Transmission, Markets and Services Tariff (FERC Electric Tariff No. 3) ("Tariff"), the Second Restated New England Power Pool Agreement, the March 6, 2006 Explanatory Statement and Settlement Agreement in Docket Nos. ER03-563-000 *et al.*, and the February 15 Filing Containing Revisions to Market Rules Implementing the FCM Settlement in Docket No. ER07-546-000.

<sup>2</sup> Market Rule 1 is Section III of the Tariff.

<sup>3</sup> *ISO New England Inc.*, 119 FERC ¶ 61,045 (2007) ("April 16 Order").

## **I. DOCUMENTS SUBMITTED WITH THIS FILING**

The Filing Parties submit the following materials:

1. This transmittal letter,
2. Clean tariff sheets reflecting the Compliance Changes (“Attachment 1”), and
3. Redline tariff sheets reflecting the same (“Attachment 2”).

## **II. DESCRIPTION OF THE FILING PARTIES; COMMUNICATIONS**

The ISO is the private, non-profit entity that serves as the regional transmission organization (“RTO”) for New England. The ISO operates the New England bulk power system and administers New England’s organized wholesale electricity market pursuant to the ISO New England Transmission, Markets and Services Tariff (“Tariff”) and the Transmission Operating Agreement with the New England Participating Transmission Owners.

NEPOOL is a voluntary association organized in 1971 pursuant to the New England Power Pool Agreement, and has grown to include more than 300 members. The NEPOOL Participants Committee is authorized by Section 6.1 of the Second Restated NEPOOL Agreement and Section 8.13(c) of the Participants Agreement to represent NEPOOL in proceedings before the Commission.

All correspondence and communications in this proceeding should be addressed to the undersigned as follows:

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Honorable Kimberly D. Bose

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### III. BACKGROUND

On February 15, 2007, the ISO filed with the Commission proposed market rules implementing the FCM.<sup>5</sup> In the April 16 Order, the Commission conditionally accepted the ISO's February 15 Filing subject to the ISO filing certain changes. The Commission required, among other things, that the ISO make the instant compliance filing no later than September 1, 2007.

Several parties sought rehearing and/or clarification of the April 16 Order. On July 25, 2007, the Commission issued an order, which among other things, clarified the process by which a resource may re-submit a de-list bid rejected by the Internal Market Monitoring Unit ("INTMMU").<sup>6</sup> In particular, the Rehearing Order specified that an affected resource may elect to either submit a new de-list bid consistent with the INTMMU's determined price or not submit a new de-list bid, but challenge such determination in the informational filing submitted to the Commission by the ISO 90 days before the start of the first Forward Capacity Auction ("FCA Informational Filing").<sup>7</sup> This clarification is included in the instant compliance filing.

### IV. STAKEHOLDER PROCESS

The Compliance Changes were reviewed with the NEPOOL Markets Committee at its June 12 and July 16, 2007 meetings. The Markets Committee voted unanimously to approve the

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<sup>4</sup> Due to the joint nature of this filing, the Filing Parties respectfully request a waiver of Section 385.203 of the Commission's regulations to allow the inclusion of more than two persons on the service list in this proceeding.

<sup>5</sup> ISO New England Inc., Filing Containing Revisions to Market Rules Implementing FCM Settlement Agreement, filed on February 15, 2007 in Docket No. ER07-546-000 ("February 15 Filing").

<sup>6</sup> *ISO New England Inc.*, 120 FERC ¶ 61,087 (2007) ("Rehearing Order").

<sup>7</sup> Rehearing Order at P 57.

Compliance Changes described in Section VI.A, and voted to approve, with two abstentions, all other Compliance Changes described in Sections VI.B, VI.C, and VI.D at its July 18, 2007 meeting. Proposed changes to the ISO New England Open Access Transmission Tariff (“ISO-NE OATT”) to correspond with the Compliance Changes in Section VI.C were reviewed and approved by the Transmission Committee at its July 25, 2007 meeting, with one abstention. On August 2, 2007, the NEPOOL Participants Committee unanimously approved all Compliance Changes, with one abstention on the Compliance Changes described in Section VI.C.

## **V. REQUEST FOR EFFECTIVE DATE AND EXPEDITED CONSIDERATION**

The Filing Parties request effective dates for the proposed Compliance Changes consistent with the effective dates for other Market Rule changes that were approved in the April 16 Order, as reflected in the attached proposed tariff sheets. The Filing Parties further request that the Commission issue an order on the Compliance Changes contained herein by October 31, 2007. A Commission order by this date will provide important certainty for Market Participants and the ISO in the completion of the qualification process for the first Forward Capacity Auction (“FCA”). As described above, the Compliance Changes were unanimously approved by the NEPOOL Participants Committee as compliant with the April 16 Order.

## **VI. DESCRIPTION OF COMPLIANCE CHANGES**

The April 16 Order directed the ISO to make various modifications to the FCM rules, which fall into four general categories: (1) revisions related to the INTMMU review of de-list bids; (2) revisions related to Static De-list Bids for rating reductions due to ambient air conditions; (3) capacity imports over the Phase I/II HVDC-TF interconnection with the HQ Interconnection; and (4) various administrative and/or clarification revisions. Each of these is discussed below.

### **A. Review of De-List Bids by the INTMMU**

#### **1. Revision of Rejected De-List Bids**

The accepted revisions to Market Rule 1 to implement the FCM (the “FCM Rules”) allow existing capacity resources to opt out of the capacity market by submitting a de-list bid. Under the rules as proposed by the ISO in its February 15 Filing, the INTMMU will review each Static De-List Bid and Export Bid above 0.8 times the Cost of New Entry (“CONE”), and each Permanent De-List Bid above 1.25 times the CONE submitted by existing capacity resources. If the INTMMU determines that a bid is inconsistent with a resource’s net risk-adjusted going forward and opportunity costs, the de-list bid would be rejected and the resource entered into the FCA as a price-taker. If a bid is rejected, the ISO will provide an explanation detailing why the resource was not accepted in the FCA Informational Filing.

The Commission found that certain aspects of the proposal could result in an existing resource being forced to offer capacity in the FCA at a price below its net risk-adjusted going

forward and opportunity costs.<sup>8</sup> Accordingly, the Commission directed the ISO to amend Section III.13.1.2.3.2.1.1 of the proposed FCM Rules to require that if a de-list bid is rejected by the INTMMU, the INTMMU must determine and provide to the resource the INTMMU's determination of the resource's net-risk adjusted going forward costs and opportunity costs.<sup>9</sup> Furthermore, the Commission directed that the proposed FCM rules be amended to permit a resource with a rejected de-list bid to re-submit a revised de-list bid consistent with the costs determined by the INTMMU, subject to Commission review.<sup>10</sup>

In the Rehearing Order, the Commission clarified that an existing generator does not have multiple opportunities to submit a revised de-list bid that has previously been rejected by the INTMMU. Rather, according to the Commission:

a generator whose de-list bid is rejected by the Market Monitor may either (a) submit a new de-list bid based on the Market Monitor's estimate of its costs, in which case it relinquishes its ability to challenge the Market Monitor's estimate before the Commission, or (b) not submit a new de-list bid, but retain its ability to challenge the Market Monitor's estimate before the Commission.<sup>11</sup>

In compliance with these Commission directives, the ISO has modified Sections III.13.1.2.3.2.1.1, III.13.1.2.4 and III.13.8.1 of the FCM Rules. Section 13.1.2.3.2.1.1 has been revised to state that when a de-list bid is rejected by the INTMMU, the ISO will provide, in both the qualification determination notification and the FCA Informational Filing, an explanation of the reasons the bid was rejected, including the resource's net risk-adjusted going forward costs, as determined by the INTMMU. The Lead Market Participant may elect to participate in the Forward Capacity Auction using the INTMMU-determined bid price by notifying the ISO of such an election in a filing with the Commission in response to the ISO's FCA Informational Filing. As clarified by the Rehearing Order, Section III.13.1.2.3.2.1.1 has been further revised to state that a Lead Market Participant making such an election may not subsequently challenge the INTMMU determination of the resource's net risk-adjusted going forward costs and opportunity costs. If no such election is made, the resource will be entered into the FCA as a price-taker, pursuant to Section III.13.2.3.2(c), or as otherwise directed by the Commission. The ISO also made minor revisions to Sections III.13.1.2.4 and III.13.8.1 to conform with the changes to Section III.13.1.2.3.2.1.1 described above.

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<sup>8</sup> April 16 Order at P 117.

<sup>9</sup> *Id.* at PP 120-121.

<sup>10</sup> *Id.* at P 121.

<sup>11</sup> Rehearing Order at P 57.

## 2. Revisions Regarding Possible Manipulation or Withholding

In the April 16 Order, the Commission directed the ISO to make certain changes relating to attempts at manipulation or physical withholding.<sup>12</sup> The Commission found that the Market Monitor does not have the authority to make the determinations as to whether or not there has been an attempt at manipulation or physical withholding.<sup>13</sup> Accordingly, as directed by the Commission, the ISO has revised Sections III.13.1.2.3.2.3, III.13.1.2.3.2.2, and III.13.1.3.5.6.1 to provide that if the INTMMU determines that a bid may be an attempt to manipulate the FCA, the ISO will refer the matter to the Commission in accordance with Appendix A to the Policy Statement on Market Monitoring.<sup>14</sup> Additionally, the April 16 Order required the ISO to revise Section III.13.1.2.2.5.2 to provide that if during its review of bids by Existing Generation Resources, Existing Demand Resources or Existing Import Resources, the INTMMU determines that a bid may be an attempt to manipulate the FCA, the ISO will refer the matter to the Commission in accordance with Appendix A to the Policy Statement on Market Monitoring. The ISO has complied with the Commission's directive by making the required changes to Section III.13.1.2.3.5.2. Finally, as directed by the Commission, the ISO has revised Section III.13.1.7 to state that if during the review of a summer resource's historical values, the INTMMU finds that there may be an attempt to exercise physical withholding, the ISO will refer the matter to the Commission in accordance with Appendix A to the Policy Statement on Market Monitoring.

### B. Static De-List Bids for Reductions in Ratings Due to Ambient Air Temperatures

As noted in the April 16 Order, the capability of some generators is dependent on ambient air temperatures, with generation output generally decreasing as ambient air temperature increases.<sup>15</sup> Specifically, some generators may not be able to meet their Qualified Capacity rating when the temperature exceeds 90 degrees. Despite the physical limitation of the generating unit, a resource would potentially be subject to FCM availability provisions if it does not perform at the full Qualified Capacity rating during hot weather. As a result, the February 15 Filing proposed to allow generators the option to de-list the MWs associated with the reduced output at a price of 2 times CONE.

In the April 16 Order, the Commission ruled that such generators should be able to de-list anticipated temperature-dependent capacity at prices below 2 times CONE.<sup>16</sup> According to the Commission, if some generators can reduce temperature losses at a cost that is less than 2 times CONE, customers would benefit from allowing such generators to continue providing their

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<sup>12</sup> April 16 Order at P 126.

<sup>13</sup> *Id.* at P 126.

<sup>14</sup> *Id.* at P 126.

<sup>15</sup> April 16 Order at P 136.

<sup>16</sup> *Id.* at P 142.

capacity at prices below 2 times CONE.<sup>17</sup> Thus, the Commission directed the ISO to revise the FCM rules to allow Existing and New Generating Capacity Resources with temperature-dependent capacity to de-list at prices below 2 times CONE.<sup>18</sup>

In compliance with the Commission's directive, the ISO has revised Section III.13.1.2.3.2.4 to state that "...Static De-list Bids may be entered into the Forward Capacity Market at prices up to and including 2.0 times CONE, subject to validation of the physical limit." The approved timetables in the qualification schedule for the first FCA, however, raise a timing issue for implementing this change. The deadline for submitting Static De-List Bids for the first FCA (including those for reductions in ratings due to ambient air conditions) has already passed – such bids were to be included in the Existing Capacity Qualification Package, due no later than April 30, 2007. As required by the FCM Rules,<sup>19</sup> information about Static De-List Bids submitted by that date was posted shortly after the Existing Capacity Qualification Deadline. Allowing participants to re-submit Static De-List Bids now for reductions in ratings due to ambient air – to take advantage of the Commission's directive to allow such bids at prices below 2.0 times CONE – would give those participants an unfair competitive advantage because their newly submitted bids could factor in the bids already submitted by others, which are now public. The de-list bid submission window cannot be reopened for all Existing Capacity Resources without delaying the first FCA. Therefore, the ISO will implement this change for de-list bids proposed for the second FCA.

### C. Hydro Quebec Capacity

The rules proposed by the ISO in its February 15 Filing included rules governing import capacity resources associated with the HQ Interconnection. The proposed FCM Rules provided that if more import capacity resources clear in the FCA than can be accommodated between the capacity transfer limit of the line and the Hydro Quebec Interconnection Capacity Credit ("HQICC") values, the HQICC values will be reduced so that the maximum capacity transfer limit is not exceeded. The proposed FCM Rules further required that any such import capacity resources that would displace HQICCs, (specifically, the "HQI Capacity" contracts) must have transmission reservations over the interconnection for the month(s) in which they have a capacity commitment.

In the April 16 Order, the Commission held that import capacity resources accepted in the FCA over the HQ Interconnection should be limited to the capacity that remains available on the line after accounting for the value of existing HQICCs, and up to the capacity transfer limit (i.e., the "HQI Excess Capacity" contracts).<sup>20</sup> In its ruling, the Commission found that purchasing imported capacity that reduces the tie benefit would increase the Installed Capacity Requirement within New England, thus increasing the amount of capacity that must be purchased by

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<sup>17</sup> *Id.*

<sup>18</sup> *Id.*

<sup>19</sup> See Tariff Section III.13.1.8.

<sup>20</sup> April 16 Order at P 167.

customers. Accordingly, the Commission directed the ISO to amend the FCM rules so that in the FCA, only HQ Interconnection capacity that does not degrade HQICCs will be allowed.<sup>21</sup>

Additionally, the Commission held that because import capacity contracts over the HQ Interconnection that reduce HQICCs are not allowed, round-the-clock transmission reservations for such import HQ Interconnection capacity contracts (specifically, the HQI Capacity contracts) are not necessary.<sup>22</sup> Accordingly, the Commission directed the ISO to remove the reservation requirement from the FCM Rules.

In accordance with the Commission's directives, the ISO has modified the FCM Rules to limit the maximum amount of import capacity over the HQ Interconnection in the FCA to the total amount of the capacity transfer limit of the tie minus the value of the remaining HQICCs. As a result, the distinction between HQI Capacity and HQI Excess Capacity is no longer necessary because under the Commission's ruling, HQI Capacity contracts are no longer allowed in the FCA. Thus, the ISO has removed the requirement that Market Participants identify in the qualification process whether capacity delivered over the HQ Interconnection is HQI Capacity or HQI Excess Capacity in Section III.13.1.3.3. Similarly, the ISO has deleted Section III.13.1.3.5.1.1 since this section provides rules regarding the distinctive treatment of HQI Capacity and HQI Excess Capacity and reservation requirements, which are no longer necessary under the Commission's ruling. The ISO has also revised Section III.13.7.2.2, which provides for payments to import capacity resources, to remove distinct references to HQI Capacity and HQI Excess Capacity.

Further, in compliance with the April 16 Order, the ISO has revised Section III.13.2.3.3(d) to reflect that the ISO will treat the HQICCs as a tie benefit that cannot be reduced by capacity imports and has removed the references in Section 13.2.3.3(d)(ii) to the separately modeled HQI Capacity and HQI Excess Capacity zones during the auction.

The ISO has also revised Section III.13.7.2.1.1 (d) to remove the offset in the load reduction credit for HQICCs used in the calculation of the Installed Capacity Requirements. Because HQI Capacity contracts are no longer allowed under the April 16 Order, the ISO has struck the offset language.

Additionally, the ISO has modified Tariff Section III.12.10 to conform with changes to the FCM Rules relating to HQICCs when calculating the Installed Capacity Requirements. Specifically, the ISO has removed language in this section that would have reduced the value of HQICCs.

Finally, the ISO has made conforming changes to existing Sections I.2.2(o) and II.1.39(2) of the Tariff. Specifically, the ISO has revised the definitions of the HQ Net Interconnection Capability Credit in Section I.2.2(o) and the Installed System Capability in Section II.1.39(2) to remove provisions relating to the netting of HQICCs. With these changes, the current definitions

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<sup>21</sup> *Id.* at P 168.

<sup>22</sup> *Id.* at P 169.

containing the netting provisions will expire at the commencement of the Capacity Commitment Period associated with the first FCA in 2010.

**D. Administrative/Typographical Compliance Issues**

The Commission identified several minor administrative errors in the February 15 Filing. The Commission required the ISO to either fix the errors or provide an explanation as to why they are correct.<sup>23</sup> The ISO has complied with the Commission's directives, as described below.

**1. Resources Previously Counted As Capacity**

Section III.13.1.1.1.3 of the FCM Rules provide that the incremental capacity of a resource previously counted as a capacity resource may participate as a New Generating Capacity Resource if two conditions are met (regarding the size of the increment and its cost). As provided in the FCM Rules, both conditions must be met for the increment to be treated as a New Generating Capacity Resource.<sup>24</sup> In the April 16 Order, the Commission noted that: (i) similar provisions in Section III.13.1.1.1.2 (regarding treatment of an entire existing resource as new, rather than incremental capacity) are stated in the alternative; and (ii) the transmittal letter that accompanied the February 15 Filing stated that the resource only had to comply with one of these requirements.<sup>25</sup> The Commission concluded that it "believes that 'or' should be substituted for 'and' at the end of section III.13.1.1.1.3(a)."<sup>26</sup> Unfortunately, the description in the transmittal letter was incorrect. The different treatment between Sections III.13.1.1.1.2 and III.13.1.1.1.3 is intentional. While Section III.13.1.1.1.2 does indeed list alternate means to have an entire existing resource treated as new, Section III.13.1.1.1.3 correctly requires both the size and price requirements to be met for the incremental capacity of a resource to be treated as a New Generating Capacity Resource. This treatment is consistent with the FCM Settlement Agreement.<sup>27</sup> The ISO regrets the error in the transmittal letter, but believes that no change to the FCM Rules is required.

**2. Qualification of Existing Demand Resources**

In the April 16 Order, the Commission expressed concern that certain proposed tariff sheets do not reflect the intent of the FCM design as described in the ISO's transmittal letter.<sup>28</sup> Specifically, the transmittal letter accompanying the February 15 Filing refers to both Existing Generating Capacity Resources and Existing Demand Resources that do not submit de-list or

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<sup>23</sup> April 16 Order at P 218.

<sup>24</sup> See Tariff Section III.13.1.1.1.3(a).

<sup>25</sup> April 16 Order at P 219.

<sup>26</sup> *Id.* at P 219.

<sup>27</sup> See Forward Capacity Market Settlement Agreement at Section 11.II.B.2.c filed on March 6, 2006 in Docket Nos. ER03-563-000, 030, 055.

<sup>28</sup> April 16 Order at P 220.

export bids as “price-takers” in the FCA.<sup>29</sup> The Commission noted, however, that the FCM Rule language does not appear to be consistent with that description. While Section III.13.1.4.2.5.2 expressly refers to Existing Demand Resources as “price-takers” in the auction, the corresponding provision in Section III.13.1.2.3 does not specify that Existing Generation Capacity Resources are “price-takers” in the auction, but instead refers to Section III.13.2.3.2(c).

The ISO will eliminate this ambiguity by deleting the words “as a price-taker” in Section III.13.1.4.2.5.2 and inserting “as described in Section III.13.2.3.2(c).” Although both types of existing resources are indeed treated as “price-takers” in the auction, the phrase “price-taker” is only shorthand for the process described in Section III.13.2.3.2(c), which applies to both resources. The term “price-taker,” however, is not precise or defined. In order to remove the ambiguity identified by the Commission, the ISO has revised Section III.13.1.4.2.5.2 by deleting “price-taker” and, instead, referring to the process described in Section III.13.2.3.2(c).

### **3. Correct Internal Citation to Market Rule for Existing Demand Resources**

Section III.13.1.4.1.1 of the proposed rules (Existing Demand Resources) states that “Existing Demand Resources shall be subject to Section III.13.1.2.2.2.6.” The Commission pointed out that no such provision exists in the Market Rules.<sup>30</sup> The correct reference should be to Section III.13.1.2.2.5.2, which relates to existing resources that have higher summer Qualified Capacity ratings than winter Qualified Capacity. Accordingly, the ISO has revised Section III.13.1.4.1.1 to reflect the appropriate references to Section III.13.1.2.2.5.2.

### **4. Typographical Error (Action/Auction)**

Section III.13.1.7 of the filed FCM Rules states that “the Internal Market Monitor shall take appropriate steps to ensure that the resource bid to de-list or export in the Forward Capacity Auction is not inappropriately replaced by that new capacity in a subsequent reconfiguration *action*.” The final word – “action” – is a misspelling of “auction.” As directed by the Commission, the ISO has corrected the spelling of “auction” in Section III.13.1.7.

## **VII. CONCLUSION**

Wherefore, for the reasons stated above, the Filing Parties respectfully request that the

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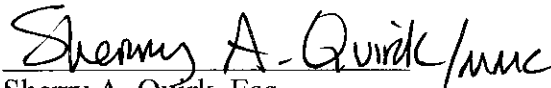
<sup>29</sup> See transmittal letter at p. 72 and at p. 92.

<sup>30</sup> April 16 Order at P 222.

Commission accept this filing in compliance with the April 16 Order.

Respectfully Submitted,

ISO NEW ENGLAND INC.

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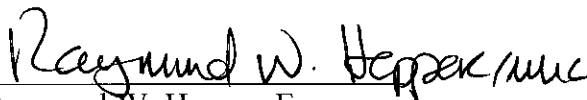
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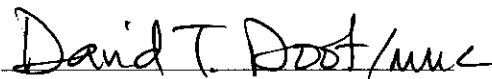
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**Attachment 1**

**Revised Tariff Sheets**

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- (l) **Governance Participant:** As defined in the Participants Agreement.
- (m) **Host Participant or Host Utility:** The Host Participant is a Market or Governance Participant transmission or distribution provider that reconciles the loads within the metering domain with OP-18 compliant metering.
- (n) **HQ Interconnection Capability Credit (“HQICC”):** Is a monthly value reflective of the annual installed capacity benefits of the Phase I/II HVDC-TF, as determined by the ISO, using a standard methodology on file with the Commission, in conjunction with the setting of Objective Capabilities. An appropriate share of the HQICC shall be assigned to an IRH if the Phase I/II HVDC-TF support costs are paid by that IRH and such costs are not included in the calculation of the Regional Network Service rate. The share of HQICC allocated to such an eligible IRH for a month is the sum in Kilowatts of (1)(a) the IRH’s percentage share, if any, of the Phase I Transfer Capability times (b) the Phase I Transfer Credit, plus (2)(a) the IRH’s percentage share, if any, of the Phase II Transfer Capability, times (b) the Phase II Transfer Credit. The ISO shall establish appropriate HQICCs to apply for an IRH which has such a percentage share.
- (o) **HQ Net Interconnection Capability Credit:** Of an IRH for a given month is its HQICC for that month, in Kilowatts, minus a number of Kilowatts equal to (1) the percentage of its share of the Phase I/II HVDC-TF Transfer Capability committed or used by it for a UCAP Transaction for that month (plus any use during the same time period by an entity that obtained an OASIS transmission reservation from that IRH for service on the Phase I/II HVDC-TF for that same time period which was used to support a UCAP transaction), times (2) its HQICC for that month. This definition will no longer be in effect upon the commencement of the Capacity Commitment Period for the first Forward Capacity Auction under Market Rule 1, Section III.13 and pursuant to the terms of Market Rule 1 Section III.13.2.9.
- (p) **HQ Use Agreement:** [Deleted]
- (q) **Indirect Interconnection Rights Holder (“Indirect IRH”):** [Deleted]
- (r) **Interconnection Rights Holder(s) (“IRH”):** shall have the meaning given to it in Schedule 20A to Section II of this Tariff.

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until the Operations Date, as defined in the TOA. The current HTF rating is a nominal 225 MW. The HTF are not defined as PTF. Coincident with the Operations Date and except as stipulated in Schedules, 9, 12, and Attachment F to this OATT, HTF shall be treated in the same manner as PTF for purposes of this OATT and all references to PTF in this OATT shall be deemed to apply to HTF as well. The treatment of the HTF is not intended to establish any binding precedent or presumption with regard to the treatment for other transmission facilities within the New England Transmission System (including HVDC, MTF, or Control Area Interties) for purposes of this OATT.

**II.1.38 Independent Transmission Company or ITC:** A transmission entity that assumes certain responsibilities in accordance with Section 10.05 of the Transmission Operating Agreement and Attachment M to the OATT, subject to the acceptance or approval of the FERC and a finding of the FERC that the transmission entity satisfies applicable independence requirements.

**II.1.39 Installed System Capability:** Of a Market Participant at a particular time is (1) the sum of such Market Participant's Installed Capability Entitlements plus (2) its HQ Net Interconnection Capability Credit at the time. This definition will no longer be in effect upon the commencement of the Capacity Commitment Period for the first Forward Capacity Auction under Market Rule

1, Section III.13 and pursuant to the terms of Market Rule 1 Section III.13.2.9, after which point, the following definition shall be in effect: “Installed System Capability: Of a Market Participant at a particular time is such Market Participant’s Installed Capability Entitlements at the time.”

**II.1.40 Interchange Transactions:** Transactions deemed to be effected under Market Rule 1.

**II.1.41 Interest:** Interest calculated in the manner specified in Section II.8.3.

**II.1.42 Interruption:** For purposes of Schedule 21, a reduction in non-firm transmission service due to economic reasons.

**II.1.43 ISO Control Center:** The primary control center established by the ISO for the exercise of its Operating Authority and the performance of functions as an RTO.

**II.1.44 ISO New England Manuals:** Are as defined pursuant to Market Rule 1.

**II.1.45 ISO System Rules:** Are as defined pursuant to Market Rule 1.

**II.1.46 ITC Rate Schedule:** “ITC Rate Schedule” shall have the meaning ascribed thereto in Section 3.1 of Attachment M to the OATT.

**II.1.47 ITC System:** “ITC System” shall have the meaning ascribed thereto in Section 2.2 of Attachment M to the OATT.

**III.12.10 Calculating the Maximum Amount of Import Capacity Resources that May be Cleared Over External Interfaces in the Forward Capacity Auction and Reconfiguration Auctions.** For external interfaces, Import Capacity Resources shall be allowed in the Forward Capacity Auction and reconfiguration auctions up to the interface limit minus the tie benefits, calculated pursuant to Section III.12.9.1 or 12.9.2 over the applicable interface.

III.13.1.5; or (ii) submit a Static De-List Bid or a Permanent De-List Bid in an Existing Capacity Qualification Package for at least the difference between the summer Qualified Capacity and the winter Qualified Capacity, at a price of 2.0 times CONE. If the Lead Market Participant makes no election, the ISO shall submit a Static De-List Bid on behalf of the resource for the difference between the resource's summer Qualified Capacity and the winter Qualified Capacity at a price of 2.0 times CONE. The Internal Market Monitoring Unit shall review each bid made pursuant to this Section III.13.1.2.2.5.2, and if the Internal Market Monitoring Unit determines that the bid may be an attempt to manipulate the Forward Capacity Auction, the matter will be referred to the Commission in accordance with the protocols set forth in Appendix A to the Commission's Market Monitoring Policy Statement (111 FERC ¶ 61,267 (2005)). Bids made pursuant to this Section III.13.1.2.2.5.2 shall be subject to a reliability review as described in Section III.13.2.5.2.5, as required. This Section III.13.1.2.2.5.2 shall not apply if the summer Qualified Capacity of a resource is greater than the winter Qualified Capacity of that resource by less than the lesser of: (i) 2 MW, or (ii) two percent of the summer Qualified Capacity of that resource.

**III.13.1.2.3. Qualification Process for Existing Generating Capacity Resources.** For each Existing Generating Capacity Resource, no later than 20 business days before the Existing Capacity Qualification Deadline, the ISO will notify the resource's Lead Market Participant of the

costs and the reasonableness of the estimates and adjustments of costs that would otherwise be avoided if the resource were not required to meet the obligations of a listed resource, and shall be subject to audit upon request by the ISO.

#### **III.13.1.2.3.2.1.1. Internal Market**

**Monitoring Unit Review of De-List Bids.** The Internal Market Monitoring Unit may seek additional information from the Lead Market Participant after the qualification deadline to address any questions or concerns regarding the data submitted, as appropriate. If the Internal Market Monitoring Unit determines that the bid is consistent with the Existing Generating Capacity Resource's net risk-adjusted going forward and opportunity costs, then the bid shall be entered into the Forward Capacity Auction as described in Section III.13.2.3.2(b). If the Internal Market Monitoring Unit determines, after due consideration and consultation with the Lead Market Participant, as appropriate, that the bid is not consistent with the resource's net risk-adjusted going forward and opportunity costs, then the bid will be rejected. Where a de-list bid is rejected pursuant to this Section III.13.1.2.3.2, both the qualification determination notification described in Section III.13.1.2.4 and the informational filing made to the Commission as described in Section III.13.8.1(a)(vii) shall include an explanation of the reasons that the de-list bid was rejected based on the Internal Market Monitoring Unit review and the resource's net risk-

adjusted going forward costs and opportunity costs as determined by the Internal Market Monitoring Unit. The Lead Market Participant for such a resource may elect to have the ISO-determined bid entered into the Forward Capacity Auction as described in Section III.13.2.3.2(b) by so indicating in a filing with the Commission in response to the informational filing described in Section III.13.8.1(a)(vii). Such a filing, and notification to the ISO of any such election, shall be made in accordance with the terms of Section III.13.8.1(b). A Lead Market Participant making such an election shall be prohibited from challenging pursuant to Section III.13.8.1(b) the Internal Market Monitoring Unit's determinations regarding the resource's net risk-adjusted going forward costs and opportunity costs. If no such election is made, the Existing Generating Capacity Resource will be entered into the Forward Capacity Auction as described in Section III.13.2.3.2(c) or as otherwise directed by the Commission. In no case shall rejection of a de-list bid by the Internal Market Monitoring Unit restrict the ability of the resource to dynamically de-list at or below 0.8 times CONE.

#### **III.13.1.2.3.2.1.2. Net Risk-Adjusted**

**Going Forward Costs.** A Static De-List Bid above 0.8 times CONE, Export Bid above 0.8 times CONE, or Permanent De-List Bid above 1.25 times CONE shall be considered consistent with the Existing Generating Capacity Resource's net

considered sufficient justification. The ISO will consider evidence of opportunity costs described in this Section III.13.1.2.3.2.1.3, and if the ISO determines that the opportunity costs justify a de-list bid or export bid above the threshold described in Section III.13.1.2.3.1, the bid will be entered into the Forward Capacity Auction as described in Section III.13.2.3.2(b).

**III.13.1.2.3.2.2. Permanent De-List Bids Above 0.8 times CONE.** For each Permanent De-List Bid above 0.8 times CONE, the Lead Market Participant must submit the same documentation as for a Permanent De-List Bid above 1.25 times CONE, described in Section III.13.1.2.3.2.1. A Permanent De-List Bid above 0.8 times CONE, but less than or equal to 1.25 times CONE shall be presumed competitive unless the Internal Market Monitoring Unit determines that the bid may be an attempt to manipulate the Forward Capacity Auction, in which case such Permanent De-List Bid shall be rejected, and the matter will be referred to the Commission in accordance with the protocols set forth in Appendix A to the Commission's Market Monitoring Policy Statement (111 FERC ¶ 61,267 (2005)).

#### **III.13.1.2.3.2.3. Administrative Export De-List**

**Bids.** The Internal Market Monitoring Unit shall review each Administrative Export De-List Bid associated with a multi-year contract entered into prior to April 30, 2007 in the first Forward Capacity Auction in which it clears. An Administrative Export De-List Bid shall be rejected if the Internal Market Monitoring Unit determines that the bid may be an attempt to manipulate the Forward Capacity Auction, and the matter will be referred to the Commission in accordance with the protocols set forth in Appendix A to the Commission's Market Monitoring Policy Statement (111 FERC ¶ 61,267 (2005)).

#### **III.13.1.2.3.2.4. Static De-List Bids for**

**Reductions in Ratings Due to Ambient Air Conditions.** A Lead Market Participant may submit a Static De-List Bid for up to the megawatt amount that the Lead Market Participant expects will not be physically available due to the difference between the summer Qualified Capacity at 90 degrees and the expected rating of the resource at 100 degrees. The ISO shall verify during the qualification process that the rating is accurate. Such Static De-List Bids may be entered into the Forward Capacity Market at prices up to and including 2.0 times CONE, subject to validation of the physical limit.

**III.13.1.2.4. Qualification Determination Notification for**

**Existing Capacity.** No later than 120 days before the Forward Capacity Auction, the ISO shall send notification to the Lead Market Participant that submitted each Static De-List Bid, Permanent De-List Bid, Export Bid, and Administrative Export De-List Bid indicating whether the bid has been accepted for participation in the Forward Capacity Auction. Each accepted Static De-List Bid, Permanent De-List Bid, Export Bid, and Administrative Export De-List Bid shall be binding and shall be entered into the Forward Capacity Auction as described in Section III.13.2.3.2(b). Where a Static De-List Bid, Permanent De-List Bid, Export Bid, or Administrative Export De-List Bid is not accepted for participation in the Forward Capacity Auction as a result of the Internal Market Monitoring Unit's review pursuant to Section III.13.1.2.3.2, the notification shall include an explanation of the reasons the Existing Capacity Qualification Package was not accepted and shall include the resource's net risk-adjusted going forward costs and opportunity costs as determined by the Internal Market Monitoring Unit. The Qualification Determination shall not include the results of the reliability review subject to Section III.13.2.5.2.5.

**III.13.1.2.5. Optional Existing Capacity Qualification Package for New Generating Capacity Resources Previously**

**Counted as Capacity.** A resource seeking to participate in the Forward Capacity Auction as a New Generating Capacity Resource pursuant to Section III.13.1.1.1.2 (resources previously counted as capacity resources) may elect to submit an Existing Capacity Qualification Package in addition to the New Capacity Show of Interest Form and New Capacity Qualification Package that it is required to

2006 shall be treated as an Existing Import Capacity Resource.

**III.13.1.3.2. Qualified Capacity for Existing Import Capacity Resources.** The summer Qualified Capacity and winter Qualified Capacity of an Existing Import Capacity Resource shall be based on the data provided to the ISO during the qualification process, subject to ISO review and verification.

**III.13.1.3.3. Qualification Process for Existing Import Capacity Resources.** Existing Import Capacity Resources shall be subject to the same qualification process as Existing Generating Capacity Resources, as described in Section III.13.1.2.3, except that no later than the Existing Capacity Qualification Deadline, the Market Participant submitting each Existing Import Capacity Resource must also submit to the ISO: (i) documentation of a multi-year contract entered into before the Existing Capacity Qualification Deadline to provide capacity in the New England Control Area from outside the New England Control Area for a period including the whole Capacity Commitment Period; or (ii) proof of ownership or direct control over one or more External Resources that will be used to back the Existing Import Capacity Resource during the Capacity Commitment Period, together with information to establish the summer and winter ratings of the resource(s) backing the import. In either case, the Market Participant must specify the delivery point over which the capacity will be imported.

**III.13.1.3.4. Definition of New Import Capacity Resource.**

Capacity not associated with a multi-year contract entered into before the New Capacity Qualification Deadline to provide capacity in the New England Control Area from outside the New England Control Area for the whole Capacity Commitment Period, but that meets the requirements of Section III.13.1.3.5.1, shall participate in the Forward Capacity Auction as a New Import Capacity Resource. For capacity associated with a multi-year contract entered into before the New Capacity Qualification Deadline to provide capacity in the New England Control Area from outside the New England Control Area for a period including the whole Capacity Commitment Period, if the import capacity has not cleared in a previous Forward Capacity Auction, then the import capacity shall participate in the Forward Capacity Auction as a New Import Capacity Resource.

**III.13.1.3.5. Qualification Process for New Import Capacity Resources.**

The qualification process for a New Import Capacity Resource, whether backed by a new External Resource, by one or more existing External Resources, or by an external Control Area, shall be the same as the qualification process for a New Generating Capacity Resource, as described in Section III.13.1.1.2, except as follows:

**III.13.1.3.5.1. Documentation of Import.** For each New Import Capacity Resource, the Market Participant submitting the import capacity must also submit: (i) documentation of a one-year contract entered into before the New Capacity Qualification Deadline to provide capacity in the New England Control Area from outside of the New England Control Area for the entire Capacity Commitment Period; (ii) documentation of a multi-year contract entered into before the New Capacity Qualification Deadline to provide capacity in the New England Control Area from outside of the New England Control Area for a period including the entire Capacity Commitment Period if the import capacity has not cleared in a previous Forward Capacity Auction; or (iii) proof of ownership or direct control over one or more External Resources that will be used to back the New Import Capacity Resource during the Capacity Commitment Period. For each New Import Capacity Resource, the Market Participant must specify the interface over which the capacity will be imported; or (iv) documentation for system-backed import capacity that the import capacity will be supported by the Control Area.

[Reserved for future use.]

[Reserved for future use.]

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[Reserved for future use.]

**III.13.1.3.5.2. Import Backed by Existing External**

**Resources.** If the New Import Capacity Resource will be backed by one or more External Resources existing at the time of the Forward Capacity Auction, the provisions regarding site control (Section III.13.1.1.2.2.1) and critical path schedule (Section III.13.1.1.2.2.2) shall not apply, and the Market Participant shall instead submit a description of how the Capacity Supply Obligation, if an offer from the New Import Capacity Resource clears in the Forward Capacity Auction, will be met.

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**Resources.** The provisions regarding review by the Internal Market Monitoring Unit (Section III.13.1.1.2.6) shall not apply, and offers from New Import Capacity Resources shall instead be reviewed by the Internal Market Monitoring Unit as follows:

**III.13.1.3.5.6.1. Offers from Import Capacity**

**Generally.** The Internal Market Monitoring Unit shall review each offer from Existing Import Capacity Resources and New Import Capacity Resources. An offer from an Existing Import Capacity Resource or a New Import Capacity Resource shall be rejected if the Internal Market Monitoring Unit determines that the bid may be an attempt to manipulate the Forward Capacity Auction, and the matter will be referred to the Commission in accordance with the protocols set forth in Appendix A to the Commission's Market Monitoring Policy Statement (111 FERC ¶ 61,267 (2005)).

**III.13.1.3.5.6.2. Offers from New Import Capacity Resources Below 0.75 Times CONE.**

The Internal Market Monitoring Unit shall review each offer from a New Import Capacity Resource below 0.75 times CONE to determine whether the offer is consistent with the opportunity cost of that New Import Capacity Resource, and sufficient documentation and information must be included in the resource's New Capacity Qualification Package (as revised in the composite offer form, if applicable, as described in Sections III.13.1.1.2.2.3(a) and III.13.1.5) to allow the Internal Market Monitoring Unit to make such a determination. If the new import is

Obligation created by clearing in a past Forward Capacity Auction, (ii) Other Demand Resources in service and registered with the ISO during the ICAP Transition Period and before the Existing Capacity Qualification Deadline of the applicable Forward Capacity Auction, or (iii) Demand Resources participating in the Real-Time Demand Response Program (30-Minute and 2-Hour) and in the Real-Time Profiled Response Program, as defined in Appendix E of this Market Rule, before the Existing Capacity Qualification Deadline of the applicable Forward Capacity Auction. Except as specified in Section III.13.1.4.1, Existing Demand Resources shall be subject to the same qualification process as Existing Generating Capacity Resources, as described in Section III.13.1.2.3. Existing Demand Resources shall be subject to Section III.13.1.2.2.5.2. Existing Demand Resources may de-list consistent with Sections III.13.1.2.3.1.1 and III.13.1.2.3.1.2.

**III.13.1.4.1.2. New Demand Resources.** A New Demand Resource is a Demand Resource that has not been in service prior to the applicable Existing Capacity Qualification Deadline of the Forward Capacity Auction, or Distributed Generation that has operated only to address an electric power outage due to failure of the electrical supply, on-site disaster, local equipment failure, or public service emergencies such as flood, fire, or natural disaster, or excessive deviations from standard voltage from

Permanent De-List Bid or Static De-List Bid for the Forward Capacity Auction, then no further submissions or actions for that resource are necessary, and the resource shall participate in the Forward Capacity Auction as described in Section III.13.2.3.2(c) with Qualified Capacity as indicated in the ISO's notification, and may not elect to have the Capacity Supply Obligation and Capacity Clearing Price apply after the Capacity Commitment Period associated with the Forward Capacity Auction. If a Market Participant believes that the Demand Reduction Value or Qualified Capacity for an Existing Demand Resource is inaccurate or wishes to change its Demand Resource type, the Market Participant must notify the ISO within 10 business days of receipt of the Qualified Capacity notification and submit an Updated Measurement and Verification Plan to reflect the change in its Demand Resource type, if applicable. Designation of the Demand Resource type may not be changed during the Capacity Commitment Period.

**III.13.1.4.2.5.3. Notification of Qualification for New Demand Resources.** No later than 120 days prior to the relevant Forward Capacity Auction, the ISO shall send notification to Project Sponsors for each

percentage share of the Installed Capacity Requirement multiplied by the projected Installed Capacity Requirement for the commitment year.

**III.13.1.6.2. Locational Requirement for Self-Supplied FCA Resources.** In order to participate in the Forward Capacity Auction as a Self-Supplied FCA Resource for purposes of fulfilling a Local Sourcing Requirement applicable to a load in an import-constrained Capacity Zone, the Self-Supplied FCA Resource must be located in the same Capacity Zone as the associated load, unless the Self-Supplied FCA Resource is a pool-planned unit or other unit with a special allocation of Capacity Transfer Rights.

**III.13.1.7. Internal Market Monitoring Unit Review of Offers and Bids.** In addition to the other provisions of this Section III.13.1.7, the Internal Market Monitoring Unit shall have the authority to review in the qualification process each resource's summer Seasonal Claimed Capability if it is significantly lower than historical values, and if the Internal Market Monitoring Unit determines that it may be an attempt to exercise physical withholding, the matter will be referred to the Commission in accordance with the protocols set forth in Appendix A to the Commission's Market Monitoring Policy Statement (111 FERC ¶ 61,267 (2005)). Where an entity submits: (i) an offer as a New Generating Capacity Resource, a New Import Capacity Resource or a New Demand Resource; and (ii) a Static De-List Bid, a Permanent De-List Bid, an Export Bid or an Administrative Export De-List Bid in the same Forward Capacity Auction, the Internal Market Monitoring Unit shall take appropriate steps to ensure that the resource bid to de-list or export in the Forward Capacity Auction is not inappropriately replaced by that new capacity in a subsequent reconfiguration auction. In its review of any offer or bid pursuant to this Section III.13.1.7, the Internal Market Monitoring Unit may consult with the Project Sponsor or

which both of the conditions above are satisfied, subject to the other provisions of this Section III.13.2. If it is not the case that both of the two conditions above are satisfied in the round, then the auctioneer shall publish the quantity of system-wide excess supply at the End-of-Round Price (the amount of capacity offered at the End-of-Round Price in all modeled Capacity Zones minus the Installed Capacity Requirement) and the quantity of excess supply in the export-constrained Capacity Zone (the amount of capacity offered at the End-of-Round Price in the export-constrained Capacity Zone minus the Maximum Capacity Limit of the export-constrained Capacity Zone, and that Capacity Zone will be included in the next round of the Forward Capacity Auction.

- (d) **Treatment of Import Capacity.** Where the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between the New England Control Area and an external Control Area is less than that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection), then the capacity offers from those resources shall be treated as capacity offers in the modeled Capacity Zone associated with that interface. Where the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between the New England Control Area and an external Control Area is greater than

that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection), then the following provisions shall apply (separately for each such delivery point):

- (i) In the modeled Capacity Zone associated with the interface, an amount of capacity equal to the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection) will be included in the aggregate supply curve.
- (ii) For purposes of determining which capacity offers from the New Import Capacity Resources and Existing Import Capacity Resources shall clear and at what price, those offers shall be treated in the descending-clock auction as if they comprised a separately-modeled capacity zone, with an aggregate supply curve consisting of the offers from the New Import Capacity Resources and Existing Import Capacity Resources . The Forward Capacity Auction for those offers shall be concluded when the

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aggregate supply curve comprised of the import offers equals the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection). The Capacity Clearing Price for the import offers that clear shall be the price at which the aggregate supply curve comprised of the import offers equals the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection).

- (e) **Treatment of Export Capacity.** Any Export Bid or any Administrative Export De-List Bid that is exported through a constraint modeled in the Forward Capacity Auction will be modeled in the Capacity Zone where the export interface that is identified in the Existing Qualification Package is located. The Export Bid or Administrative Export De-List Bid clears against the Capacity Clearing Price in the import-constrained Capacity Zone where the Export Bid or Administrative Export De-List Bid is modeled.
- (i) Then the MW quantity equal to the relevant Export Bid or Administrative Export De-List Bid will be procured in addition to the Local Sourcing Requirement of the import-constrained Capacity Zone subject to Section III.13.2.5.2.2, and the resource associated with the Export Bid or Administrative Export De-List Bid will be de-listed in the Capacity Zone where the resource is located.
  - (ii) If the Export Bid or Administrative Export De-List Bid does not clear, then the resource associated with the Export Bid or Administrative Export De-List Bid will not be de-listed in the Capacity Zone where the resource is located.

cleared capacity and the appropriate reconfiguration auction clearing price in the Capacity Zone in which the resource cleared.

- (c) **Capacity Supply Obligation Bilaterals.** For resources that have acquired or shed a Capacity Supply Obligation through a Capacity Supply Obligation Bilateral, the monthly capacity payment or charge shall be equal to the product of the Capacity Supply Obligation being assumed or shed and price associated with the Capacity Supply Obligation Bilateral.
- (d) **HQICC Used in the Calculation of the Installed Capacity Requirement.** In order to treat HQICCs as a load reduction, the Installed Capacity Requirement quantity for each month shall be increased by the amount of HQICC used in the calculation of the Installed Capacity Requirement used in the Forward Capacity Market. Each holder of HQICCs shall be credited with its share of the total monthly HQICC amount as an Existing Capacity Resource located in the Capacity Zone in which the HQ Phase I/II External Node is located as specified in Section III.13.1.3.

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**III.13.7.2.2. Import Capacity.** Import Capacity Resources shall receive monthly capacity payments utilizing the same methodology as that used for Generating Capacity Resources set forth in Section III.13.7.2.1.

**III.13.7.2.2.A. Export Capacity.** If there are any Export Bids or Administrative Export De-list Bids that have cleared the Forward Capacity Auction and are exporting capacity through an import-constrained Capacity Zone, then charges and credits are applied as follows (for the following calculation, the Net Regional Clearing Price will be the value prior to PER adjustments).

Charge Amount to Resource Exporting = [Net Regional Clearing Price<sub>location of the interface</sub> - Net Regional Clearing Price<sub>location of the resource</sub>] x Cleared MWs of Export Bid or Administrative Export Bid]

Credit Amount to load in the Capacity Zone where the export interface is located = [Net Regional Clearing Price<sub>location of the interface</sub> - Net Regional Clearing Price<sub>location of the resource</sub>] x Cleared MWs of Export Bid or Administrative Export De-list Bid]

- for each modeled export-constrained Capacity Zone;
- (v) the multipliers applied in determining the Capacity Value of a Demand Resource, as described in Section III.13.7.1.5.1;
  - (vi) which resources are accepted and rejected in the qualification process to participate in the Forward Capacity Auction; and
  - (vii) the Internal Market Monitoring Unit's determinations regarding offers or bids submitted during the qualification process made according to the provisions of this Section III.13, including an explanation of the reasons for rejecting any de-list bids based on the Internal Market Monitoring Unit review and the resource's net risk-adjusted going forward costs and opportunity costs as determined by the Internal Market Monitoring Unit. The filing shall identify to the extent possible the components of the bid which were accepted as justified, and shall also identify to the extent possible the components of the bid which were not justified and which resulted in rejection of the bid.
- (b) Any comments or challenges to the determinations contained in the informational filing described in Section III.13.8.1(a), and any election made pursuant to Section III.13.1.2.3.2.1.1, must be filed with the Commission no later than 15 days after the ISO's submission of the informational filing. No later than 15 days after the ISO's submission of the informational filing described in Section III.13.8.1(a), the Lead Market Participant must also notify the ISO of any election made pursuant to Section III.13.1.2.3.2.1.1. If the Commission does not issue an order within 75 days after the ISO's submission of the informational filing that directs otherwise, the

determinations contained in the informational filing and elections made pursuant to Section III.13.1.2.3.2.1.1 shall be used in conducting the Forward Capacity Auction, and challenges to Capacity Clearing Prices resulting from the Forward Capacity Auction shall be reviewed in accordance with the provisions of Section III.13.8.2(c). If within 75 days after the ISO's submission of the informational filing, the Commission does issue an order modifying one or more of the ISO's determinations, then the Forward Capacity Auction shall be conducted no earlier than 15 days following that order using the determinations as modified by the Commission (unless the Commission directs otherwise), and challenges to Capacity Clearing Prices resulting from the Forward Capacity Auction shall be reviewed in accordance with the provisions of Section III.13.8.2(c).

**III.13.8.2. Filing of Forward Capacity Auction Results and Challenges Thereto.**

- (a) As soon as practicable after the Forward Capacity Auction is complete, the ISO shall file the results of that Forward Capacity Auction with the Commission pursuant to Section 205 of the Federal Power Act, including the final set of Capacity Zones resulting from the auction, the Capacity Clearing Price in each of those Capacity Zones (and the Capacity Clearing Price associated with certain imports pursuant to Section III.13.2.3.3(d), if applicable), and a list of which resources received Capacity Supply Obligations in each Capacity Zone and the amount of those Capacity Supply Obligations. The filing shall also enumerate bids

**Attachment 2**

**Blacklined Tariff Sheets**

- (l) **Governance Participant:** As defined in the Participants Agreement.
- (m) **Host Participant or Host Utility:** The Host Participant is a Market or Governance Participant transmission or distribution provider that reconciles the loads within the metering domain with OP-18 compliant metering.
- (n) **HQ Interconnection Capability Credit (“HQICC”):** Is a monthly value reflective of the annual installed capacity benefits of the Phase I/II HVDC-TF, as determined by the ISO, using a standard methodology on file with the Commission, in conjunction with the setting of Objective Capabilities. An appropriate share of the HQICC shall be assigned to an IRH if the Phase I/II HVDC-TF support costs are paid by that IRH and such costs are not included in the calculation of the Regional Network Service rate. The share of HQICC allocated to such an eligible IRH for a month is the sum in Kilowatts of (1)(a) the IRH’s percentage share, if any, of the Phase I Transfer Capability times (b) the Phase I Transfer Credit, plus (2)(a) the IRH’s percentage share, if any, of the Phase II Transfer Capability, times (b) the Phase II Transfer Credit. The ISO shall establish appropriate HQICCs to apply for an IRH which has such a percentage share.
- (o) **HQ Net Interconnection Capability Credit:** Of an IRH for a given month is its HQICC for that month, in Kilowatts, minus a number of Kilowatts equal to (1) the percentage of its share of the Phase I/II HVDC-TF Transfer Capability committed or used by it for a UCAP Transaction for that month (plus any use during the same time period by an entity that obtained an OASIS transmission reservation from that IRH for service on the Phase I/II HVDC-TF for that same time period which was used to support a UCAP transaction), times (2) its HQICC for that month. This definition will no longer be in effect upon the commencement of the Capacity Commitment Period for the first Forward Capacity Auction under Market Rule 1, Section III.13 and pursuant to the terms of Market Rule 1 Section III.13.2.9.
- (p) **HQ Use Agreement:** [Deleted]
- (q) **Indirect Interconnection Rights Holder (“Indirect IRH”):** [Deleted]
- (r) **Interconnection Rights Holder(s) (“IRH”):** shall have the meaning given to it in Schedule 20A to Section II of this Tariff.

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until the Operations Date, as defined in the TOA. The current HTF rating is a nominal 225 MW. The HTF are not defined as PTF. Coincident with the Operations Date and except as stipulated in Schedules, 9, 12, and Attachment F to this OATT, HTF shall be treated in the same manner as PTF for purposes of this OATT and all references to PTF in this OATT shall be deemed to apply to HTF as well. The treatment of the HTF is not intended to establish any binding precedent or presumption with regard to the treatment for other transmission facilities within the New England Transmission System (including HVDC, MTF, or Control Area Interties) for purposes of this OATT.

**II.1.38 Independent Transmission Company or ITC:** A transmission entity that assumes certain responsibilities in accordance with Section 10.05 of the Transmission Operating Agreement and Attachment M to the OATT, subject to the acceptance or approval of the FERC and a finding of the FERC that the transmission entity satisfies applicable independence requirements.

**II.1.39 Installed System Capability:** Of a Market Participant at a particular time is

- (1) the sum of such Market Participant's Installed Capability Entitlements plus
- (2) its HQ Net Interconnection Capability Credit at the time. This definition will no longer be in effect upon the commencement of the Capacity Commitment Period for the first Forward Capacity Auction under Market Rule

1, Section III.13 and pursuant to the terms of Market Rule 1 Section III.13.2.9,  
after which point, the following definition shall be in effect: “Installed System  
Capability: Of a Market Participant at a particular time is such Market  
Participant’s Installed Capability Entitlements at the time.”

**II.1.40 Interchange Transactions:** Transactions deemed to be effected under Market Rule 1.

**II.1.41 Interest:** Interest calculated in the manner specified in Section II.8.3.

**II.1.42 Interruption:** For purposes of Schedule 21, a reduction in non-firm transmission service due to economic reasons.

**II.1.43 ISO Control Center:** The primary control center established by the ISO for the exercise of its Operating Authority and the performance of functions as an RTO.

**II.1.44 ISO New England Manuals:** Are as defined pursuant to Market Rule 1.

**II.1.45 ISO System Rules:** Are as defined pursuant to Market Rule 1.

**II.1.46 ITC Rate Schedule:** “ITC Rate Schedule” shall have the meaning ascribed thereto in Section 3.1 of Attachment M to the OATT.

**II.1.47 ITC System:** “ITC System” shall have the meaning ascribed thereto in Section 2.2 of Attachment M to the OATT.

**III.12.10 Calculating the Maximum Amount of Import Capacity Resources that May be Cleared Over External Interfaces in the Forward Capacity Auction and**

**Reconfiguration Auctions.** For external interfaces, ~~other than the HQ Interconnection,~~ Import Capacity Resources shall be allowed in the Forward Capacity Auction and reconfiguration auctions up to the interface limit minus the tie benefits, calculated pursuant to Section III.12.9.1 ~~or 12.9.2,~~ over ~~the~~ at applicable interface.

~~The total amount of cleared Import Capacity Resources over the HQ Interconnection plus the Commission approved MW value of Hydro Quebec Interconnection Capability Credits cannot exceed the HQ Interconnection transfer limit as determined by the ISO. If the cleared Import Capacity Resources over the HQ Interconnection exceed the HQ Interconnection Excess, the Interconnection Rights Holders shall be responsible for the capacity requirement increase caused by the difference between the total amount of the cleared Import Capacity Resources over the HQ Interconnection and the HQ Interconnection Excess.~~

III.13.1.5; or (ii) submit a Static De-List Bid or a Permanent De-List Bid in an Existing Capacity Qualification Package for at least the difference between the summer Qualified Capacity and the winter Qualified Capacity, at a price of 2.0 times CONE. If the Lead Market Participant makes no election, the ISO shall submit a Static De-List Bid on behalf of the resource for the difference between the resource's summer Qualified Capacity and the winter Qualified Capacity at a price of 2.0 times CONE. The Internal Market Monitoring Unit shall review each bid made pursuant to this Section III.13.1.2.2.5.2, and if the Internal Market Monitoring Unit determines that the bid may be to ensure that the bid is not an attempt to manipulate the Forward Capacity Auction, the matter will be referred to the Commission in accordance with the protocols set forth in Appendix A to the Commission's Market Monitoring Policy Statement (111 FERC ¶ 61,267 (2005)). ~~and such bids made pursuant to this Section III.13.1.2.2.5.2 shall be subject to a reliability review as described in Section III.13.2.5.2.5, as required. This Section III.13.1.2.2.5.2 shall not apply if the summer Qualified Capacity of a resource is greater than the winter Qualified Capacity of that resource by less than the lesser of: (i) 2 MW, or (ii) two percent of the summer Qualified Capacity of that resource.~~

**III.13.1.2.3. Qualification Process for Existing Generating Capacity Resources.** For each Existing Generating Capacity Resource, no later than 20 business days before the Existing Capacity Qualification Deadline, the ISO will notify the resource's Lead Market Participant of the

costs and the reasonableness of the estimates and adjustments of costs that would otherwise be avoided if the resource were not required to meet the obligations of a listed resource, and shall be subject to audit upon request by the ISO.

#### **III.13.1.2.3.2.1.1. Internal Market**

**Monitoring Unit Review of De-List Bids.** The Internal Market Monitoring Unit may seek additional information from the Lead Market Participant after the qualification deadline to address any questions or concerns regarding the data submitted, as appropriate. If the Internal Market Monitoring Unit determines that the bid is consistent with the Existing Generating Capacity Resource's net risk-adjusted going forward and opportunity costs, then the bid shall be entered into the Forward Capacity Auction as described in Section III.13.2.3.2(b). If the Internal Market Monitoring Unit determines, after due consideration and consultation with the Lead Market Participant, as appropriate, that the bid is not consistent with the resource's net risk-adjusted going forward and opportunity costs, then the bid will be rejected. Where a de-list bid is rejected pursuant to this Section III.13.1.2.3.2, both the qualification determination notification described in Section III.13.1.2.4 and the informational filing made to the Commission as described in Section III.13.8.1(a)(vii) shall include an explanation of the reasons that the de-list bid was rejected based on the Internal Market Monitoring Unit review and the resource's net risk-

~~forward and opportunity costs, then the bid will be rejected~~ adjusted going forward costs and opportunity costs as determined by the Internal Market Monitoring Unit. The Lead Market Participant for such a resource may elect to have the ISO-determined bid entered into the Forward Capacity Auction as described in Section III.13.2.3.2(b) by so indicating in a filing with the Commission in response to the informational filing described in Section III.13.8.1(a)(vii). Such a filing, and notification to the ISO of any such election, shall be made in accordance with the terms of Section III.13.8.1(b). A Lead Market Participant making such an election shall be prohibited from challenging pursuant to Section III.13.8.1(b) the Internal Market Monitoring Unit's determinations regarding the resource's net risk-adjusted going forward costs and opportunity costs. If no such election is made, and the Existing Generating Capacity Resource will be entered into the Forward Capacity Auction as described in Section III.13.2.3.2(c) or as otherwise directed by the Commission. An explanation of the reasons for rejecting any de-list bid based on the Internal Market Monitoring Unit review will be made to the Lead Market Participant as described in Section III.13.1.2.4 and will also be included in the informational filing made to the Commission as described in Section III.13.8.1(a)(vii). In no case shall rejection of a de-list bid by the Internal Market Monitoring Unit restrict the

ability of the resource to dynamically de-list at or below 0.8 times CONE.

**III.13.1.2.3.2.1.2. Net Risk-Adjusted**

**Going Forward Costs.** A Static De-List Bid above 0.8 times CONE, Export Bid above 0.8 times CONE, or Permanent De-List Bid above 1.25 times CONE shall be considered consistent with the Existing Generating Capacity Resource's net

considered sufficient justification. The ISO will consider evidence of opportunity costs described in this Section III.13.1.2.3.2.1.3, and if the ISO determines that the opportunity costs justify a de-list bid or export bid above the threshold described in Section III.13.1.2.3.1, the bid will be entered into the Forward Capacity Auction as described in Section III.13.2.3.2(b).

**III.13.1.2.3.2.2. Permanent De-List Bids Above 0.8 times CONE.** For each Permanent De-List Bid above 0.8 times CONE, the Lead Market Participant must submit the same documentation as for a Permanent De-List Bid above 1.25 times CONE, described in Section III.13.1.2.3.2.1. A Permanent De-List Bid above 0.8 times CONE, but less than or equal to 1.25 times CONE shall be presumed competitive unless the Internal Market Monitoring Unit determines that the bid may be an attempt to manipulate the Forward Capacity Auction, in which case such Permanent De-List Bid shall be rejected, and the matter will be referred to the Commission in accordance with the protocols set forth in Appendix A to the Commission's Market Monitoring Policy Statement (111 FERC ¶ 61,267 (2005)).

#### **III.13.1.2.3.2.3. Administrative Export De-List**

**Bids.** The Internal Market Monitoring Unit shall review each Administrative Export De-List Bid associated with a multi-year contract entered into prior to April 30, 2007 in the first Forward Capacity Auction in which it clears. An Administrative Export De-List Bid shall be rejected if the Internal Market Monitoring Unit determines that the bid may be an attempt to manipulate the Forward Capacity Auction, and the matter will be referred to the Commission in accordance with the protocols set forth in Appendix A to the Commission's Market Monitoring Policy Statement (111 FERC ¶ 61,267 (2005)).

#### **III.13.1.2.3.2.4. Static De-List Bids for**

**Reductions in Ratings Due to Ambient Air Conditions.** A Lead Market Participant may submit a Static De-List Bid for up to the megawatt amount that the Lead Market Participant expects will not be physically available due to the difference between the summer Qualified Capacity at 90 degrees and the expected rating of the resource at 100 degrees. The ISO shall verify during the qualification process that the rating is accurate. Such Static De-List Bids may be entered into the Forward Capacity Market at prices up to and including 2.0 times CONE, subject to validation of the physical limit.

**III.13.1.2.4. Qualification Determination Notification for Existing Capacity.** No later than 120 days before the Forward Capacity Auction, the ISO shall send notification to the Lead Market Participant that submitted each Static De-List Bid, Permanent De-List Bid, Export Bid, and Administrative Export De-List Bid indicating whether the bid has been accepted for participation in the Forward Capacity Auction. Each accepted Static De-List Bid, Permanent De-List Bid, Export Bid, and Administrative Export De-List Bid shall be binding and shall be entered into the Forward Capacity Auction as described in Section III.13.2.3.2(b). Where a Static De-List Bid, Permanent De-List Bid, Export Bid, or Administrative Export De-List Bid is not accepted for participation in the Forward Capacity Auction as a result of the Internal Market Monitoring Unit's review pursuant to Section III.13.1.2.3.2, the notification shall include an explanation of the reasons the Existing Capacity Qualification Package was not accepted and shall include the resource's net risk-adjusted going forward costs and opportunity costs as determined by the Internal Market Monitoring Unit. The Qualification Determination shall not include the results of the reliability review subject to Section III.13.2.5.2.5.

**III.13.1.2.5. Optional Existing Capacity Qualification Package for New Generating Capacity Resources Previously Counted as Capacity.** A resource seeking to participate in the Forward Capacity Auction as a New Generating Capacity Resource pursuant to Section III.13.1.1.1.2 (resources previously counted as capacity resources) may elect to submit an Existing Capacity Qualification Package in addition to the New Capacity Show of Interest Form and New Capacity Qualification Package that it is required to

2006 shall be treated as an Existing Import Capacity Resource.

**III.13.1.3.2. Qualified Capacity for Existing Import Capacity Resources.** The summer Qualified Capacity and winter Qualified Capacity of an Existing Import Capacity Resource shall be based on the data provided to the ISO during the qualification process, subject to ISO review and verification.

**III.13.1.3.3. Qualification Process for Existing Import Capacity Resources.** Existing Import Capacity Resources shall be subject to the same qualification process as Existing Generating Capacity Resources, as described in Section III.13.1.2.3, except that no later than the Existing Capacity Qualification Deadline, the Market Participant submitting each Existing Import Capacity Resource must also submit to the ISO: (i) documentation of a multi-year contract entered into before the Existing Capacity Qualification Deadline to provide capacity in the New England Control Area from outside the New England Control Area for a period including the whole Capacity Commitment Period; or (ii) proof of ownership or direct control over one or more External Resources that will be used to back the Existing Import Capacity Resource during the Capacity Commitment Period, together with information to establish the summer and winter ratings of the resource(s) backing the import. In either case, the Market Participant must specify the delivery point over which the capacity will be imported, ~~and, for capacity to be delivered over the Phase~~

~~III HVDC-TE interconnection, whether it shall be HQI Capacity or HQI Excess Capacity.~~

**III.13.1.3.4. Definition of New Import Capacity Resource.**

Capacity not associated with a multi-year contract entered into before the New Capacity Qualification Deadline to provide capacity in the New England Control Area from outside the New England Control Area for the whole Capacity Commitment Period, but that meets the requirements of Section III.13.1.3.5.1, shall participate in the Forward Capacity Auction as a New Import Capacity Resource. For capacity associated with a multi-year contract entered into before the New Capacity Qualification Deadline to provide capacity in the New England Control Area from outside the New England Control Area for a period including the whole Capacity Commitment Period, if the import capacity has not cleared in a previous Forward Capacity Auction, then the import capacity shall participate in the Forward Capacity Auction as a New Import Capacity Resource.

**III.13.1.3.5. Qualification Process for New Import Capacity Resources.**

The qualification process for a New Import Capacity Resource, whether backed by a new External Resource, by one or more existing External Resources, or by an external Control Area, shall be the same as the qualification process for a New Generating Capacity Resource, as described in Section III.13.1.1.2, except as follows:

**III.13.1.3.5.1. Documentation of Import.** For each New Import Capacity Resource, the Market Participant submitting the import capacity must also submit: (i) documentation of a one-year contract entered into before the New Capacity Qualification Deadline to provide capacity in the New England Control Area from outside of the New England Control Area for the entire Capacity Commitment Period; (ii) documentation of a multi-year contract entered into before the New Capacity Qualification Deadline to provide capacity in the New England Control Area from outside of the New England Control Area for a period including the entire Capacity Commitment Period if the import capacity has not cleared in a previous Forward Capacity Auction; or (iii) proof of ownership or direct control over one or more External Resources that will be used to back the New Import Capacity Resource during the Capacity Commitment Period. For each New Import Capacity Resource, the Market Participant must specify the interface over which the capacity will be imported; or (iv) documentation for system-backed import capacity that the import capacity will be supported by the Control Area.

**III.13.1.3.5.1.1. Import Capacity Resources Over the Phase I/II HVDC TF.** ~~For Import Capacity Resources associated with Phase I/II HVDC TF, the Market Participant must comply with the following provisions:~~

[Reserved for future use.]

- (a) ~~For the Phase I/II HVDC TF interconnection, there shall be two categories of import offers: “HQI Capacity” and “HQI Excess Capacity.”~~
- (b) ~~For the Phase I/II HVDC TF interconnection, a Market Participant shall identify import offers submitted in a Forward Capacity Auction as either HQI Capacity or HQI Excess Capacity. Each offer identified as HQI Capacity that clears in a Forward Capacity Auction shall be referred to as an “HQI Capacity Contract”. Each offer identified as HQI Excess Capacity that clears in a Forward Capacity Auction shall be referred to as an “HQI Excess Capacity Contract”.~~
- (c) ~~The maximum megawatt amount of HQI Capacity Contracts shall be the maximum monthly approved megawatt amount of HQICCs for the Capacity Commitment Period. In months where the HQICCs are less than the maximum HQICC value for the Capacity Commitment Period, all or a portion of the HQI Capacity Contracts shall be reclassified by the~~

[Reserved for future use.]

~~ISO as HQI Excess Capacity Contracts. The maximum amount of the HQI Capacity Contracts that will be reclassified as an HQI Excess Capacity Contract shall equal the difference between the approved Phase I/II HVDC TF interconnection capacity transfer limit and the approved megawatt of HQICCs in that month.~~

~~(d) For the annual Forward Capacity Auction, the annual reconfiguration and the seasonal reconfiguration auctions, the maximum megawatt amount of HQI Excess Capacity Contracts that may clear in a Forward Capacity Auction is the difference between the approved Phase I/II HVDC TF interconnection capacity transfer limit and the maximum monthly approved megawatt amount of HQICCs in the period for which the auction applies. For the monthly reconfiguration auctions, the maximum megawatt amount of HQI Excess Capacity Contracts that may clear in a Forward Capacity Auction is the difference between the approved Phase I/II HVDC TF interconnection~~

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capacity transfer limit and the  
monthly approved megawatt amount  
of HQICCs.

~~(e) For HQI Capacity Contracts, a Market Participant shall secure transmission reservations for the delivery of energy, pursuant and subject to the terms and conditions of Schedule 20A of the Transmission, Markets and Services Tariff, one month in advance of each month of the Capacity Commitment Period for every day and every hour of that month of the Capacity Commitment Period for the full megawatt amount of that HQI Capacity Contract for that month. If a Market Participant does not meet this requirement, it shall not receive capacity credit for that HQI Capacity Contract in that month of the Capacity Commitment Period.~~

~~(f) The total megawatt amount of HQI Capacity Contracts, HQI Excess Capacity Contracts and net HQICCs remaining after adjustments in accordance with III.13.1.3.5.1.1.(g) may not exceed the approved Phase~~

[Reserved for future use.]

~~I/II HVDC TF interconnection  
capacity transfer limit.~~

~~(g) If the total megawatt HQI Excess Capacity Contracts and the total megawatt amount of HQI Capacity Contracts that met the requirement to purchase transmission pursuant to 13.1.3.5.1.1.(e) exceeds the difference between the approved Phase I/II interconnection capacity transfer limit and the approved megawatt amount of HQICCs (the “HQI Excess”), then the capacity requirement for those Interconnection Rights Holders or their designees that sold their transmission rights for the HQI Capacity Contracts for the subject period shall be increased by the difference between (1) the sum of the total megawatt amount of HQI Excess Capacity Contracts and the total megawatt amount of HQI Capacity Contracts that met the requirement to purchase transmission pursuant to 13.1.3.5.1.1.(e) and (2) the HQI Excess. These capacity requirement increases shall be allocated among the Interconnection Rights Holders, or their designees, in~~

~~a manner to be determined by the  
Interconnection Rights Holders.~~

~~(h) HQI Excess Capacity Contracts over the  
Phase I/II HVDC TF interconnection  
shall not result in reductions to the  
HQICCs. HQICCs shall be allocated  
among the Interconnection Rights  
Holders, or their designees, in a  
manner to be determined by the  
Interconnection Rights Holders.~~

~~(i) For HQI Excess Capacity Contracts,  
advance monthly transmission  
reservations are not required. Such  
contracts must meet the requirements  
of Section III.13.6.1.2 and Section  
III.13.7.1.2.~~

**III.13.1.3.5.2. Import Backed by Existing External Resources.** If the New Import Capacity Resource will be backed by one or more External Resources existing at the time of the Forward Capacity Auction, the provisions regarding site control (Section III.13.1.1.2.2.1) and critical path schedule (Section III.13.1.1.2.2.2) shall not apply, and the Market Participant shall instead submit a description of how the Capacity Supply Obligation, if an offer from the New Import Capacity Resource clears in the Forward Capacity Auction, will be met.

**Resources.** The provisions regarding review by the Internal Market Monitoring Unit (Section III.13.1.1.2.6) shall not apply, and offers from New Import Capacity Resources shall instead be reviewed by the Internal Market Monitoring Unit as follows:

**III.13.1.3.5.6.1. Offers from Import Capacity**

**Generally.** The Internal Market Monitoring Unit shall review each offer from Existing Import Capacity Resources and New Import Capacity Resources. An offer from an Existing Import Capacity Resource or a New Import Capacity Resource shall be rejected if the Internal Market Monitoring Unit determines that the bid may be an attempt to manipulate the Forward Capacity Auction, and the matter will be referred to the Commission in accordance with the protocols set forth in Appendix A to the Commission's Market Monitoring Policy Statement (111 FERC ¶ 61,267 (2005)).

**III.13.1.3.5.6.2. Offers from New Import Capacity Resources Below 0.75 Times CONE.**

The Internal Market Monitoring Unit shall review each offer from a New Import Capacity Resource below 0.75 times CONE to determine whether the offer is consistent with the opportunity cost of that New Import Capacity Resource, and sufficient documentation and information must be included in the resource's New Capacity Qualification Package (as revised in the composite offer form, if applicable, as described in Sections III.13.1.1.2.2.3(a) and III.13.1.5) to allow the Internal Market Monitoring Unit to make such a determination. If the new import is

Obligation created by clearing in a past Forward Capacity Auction, (ii) Other Demand Resources in service and registered with the ISO during the ICAP Transition Period and before the Existing Capacity Qualification Deadline of the applicable Forward Capacity Auction, or (iii) Demand Resources participating in the Real-Time Demand Response Program (30-Minute and 2-Hour) and in the Real-Time Profiled Response Program, as defined in Appendix E of this Market Rule, before the Existing Capacity Qualification Deadline of the applicable Forward Capacity Auction. Except as specified in Section III.13.1.4.1, Existing Demand Resources shall be subject to the same qualification process as Existing Generating Capacity Resources, as described in Section III.13.1.2.3. Existing Demand Resources shall be subject to Section ~~III.13.1.2.2.5~~III.13.1.2.2.6. Existing Demand Resources may de-list consistent with Sections III.13.1.2.3.1.1 and III.13.1.2.3.1.2.

**III.13.1.4.1.2. New Demand Resources.** A New Demand Resource is a Demand Resource that has not been in service prior to the applicable Existing Capacity Qualification Deadline of the Forward Capacity Auction, or Distributed Generation that has operated only to address an electric power outage due to failure of the electrical supply, on-site disaster, local equipment failure, or public service emergencies such as flood, fire, or natural disaster, or excessive deviations from standard voltage from

Permanent De-List Bid or Static De-List Bid for the Forward Capacity Auction, then no further submissions or actions for that resource are necessary, and the resource shall participate in the Forward Capacity Auction as a ~~price-taker~~ described in Section III.13.2.3.2(c) with Qualified Capacity as indicated in the ISO's notification, and may not elect to have the Capacity Supply Obligation and Capacity Clearing Price apply after the Capacity Commitment Period associated with the Forward Capacity Auction. If a Market Participant believes that the Demand Reduction Value or Qualified Capacity for an Existing Demand Resource is inaccurate or wishes to change its Demand Resource type, the Market Participant must notify the ISO within 10 business days of receipt of the Qualified Capacity notification and submit an Updated Measurement and Verification Plan to reflect the change in its Demand Resource type, if applicable. Designation of the Demand Resource type may not be changed during the Capacity Commitment Period.

**III.13.1.4.2.5.3. Notification of Qualification for New Demand Resources.** No later than 120 days prior to the relevant Forward Capacity Auction, the ISO shall send notification to Project Sponsors for each

percentage share of the Installed Capacity Requirement multiplied by the projected Installed Capacity Requirement for the commitment year.

**III.13.1.6.2. Locational Requirement for Self-Supplied FCA**

**Resources.** In order to participate in the Forward Capacity Auction as a Self-Supplied FCA Resource for purposes of fulfilling a Local Sourcing Requirement applicable to a load in an import-constrained Capacity Zone, the Self-Supplied FCA Resource must be located in the same Capacity Zone as the associated load, unless the Self-Supplied FCA Resource is a pool-planned unit or other unit with a special allocation of Capacity Transfer Rights.

**III.13.1.7. Internal Market Monitoring Unit Review of Offers and**

**Bids.** In addition to the other provisions of this Section III.13.1.7, the Internal Market Monitoring Unit shall have the authority to review in the qualification process each resource's summer Seasonal Claimed Capability if it is significantly lower than historical values, and if the Internal Market Monitoring Unit determines that it may be an attempt to exercise physical withholding, the matter will be referred to the Commission in accordance with the protocols set forth in Appendix A to the Commission's Market Monitoring Policy Statement (111 FERC ¶ 61,267 (2005)). Where an entity submits: (i) an offer as a New Generating Capacity Resource, a New Import Capacity Resource or a New Demand Resource; and (ii) a Static De-List Bid, a Permanent De-List Bid, an Export Bid or an Administrative Export De-List Bid in the same Forward Capacity Auction, the Internal Market Monitoring Unit shall take appropriate steps to ensure that the resource bid to de-list or export in the Forward Capacity Auction is not inappropriately replaced by that new capacity in a subsequent reconfiguration auction. In its review of any offer or bid pursuant to this Section III.13.1.7, the Internal Market Monitoring Unit may consult with the Project Sponsor or

which both of the conditions above are satisfied, subject to the other provisions of this Section III.13.2. If it is not the case that both of the two conditions above are satisfied in the round, then the auctioneer shall publish the quantity of system-wide excess supply at the End-of-Round Price (the amount of capacity offered at the End-of-Round Price in all modeled Capacity Zones minus the Installed Capacity Requirement) and the quantity of excess supply in the export-constrained Capacity Zone (the amount of capacity offered at the End-of-Round Price in the export-constrained Capacity Zone minus the Maximum Capacity Limit of the export-constrained Capacity Zone, and that Capacity Zone will be included in the next round of the Forward Capacity Auction.

- (d) **Treatment of Import Capacity.** Where the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between the New England Control Area and an external Control Area is less than that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection), then the capacity offers from those resources shall be treated as capacity offers in the modeled Capacity Zone associated with that interface. Where the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between the New England Control Area and an external Control Area is greater than

that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection), then the following provisions shall apply (separately for each such delivery point):

- (i) In the modeled Capacity Zone associated with the interface, an amount of capacity equal to the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection) will be included in the aggregate supply curve.
- (ii) For purposes of determining which capacity offers from the New Import Capacity Resources and Existing Import Capacity Resources shall clear and at what price, those offers shall be treated in the descending-clock auction as if they comprised a separately-modeled capacity zone (~~in the case of the Phase I/II HVDC-TE interconnection, offers from HQI Capacity and HQI Excess Capacity, as described in Section III.13.1.3.5.1.1, shall be treated as if they comprised two separately-modeled capacity zones; only HQI Capacity offers may clear in the HQI capacity zone; only HQI Excess Capacity offers may clear in the HQI Excess capacity zone~~), with an aggregate supply curve consisting of the offers from the New Import Capacity Resources and Existing Import Capacity Resources . The Forward Capacity Auction for those offers shall be concluded when the

aggregate supply curve comprised of the import offers equals the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection). The Capacity Clearing Price for the import offers that clear shall be the price at which the aggregate supply curve comprised of the import offers equals the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the HQ Interconnection).

- (e) **Treatment of Export Capacity.** Any Export Bid or any Administrative Export De-List Bid that is exported through a constraint modeled in the Forward Capacity Auction will be modeled in the Capacity Zone where the export interface that is identified in the Existing Qualification Package is located. The Export Bid or Administrative Export De-List Bid clears against the Capacity Clearing Price in the import-constrained Capacity Zone where the Export Bid or Administrative Export De-List Bid is modeled.
- (i) Then the MW quantity equal to the relevant Export Bid or Administrative Export De-List Bid will be procured in addition to the Local Sourcing Requirement of the import-constrained Capacity Zone subject to Section III.13.2.5.2.2, and the resource associated with the Export Bid or Administrative Export De-List Bid will be de-listed in the Capacity Zone where the resource is located.
  - (ii) If the Export Bid or Administrative Export De-List Bid does not clear, then the resource associated with the Export Bid or Administrative Export De-List Bid will not be de-listed in the Capacity Zone where the resource is located.

cleared capacity and the appropriate reconfiguration auction clearing price in the Capacity Zone in which the resource cleared.

- (c) **Capacity Supply Obligation Bilaterals.** For resources that have acquired or shed a Capacity Supply Obligation through a Capacity Supply Obligation Bilateral, the monthly capacity payment or charge shall be equal to the product of the Capacity Supply Obligation being assumed or shed and price associated with the Capacity Supply Obligation Bilateral.
- (d) **HQICC Used in the Calculation of the Installed Capacity Requirement.** In order to treat HQICCs as a load reduction, the Installed Capacity Requirement quantity for each month shall be increased by the amount of HQICC used in the calculation of the Installed Capacity Requirement used in the Forward Capacity Market, ~~net of any HQICC's reduced in accordance with Section III.13.1.3.5.1.1(g).~~ Each holder of HQICCs shall be credited with its share of the total monthly HQICC amount as an Existing Capacity Resource located in the Capacity Zone in which the HQ Phase I/II External Node is located as specified in Section III.13.1.3, ~~net of any HQICCs~~

~~reduced, in accordance with Section  
III.13.1.3.5.1.1(g).~~

**III.13.7.2.2. Import Capacity.** Import Capacity Resources shall receive monthly capacity payments utilizing the same methodology as that used for Generating Capacity Resources set forth in Section III.13.7.2.1. ~~In the case of capacity imports over Phase I/II HVDC TF interconnection, both HQI Capacity and HQI Excess Capacity imports are paid the relevant Capacity Clearing Price, less adjustments for PER and availability in the same manner as other Import Capacity Resources.~~

**III.13.7.2.2.A. Export Capacity.** If there are any Export Bids or Administrative Export De-list Bids that have cleared the Forward Capacity Auction and are exporting capacity through an import-constrained Capacity Zone, then charges and credits are applied as follows (for the following calculation, the Net Regional Clearing Price will be the value prior to PER adjustments).

Charge Amount to Resource Exporting = [Net Regional Clearing Price<sub>location of the interface</sub> - Net Regional Clearing Price<sub>location of the resource</sub>] x Cleared MWs of Export Bid or Administrative Export Bid]

Credit Amount to load in the Capacity Zone where the export interface is located = [Net Regional Clearing Price<sub>location of the interface</sub> - Net Regional Clearing Price<sub>location of the resource</sub>] x Cleared MWs of Export Bid or Administrative Export De-list Bid]

- for each modeled export-constrained Capacity Zone;
- (v) the multipliers applied in determining the Capacity Value of a Demand Resource, as described in Section III.13.7.1.5.1;
  - (vi) which resources are accepted and rejected in the qualification process to participate in the Forward Capacity Auction; and
  - (vii) the Internal Market Monitoring Unit's determinations regarding offers or bids submitted during the qualification process made according to the provisions of this Section III.13, including an explanation of the reasons for rejecting any de-list bids based on the Internal Market Monitoring Unit review and the resource's net risk-adjusted going forward costs and opportunity costs as determined by the Internal Market Monitoring Unit. The filing shall identify to the extent possible the components of the bid which were accepted as justified, and shall also identify to the extent possible the components of the bid which were not justified and which resulted in rejection of the bid.
- (b) Any comments or challenges to the determinations contained in the informational filing described in Section III.13.8.1(a), and any election made pursuant to Section III.13.1.2.3.2.1.1, must be filed with the Commission no later than 15 days after the ISO's submission of the informational filing. No later than 15 days after the ISO's submission of the informational filing described in Section III.13.8.1(a), the Lead Market Participant must also notify the ISO of any election made pursuant to Section III.13.1.2.3.2.1.1. If the Commission does not issue an order within 75 days after the ISO's submission of the informational filing that directs otherwise, the

determinations contained in the informational filing and elections made pursuant to Section III.13.1.2.3.2.1.1 shall be used in conducting the Forward Capacity Auction, and challenges to Capacity Clearing Prices resulting from the Forward Capacity Auction shall be reviewed in accordance with the provisions of Section III.13.8.2(c). If within 75 days after the ISO's submission of the informational filing, the Commission does issue an order modifying one or more of the ISO's determinations, then the Forward Capacity Auction shall be conducted no earlier than 15 days following that order using the determinations as modified by the Commission (unless the Commission directs otherwise), and challenges to Capacity Clearing Prices resulting from the Forward Capacity Auction shall be reviewed in accordance with the provisions of Section III.13.8.2(c).

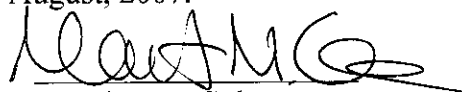
**III.13.8.2. Filing of Forward Capacity Auction Results and Challenges Thereto.**

- (a) As soon as practicable after the Forward Capacity Auction is complete, the ISO shall file the results of that Forward Capacity Auction with the Commission pursuant to Section 205 of the Federal Power Act, including the final set of Capacity Zones resulting from the auction, the Capacity Clearing Price in each of those Capacity Zones (and the Capacity Clearing Price associated with certain imports pursuant to Section III.13.2.3.3(d), if applicable), and a list of which resources received Capacity Supply Obligations in each Capacity Zone and the amount of those Capacity Supply Obligations. The filing shall also enumerate bids

## 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 (2007), 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, DC, this 31st day of August, 2007.

  
Montina M. Cole