139 FERC ¶ 61,047
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
and Cheryl A. LaFleur.

ISO New England, Inc. and
New England Power Pool

Docket No. ER12-1155-000

ORDER ACCEPTING TARIFF REVISIONS, SUBJECT TO A COMPLIANCE FILING

(Issued April 19, 2012)

1. On February 24, 2012, ISO New England Inc. (ISO-NE) and the New England Power Pool (NEPOOL) Participants Committee (together, the Filing Parties) filed revisions to Market Rule 1 of ISO-NE's Transmission, Markets and Services Tariff (Tariff) to implement Coordinated Transaction Scheduling (CTS) between New England and New York over certain alternating current interfaces. CTS was developed as a joint effort between ISO-NE and the New York Independent System Operator, Inc. (NYISO) to enhance the market efficiency of external transactions between the two regions.[1] For the reasons discussed below, the Commission accepts the proposed Tariff revisions to be effective on the date that CTS becomes operational, subject to a compliance filing as discussed herein.

I. Background

2. In late 2010, ISO-NE and NYISO conducted a joint study of their common border and issued a white paper on Inter-Regional Interchange Scheduling (White Paper). ISO-NE, in conjunction with Potomac Economics, its external market monitor (the MMU),[2] identified inefficiencies with the current external transaction scheduling process. First, the analysis noted that there is significant under-utilized transmission capacity between

[1] NYISO submitted its filing to implement CTS on December 28, 2011, in Docket No. ER12-701-000.

[2] Potomac Economics is also the market monitor for NYISO.

New York and New England. Second, the analysis indicated that the current scheduling procedures often result in power flowing from the higher priced region to the lower priced region (i.e., counter-intuitive flow).[3] The analysis further revealed that the three central reasons for the economic inefficiencies under the current trading system were: (1) latency delay; (2) non-economic clearing; and (3) cross-border transaction costs.[4]

3. ISO-NE states that latency delay occurs due to the almost two hour time delay between the scheduling of external transactions and their delivery. During this time period, system conditions and locational marginal prices (LMP) may change, and the inability to adjust fixed schedules can result in inefficient allocation of resources. ISO-NE also explains that non-economic clearing occurs because there is no economic coordination between ISO-NE and NYISO when they make decisions about which import and export schedule requests to accept. This produces inefficient interchange schedules, which can result in power flowing from the higher cost region to the lower cost region. Finally, ISO-NE contends that fees and charges on external transactions serve as an economic impediment to trade. Market participants likely factor these fees into their external transaction bids, which prevents price convergence between regions.[5]

4. As discussed in the White Paper, the current inter-regional trading system involves four steps.[6] First, market participants submit requests separately to each ISO to buy or sell power at the "border" (e.g., a request to buy on the New England side and to sell on the New York side). Second, each ISO independently clears the requests on its side, based primarily on economic comparisons to other requests and to the ISO's generation supply stack. Next, during the delivery period, each ISO dispatches internal generation so the total physical flow of power between regions matches (as closely as possible) the aggregate quantity of offers accepted by both ISOs.[7] Finally, market participants with accepted requests incur a financial obligation. These binding financial obligations are

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[3] Filing Parties Application at 6.

[4] *Id.* at 6-7.

[5] *Id.* at 7-8.

[6] White Paper at I-3.

[7] From a physical perspective, the only physical delivery obligation applies to the two ISOs. A participant submitting an external transaction (with the exception of those transacting capacity market products), need not supply generation to "match" its buy or sell request or have any physical assets at all. (*Id.* at I-4.)

also called external transactions or accepted offers to buy or sell across the interface between ISOs.

5. Although settlements are performed separately by each ISO, the market participant's net gain or loss on a transaction is the difference between LMPs between each region, plus various fees. These transaction requests are submitted and accepted prior to when the power actually flows, meaning that, if accepted, there is uncertainty about the LMPs at which it will settle. According to ISO-NE, the economic purpose of transacting between ISOs is to converge the LMPs in the two regions enabling the ISOs to meet demand at the lowest total production cost, which is a central ISO objective. However, the current system does not produce optimal results because of shortcomings in the current trading system's design resulting in limited price convergence.[8]

6. Two solutions were proposed to address the inefficiencies with the current transaction scheduling process; namely, CTS and Tie Optimization. As discussed further below, CTS, which was ultimately adopted via the stakeholder process, uses a simplified bid format and coordinated economic clearing of real-time external transactions by ISO-NE and NYISO. The MMU estimates that, if CTS had been in place from 2008 to 2010, it would have reduced production costs by $26 to $34 million, and total energy expenditures by load by $387 to $417 million, for the two regions combined.[9] The alternative solution, Tie Optimization, treats external transaction clearing in a manner that is similar to the clearing of offers and bids at internal interfaces.[10]

II. Notice of Filing and Responsive Pleadings

7. Notice of the February 24, 2012 proposed Tariff revisions was published in the *Federal Register*, 77 Fed. Reg. 13,114 (2012), with interventions and protests due on or before March 16, 2012.

8. Timely motions to intervene were filed by Consolidated Edison Energy, Inc. and Consolidated Edison Solutions, Inc., Northeast Utilities Service Company, and Exelon

[8] *Id.* at I-4,5.

[9] Filing Parties Application at 9.

[10] *Id.* at 9-10.

Corporation. Also, timely motions to intervene and comments were filed by NYISO,[11] National Grid USA (National Grid), and H.Q. Energy Services (U.S.) Inc. (HQUS).

9. On April 2, 2012, ISO-NE filed an answer to the comments submitted by HQUS.

III. Discussion

A. Procedural Matters

10. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2011), the notice of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

11. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2011), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept ISO-NE's answer in this proceeding because it has provided information that assisted us in our decision-making process.

B. Coordinated Transaction Scheduling

1. Proposal

12. Following discussions in 2011, ISO-NE stakeholders voted to support CTS.[12] Accordingly, Filing Parties propose various revisions to Market Rule 1 to implement CTS. The Filing Parties contend that CTS will address each of the identified inefficiencies and their root causes. That is, CTS will minimize latency delay with the use of more frequent interface scheduling; reduce non-economic clearing with the use of a simplified bid format and a clearing rule that coordinates economic clearing of external transactions between the ISOs; and reduce cross-border transaction costs with the elimination of transaction fees from external transactions at interfaces subject to CTS.

13. Specifically, to reduce latency delay, Filing Parties propose to use more frequent interface scheduling. While the current inter-regional trading system uses an hourly external transaction scheduling system, Filing Parties propose that Interface Bids will clear, and the net interchange schedule will be updated, every 15 minutes. Similarly,

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[11] On March 19, 2012, NYISO submitted an errata to its Motion to Intervene and Comment.

[12] This vote followed the development of a procedure to review CTS, which is discussed further below.

ISO-NE proposes to revise Market Rule 1 to reflect that the settlement interval for external transactions at interfaces subject to CTS will be 15 minutes.

14. In the real-time energy market, Filing Parties propose to use a simplified bid format, called an "Interface Bid," at each interface subject to CTS.[13] A participant will submit a single real-time Interface Bid simultaneously in New York and New England using a common bid submission platform. An Interface Bid consists of four components: price, direction, quantity, and the time period to which the bid applies.[14] The ISOs will use participants' real-time external transaction bids and the as-bid costs of generators and other physical supply resources in each region to determine the real-time net interchange schedule. An Interface Bid will clear if the offered price is less than the expected LMP difference across the external interface as of the time the interface is scheduled. Filing Parties assert that this will improve economic coordination between the regions.[15]

15. To reduce cross-border transaction costs, Filing Parties propose to eliminate transaction fees from external transactions at interfaces subject to CTS.[16] In particular, Filing Parties propose to eliminate fees, charges, and credits associated with uplift (i.e., Net Commitment Period Compensation charges and credits), emergency energy purchases and sales, purchases and sales to maintain minimum flow, costs for regulation service, and credits and charges for the difference between the actual and scheduled energy flows.

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[13] Filing Parties also propose a new form of external transaction in the day-ahead energy market, a Coordinated External Transaction. A Coordinated External Transaction will be cleared using the same process that applies for all other offers and bids and external transactions. A Coordinated External Transaction submitted in the day-ahead energy market must be followed by an Interface Bid submitted in the real-time energy market in order to be eligible for scheduling in the real-time energy market.

[14] Filing Parties Application at 14.

[15] Filing Parties state that an additional benefit of the coordinated economic clearing process is that it will enable ISO-NE to set a congestion component for the external interface LMP when there is a binding external interface limit. Accordingly, Filing Parties propose Tariff revisions to account for congestion pricing at interfaces subject to CTS.

[16] Filing Parties Application at 12, 19-21.

16. Filing Parties also propose the following conforming changes to the Forward Capacity Market Rules, in order to address how certain features of CTS impact the rights and obligations of import capacity resources.[17] First, Filing Parties propose that a New England Import Capacity Resource associated with a supply resource (e.g., a generator) physically located in New York will be obligated to offer the resource and participate in the NYISO day-ahead and real-time energy markets, consistent with the obligations of a New York capacity resource. Second, they propose that the Import Capacity Resource will no longer be obligated to offer a real-time import external transaction into the New England real-time energy market. The Import Capacity Resource may choose to submit a real-time external transaction in the form of an Interface Bid, but it is not obligated to do so.[18]

17. Additionally, Filing Parties state that, in order to bring both the ISO-NE and NYISO market participants together on a going-forward strategy, the regions developed a two-step review procedure for CTS.[19] First, after CTS market rules have been in effect for two years, the MMU will review production cost savings under CTS and present the results to stakeholders for their review and comment. The MMU's review will examine the actual benefits of CTS, the estimated foregone benefits of Tie Optimization, and the assumed benefits of an optimally scheduled interchange and determine whether CTS triggers certain thresholds.[20] The ISO will declare whether the threshold has been triggered considering the input of the MMU and stakeholders. If ISO-NE declares that the threshold has been triggered, ISO-NE will develop and implement adjustments to CTS, including, to the extent necessary, any Tariff revisions to be submitted as a compliance filing. If no adjustments to CTS are identified, ISO-NE will proceed to develop and file the revisions necessary to implement a Tie Optimization proposal. If ISO-NE declares that the threshold has not been triggered, the process will end there.[21]

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[17] *Id.* at 12.

[18] *Id.* at 21-22.

[19] *Id.* at 26-28.

[20] As stated in the CTS Tariff Revisions at III.1.10.7.B, a ratio will be developed to compare: the difference in production cost savings under optimal interchange and Tie Optimization (a); and the difference in production cost savings under Tie Optimization and CTS (b). The MMU will advise whether the ratio of [b/a] is greater than 60 percent and "b" is greater than $3 million.

[21] *See* CTS Tariff Revisions at III.1.10.7.B.

18. In the event that the threshold is triggered and adjustments to CTS are identified and implemented, ISO-NE will commence the second step of the review procedure. One year after those adjustments are implemented, the MMU again will advise, and ISO-NE again will declare, considering the input of the MMU and stakeholders, whether the threshold has been triggered. If determined to have been triggered, ISO-NE then either will file to implement Tie Optimization or will propose a "superior alternative."[22]

19. Filing Parties request that the proposed Tariff revisions be accepted, effective on or after August 1, 2013, with two weeks' prior notice to be provided by ISO-NE of the actual effective date.

2. Comments and Response

20. HQUS states that it generally supports CTS but believes that the proposal does not resolve related market inefficiencies and that the process of trying to improve efficiency between the two markets should continue.[23] Specifically, HQUS notes that transactions to wheel energy into, out of, or through the New England Control Area are expressly excluded from the definition of a Coordinated External Transaction. Accordingly, wheeling transactions will continue to be scheduled on an hourly basis. HQUS further states that under the current rules and proposed changes, HQUS and other market participants cannot provide capacity to NYISO through ISO-NE, because ISO-NE's market rules do not allow submitting wheel-through transactions in the day-ahead market.[24]

21. NYISO and National Grid filed comments in support of Filing Parties' proposal.

22. In response to HQUS, ISO-NE states that the potential enhancements discussed by HQUS are not part of the CTS project. ISO-NE asserts that, while HQUS proposes consideration of matters that may be worthy of further evaluation through the stakeholder process, these matters are beyond the scope of this proceeding.

3. Commission Determination

23. We find that CTS is a just and reasonable mechanism for enhancing the market efficiency of external transactions between ISO-NE and NYISO. Accordingly, we accept

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[22] *Id.*

[23] HQUS Comments at 1.

[24] *Id.* at 1-2.

the proposed Tariff revisions to be effective on the date that CTS will become operational, subject to ISO-NE making a compliance filing no later than 14 days prior to the date on which CTS will become operational to provide the effective date of the tariff provisions. Also, given the fact that implementation of CTS will require development of a joint scheduling system between ISO-NE and NYISO requiring significant modifications to ISO-NE's existing external transaction scheduling software and business procedures, the Commission finds that good cause has been shown to grant ISO-NE's request to waive the requirements of section 35.3(a).[25]

24. CTS will provide substantial benefits to consumers in both ISO-NE and NYISO by addressing inefficiencies present in the current external transaction scheduling process. Specifically, for the combined ISO-NE and NYISO region, Potomac Economics estimates that CTS will result in $129 million to $139 million in annual consumer savings, and $9 million to $11 million in annual production cost savings.[26]

25. We note that the proposals submitted by ISO-NE and NYISO also provide for CTS to be re-evaluated at certain points after implementation. This process may lead to ISO-NE and NYISO improving the design or operation of CTS or adopting a different methodology for scheduling external transactions (i.e., Tie Optimization or a superior alternative), if it is determined that such changes could result in greater cost savings. We commend the ISO-NE and NYISO stakeholders for their work over the past year to develop improvements to the current scheduling process and for their willingness to continue to improve this process in the future.

26. HQUS raises concerns regarding the efficiency of transactions with Québec. These concerns are outside the scope of this proceeding, which deals specifically with

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[25] 18 C.F.R. § 35.3(a)(1) (2011), provides:

> All rate schedules or tariffs or any part thereof shall be tendered for filing with the Commission and posted not less than sixty days nor more than one hundred-twenty days prior to the date on which the electric service is to commence and become effective under an initial rate schedule or tariff or the date on which the filing party proposes to make any change in rate schedule or tariff,…

[26] *See* Potomac Economics, Presentation to the NYISO and ISO-NE Stakeholders at 8 (January 21, 2011).

energy imports and exports between New York and New England at specified interfaces. We note that HQUS is free to raise its concerns in the ISO-NE stakeholder process.

The Commission orders:

Filing Parties' proposal is hereby accepted, to be effective as discussed above, subject to the filing condition discussed above.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.