



environmental quality. These comments represent the collective view of the six New England states.

## II. COMMUNICATIONS

Pursuant to Rules 203 and 2010,<sup>4</sup> the person to whom correspondence, pleadings, and other papers in regard to this proceeding should be addressed and whose name is to be placed on the Commission's official service list is designated as follows:

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## III. COMMENTS

### A. Background on ISO-NE's Request to Model Four Zones

In July 2010, ISO-NE filed a proposal to redesign certain features of the Forward Capacity Market ("FCM") in response to a Commission order.<sup>5</sup> This filing included a proposal to model "all zones all the time" and would use the region's eight energy load zones as the initial capacity zones.<sup>6</sup> In an April 13, 2011 Order, the Commission accepted this aspect of ISO-NE's proposal.<sup>7</sup> However, the Commission later approved ISO-NE's use of four capacity zones for

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<sup>4</sup> 18 C.F.R. §§ 385.203 and 385.2010 (2011).

<sup>5</sup> First Brief of ISO New England Inc., Docket Nos. ER10-787-000, EL10-50-000, and EL10-57-000 (filed July 1, 2010).

<sup>6</sup> *See ISO New England Inc. and New England Power Pool Participants Committee*, 135 FERC ¶ 61,029 (2011) at P 259.

<sup>7</sup> *Id.* at P 272.

the seventh FCA as an interim measure, with all eight zones required to be modeled in time for the eighth FCA (“FCA 8”).<sup>8</sup>

On December 3, 2012, ISO-NE made a compliance filing that included, in part, a request to retain the four-model system for FCA 8 and, pending completion of a stakeholder process, subsequent FCAs.<sup>9</sup> On February 12, 2013, the Commission issued an Order (“February 12 Order”) that accepted many of ISO-NE’s proposed changes to the FCM rules as compliant with the Commission’s directives in several prior orders.<sup>10</sup> However, the Commission denied ISO-NE’s request to model four zones for FCA 8.<sup>11</sup>

In particular, the Commission found that ISO-NE failed to provide sufficient support for retaining the existing four-zone model, with ISO-NE’s request falling short of the requisite evidence to establish that anything less than eight zones would be just and reasonable.<sup>12</sup> The Commission noted that ISO-NE could meet its burden by providing adequate support in an additional filing.<sup>13</sup>

ISO-NE offers this further support through a March 14, 2013 Compliance Filing (“March 14 Filing”).<sup>14</sup> Specifically, ISO-NE provides detailed testimony from its Vice President of System Planning (“Rourke Testimony”), along with supporting technical reports and presentations, on the substantial system enhancements that have taken place in recent years and

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<sup>8</sup> *ISO New England Inc. and New England Power Pool Participants Committee*, 138 FERC ¶ 61,238 (2012) at PP 33, 35, 40.

<sup>9</sup> *ISO New England Inc.*, Forward Capacity Market Redesign Compliance Filing and Request for Waiver of Compliance Obligation, or, In The Alternative, Limited Filing Pursuant to Section 205 of the Federal Power Act, Docket No. ER12-953-001 (filed Dec. 3, 2012) at 35 (“December 3 Filing”).

<sup>10</sup> February 12 Order at PP 37, 43, 53, 63, 97, 126, 128.

<sup>11</sup> *Id.* at P 117.

<sup>12</sup> *Id.* at PP 117, 121.

<sup>13</sup> *Id.* at P 117.

<sup>14</sup> *ISO New England Inc.*, Compliance Filing, Docket No. ER12-953-001 (filed Mar. 14, 2013) (“March 14 Filing”).

the billions of dollars in transmission upgrades, in various stages of development or construction, that are planned to meet system reliability needs.<sup>15</sup> ISO-NE states that “many of these projects have been designed to improve the ability to move power across and between the six states” and that the “increase in transfer capability over a number of key interfaces is a major factor in addressing zonal formation and resultant zonal requirements in the FCM.”<sup>16</sup> In short, according to ISO-NE, the region’s significant transmission investments have succeeded in alleviating major constraints previously identified.<sup>17</sup>

ISO-NE concludes that the four-zone model currently in effect most accurately captures the remaining system constraints and the Commission has sufficient evidence to determine that, for the present time, retaining four capacity zones is “just and reasonable and appropriate for New England.”<sup>18</sup> If accepted by the Commission, for FCA 8 and beyond, ISO-NE would model the same four zones as it did in the seventh FCA: (1) Maine, (2) Connecticut, (3) Northeastern Massachusetts, and (4) a Rest-of-Pool zone that consolidates Western/Central Massachusetts, Southeastern Massachusetts, New Hampshire, Rhode Island, and Vermont.<sup>19</sup> ISO-NE intends to commence a stakeholder process early this year to explore the analysis underlying zonal determinations.<sup>20</sup>

B. The Four-Zone Model Appropriately Seeks to Align Market Price Signals with Updated System Conditions and Recognizes Considerable Transmission Investments

In the February 2012 Order, the Commission recognized that a reduction in the transmission constraints identified by ISO-NE “may justify future zonal modeling with fewer

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<sup>15</sup> See March 14 Filing at Testimony of Stephen J. Rourke (“Rourke Testimony”).

<sup>16</sup> *Id.* at 11.

<sup>17</sup> March 14 Filing at 7; Rourke Testimony at 6.

<sup>18</sup> March 14 Filing at 7. See Rourke Testimony at 8.

<sup>19</sup> Rourke Testimony at 8.

<sup>20</sup> March 14 Filing at 6-7.

than eight zones.”<sup>21</sup> ISO-NE based its original proposal to model eight capacity zones on analysis performed in 2008 and 2009.<sup>22</sup> The March 14 Filing updates this analysis, offering testimony and documentation regarding recent transmission system upgrades that ISO-NE concludes have increased transfer limits, alleviated major constraints, and, to a significant extent, further tied together an already tightly-integrated regional power system. Moreover, ISO-NE details how the transmission system will continue to evolve as billions of dollars in planned transmission investments—ultimately borne by consumers—are placed into service in the coming years. This new information provides a materially different understanding of current and forecasted system conditions than the now outdated analysis underlying the former eight zone proposal. Accordingly, NESCOE supports ISO-NE’s request to more accurately align market price signals with currently known and projected system conditions by retaining the four-zone model for FCA 8.<sup>23</sup>

Dividing New England into capacity zones based on system constraints that may no longer exist is unjust and unreasonable. It is also contrary to the FCM’s intended design. As the Commission noted in its February 2012 Order, one of the FCM’s goals is “to reveal those locations where capacity is required, and to allow prices to rise to the levels necessary to induce resources to locate and to remain in those locations.”<sup>24</sup> Capacity zones thus “are intended to make known the areas where binding constraints are preventing the unhindered movement of energy, and . . . prices within those zones will reflect that reality.”<sup>25</sup> ISO-NE has updated this reality for FCA 8, offering evidence of how constraints that once formed the basis for its eight-

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<sup>21</sup> February 12 Order at P 122.

<sup>22</sup> December 3 Filing at 35.

<sup>23</sup> See March 14 Filing at 6-7, 10. See also December 3 Filing at 34.

<sup>24</sup> February 12 Order at P 118.

<sup>25</sup> *Id.* at P 188.

zone request have been mitigated or no longer exist. Accordingly, implementing these eight zones for FCA 8 and beyond based on outdated criteria without additional study is imprudent.

Moreover, retaining the four-zone model accords consumers the value of their transmission system investments. Since 2002, New England has placed approximately \$5 billion of transmission upgrades into service in response to identified reliability needs.<sup>26</sup> Another approximately \$6 billion in transmission system enhancements is scheduled to be online over the next decade, including a number of projects that will be operational by 2017, the beginning of the capacity commitment period corresponding with FCA 8.<sup>27</sup> Consumers ultimately bear the costs of these projects, which are socialized in New England on a pro rata basis. Failing to account for these significant transmission system investments in the FCM ignores the reality of increased transfer limits and reduced binding constraints, which could effectively force electric consumers to pay for both transmission and capacity to solve the same reliability issue.<sup>28</sup>

Consumers also should not have to bear costs related to extra modeling work that may no longer be justified based on ISO-NE's updated analysis of material system upgrades. ISO-NE details in its March 14 Filing the implementation-related efforts it would need to undertake to increase the number of zones from four to eight.<sup>29</sup> The considerable time and resources ISO-NE and others would need to dedicate to model additional zones would be diverted from other important tasks (e.g., developing solutions to the larger zonal modeling issues) and would not, based on the changed circumstances ISO-NE details, appear to result in greater system reliability or a better outcome for consumers.

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<sup>26</sup> 2012 ISO New England Regional System Plan at 24.

<sup>27</sup> *Id.*; Rourke Testimony at 11-12.

<sup>28</sup> Due to the annual nature of the capacity auction and the long-term life of transmission investments, this risk of overpaying could occur for multiple years.

<sup>29</sup> *See* March 14 Filing at 8-11; Rourke Testimony at 28.

Finally, NESCOE agrees with ISO-NE's suggestion that zonal analysis beyond FCA 8 should be explored through the stakeholder process and commenced in the near-term.<sup>30</sup> ISO-NE states that if the Commission grants its request to retain four zones for FCA 8, it intends to begin this analysis and stakeholder review of future zonal conditions and related issues early this year.<sup>31</sup> Given the importance of this issue to core market design and operations and its implications for consumers, the completion of this further zonal modeling work, including whether existing zones are still appropriate and/or if additional zones are required, should be expedited.

#### **IV. CONCLUSION**

WHEREFORE, for the foregoing reasons, NESCOE respectfully requests that the Commission consider its comments in this proceeding.

Respectfully submitted,

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<sup>30</sup> See March 14 Filing at 6-7.

<sup>31</sup> *Id.* at 6-7, 11.

## CERTIFICATE OF SERVICE

In accordance with Rule 2010 of the Commission's Rules of Practice and Procedure, I hereby certify that I have this day served by electronic mail a copy of the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Boston, Massachusetts this 4th day of April, 2013.

Respectfully submitted,

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