

112 FERC ¶ 61,278
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Nora Mead Brownell, and Suedeen G. Kelly.

ISO New England, Inc.

Docket No. ER05-531-001

ORDER ON REHEARING

(Issued September 15, 2005)

1. On May 2, 2005, ISO New England, Inc. (ISO-NE) filed a request for rehearing of the Commission's March 31, 2005 Order¹ in this proceeding. In the March 31 Order, the Commission approved procedures allowing generating resources in New England to partially de-list as qualified Installed Capacity (ICAP) resources and make sales of capacity and firm, non-recallable energy to neighboring control areas. In this order, the Commission grants ISO-NE's request for rehearing.

I. Background

2. Prior to the March 31 Order, generating resources were only permitted to fully de-list their capacity as qualified ICAP resources.² In the March 31 Order, the Commission accepted ISO-NE's proposal to allow generation owners to partially de-list units, allowing them to make firm non-recallable sales of energy and capacity to other control areas from the de-listed portions of their capacity. The Commission reasoned that allowing partial de-listing will increase the market options available to owners of generation resources to sell their capacity and energy into the markets where they are the most valuable, and reduce the seams between New England and its neighboring regions.

¹ *ISO New England Inc.*, 110 FERC ¶ 61,396 (2005) (March 31 Order).

² De-listed resources do not have to offer energy into the day-ahead market.

3. ISO-NE's proposal included several restrictions on partially de-listed units. One such restriction required that partially de-listed units offer *all* of their energy capability into the day-ahead markets (the Offer All requirement).³ Thus, although all resources (listed, de-listed or partially de-listed) would be required to offer energy in real-time markets, only listed and partially de-listed resources were required to offer all of their energy in the day-ahead markets. ISO-NE stated that this restriction was necessary because its current software does not have the capability to accommodate a three-way flag (*i.e.*, listed, de-listed, and partially de-listed), and that a software modification would be necessary because the ICAP mechanism lacks a locational feature.⁴ In the March 31 Order, the Commission conditionally accepted ISO-NE's proposal, but required that ISO-NE remove the Offer All requirement on the date that a Locational Installed Capacity (LICAP) mechanism is implemented.⁵

II. Request for Rehearing and Response to Staff Request for Further Information

4. In its request for rehearing, ISO-NE asks that the Commission remove the directive that the day-ahead Offer All requirement expire coincident with LICAP, and instead allow it to report on progress toward eliminating the Offer All requirement in its

³ Section 8.3.4A of Market Rule 1 states that "Energy from fully de-listed Resources may be offered to the NEPOOL Control Area in the Day-Ahead Energy Market and/or the Real-Time Energy Market, although the Energy may be offered to an external Control Area. Any partially de-listed Resource shall offer its full Capability to both the New England Day-Ahead Energy Market and the Real-Time Energy Market, although the Energy may be offered to an external Control Area."

⁴ ISO-NE stated that "[g]enerators must offer the full capability of their units in both the Day-Ahead and Real-Time Energy Markets due to the current structure of the capacity markets. The ISO's current capacity markets do not address locational resource requirements. [Locational Installed Capacity] and [Ancillary Services Markets] are expected to bring this feature to New England in 2006." *See Answer of ISO-NE* (March 9, 2005) at 11.

⁵ March 31 Order at P 23.

quarterly standard market design (SMD) status reports, which were mandated by the September 20 Order on ISO-NE's Market Rule 1.⁶

5. ISO-NE states that practical considerations prohibit it from removing the day-ahead Offer All requirement coincident with the implementation of LICAP. Specifically, it explains that removal of the day-ahead Offer All requirement is a large and complex project, which cannot be implemented in the near term because ISO-NE's resources are focused on implementing LICAP and developing the Ancillary Services Market (ASM) project, which features locational forward reserves and asset-related demand. ISO-NE states that a project to remove the day-ahead Offer All requirement will entail a substantial commitment of time and resources to develop, test and implement software modifications.

6. On May 26, 2005, Commission Staff requested further information from ISO-NE regarding its rehearing request. On June 27, 2005, ISO-NE submitted a response to Commission Staff's request. In that response, ISO-NE claims that its existing electric system configuration creates difficult system security issues in Northeast Massachusetts/Boston, Southwest Connecticut, and the remainder of Connecticut. These security issues require ISO-NE to be able to dispatch essentially all existing resources within these constrained areas to maintain system security and stability. As a result, ISO-NE states that it must be able to track and enforce both day-ahead and real-time energy offer requirements, which will differ for a partially de-listed resource.

7. ISO-NE further explains that it previously mistakenly implied a direct connection between implementation of a locational capacity market and removal of the day-ahead Offer All requirement, and that the connection is less direct. ISO-NE states that it is appropriate to delay removal of the day-ahead Offer All requirement until after LICAP is implemented because the specific LICAP design ultimately selected will inform the decision as to how best to remove the day-ahead Offer All requirement for partially de-listed resources.

8. ISO-NE reiterates that, removing the day-ahead Offer All requirement, such that the de-listed portion of a partially de-listed resource is not required to be offered in the day-ahead energy market, cannot be accomplished in New England using a binary listing flag. Instead, argues ISO-NE, a three-way flag would be necessary to signify whether a resource is fully listed, fully de-listed, or partially de-listed. Introduction of such a three-way flag in ISO-NE's software would entail substantial costs.

⁶ *New England Power Pool and ISO New England, Inc.*, 100 FERC ¶ 61,287 (2002).

9. Finally, ISO-NE notes that the potential harm to any market participant that could result from delaying the expiration of the Offer All requirement is minimized by the fact that there are tools available – notably, virtual bidding with exemption of partially de-listed resources from day-ahead mitigation – that should allow market participants to manage their resources in a manner that will achieve essentially the same outcome as if the day-ahead Offer All requirement were removed.

II. Discussion

A. Responsive Pleading

10. On August 2, 2005, Calpine filed comments regarding ISO-NE's response to Commission Staff's data request. Calpine argues that while ISO-NE relies on the need to continue the *real-time* offer requirement in constrained areas as an obstacle to eliminating the day-ahead offer requirement for partially de-listed resources, ISO-NE has not provided any justification for continuation of the real-time offer requirement on de-listed resources in sub-regions of New England that are not in load pockets. Calpine contends that ISO-NE's explanation for its inability to remove the *real-time* Offer All requirement does not apply outside constrained areas.

B. Discussion

11. We will grant the rehearing request of ISO New England regarding the day-ahead Offer All requirement. Based on ISO-NE's clarification of the relationship between LICAP and the day-ahead Offer All requirement, we will rescind our directive that the day-ahead Offer All requirement expire coincident with the implementation of a LICAP mechanism.

12. We agree with ISO-NE's arguments that it must have the ability to track whether the listed portion of a de-listed resource's capacity is complying with its obligation to offer energy into the day-ahead energy market while also tracking whether the full capacity of the resource is complying with its obligation to offer into the real-time energy market. If the Offer All requirement were removed, ISO-NE would not have this ability. It also appears that ISO-NE currently does not have the needed resources to implement a software change that would allow such tracking, and that future market design changes will ultimately inform the decision as to how best to remove the day-ahead Offer All requirement. We also note that the potential harm to any market participant that could result from delaying the expiration of the Offer All requirement may be minimized through the use of other available tools by market participants, including virtual bidding with exemption of partially de-listed resources from day-ahead mitigation.

13. Therefore, we believe that deferment of this change is justifiable. In the interim, we will accept ISO-NE's commitment to report on its progress toward eliminating the Offer All requirement in its quarterly status reports.

14. Calpine's comments address the real-time offer requirement. However, this proceeding is not about the *real-time* offer requirement. The Commission has previously accepted that requirement, finding it just and reasonable.⁷ Rather, this case is about whether the *day-ahead* Offer All requirement for partially de-listed units will expire upon the implementation of a LICAP mechanism.

15. Specifically, the real-time offer requirement mandates that all resources – whether listed or de-listed – shall offer energy from all available capacity into the real-time energy market. In addition, listed resources are required (as part of their ICAP obligations) to offer energy from all available capacity into the day-ahead market. However, fully de-listed resources are not required to offer energy into the day-ahead market. This proceeding concerns only ISO-NE's day-ahead offer requirement imposed on partially de-listed capacity resources. Therefore, Calpine's arguments are outside the scope of this proceeding.

The Commission orders:

(A) ISO-NE's rehearing request is hereby granted, as discussed in the body of this order.

⁷ Section 8.3.4 of ISO-NE's Market Rule 1 accepted by the September 20 Order stated that "in the event that a resource is de-listed from the [capacity] market, the owner of the Resource is not excused from the requirement to offer energy from the Resource if it is available."

Docket No. ER05-531-001

6

(B) ISO-NE is hereby required to report on progress toward eliminating the day-ahead Offer All requirement for partially de-listed resources in its quarterly SMD status reports, as discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.