



March 15, 2010

VIA HAND DELIVERY

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

Re: ISO New England Inc. and New England Power Pool, Docket No. ER10-____-000, Revisions to FCM Rules Related to the Application of Overlapping Interconnection Impacts Analysis to Demand Resources

Dear Secretary Bose and Deputy Secretary Davis:

Pursuant to Section 205 of the Federal Power Act (“FPA”),¹ ISO New England Inc. (the “ISO”) and the New England Power Pool Participants Committee (“NEPOOL”) (together, the “Filing Parties”) hereby submit to the Federal Energy Regulatory Commission (“FERC” or “Commission”) revisions to the Forward Capacity Market (“FCM”) rules.² The Filing Parties request an effective date of May 15, 2010 for the revisions described herein.

As more fully described in the Testimony of Mark Karl (which is solely sponsored by the ISO), under the revisions to the FCM rules tendered in the instant filing (“Rule Changes”), the ISO will conduct an analysis of overlapping interconnection impacts for each new active Demand Resource that seeks to participate in the Forward Capacity Auction (“FCA”). This analysis will be similar to the analysis that is currently conducted for each New Generating Capacity Resource that seeks to qualify for participation in the FCA.

I. DESCRIPTION OF THE FILING PARTIES AND 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

¹ 16 U.S.C. § 824d (2006).

² Capitalized terms used but not otherwise defined in this filing have the meanings ascribed thereto in the ISO’s Transmission, Markets and Services Tariff (FERC Electric Tariff No. 3) (the “Tariff”). Section III of the Tariff is Market Rule 1.

The Honorable Kimberly D. Bose, Secretary
The Honorable Nathaniel J. Davis, Sr., Deputy Secretary
March 15, 2010
Page 2 of 9

ISO New England Transmission, Markets and Services Tariff and the Transmission Operating Agreement with the New England Participating Transmission Owners. In its capacity as an RTO, the ISO has the responsibility to protect the short-term reliability of the New England Control Area and to operate the system according to reliability standards established by the Northeast Power Coordinating Council (“NPCC”) and the North American Electric Reliability Council (“NERC”).

NEPOOL is a voluntary association organized in 1971 pursuant to the New England Power Pool Agreement, and it has grown to include more than 410 members. The participants include all of the electric utilities rendering or receiving service under the Tariff, as well as independent power generators, marketers, load aggregators, brokers, consumer-owned utility systems, end users, developers, demand resource providers, and a merchant transmission provider. Pursuant to revised governance provisions accepted by the Commission,³ the participants act through the NEPOOL Participants Committee. The Participants Committee is authorized by Section 6.1 of the Second Restated NEPOOL Agreement and Section 8.1.3(c) of the Participants Agreement to represent NEPOOL in proceedings before the Commission. Pursuant to Section 2.2 of the Participants Agreement, “NEPOOL provide[s] the sole Participant Processes for advisory voting on ISO matters and the selection of ISO Board members, except for input from state regulatory authorities and as otherwise may be provided in the Tariff, TOA and the Market Participant Services Agreement included in the Tariff.”

Correspondence and communications in this proceeding should be addressed to:

ISO NEW ENGLAND INC.

Raymond W. Hepper, Esq.
Kerim P. May, Esq.
Margoth R. Caley, Esq.*
ISO New England Inc.
One Sullivan Road
Holyoke, MA 01040-2841
Tel: (413) 535-4045
Fax: (413) 535-4379
E-mail: rhepper@iso-ne.com
kmay@iso-ne.com
mcaley@iso-ne.com

Sherry A. Quirk, Esq.*
Monica M. Berry, Esq.
Schiff Hardin, LLP
1666 K St., NW, Suite 300
Washington, DC 20006
Tel: (202) 778-6475
Fax: (202) 778-6460
E-mail: squirk@schiffhardin.com
mberry@schiffhardin.com

³ *ISO New England Inc. et al.*, 109 FERC ¶ 61,147 (2004).

The Honorable Kimberly D. Bose, Secretary
The Honorable Nathaniel J. Davis, Sr., Deputy Secretary
March 15, 2010
Page 3 of 9

NEW ENGLAND POWER POOL
PARTICIPANTS COMMITTEE

Tom Kaslow, Vice-Chair*
NEPOOL Markets Committee
GDF SUEZ Energy North America, Inc.
One Liberty Square, 10th Floor
Boston, MA 02109
Tel: (617) 526-8315
E-mail: Tom.Kaslow@gdfsuezna.com

Michelle C. Gardner, Esq.
Emile G. Buzaid, Esq.*
Day Pitney LLP
242 Trumbull Street
Hartford, CT 06103
Tel: (860) 275-0272
Fax: (860) 331-8900
Email: mgardner@daypitney.com
egbuzaid@daypitney.com

*Persons designated for service.⁴

II. STANDARD OF REVIEW

The ISO submits these Rule Changes pursuant to Section 205 of the FPA, which “gives a utility the right to file rates and terms for services rendered with its assets.”⁵ Under Section 205, the Commission “plays ‘an essentially passive and reactive’ role”⁶ whereby it “can reject [a filing] only if it finds that the changes proposed by the public utility are not ‘just and reasonable.’”⁷ The Commission limits this inquiry “into whether the rates proposed by a utility are reasonable – and [this inquiry does not] extend to determining whether a proposed rate schedule is more or less reasonable than alternative rate designs.”⁸ The Rule Changes filed herein “need not be the only reasonable methodology, or even the most accurate.”⁹ As a result, even if an intervenor or the

⁴ Due to the joint nature of this filing, the Filing Parties respectfully request a waiver of Section 385.203(b)(3) of the Commission’s regulations to allow the inclusion of more than two persons on the service list in this proceeding.

⁵ *Atlantic City Elec. Co. v. FERC*, 295 F.3d 1, 9 (D.C. Cir. 2002).

⁶ *Id.* at 10 (quoting *City of Winnfield v. FERC*, 744 F.2d 871, 876 (D.C. Cir. 1984)).

⁷ *Id.* at 9.

⁸ *Cities of Bethany, Bushnell et al. v. FERC*, 727 F.2d 1,131, 1,136 (D.C. Cir. 1984), *cert. denied*, 469 U.S. 917 (1984) (“*Cities of Bethany*”); *see also ISO New England Inc.*, 114 FERC ¶ 61,315 at P 33 and n.35 (2006), citing *Pub. Serv. Co. of New Mexico v. FERC*, 832 F.2d 1,201, 1,211 (10th Cir. 1987) and *Cities of Bethany* at 1,136.

⁹ *Oxy USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995) (citing *Cities of Bethany* at 1,136).

Commission develops an alternate proposal, the Commission must accept this Section 205 filing if it is just and reasonable.¹⁰

III. BACKGROUND

As part of the qualification process for New Generating Capacity Resources, Section III.13.1.1.2.3 of the FCM rules requires the ISO to perform an initial interconnection analysis, including an analysis of overlapping interconnection impacts, to determine the amount of capacity that a New Generating Capacity Resource could provide by the start of the associated Capacity Commitment Period. Generally, the overlapping interconnection impacts analysis, which is described in Section 5.7 of ISO New England Planning Procedure No. 10 (“PP-10”), requires a New Generating Capacity Resource to demonstrate that its additional new capacity is incrementally useful given the limitations of the transmission system. This means that the proposed New Generating Capacity Resource will be qualified at the level at which it can operate without re-dispatch of other capacity resources. Accordingly, Section III.13.1.1.2.3(f) provides that

[w]here, as a result of the initial interconnection analysis, the ISO determines that because of overlapping interconnection impacts, New Generating Capacity Resources that are otherwise accepted for participation in the Forward Capacity Auction . . . cannot provide the full amount of capacity that they each would otherwise be able to provide . . . those New Generating Capacity Resources will be accepted for participation in the Forward Capacity Auction on the basis of their Queue Position . . . with priority given to resources that entered the queue earlier.¹¹

Currently, the overlapping interconnection impacts analysis does not apply to Demand Resources. Consequently, a New Generating Capacity Resource may not qualify to participate in the FCA because of overlapping interconnection impacts, and, at the same time, a New Demand Resource seeking to be classified as an active Demand Resource¹² that has the same impact on the transmission system could qualify to participate in that same FCA. In addition, the FCM is a

¹⁰ Cf. *Southern California Edison Co., et al.*, 73 FERC ¶ 61,219 at 61,608 n.73 (1995) (“Having found the Plan to be just and reasonable, there is no need to consider in any detail the alternative plans proposed by the Joint Protesters.”) (citing *Cities of Bethany* at 1,136).

¹¹ Section III.13.1.1.2.3 also provides that, starting with the fourth auction, a New Generating Capacity Resource that meets the requirements of Section III.13.1, but that would not be accepted for participation in the FCA as a result of overlapping interconnection impacts with another resource having a higher priority in the Queue may be accepted for participation in the FCA as a Conditional Qualified New Generating Capacity Resource, as described in Section III.13.2.3.2(f), provided that the resource having a higher priority in the Queue is not a resource offering capacity in to the FCA pursuant to Section III.13.2.3.2(e).

¹² Demand Resources that are Real-Time Emergency Generation Resources or that are Real-Time Demand Response Resources as defined in Section I of the Tariff are considered “active.”

resource-based market, rather than a financial market, with auction-based mechanisms through which an amount of capacity equal to the Installed Capacity Requirements (“ICR”) for New England is procured three years prior to the time the capacity is needed. As such, the resources procured through the FCM should be evaluated to ensure that there are no limitations (*e.g.* transmission constraints) that would prevent the full capacity value from being transmitted during the Capacity Commitment Period. The Rule Changes address these issues by making new active Demand Resources subject to an overlapping interconnection impacts analysis, which is similar to the analysis that is currently conducted for New Generating Capacity Resources.

IV. DESCRIPTION OF FCM RULE CHANGES

All new resources seeking to participate in the FCA must go through a qualification process, which is initiated by the submittal of a Show of Interest Form before the closing of the applicable Show of Interest Submission Window.¹³ A new Section III.13.1.4.1.2.2 is being added to the FCM rules to provide that, as part of the qualification process, for each New Demand Resource that is a Real-Time Demand Response Resource or a Real-Time Emergency Generation Resource, the ISO will perform an analysis based on the information contained in the New Demand Resource Show of Interest Form to determine whether there is any remaining transmission system capability to accept the amount of capacity that the resource could provide by the start of the associated Capacity Commitment Period. This analysis will be performed consistent with the criteria and conditions described in ISO New England Planning Procedures, which are summarized below. Where, as a result of this analysis, the ISO determines that because of overlapping interconnection impacts, such a New Demand Resource that is otherwise accepted for participation in the FCA in accordance with the other requirements of Section III.13.1 cannot deliver any of the capacity that it would otherwise be able to provide (in the absence of the other relevant Existing Capacity Resources), then that New Demand Resource will not be accepted for participation in the FCA.

PP-10 has been revised to include the detailed methodology for the overlapping interconnection impact analysis of new active Demand Resources, which will be conducted starting with the qualification review for the fifth FCA, and the associated Capacity Commitment Period beginning June 1, 2014.¹⁴ Generally, using the methodology described in Section 5.7.1 of PP-10 (which currently applies to New Generating Capacity Resources), each Dispatch Zone will be analyzed to determine whether any new resource could deliver capacity from the Dispatch Zone to which it is interconnecting to all of the other Dispatch Zones in the Load Zone.

¹³ See Section III.13.1.10 of the FCM rules.

¹⁴ The methodology is contained in new Section 5.7.4 of PP-10. The Reliability Committee recommended Participants Committee support for these revisions to PP-10 at its January 28, 2010 meeting. The Participants Committee unanimously supported the revisions to PP-10 at its February 5, 2010 meeting.

Load Zones have long been used in New England for the purposes of energy market operations and settlement and they were also used as a building block in the formation of Capacity Zones for the FCM. Dispatch Zones were created in New England when revisions to the FCM rules to support the integration of active Demand Resources into the FCM were submitted.¹⁵ Each Load Zone was divided into one or more Dispatch Zones to enable the ISO to dispatch resources when and where they are needed in response to a wide variety of system conditions. Under the current FCM rules, in the Show of Interest Form that is submitted to qualify in the FCA, each new active Demand Resource must specify the Dispatch Zone to which the resource will be interconnecting. However, a New Demand Resource does not need to specify its exact nodal location. This allows a Project Sponsor to sign up specific customer facilities that will be part of the New Demand Resource during the three year lead-time between the FCA and the beginning of the Capacity Commitment Period. The Project Sponsor may not have the need to sign up those customer facilities at the time it submits its Show of Interest Form for qualification in the FCA and, as a result, the Project Sponsor does not know the specific location of those facilities in time to provide the exact nodal location of the New Demand Resource in the Show of Interest Form.

Based on the foregoing, Dispatch Zones will be used in the overlapping interconnection impacts analysis of new active Demand Resources. Accordingly, under the analysis, in those Dispatch Zones where no new resource could deliver capacity from the Dispatch Zone to which it is interconnecting to all of the other Dispatch Zones in the Load Zone due to overloads of transmission lines or other violations of the transmission system that cannot be fixed in time for the relevant Capacity Commitment Period, no new active Demand Resources will be qualified to participate in the FCA. On the other hand, if it is determined that a new active Demand Resource could deliver a portion of its capacity from the Dispatch Zone to which it is interconnecting to all of the other Dispatch Zones in the Load Zone (without the inclusion of any other new resources seeking qualification in that Dispatch Zone), then the full capacity amount proposed by the new active Demand Resource will qualify to participate in the FCA.

Although the methodology described above is similar to the methodology used to analyze whether New Generating Capacity Resources have overlapping impacts, it is not identical due to the fact that, in the FCA qualification process, Demand Resources do not in general provide the ISO with the detailed electrical location information that is needed in order to conduct a full nodal transmission system analysis. However, in some cases, the exact nodal location of the proposed New Demand Resource may be known and specified in the Show of Interest Form that is submitted for qualification in the FCA. In those cases, the methodology described in Section 5.7.4 of PP-10 does allow the ISO to conduct a nodal overlapping interconnection impacts analysis for a specific New Demand Resource when capacity is delivered at a single location. Specifically, any individual new active Demand Resource interconnecting at a single nodal location from which no new resource could deliver capacity to the Load Zone to which it is interconnecting (due to overloads of transmission lines or other violations of the transmission system that cannot be fixed in time for the

¹⁵ The revisions to the FCM rules regarding Demand Response Integration were filed in Docket No. ER09-5-000 and were accepted by the Commission in a letter order dated October 29, 2008.

relevant Capacity Commitment Period) will not be qualified to participate in the FCA. On the other hand, if a new active Demand Resource could deliver any portion of its capacity from the nodal location to which it is interconnecting to the Load Zone to which it is interconnecting (without the inclusion of any other new resources submitted for qualification at that nodal location), then the full amount of capacity proposed by the new active Demand Resource will qualify for the FCA.

V. STAKEHOLDER PROCESS

At its January 12-13, 2010 meeting, the Markets Committee voted to recommend its support for the Rule Changes with no opposition and 7 abstentions (5 in the Generation Sector and 2 in the Supplier Sector). The Participants Committee unanimously approved the Rule Changes at its February 5, 2010 meeting as part of its Consent Agenda,¹⁶ with only one abstention noted.

VI. REQUESTED EFFECTIVE DATE

The Filing Parties request that the Commission permit the Rule Changes that are being submitted in this filing to become effective without suspension or hearing on May 15, 2010.¹⁷

VII. ADDITIONAL SUPPORTING INFORMATION

Section 35.13 of the Commission's regulations generally requires public utilities to file certain cost and other information related to an examination of traditional cost-of-service rates.¹⁸ However, the Rule Changes contained in the instant filing are associated with the FCM and are not traditional "rates." Further, the Filing Parties are not traditional investor-owned utilities. Therefore, to the extent necessary, the Filing Parties request waiver of Section 35.13 of the Commission's regulations. Notwithstanding their request for waiver, the Filing Parties submit the additional information enumerated below in substantial compliance with relevant provisions of Section 35.13.

35.13(b)(1) – Materials included herewith are as follows:

¹⁶ The Consent Agenda for a Participants Committee meeting, similar to the Consent Agenda for a Commission open meeting, is a group of actions (each recommended by a Technical Committee or subgroup established by the Participants Committee) to be taken by the Participants Committee through approval of a single motion at a meeting. All recommendations voted on as part of the Consent Agenda are deemed to have been voted on individually and independently. The Participants Committee's approval of the February 5, 2010 Consent Agenda included its support for the Rule Changes.

¹⁷ This date coincides with the end of the show of interest period, and the beginning of the qualification review period, for the fifth FCA and the associated Capacity Commitment Period beginning June 1, 2014. Because these revisions are related to the ISO's qualification review, an effective date of May 15, 2010 will allow the ISO to apply the overlapping interconnection impacts analysis to new active Demand Resources in this particular review period.

¹⁸ 18 C.F.R. § 35.13 (2009).

- ◆ This transmittal letter;
- ◆ Attachment 1: Tariff sheets reflecting in blackline the Rule Changes effected by this filing;
- ◆ Attachment 2: Clean Tariff sheets incorporating the Rule Changes;
- ◆ Attachment 3: Testimony of Mark G. Karl, solely sponsored by the ISO; and
- ◆ Attachment 4: List of governors and utility regulatory agencies in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont to which a copy of this filing has been sent.

35.13(b)(2) – As noted above, the Filing Parties request that the Rule Changes submitted with this filing become effective on May 15, 2010.

35.13(b)(3) - Pursuant to Section 17.11(e) of the Participants Agreement, Governance Participants are being served electronically rather than by paper copy. The names and addresses of the Governance Participants are posted on the ISO's website at http://www.iso-ne.com/regulatory/ferc/nepool/gov_ptcpts_eserved.pdf. A paper copy of this transmittal letter and the accompanying materials have also been sent to the governors and electric utility regulatory agencies for the six New England states that comprise the New England Control Area, and to the New England Conference of Public Utility Commissioners ("NECPUC"). The names and addresses of these governors and regulatory agencies are shown in Attachment 4. In accordance with Commission rules and practice, there is no need for the Governance Participants or the entities identified on Attachment 4 to be included on the Commission's official service list in the captioned proceeding unless such entities become intervenors in this proceeding.

35.13(b)(4) - A description of the materials submitted pursuant to this filing is contained in this transmittal letter.

35.13(b)(5) - The reasons for this filing are discussed in this transmittal letter.

35.13(b)(6) - The ISO's approval of these Rule Changes is evidenced by this filing. These Rule Changes reflect the results of the Participant Processes required by the Participants Agreement and reflect the unanimous approval and support of the Participants Committee.

35.13(b)(7) - The Filing Parties have no knowledge of any relevant expenses or costs of service that have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

The Honorable Kimberly D. Bose, Secretary
The Honorable Nathaniel J. Davis, Sr., Deputy Secretary
March 15, 2010
Page 9 of 9

VIII. CONCLUSION

For the foregoing reasons, the Filing Parties respectfully request that the Commission approve the Rule Changes described herein, to become effective on May 15, 2010, without condition or change.

ISO NEW ENGLAND INC.

By: Raymond W. Hepper / SAQ
Raymond W. Hepper, Esq.
Kerim P. May, Esq.
Margoth R. Caley, Esq.
ISO New England Inc.
One Sullivan Road
Holyoke, MA 01040-2841
(413) 535-4045

By: Sherry A. Quirk
Sherry A. Quirk, Esq.
Monica M. Berry, Esq.
Schiff Hardin LLP
1666 K St., NW, Suite 300
Washington, DC 20006
(202) 778-6475

NEW ENGLAND POWER POOL
PARTICIPANTS COMMITTEE

By: Michelle Gardner / SAQ
Michelle Gardner, Esq.
Emile G. Buzaid, Esq.
Day Pitney LLP
242 Trumbull Street
Hartford, CT 06103-1212
(860) 275-0272

Its Attorneys

Dated: March 15, 2010

ATTACHMENT 1

Blacklined Tariff Sheets

the electrical supplier to the premises during the 12-month period prior to the applicable Existing Capacity Qualification Deadline of the Forward Capacity Auction, and is not an Existing Demand Resource. A Demand Resource that has previously been defined as an Existing Demand Resource shall be considered a New Demand Resource if it meets one of the conditions listed in Section III.13.1.1.1.2. A New Demand Resource may participate in the Forward Capacity Market as a New Demand Resource or as an Existing Demand Resource for the first Forward Capacity Auction.

III.13.1.4.1.2.1. Qualified Capacity of New Demand Resources. For Forward Capacity Auctions a New Demand Resource shall have a summer Qualified Capacity and winter Qualified Capacity based on the resource's Demand Reduction Values as submitted and reviewed pursuant to this Section III.13.1.4.

The documentation, analysis, studies and methodologies used to support the estimates described in this Section III.13.1.4.1.2.1 must be submitted as part of the Measurement and Verification Plan, which shall be reviewed by the ISO to ensure consistency with the measurement and verification requirements pursuant to Section III.13.1.4.3 and the ISO New England Manuals.

The documentation, analysis, studies and methodologies used to support the estimates described in this Section III.13.1.4.1.2.1 must be submitted as part of the Measurement and Verification Plan, which shall be reviewed by the ISO to ensure consistency with the measurement and verification requirements pursuant to Section III.13.1.4.3 and the ISO New England Manuals.

III.13.1.4.1.2.2. Initial Analysis for Certain New Demand Resources. For each New Demand Resource that is a Real-Time Demand Response Resource or a Real-Time Emergency Generation Resource, the ISO shall perform an analysis based on the information provided in the New Demand Resource Show of Interest Form to determine the amount of capacity that the resource could provide by the start of the associated Capacity Commitment Period. This analysis shall be performed consistent with the criteria and conditions described in ISO New England Planning Procedures. Where, as a result of this analysis, the ISO determines that because of overlapping interconnection impacts, such a New Demand Resource that is otherwise accepted for participation in the Forward Capacity Auction in accordance with the other provisions and requirements of this Section III.13.1 cannot deliver any of the capacity that it would otherwise be able to provide (in the absence of the other relevant Existing Capacity Resources), then that New Demand Resource will not be accepted for participation in the Forward Capacity Auction.

III.13.1.4.1.3. Special Provisions for Real-Time Emergency Generation Resources. All Real-Time Emergency Generation Resources shall be treated in the same manner as Existing Demand Resources in the Forward Capacity Auction as described in Section III.13.2. Real-Time Emergency Generation Resources may: (i) submit Static De-list Bids pursuant to Section

III.13.1.2.3.1.1, (ii) submit Dynamic De-list Bids pursuant to Section III.13.2.3.2(d), or (iii) submit Permanent De-list Bids pursuant to Section III.13.1.2.3.1.2. Real-Time Emergency Generation Resources may not submit an Export Bid pursuant to Section III.13.1.2.3.1.3 or an Administrative Export De-list Bid pursuant to Section III.13.1.2.3.1.4. Real-Time Emergency Generation Resources may not import capacity pursuant to

ATTACHMENT 2

Clean Tariff Sheets

the electrical supplier to the premises during the 12-month period prior to the applicable Existing Capacity Qualification Deadline of the Forward Capacity Auction, and is not an Existing Demand Resource. A Demand Resource that has previously been defined as an Existing Demand Resource shall be considered a New Demand Resource if it meets one of the conditions listed in Section III.13.1.1.1.2. A New Demand Resource may participate in the Forward Capacity Market as a New Demand Resource or as an Existing Demand Resource for the first Forward Capacity Auction.

III.13.1.4.1.2.1. Qualified Capacity of New Demand Resources. For Forward Capacity Auctions a New Demand Resource shall have a summer Qualified Capacity and winter Qualified Capacity based on the resource's Demand Reduction Values as submitted and reviewed pursuant to this Section III.13.1.4.

The documentation, analysis, studies and methodologies used to support the estimates described in this Section III.13.1.4.1.2.1 must be submitted as part of the Measurement and Verification Plan, which shall be reviewed by the ISO to ensure consistency with the measurement and verification requirements pursuant to Section III.13.1.4.3 and the ISO New England Manuals.

III.13.1.4.1.2.2. Initial Analysis for Certain New Demand Resources. For each New Demand Resource that is a Real-Time Demand Response Resource or a Real-Time Emergency Generation Resource, the ISO shall perform an analysis based on the information provided in the New Demand Resource Show of Interest Form to determine the amount of capacity that the resource could provide by the start of the associated Capacity Commitment Period. This analysis shall be performed consistent with the criteria and conditions described in ISO New England Planning Procedures. Where, as a result of this analysis, the ISO determines that because of overlapping interconnection impacts, such a New Demand Resource that is otherwise accepted for participation in the Forward Capacity Auction in accordance with the other provisions and requirements of this Section III.13.1 cannot deliver any of the capacity that it would otherwise be able to provide (in the absence of the other relevant Existing Capacity Resources), then that New Demand Resource will not be accepted for participation in the Forward Capacity Auction.

III.13.1.4.1.3. Special Provisions for Real-Time Emergency Generation Resources. All Real-Time Emergency Generation Resources shall be treated in the same manner as Existing Demand Resources in the Forward Capacity Auction as described in Section III.13.2. Real-Time Emergency Generation Resources may: (i) submit Static De-list Bids pursuant to Section III.13.1.2.3.1.1, (ii) submit Dynamic De-list Bids pursuant to Section III.13.2.3.2(d), or (iii) submit Permanent De-list Bids pursuant to Section III.13.1.2.3.1.2. Real-Time Emergency Generation Resources may not submit an Export Bid pursuant to Section III.13.1.2.3.1.3 or an Administrative Export De-list Bid pursuant to Section III.13.1.2.3.1.4. Real-Time Emergency Generation Resources may not import capacity pursuant to

ATTACHMENT 3

Testimony of Mark G. Karl

On behalf of the ISO

1 Forward Capacity Market Auction Groups at the ISO.¹ These groups have overall
2 responsibility for operating the Forward Capacity Market (“FCM”), performing
3 the load forecasting and planning studies to set the New England resource
4 capacity and Local Sourcing Requirements for that market, qualifying generation
5 and demand resources for participating in the market, performing economic and
6 production cost studies, and operating the New England transmission cost
7 allocation process. Prior to that I was Director of Market Development and
8 Integration and Manager of Market Design where I was extensively involved in
9 the ongoing development of the Resource Adequacy/Forward Capacity Market,
10 the Forward Reserve Market, and the Long Term Transmission Rights process,
11 and was responsible for development of the market rules and NEPOOL Manuals
12 for the ISO Standard Market Design.

13
14 Prior to joining the ISO, I worked at the Duquesne Light Company in Pittsburgh
15 in a number of areas including Fossil and Nuclear Generation Engineering and
16 Operations, Risk Assessment, Regulatory Analysis, Finance, Structured
17 Transactions and System Planning, as well as participating in a number of
18 unregulated electric market related ventures. At Duquesne, I had a total of five
19 years of experience specifically in planning, managing the Integrated Resource
20 Planning Group, as well as load forecasting, tariff administration, and financial
21 and strategic planning groups. I had extensive involvement in the restructuring

¹ Capitalized terms used but not defined in this testimony are intended to have the meaning given to such terms in the ISO New England Inc. Transmission, Markets and Services Tariff, FERC Electric Tariff No. 3 (“ISO Tariff”), the Second Restated New England Power Pool Agreement, and the Participants Agreement. Market Rule 1 is Section III of the ISO Tariff.

1 and deregulation of the electric industry in Pennsylvania, including development
2 of retail choice pilot programs, asset valuation, stranded cost filings, and asset
3 divestiture.

4

5 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 **A.** The purpose of my testimony is to describe the Rule Changes, under which an
7 overlapping interconnection impacts analysis will be conducted for new active
8 Demand Resources that seek to participate in the Forward Capacity Auction
9 (“FCA”).

10

11 **Q: WHAT TYPES OF DEMAND RESOURCES ARE CONSIDERED**

12 **“ACTIVE”?**

13 **A.** Demand Resources that are Real-Time Emergency Generation Resources or that
14 are Real-Time Demand Response Resources as defined in Section I of the Tariff
15 are considered “active.”

16

17 **Q: WHY IS THE ISO PROPOSING TO MAKE THESE CHANGES TO THE**

18 **FCM RULES?**

19 **A.** As part of the qualification process for New Generating Capacity Resources,
20 Section III.13.1.1.2.3 of the FCM rules requires the ISO to perform an initial
21 interconnection analysis, including an analysis of overlapping interconnection
22 impacts, to determine the amount of capacity that a New Generating Capacity
23 Resource could provide by the start of the associated Capacity Commitment

1 Period. Generally, the overlapping interconnection impacts analysis, which is
2 described in Section 5.7 of ISO New England Planning Procedure No. 10 (“PP-
3 10”), requires a New Generating Capacity Resource to demonstrate that its
4 additional new capacity is incrementally useful given the limitations of the
5 transmission system. This means that the proposed New Generating Capacity
6 Resource will be qualified at the level at which it can operate without re-dispatch
7 of other capacity resources. However, the overlapping interconnection impacts
8 analysis does not currently apply to Demand Resources and, consequently, a New
9 Generating Capacity Resource may not qualify to participate in the FCA because
10 of overlapping interconnection impacts, and, at the same time, a new active
11 Demand Resource that has the same impact on the transmission system could
12 qualify to participate in that same FCA.

13
14 In addition, the FCM is a resource-based, rather than a financial, market for
15 capacity, with auction-based mechanisms through which an amount of capacity
16 equal to the Installed Capacity Requirements (“ICR”) for New England is
17 procured by the ISO three years prior to the time the capacity is needed. As such,
18 the resources procured through the FCM should be evaluated to ensure that there
19 are no limitations (*e.g.*, transmission constraints) that would inhibit the resources’
20 ability to provide the full benefit of their capacity value during the Capacity
21 Commitment Period.

1 The Rule Changes address these issues by making new active Demand Resources
2 subject to an overlapping interconnection impacts analysis, which is similar to the
3 analysis that is currently conducted for New Generating Capacity Resources.

4

5 **Q: PLEASE DESCRIBE THE PROPOSED RULE CHANGES.**

6 **A.** All new resources seeking to participate in the FCA must go through a
7 qualification process, which is initiated by the submittal of a Show of Interest
8 Form before the closing of the applicable Show of Interest Submission Window.
9 A new Section III.13.1.4.1.2.2 is being added to the FCM rules to provide that, as
10 part of the qualification process, for each New Demand Resource that is a Real-
11 Time Demand Response Resource or a Real-Time Emergency Generation
12 Resource, the ISO will perform an analysis based on the information contained in
13 the New Demand Resource Show of Interest Form to determine the amount of
14 capacity that the resource could provide by the start of the associated Capacity
15 Commitment Period. This analysis will be performed consistent with the criteria
16 and conditions described in ISO New England Planning Procedures.
17 Where, as a result of this analysis, the ISO determines that because of overlapping
18 interconnection impacts, such a New Demand Resource that is otherwise accepted
19 for participation in the FCA in accordance with the other requirements of Section
20 III.13.1 cannot deliver any of the capacity that it would otherwise be able to
21 provide (in the absence of the other relevant Existing Capacity Resources), then
22 that New Demand Resource will not be accepted for participation in the FCA.

1 **Q: HAVE THE ISO NEW ENGLAND PLANNING PROCEDURES BEEN**
2 **REVISED TO INCLUDE THE CRITERIA AND CONDITIONS UNDER**
3 **WHICH THE OVERLAPPING INTERCONNECTION IMPACTS**
4 **ANALYSIS FOR NEW ACTIVE DEMAND RESOURCES WILL BE**
5 **CONDUCTED?**

6 **A.** Yes. PP-10 has been revised to include the detailed methodology for the
7 overlapping interconnection impact analysis of new active Demand Resources,
8 which will be conducted starting with the qualification review for the fifth FCA,
9 for the Capacity Commitment Period beginning June 1, 2014. Generally, using
10 the methodology described in Section 5.7.1 of PP-10 (which currently applies to
11 New Generating Capacity Resources), each Dispatch Zone will be analyzed to
12 determine whether any new resource could deliver capacity from the Dispatch
13 Zone to which it is interconnecting to all of the other Dispatch Zones in the Load
14 Zone.

15
16 **Q: WHY WILL THE ISO USE DISPATCH ZONES IN THE OVERLAPPING**
17 **INTERCONNECTION IMPACTS ANALYSIS OF NEW ACTIVE**
18 **DEMAND RESOURCES?**

19 **A.** Load Zones have long been used in New England for the purposes of energy
20 market operations and settlement and they were also used as a building block in
21 the formation of Capacity Zones for the FCM. Dispatch Zones were created in
22 New England when revisions to the FCM rules to support the integration of active
23 Demand Resources into the FCM were submitted. Each Load Zone was divided

1 into one or more Dispatch Zones to enable the ISO to dispatch resources when
2 and where they are needed in response to a wide variety of system conditions.
3 Under the current FCM rules, in the Show of Interest Form that is submitted to
4 qualify in the FCA, each new active Demand Resource must specify the Dispatch
5 Zone to which the resource will be interconnecting. However, a New Demand
6 Resource does not need to specify its exact nodal location. This allows a Project
7 Sponsor to sign up specific customer facilities that will be part of the New
8 Demand Resource during the three year lead-time between the FCA and the
9 beginning of the Capacity Commitment Period. The Project Sponsor may not
10 have the need to sign up those customer facilities at the time it submits its Show
11 of Interest Form for qualification in the FCA and, as a result, the Project Sponsor
12 does not know the specific location of those facilities in time to provide the exact
13 nodal location of the New Demand Resource in the Show of Interest Form.

14

15 **Q: PLEASE EXPLAIN HOW THE OVERLAPPING INTERCONNECTION**
16 **IMPACTS ANALYSIS FOR NEW ACTIVE DEMAND RESOURCES**
17 **WILL BE CONDUCTED UNDER PP-10.**

18 **A.** The analysis will be conducted as follows. In those Dispatch Zones where no
19 new resource could deliver capacity from the Dispatch Zone to which it is
20 interconnecting to all of the other Dispatch Zones in the Load Zone due to
21 overloads of transmission lines or other violations of the transmission system that
22 cannot be fixed in time for the relevant Capacity Commitment Period, no new
23 active Demand Resources will be qualified to participate in the FCA. On the

1 other hand, if it is determined that a new active Demand Resource could deliver a
2 portion of its capacity from the Dispatch Zone to which it is interconnecting to all
3 of the other Dispatch Zones in the Load Zone (without the inclusion of any other
4 new resources seeking qualification in that Dispatch Zone), then the full capacity
5 amount proposed by the new active Demand Resource will qualify to participate
6 in the FCA.

7

8 **Q: WILL THE OVERLAPPING INTERCONNECTION IMPACTS**
9 **ANALYSIS FOR NEW ACTIVE DEMAND RESOURCES BE IDENTICAL**
10 **TO THE ANALYSIS THAT IS CURRENTLY PERFORMED FOR NEW**
11 **GENERATING CAPACITY RESOURCES?**

12 **A.** No. Although the methodology described above is similar to the methodology
13 used to analyze whether New Generating Capacity Resources have overlapping
14 impacts, it is not identical due to the fact that, in the FCA qualification process,
15 Demand Resources do not in general provide the ISO with the detailed electrical
16 location information that is needed in order to conduct a full nodal transmission
17 system analysis.

1 **Q: PLEASE EXPLAIN HOW THE OVERLAPPING INTERCONNECTION**
2 **IMPACTS ANALYSIS WILL BE PERFORMED WHEN THE EXACT**
3 **NODAL LOCATION OF A NEW ACTIVE DEMAND RESOURCE IS**
4 **KNOWN.**

5 **A.** In some cases, the exact nodal location of the proposed New Demand Resource
6 may be known and specified in the Show of Interest Form that is submitted for
7 qualification in the FCA. In those cases, the methodology described in Section
8 5.7.4 of PP-10 does allow the ISO to conduct a nodal overlapping interconnection
9 impacts analysis for a specific New Demand Resource when capacity is delivered
10 at a single location. Specifically, any individual new active Demand Resource
11 interconnecting at a single nodal location from which no new resource could
12 deliver capacity to the Load Zone to which it is interconnecting (due to overloads
13 of transmission lines or other violations of the transmission system that cannot be
14 fixed in time for the relevant Capacity Commitment Period) will not be qualified
15 to participate in the FCA. On the other hand, if a new active Demand Resource
16 could deliver any portion of its capacity from the nodal location to which it is
17 interconnecting to the Load Zone to which it is interconnecting (without the
18 inclusion of any other new resources submitted for qualification at that nodal
19 location), then the full amount of capacity proposed by the new active Demand
20 Resource will qualify for the FCA.

1 **Q: DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A. Yes.**

1 I declare, under penalty of perjury, that the foregoing is true and correct.

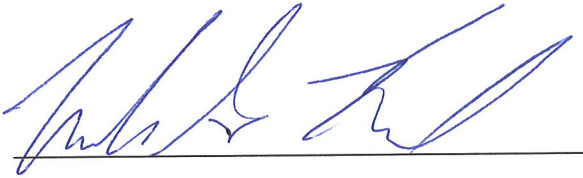
2

3 Executed on March 12, 2010.

4

5

6



7 Mark G. Karl

8 Senior Director of Resource Adequacy

9

10 Commonwealth of Massachusetts

11 Hampden ss.

12

13 On this ___ day of March, 2010, before me, the undersigned notary public, personally
14 appeared Mark G. Karl, proved to me through satisfactory evidence of personal
15 knowledge of identity, to be the person who signed the preceding or attached document
16 in my presence, and who swore or affirmed to me that the contents of the document are
17 truthful and accurate to the best of his knowledge or belief.

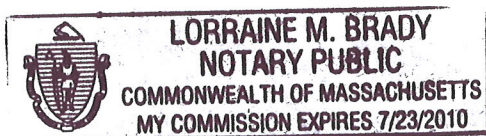
18

19 Lorraine M. Brady

20 Lorraine Brady, Notary Public

21 My Commission Expires: 7/23/2010

22



ATTACHMENT 4

List of New England Governors and Utility Regulatory Agencies

The Honorable M. Jodi Rell
State Capitol
210 Capitol Ave.
Hartford, CT 06106

Connecticut Dept. of Public Utility Control
10 Franklin Square
New Britain, CT 06051-2605

Maine Public Utilities Commission
State House, Station 18
242 State Street
Augusta, ME 04333-0018

The Honorable John E. Baldacci
One State House Station
Rm. 236
Augusta, ME 04333-0001

The Honorable Deval Patrick
Office of the Governor
Rm. 360 State House
Boston, MA 02133

Massachusetts Dept. of Public Utilities
One South Station
Boston, MA 02110

The Honorable John H. Lynch
State House
25 Capitol Street
Concord, NH 03301

New Hampshire Public Utilities Commission
21 South Fruit Street
Ste. 10
Concord, NH 03301-2429

The Honorable Donald L. Carcieri
State House Room 115
Providence, RI 02903

Rhode Island Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02888

The Honorable James H. Douglas
109 State Street, Pavilion
Montpelier, VT 05609

Vermont Public Service Board
112 State Street, Drawer 20
Montpelier, VT 05620-2701

Harvey L. Reiter, Esq.
Counsel for New England Conference
Of Public Utilities Commissioners, Inc.
c/o Stinson Morrison Hecker LLP
1150 18th Street, N.W., Ste. 800
Washington, DC 20036-3816

William M. Nugent, Executive Director
New England Conference of Public
Utilities Commissioners
50 Forest Falls Drive, Suite 6
Yarmouth, ME 04096-6937

John Shea
Power Planning Committee
New England Governors' Conference Inc.
76 Summer Street, 2nd floor
Boston, MA 02110-1226