



September 7, 2005

Via Hand Delivery

Honorable Magalie R. Salas, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, D.C. 20426

**Re: ISO New England Inc. and New England Power Pool, FERC Docket
No. ER05-____-000, Amendments to Appendix E of Market Rule 1
Regarding Demand Response Reserve Pilot Program**

Dear Ms. Salas:

Pursuant to Section 205 of the Federal Power Act (“FPA”),¹ ISO New England Inc. (the “ISO”) and the New England Power Pool (“NEPOOL”) Participants Committee² hereby jointly submit an original and six (6) copies of this transmittal letter and the attachments hereto revising Appendix E of Market Rule 1³ to establish a Demand Response Reserve Pilot (the “DRR Pilot”) program. The ISO and NEPOOL request that the Commission accept the revised tariff sheets reflecting the changes as effective January 1, 2006.

As explained in more detail below, the ISO and NEPOOL propose the implementation of the DRR Pilot program in order to test whether certain Demand Resources and Settlement Only Resources (collectively referred to as “DR Resources” in the revised tariff sheets) can reliably provide 30-minute and 10-minute Operating Reserve services. The DRR Pilot program will serve the public interest by allowing the testing of alternative market designs and technologies that will facilitate the provision of ancillary services by DR Resources in New England. Further, the DRR Pilot program

¹ See 16 U.S.C. § 824(d) (2005).

² Capitalized terms used but not defined herein are intended to have the meanings given to such terms in the Tariff, the Second Restated New England Power Pool Agreement, or the Participants Agreement.

³ Market Rule 1 is Section III of the ISO New England Inc. Transmission, Markets and Services Tariff, FERC Electric Tariff No. 3 (the “Tariff”).

will complement other efforts undertaken by the ISO and NEPOOL to allow for increased Demand Resource participation in the markets.

The DRR Pilot program was approved by the Markets Committee on June 8, 2005 with 2 oppositions and 5 abstentions, and unanimously approved by the Participants Committee on June 24, 2005.

I. STANDARD OF REVIEW

The ISO submits these changes to its filed rate pursuant to Section 205 of the FPA, which “gives a utility the right to file rates and terms for services rendered with its assets.”⁴ Under Section 205, the Commission “plays ‘an essentially passive and reactive’ role”⁵ whereby it “can reject [a filing] only if it finds that the changes proposed by the public utility are not ‘just and reasonable.’”⁶ 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.”⁷ The changes proposed herein “need not be the only reasonable methodology, or even the most accurate.”⁸ As a result, even if an intervenor or the Commission develops an alternative proposal, the Commission must accept the ISO’s Section 205 filing if it finds it is just and reasonable.⁹

II. BACKGROUND

Ancillary services maintain the reliability of the New England bulk power system by enabling the ISO to ensure the balance of generation and load in Real-Time and to respond to unexpected contingencies, such as the loss of a generator or transmission line. Traditionally, the ISO has relied only on generating Resources to satisfy reserve requirements, with little or no reliance on Demand Resources. The direct participation of load in wholesale electricity markets in general, and in markets for ancillary services in particular, may help improve system reliability and lower market clearing prices. Additionally, enabling load to participate in the markets more directly, particularly in import-constrained areas, should reduce opportunities for the improper exercise of market power.

⁴ *Atlantic City Elec. Co. v. FERC*, 295 F.3d 1, 9 (D.C. Cir. 2002).

⁵ *Id.* at 10 (quoting *City of Winnfield v. FERC*, 744 F.2d 871, 876 (D.C. Cir. 1984)).

⁶ *Id.*

⁷ *City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984).

⁸ *Oxy USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995).

⁹ *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 *City of Bethany*, 727 F.2d at 1136)).

As part of the Ancillary Services Market (“ASM”) project, the ISO and NEPOOL are currently considering market design changes that will allow Demand Resources to participate in markets for energy and reserves. As proposed by the ISO, Asset-Related Demand will be required to satisfy the same dispatch, metering, and size requirements as traditional generation Resources, in order to meet system reliability concerns. Specifically, all Resources providing Operating Reserves must: (1) receive dispatch commands through a Remote Intelligence Gateway (“RIG”) device; (2) comply with the metering requirements defined in Operating Procedure No. 18 (“OP-18”) (which requires Supervisory Control and Data Acquisition (“SCADA”) telemetry); and (3) be at least 5 MW in size.

Dispatch and metering requirements are necessary to satisfy the standards established by the Northeast Power Coordinating Council’s Task Force on Coordination of Operations, which require that Demand Resources used to satisfy Operating Reserve requirements have real-time telemetry. Because the requirements of OP-18 are technology-specific (*i.e.*, requires RIG and near-real-time SCADA), the method used to dispatch Demand Resources pursuant to the Real-Time Demand Response Program does not meet the requirements of OP-18, thereby making such Resources ineligible to satisfy Operating Reserve requirements.

Furthermore, the typical Demand Resource in the New England Control Area is less than 5 MW in size, also making it ineligible to satisfy Operating Reserve requirements. In general, Demand Resources (as well as the approximately 250 MW of generating Settlement Only Resources) are individually small, numerous, and geographically dispersed throughout New England. In 2004, Demand Resources in the 30-minute and 2-hour Real-Time Demand Response Programs averaged approximately 2 MW in size. Resources in the Real-Time Price Response Program averaged about 300 kW. The cost of installing and maintaining a RIG and complying with the requirements of OP-18 is over \$10,000 per Resource. For these smaller, distributed Demand Resources and generating Settlement Only Resources, installing and maintaining a RIG for dispatching and complying with the real-time metering requirements of OP-18 is typically not economical.

The DRR Pilot program has been designed to test the ability of smaller DR Resources to provide Operating Reserve in order to determine whether relaxed (and less expensive) dispatch and metering requirements can be implemented reliably for such Resources. The DRR Pilot program is necessary because there is no reliable data on the performance of such Resources. The DRR Pilot program also will enable system operators to more accurately predict the likely performance of DR Resources in varying system conditions, which would contribute to the analysis of contingencies and engender more confidence in the use of DR Resources for enhancing system reliability at lower cost. Finally, the DRR Pilot program can be used to test alternative communication, dispatch, metering, and telemetry solutions for use by smaller distributed Resources before widespread deployment. In short, to the extent that the DRR Pilot program shows

that smaller DR Resources can provide Operating Reserves in a comparable manner to generating Resources, the ISO and NEPOOL may devote the additional time and resources necessary to develop permanent rules for the participation of DR Resources in the provision of Operating Reserves.

The ISO and NEPOOL approved the DRR Pilot program for a “performance evaluation phase” not to exceed one year, with a continuation of the program thereafter for an interim period (which will expire after another twelve months) if the performance evaluation phase demonstrates that one or more categories of DR Resources should be permitted to provide Operating Reserve services. That interim period is designed to permit continuation of the program while DR Resources are being integrated into markets for Operating Reserve services.

III. DESCRIPTION OF THE DRR PILOT PROGRAM

A. Generally

The DRR Pilot program has the following objectives:

- To demonstrate whether DR Resources can reliably provide Operating Reserves, specifically 30-minute and 10-minute Operating Reserve.
- To determine the requirements for the level and type of control room communications, dispatch, metering, and telemetry sufficient for DR Resources providing Operating Reserve services.
- To identify and evaluate lower cost communications and telemetry solutions that meet the requirements and are more suitable for DR Resources to provide Operating Reserve services.

To meet these objectives, the DRR Pilot program will consist of two distinct sub-projects with concurrent timelines. One sub-project will seek to determine the ability of DR Resources to respond to reserve activation events as compared to off-line and on-line generation Resources. The other sub-project will evaluate lower-cost, two-way communication alternatives to the current combination of SCADA and RIG technology that is currently required to connect dispatchable Resources to the ISO.

B. Eligibility and Selection Process

The ISO will solicit DR Resources for the winter and summer seasons in the same timeframes as the Forward Reserve Auction Offers for those seasons are being prepared for submission. A variety of DR Resources will be selected to represent the population of Demand Resources that would likely participate in a competitive reserve product market.

Specifically, a total of up to 50 MW of DR Resources will be enrolled in the DRR Pilot program from the following categories:

- customers with back-up generation or Settlement-Only Resources;
- customers with back-up generation and weather-dependent load;
- weather-independent load reduction Resources; and
- weather-dependent load reduction Resources.

DR Resources that are 5 MW or larger may be eligible to participate, subject to ISO approval. The ISO will work with several National Laboratories¹⁰ to determine the number and amount of DR Resources (from each of the categories listed above) that would yield unbiased, statistically meaningful results during the performance evaluation phase of the DRR Pilot program.

The selection process for the DRR Pilot program will consist of the following steps: (1) the DRR Pilot program will be advertised through a request for proposals or other means to eligible participants; (2) concurrent with the period during which Forward Reserve Auction Offers are being solicited, Enrolling Participants will be permitted to offer DR Resources to the ISO for consideration to be permitted to participate in the DRR Pilot program; and (3) the ISO will select DR Resources so that the amount of load reduction capacity reflects the load reduction goals for each category listed above. In the event that participation in the DRR Pilot program exceeds the limits defined for a category of DR Resources, the ISO will conduct a random drawing by DR Resource category to determine the final participants for the period. If a DR Resource category is not fully subscribed for the period, then the ISO will have the option of selecting other DR Resources that were not initially selected to participate in the DRR Pilot program. Once a DR Resource is selected and the Enrolling Participant agrees to participate, there will be no substitution of DR Resources during that Forward Reserve Service Period. The ISO can vary the asset selection process as necessary in order to produce unbiased, statistically meaningful results, and will maintain sole discretion over the selection of assets to participate in the DRR Pilot program.

¹⁰ These National Laboratories have been assigned to work with ISO to assist in the design and evaluation of the DRR Pilot. The National Laboratories include Lawrence Berkeley, Oak Ridge, and Pacific Northwest National Laboratories. The ISO and the National Laboratories have executed a non-disclosure agreement to facilitate the provision of technical assistance on issues related to participation of customer loads in certain markets, including but not limited to reserve markets. The non-disclosure agreement allows the National Laboratories to assess feasibility of load participation in reserves markets, which may require access to and analysis of certain proprietary information of the ISO and its Market Participants.

The DRR Pilot program will not affect the quantity or the applicable 10-Minute or 30-Minute Forward Reserve Clearing Prices for Resources acquired through the Forward Reserve Auction. Additionally, DR Resources participating in the DRR Pilot program may not simultaneously participate in the Forward Reserve Auction.

In order to facilitate asset registration, dispatch, metering, settlement, and data analysis for research purposes, DR Resources participating in the DRR Pilot program will be required to register in the Real-Time 30-Minute Demand Response Program. In addition to responding to DRR Pilot program events, these Resources will also be required to respond to events activated under the Real-Time 30-Minute Demand Response Program.

C. Program Operation

Resources participating in the DRR Pilot program will be dispatched during system disturbances in the New England Control Area involving losses of load, generation, or transmission facilities, which equal or exceed the following criteria: actual net (interchange) tie line flow deviations equal to or greater than 500 MW; loss of generation or load equal to or greater than 500 MW; or system frequency deviations equal to or greater than 0.03 Hz (collectively, “DRR Reportable Events”).¹¹ If the number of DRR Reportable Events does not provide sufficient data for evaluating DR Resource performance across all pre-defined test conditions, the ISO may dispatch the Resources in the DRR Pilot program additional times as necessary, subject to the right of participating DR Resources to opt out after a stated number of activations have occurred.

D. Payments and Penalties

An Enrolling Participant whose DR Resource is selected to participate in the DRR Pilot program will receive an hourly Availability Payment, based on: (i) the lower of the amount that it has agreed to provide within 30 minutes when called upon by the ISO (the “DRR Contract Amount”) and the DR Resource’s actual performance); and (ii) the 30-Minute Hourly Forward Reserve Market Clearing Price for the Load Zone in which the DR Resource is located.¹² The Availability Payment is intended to compensate Resources for the additional obligations and risks (the obligation to interrupt when called by the ISO, and the risk of penalties for not interrupting if called) associated with participation in the DRR Pilot program.

¹¹ Historically, there have been approximately 20 to 30 occurrences per year that would be considered DRR Reportable Events.

¹² The ISO and NEPOOL are in the process of developing a locational Forward Reserve Market as part of the ASM Phase II market design. If and when the locational Forward Reserve Market is implemented, the DRR Pilot Availability Payment would be locational as well.

In addition, DR Resources participating in the DRR Pilot program will receive a Performance Payment calculated as the product of the amount of the Amount Interrupted and the higher of the Forward Reserve Strike Price or the appropriate Real-Time Zonal Price. The amount of load interrupted will be determined in the same manner as in the existing Load Response Programs as described in the Load Response Program Manual (including the Customer Baseline adjustment for the two hours prior to an event).

Finally, DR Resources participating in the DRR Pilot program will be charged a failure to activate reserve penalty based on zonal replacement energy costs (the "DRR Replacement Energy Cost Penalty") if they fail to provide the DRR Contract Amount of interruption in response to ISO dispatch instructions.

E. ICAP Credit

DRR Pilot program participants will receive ICAP credit pursuant to the Real-Time 30-Minute Demand Response Program, based on performance in response to Real-Time 30-Minute Demand Response Program events only.

F. Cost Allocation

The costs of the DRR Pilot program are associated with DRR Availability Payments and DRR Performance Payments (net of DRR Replacement Cost Energy Penalties). Because the DRR Pilot program is considered research and development, the ISO and NEPOOL agreed that the costs associated with the program ought to be spread across all Market Participants on a broad basis.

Accordingly, costs of DRR Availability Payments will be allocated *pro rata* based on each Market Participant's share of the aggregate charges under Schedules 1, 2, and 3 to Section IV.A (Recovery of ISO Administrative Expenses) of the ISO New England Transmission, Markets and Services Tariff from the previous month. The costs of DRR Performance Payments (net of DRR Replacement Cost Energy Penalties) will be allocated to Real-Time Load Obligation Deviation in the Load Zone within which the DR Resource is located.

IV. REQUESTED EFFECTIVE DATE

The ISO is in the process of completing its 2006 Wholesale Markets Plan, which details the ISO's efforts to substantially improve the current capacity market, to create wholesale markets for certain ancillary services, to implement Special Case Nodal Pricing for load, to provide the infrastructure for direct participation by Demand Resources in the energy and reserve markets, and to improve the integration of operating decisions and market pricing. There is a possibility that the DRR Pilot program could be implemented as early as the first quarter of 2006. Therefore, the ISO and the NEPOOL Participants Committee request that the Commission accept the revised tariff sheets reflecting the proposed changes as effective January 1, 2006. The DRR Pilot program, however, might commence sometime thereafter. As noted above, and as provided in the

revised tariff sheets in Section 8.2.1 of Appendix E, the ISO will provide at least two weeks' advance notice of the commencement of the DRR Pilot program to the Commission and post the notice on the ISO's website.

V. ADDITIONAL SUPPORTING INFORMATION

The following information is provided pursuant to Section 35.13 et seq. of the Code of Federal Regulations:

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

- This transmittal letter;
- revised tariff sheets of Market Rule 1 and its Appendix E reflecting the changes proposed by this filing (Attachment 1);
- revised tariff sheets of Market Rule 1 and its Appendix E marked to show changes to the currently effective sheets proposed by this filing (Attachment 2);¹³
- a list of NEPOOL Participants Committee members and alternates to which a copy of this filing has been sent electronically, along with a list of non-Participant Transmission Customers to which a paper copy of this filing has been sent (Attachment 3); and
- a 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 (Attachment 4).

35.13(b)(2) - The ISO and the NEPOOL Participants Committee request that the proposed Market Rule changes be permitted to become effective January 1, 2006, with commencement of the DRR Pilot program to be on a date thereafter to be determined by the ISO in consultation with NEPOOL Participants. The ISO will provide at least two weeks advance notice of the commencement of the DRR Pilot program to the Commission and to Market Participants via a notice posted on the ISO's website.

35.13(b)(3) - Attachment 3 to this transmittal letter includes the names and addresses of all Participants Committee members and alternates, who represent all of the electric utilities rendering or receiving service under the Second Restated NEPOOL

¹³ Attachment 2 includes only those tariff sheets currently on file with the Commission that this filing proposes to change. The new tariff sheets this filing proposes to create (*i.e.*, the original sheets included in Attachment 1) are not included with the blacklined sheets in Attachment 2.

Agreement, as well as each of the independent power producers, power marketers, power brokers, load aggregators and end users that are currently Participants in NEPOOL. All Participants Committee members and alternates have been furnished with an electronic copy of this filing, together with this transmittal letter and the accompanying materials. All non-Participant Transmission Customers, also listed in Attachment 3, have also been sent a paper copy of this filing. 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 which comprise the New England Control Area, and to the New England Conference of Public Utility Commissioners, Inc. 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 entities identified on Attachments 3 and 4 to be included on the Commission's official service list in the captioned proceedings unless such entities become intervenors in this proceeding.

35.13(b)(4) - A description of the rate schedule changes is contained in this transmittal letter and the Attachments referenced herein.

35.13(b)(5) - A statement of the reasons for this filing is discussed in this transmittal letter.

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

35.13(b)(7) - Neither the ISO nor the NEPOOL Participants Committee has any 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.

35.13(c)(1) - The changes, if any, in sales, services and revenues in the markets due to the proposed rule change cannot be reasonably forecasted and no comparison with earlier sales, services, and revenues is possible.

35.13(c)(2) - The ISO does not provide services under other rate schedules that are similar to the wholesale resale and transmission services it provides under the Tariff.

35.13(c)(3) - No specifically assignable facilities have been or will be installed or modified in order to implement the proposed rule change.

Correspondence and communications regarding this filing should be addressed to the undersigned for the ISO as follows:

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Honorable Magalie R. Salas
September 7, 2005
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Please acknowledge receipt of the foregoing by date-stamping the enclosed extra copies of this filing and returning them to the courier delivering this filing.

Respectfully submitted,

ISO NEW ENGLAND INC.

By: _____

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NEW ENGLAND POWER POOL
PARTICIPANTS COMMITTEE

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Attachment 1

“**Affiliate Resources**” is defined in Section 3.3.2 of Exhibit 2 to *Appendix A* of this Market Rule.

“**Accepted Electric Industry Practice**”, sometimes referred to as Good Utility Practice, shall mean any of the practices, methods, and acts engaged in or approved by a significant portion of the electric generation and transmission industry during the relevant time period, or any of the practices, methods, and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Accepted Electric Industry Practice is not limited to a single, optimum practice method or act to the exclusion of others, but rather is intended to include practices, methods, or acts generally accepted in the region.

“**Amount Interrupted**” is, for the purposes of the Load Response Program, the calculated difference between the Customer Baseline and the actual customer load. For generating assets, metered at the generator output, the Amount Interrupted is the generator output. For a profiled customer, the Customer Baseline is defined in the Measurement and Verification Plan, referred to in Section III.E.1.5 of this Market Rule.

“**Auction Revenue Right (ARR)**” is a right to receive FTR Auction Revenues in accordance with *Appendix C* of this Market Rule.

electric power system(s); (ii) maintain scheduled interchange with other Control Areas, within the limits of Accepted Electric Industry Practice; (iii) maintain the frequency of the electric power system(s) within reasonable limits in accordance with Accepted Electric Industry Practice and the criteria of the applicable regional reliability council or the NERC; and (iv) provide sufficient generating capacity to maintain operating reserves in accordance with Accepted Electric Industry Practice.

“Customer Baseline” is, for purposes of the ISO New England Load Response Program Manual, the average aggregate hourly load, rounded to the nearest kWh, for each of the 24 hours in a day for each individual Customer.

“DCA Peaking Unit” means a generating Resource, located in a DCA whose capacity factor in calendar year 2002 was ten percent (10%) or less, as determined by the ISO.

“Daily Reliability Must Run Resource” or **“Daily RMR Resource”** is defined in Section III.6.1 of this Market Rule.

“Day-Ahead” is the calendar day immediately preceding the Operating Day.

“Day-Ahead Adjusted Load Obligation” is defined in Section III.3.2.1(a)(iii) of this Market Rule.

safety of persons or property; or a fuel shortage requiring departure from normal operating procedures in order to minimize the use of such scarce fuel; or a condition that requires implementation of Emergency procedures as defined in the ISO New England Manuals.

“Emergency Condition” shall mean an Emergency has been declared by the ISO in accordance with the procedures set forth in the ISO New England Manuals and ISO New England Administrative Procedures.

“Emergency Minimum Limit” or **“Emergency Min”** shall mean the minimum generation amount, in MWs, that a generating unit can deliver for a limited period of time without exceeding specified limits of equipment stability and operating permits.

“Energy Component” shall mean the Locational Marginal Price at the reference point.

“Enrolling Participant” is the Market Participant that registers Customers for the Load Response Program.

“Equivalent Demand Forced Outage Rate” shall mean the portion of time a unit is in demand, but is unavailable due to forced outages.

“Resource” means a generating unit, a Dispatchable Load, an External Resource or an External Transaction.

“Reviewable Action” is defined in Section III.D.1.1 of *Appendix D* of this Market Rule.

“Sanctionable Behavior” is defined in Section III.B.3 of *Appendix B* of this Market Rule.

“Self-Schedule” is the action of a Market Participant in committing and/or scheduling its Resource, in accordance with applicable ISO New England Manuals, to provide service in an hour, whether or not in the absence of that action the Resource would have been scheduled or dispatched by the ISO to provide the service.

“Self-Scheduled MW” is an amount, in megawatts, that is Self-Scheduled and is equal to the greater of: (i) the Resource’s Economic Minimum Limit; or (ii) for a Resource for which the Regulation Self-Schedule flag is set for the hour and the unit was on Regulation for at least 20 minutes during the applicable hour of the Operating Day, the median value of all Regulation setpoints (Desired Dispatch Point) used by the Resource while regulating.

“Settlement Only Resources” are generators of less than 5 MW that have elected Settlement Only Resource treatment as described in Section 5 of Attachment D to ISO New England Manual 20 – Installed Capacity.

APPENDIX E
LOAD RESPONSE PROGRAM

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III.E.7.3 For those Real-Time Demand Response installations within the first 1000 installations (reduced by the Type 6 Class 1 Interruptible Load already installed prior to March 1, 2003), that have 300kW or more of load available for interruption, Market Participants will bear \$100 of the monthly fee for the Internet-based Communication System. These costs will be allocated among Market Participants on a Load Zone basis and shall be allocated among Market Participants in a percentage equal to each Market Participant's Real-Time Load Obligation in the appropriate Load Zone for the appropriate month divided by the sum of the Real-Time Load Obligations for the appropriate Load Zone for the appropriate month.

III.E.8 Demand Response Reserve Pilot Program

III.E.8.1 Demand Response Pilot Program Objectives. The objectives of the Demand Response Reserve (“DRR”) Pilot program are: (1) to demonstrate based on actual response data whether Demand Resources and Settlement Only Resources (collectively referred to in this Section III.E.8 as “DR Resources”) can reliably provide reserve services, specifically 10-minute and 30-minute Operating Reserve services; (2) to determine the requirements for the level and type of control room communications, dispatch, metering, and telemetry sufficient for DR Resources providing reserve services; and (3) to identify and evaluate lower cost communications and telemetry solutions that meet the requirements and are more suitable for DR Resources to provide reserve services.

III.E.8.2 DRR Pilot Program Description.

III.E.8.2.1 DRR Pilot Program Duration. The DRR Pilot program will commence on a date to be determined by the ISO in consultation with market participants. The ISO will provide at least two weeks advance notice of the commencement of the DRR Pilot program. Such notice will be provided to the Commission and posted on the ISO’s website.

The performance evaluation phase of the DRR Pilot program shall be one year. The DRR Pilot program terminates when the evaluation of the performance of DR Resources in providing reserves shows unacceptable performance. If the performance evaluation phase demonstrates that one or more categories of DR Resources should be permitted to provide reserve services, the DRR Pilot program will continue after its initial one-year performance evaluation phase for an interim period until such DR Resources have been integrated into markets for such services (including, without limitation, the implementation of accepted alternative two-way communications and telemetry solutions, to the extent appropriate alternatives are identified); provided, however, that such interim period shall expire after twelve months. During the interim period, except as provided below with respect to selection and availability criteria, the DRR Pilot program will continue to be governed by the rules relating to DRR Pilot program size and DR Resource enrollment, selection process, availability, dispatch, metering and communication, payments to participating DR Resources, performance penalties, enrollment and ICAP credit, and program cost allocation as set forth in Sections III.E.8.2.2 through III.E.8.6.2 below. For the interim period, the ISO may modify the selection and availability criteria to take into account the performance exhibited by different DR Resource categories during the performance evaluation phase. The ISO will report at least quarterly to the Markets Committee on the status of the DRR Pilot program including the anticipated termination date.

III.E.8.2.2 DRR Pilot Program Size and DR Resource Enrollment. A total of up to 50 MW will be enrolled in the DRR Pilot program from the following categories of DR Resources:

- (i) customers with back-up generation or Settlement Only Resources;
- (ii) customers with back-up generation and weather-dependent load;
- (iii) weather-independent load reduction Resources; and
- (iv) weather-dependent load reduction Resources.

DR Resources will be selected in accordance with Section III.E.8.2.3 so as to represent the population of DR Resources that would likely participate in a competitive reserve services market.

Resources that are 5 MW or larger may be eligible to participate in the DRR Pilot program, subject to approval by the ISO. For Resources participating in the DRR Pilot program, aggregation of DR Resources in the same Load Zone will be allowed. Any aggregation of DR Resources must have a measurement and verification plan approved by the ISO. Once DR Resources have been integrated into reserve markets, however, aggregation of Resources participating in the reserve markets will be governed by the applicable reserve market requirements.

The DRR Pilot program will not affect the quantity or the applicable 10-Minute or 30-Minute Forward Reserve Clearing Prices for Resources acquired through the Forward Reserve Auction. A DR Resource may not simultaneously participate in the DRR Pilot program and the Forward Reserve Auction.

III.E.8.2.3 Selection Process. Separate DR Resource selections will be conducted for the winter and summer seasons consistent with the Forward Reserve Service Periods. The ISO will work with the national laboratories (assigned to work with the ISO to assist in the design of the DRR Pilot program) to determine the number and amount of DR Resources from each category listed in Section III.E.8.2.2 that will be necessary to yield unbiased and statistically meaningful results during the performance evaluation phase of the DRR Pilot program.

The selection process for the DRR Pilot program will consist of the following steps: (1) the DRR Pilot program will be advertised through a request for proposals or other means to eligible participants; (2) concurrent with the period during which Forward Reserve Auction Offers are being solicited, Enrolling Participants will be permitted to offer DR Resources to the ISO for consideration to be permitted to participate in the DRR Pilot program; and (3) the ISO will select DR Resources so that the amount of load reduction capacity reflects the load reduction goals for each category of DR Resource listed in Section III.E.8.2.2. In the event that participation in the DRR Pilot program exceeds the limits defined for a category of DR Resources, the ISO will conduct a random drawing by DR Resource category to determine the final participants for the period. If a DR Resource category is not fully subscribed for the period,

then the ISO will have the option of selecting other DR Resources that were not initially selected to participate in the DRR Pilot program. Once a DR Resource is selected and the Enrolling Participant agrees to participate, there will be no substitution of DR Resources during that Forward Reserve Service Period. The ISO can vary the asset selection process as necessary in order to produce unbiased, statistically meaningful results, and will maintain sole discretion over the selection of assets to participate in the DRR Pilot program.

An Enrolling Participant will be given an opportunity to opt selected DR Resources out of the DRR Pilot program should it deem the payments to participating DR Resources (described in Section III.E.8.3) to be insufficient. Any DR Resource that is selected to participate in the DRR Pilot program and that does not opt out after being given an opportunity to do so will be eligible for DRR Availability Payments and DRR Performance Payments and will be subject to DRR Replacement Energy Cost Penalties (described in Section III.E.8.4).

III.E.8.2.4 Availability. DR Resources participating in the DRR Pilot program will be required to meet the availability requirements of the Real-Time 30-Minute Demand Response Program, and will be required to make the DRR Contract Amount (defined in Section III.E.8.3.1 below) available for dispatch as described in Section III.E.8.2.5 below. In addition, for research purposes, the ISO may investigate certain subsets of hours surrounding

seasonal daily peak hours. In connection with any such investigation, the ISO may request that a certain category of DR Resource make itself available to respond to ISO dispatch instructions during such conditions. Any change to availability requirements will be made in consultation with the Enrolling Participants, and sufficient notice will be provided to participating DR Resources before any such change.

III.E.8.2.5 Dispatch. DR Resources participating in the DRR Pilot program will be dispatched during system disturbances in the New England Control Area involving losses of load, generation, or transmission facilities which equal or exceed the following criteria: actual net (interchange) tie line flow deviations equal to or greater than 500 MW; loss of generation or load equal to or greater than 500 MW; or system frequency deviations equal to or greater than 0.03 Hz (collectively, “DRR Reportable Events”). In addition, the ISO may dispatch DR Resources at additional times if DRR Reportable Events do not provide sufficient data for the ISO to evaluate DR Resources across all pre-defined test conditions, including dispatch frequency, duration of load reduction, and season.

Except as provided below, total activations during the performance evaluation phase of the DRR Pilot program shall not exceed 50 times and shall not exceed 100 hours. If total activations approach the cap of 50 times or 100 hours, the ISO will notify participating DR

Resources that if the cap is reached, the ISO will permit participating DR Resources to opt out of the DRR Pilot program. DR Resources that exercise this opt-out right will no longer be eligible to receive DRR Availability Payments and DRR Performance Payments or subject to DRR Replacement Energy Cost Penalties and will no longer be required to respond to ISO dispatch instructions in response to DRR Reportable Events pursuant to the DRR Pilot program. Those not exercising this opt-out provision will continue to be obligated to respond to ISO dispatch instructions in response to DRR Reportable Events through the end of the then current Forward Reserve Service Period; such resources will continue to receive DRR Availability Payments and DRR Performance Payments, and will be subject to DRR Replacement Energy Cost Penalties. The ISO will continue to study the performance of DR Resources that choose to not exercise the opt-out provision.

III.E.8.2.6 Metering & Communication. The DRR Pilot program will use the existing Internet Based Communication System for activation of the participating DR Resources. Telemetry data, which is automatically transmitted from each DR Resource through their IBCS provider to the IBCS open solution every five minutes, will be transmitted by the IBCS open solution to the ISO. A separate sub-project will identify and evaluate lower-cost, two-way communication alternatives to the current combination of Supervisory Control and Data Acquisition (“SCADA”) and Remote Intelligent Gateway (“RIG”) technology that is presently required to connect dispatchable Resources to the ISO. This sub-project will evaluate the use of lower-cost dispatch and telemetering alternatives for use by DR Resources that are less than 5 MW in size. To support this evaluation, alternative dispatch and telemetering solutions may be used in the course of the DRR Pilot program if agreed to by the ISO and Enrolling Participants.

III.E.8.3 Payments To Participating DR Resources. Enrolling Participants whose DR Resources participate in the DRR Pilot program will be eligible to receive a DRR Availability Payment, based on the applicable 30-Minute Hourly Forward Reserve Clearing Price for the Load Zone within which the DR Resource is located, and a DRR Performance Payment. Such payments are intended to compensate DR Resources for the additional obligations and risks associated with participation in the DRR Pilot program.

III.E.8.3.1 DRR Availability Payment. Participating DR Resources will receive a DRR Availability Payment based upon the applicable 30-Minute Hourly Forward Reserve Clearing Price for the Load Zone within which the DR Resource is located. At the beginning of each Forward Reserve Service Period, DRR Availability Payments for participating DR Resources will be based on the amount that the Enrolling Participant agrees to provide within 30 minutes when called upon by the ISO (“DRR Contract Amount”). Each time a dispatch event occurs, the DRR Availability Payment from the event start time going forward will be based on the lower of the DRR Contract Amount or the actual performance of the DR Resource. The DRR Availability Payment between the last dispatch event and the end of the Forward Reserve Service Period will be based on the actual performance of the DR Resource in the last dispatch event, not to exceed the DRR Contract Amount.

Specifically, DRR Availability Payments to a DR Resource for each hour that the DR Resource is required to be available for dispatch will equal:

(applicable 30-Minute Hourly Forward Reserve Clearing Price) multiplied by
(the lower of the DRR Contract Amount or the actual performance of the DR Resource).

III.E.8.3.2 DRR Performance Payment. The DRR Performance Payment will be calculated as the product of the Amount Interrupted and the higher of the applicable Forward Reserve Strike Price or the appropriate Real-Time Zonal Price.

For hours in which both a DRR Pilot program dispatch event and a Real-Time 30-Minute Demand Response Program event occur, DRR Pilot program participants will receive no DRR Performance Payment. At such times, DRR Pilot program participants will receive Real-Time hourly payments associated with the Real-Time 30-Minute Demand Response Program; provided, however that DRR Pilot program participants will still be subject to DRR Replacement Energy Cost Penalties as described in Section III.E.8.4. below.

III.E.8.3.3 Performance Measurement. DR Resource performance will be determined in the same manner as in the existing Real-Time 30-Minute Demand Response Program as described in the ISO New England Load Response Program Manual (including customer baseline adjustment for the two hours prior to the event). While performance measurement for settlement purposes will be based on the method described in the Load Response Program Manual (unless otherwise agreed to by the ISO and Enrolling Participants), the ISO may explore alternative customer baseline formulations for research purposes.

III.E.8.4 Performance Penalties

III.E.8.4.1 DRR Replacement Energy Cost Penalty. The DR Resources participating in the DRR Pilot program will not be subject to a failure to reserve penalty, since such DR Resources will not be bidding into the Day-Ahead or Real-Time Energy Markets, nor will they be dispatched based upon a price. However, the formula in Section III.E.8.3.1 will decrease the DRR Availability Payment by the portion of the DRR Contract Amount not provided.

DR Resources participating in the DRR Pilot program will be required to pay a failure to activate reserve penalty based on replacement energy costs (“DRR Replacement Energy Cost Penalty”), as defined below, when they provide less than the DRR Contract Amount in response to ISO dispatch instructions. Standard Load Response Program curtailment measurement (including customer baseline adjustment for the two hours prior to the event) is utilized to determine performance of DR Resources including any undelivered response. The Real-Time Zonal Price used in the formula shall be the hourly Real-Time Zonal Price for the Load Zone within which the DR Resource is located.

DRR Replacement Energy Cost Penalty =
(DRR Contract Amount – Amount Interrupted) multiplied by
(Real-Time Zonal Price).

III.E.8.5 Enrollment and ICAP Credit

III.E.8.5.1 Enrollment. DR Resources participating in the DRR Pilot program will be required to register in the Real-Time 30-Minute Demand Response Program. In addition to responding to DRR Pilot program events, DR Resources will be required to respond to the activation of the Real-Time 30-Minute Demand Response Program.

Settlement Only Resources participating in the DRR Pilot program must change their registration with the ISO to participate in the Real-Time 30-Minute Demand Response Program. Any Settlement Only Resource that elects to participate in the DRR Pilot program will be afforded the option at the end of the DRR Pilot program to return to “settlement only” status or to continue to participate in the Real-Time 30 Minute Demand Response Program.

III.E.8.5.2 ICAP Credit. DRR Pilot program participants will receive ICAP credit pursuant to the provisions of the Real-Time 30-Minute Demand Response Program. ICAP credit will be based on DR Resource performance in response to Real-Time 30-Minute Demand Response Program events only. No additional ICAP credit will be afforded a DR Resource for participation in the DRR Pilot program. To the extent that payments associated with the Forward Reserve Auction are modified in the future, DRR Availability Payments and ICAP credits for DR Resources participating in the DRR Pilot program will also be modified in a consistent manner.

III.E.8.6 Program Cost Allocation. There are two separately calculated charges for the DRR Pilot program: (1) payments associated with the DRR Availability Payment, and (2) payments associated with the DRR Performance Payment (net of DRR Replacement Energy Cost Penalties) when loads are called upon to interrupt.

III.E.8.6.1 DRR Availability Payment Allocation. The charge for the DRR Availability Payments will be allocated on a pro-rata basis based on each Market Participant's share of the aggregate charges under Schedules 1, 2, and 3 of Section IV.A (Recovery of ISO Administrative Expenses) of the ISO New England Transmission, Markets and Services Tariff from the previous month.

III.E.8.6.2 DRR Performance Payment Allocation. The charge for the DRR Performance Payment associated with the actual interruption (net of DRR Replacement Energy Cost Penalties) will be allocated to Real-Time Load Obligation Deviation in the Load Zone within which the DR Resource is located.

Sheet Nos. 7932 through 7999 are reserved for future use.

Attachment 2

“**Affiliate Resources**” is defined in Section 3.3.2 of Exhibit 2 to *Appendix A* of this Market Rule.

“**Accepted Electric Industry Practice**”, sometimes referred to as Good Utility Practice, shall mean any of the practices, methods, and acts engaged in or approved by a significant portion of the electric generation and transmission industry during the relevant time period, or any of the practices, methods, and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Accepted Electric Industry Practice is not limited to a single, optimum practice method or act to the exclusion of others, but rather is intended to include practices, methods, or acts generally accepted in the region.

“Amount Interrupted” is, for the purposes of the Load Response Program, the calculated difference between the Customer Baseline and the actual customer load. For generating assets, metered at the generator output, the Amount Interrupted is the generator output. For a profiled customer, the Customer Baseline is defined in the Measurement and Verification Plan, referred to in Section III.E.1.5 of this Market Rule.

“**Auction Revenue Right (ARR)**” is a right to receive FTR Auction Revenues in accordance with *Appendix C* of this Market Rule.

electric power system(s); (ii) maintain scheduled interchange with other Control Areas, within the limits of Accepted Electric Industry Practice; (iii) maintain the frequency of the electric power system(s) within reasonable limits in accordance with Accepted Electric Industry Practice and the criteria of the applicable regional reliability council or the NERC; and (iv) provide sufficient generating capacity to maintain operating reserves in accordance with Accepted Electric Industry Practice.

“Customer Baseline” is, for purposes of the ISO New England Load Response Program Manual, the average aggregate hourly load, rounded to the nearest kWh, for each of the 24 hours in a day for each individual Customer.

“DCA Peaking Unit” means a generating Resource, located in a DCA whose capacity factor in calendar year 2002 was ten percent (10%) or less, as determined by the ISO.

“Daily Reliability Must Run Resource” or **“Daily RMR Resource”** is defined in Section III.6.1 of this Market Rule.

“Day-Ahead” is the calendar day immediately preceding the Operating Day.

“Day-Ahead Adjusted Load Obligation” is defined in Section III.3.2.1(a)(iii) of this Market Rule.

safety of persons or property; or a fuel shortage requiring departure from normal operating procedures in order to minimize the use of such scarce fuel; or a condition that requires implementation of Emergency procedures as defined in the ISO New England Manuals.

“Emergency Condition” shall mean an Emergency has been declared by the ISO in accordance with the procedures set forth in the ISO New England Manuals and ISO New England Administrative Procedures.

“Emergency Minimum Limit” or **“Emergency Min”** shall mean the minimum generation amount, in MWs, that a generating unit can deliver for a limited period of time without exceeding specified limits of equipment stability and operating permits.

“Energy Component” shall mean the Locational Marginal Price at the reference point.

“Enrolling Participant” is the Market Participant that registers Customers for the Load Response Program.

“Equivalent Demand Forced Outage Rate” shall mean the portion of time a unit is in demand, but is unavailable due to forced outages.

“**Resource**” means a generating unit, a Dispatchable Load, an External Resource or an External Transaction.

“**Reviewable Action**” is defined in Section III.D.1.1 of *Appendix D* of this Market Rule.

“**Sanctionable Behavior**” is defined in Section III.B.3 of *Appendix B* of this Market Rule.

“**Self-Schedule**” is the action of a Market Participant in committing and/or scheduling its Resource, in accordance with applicable ISO New England Manuals, to provide service in an hour, whether or not in the absence of that action the Resource would have been scheduled or dispatched by the ISO to provide the service.

“**Self-Scheduled MW**” is an amount, in megawatts, that is Self-Scheduled and is equal to the greater of: (i) the Resource’s Economic Minimum Limit; or (ii) for a Resource for which the Regulation Self-Schedule flag is set for the hour and the unit was on Regulation for at least 20 minutes during the applicable hour of the Operating Day, the median value of all Regulation setpoints (Desired Dispatch Point) used by the Resource while regulating.

“**Settlement Only Resources**” are generators of less than 5 MW that have elected Settlement Only Resource treatment as described in Section 5 of Attachment D to ISO New England Manual 20 – Installed Capacity.

APPENDIX E
LOAD RESPONSE PROGRAM

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III.E.7.3 For those Real-Time Demand Response installations within the first 1000 installations (reduced by the Type 6 Class 1 Interruptible Load already installed prior to March 1, 2003), that have 300kW or more of load available for interruption, Market Participants will bear \$100 of the monthly fee for the Internet-based Communication System. These costs will be allocated among Market Participants on a Load Zone basis and shall be allocated among Market Participants in a percentage equal to each Market Participant's Real-Time Load Obligation in the appropriate Load Zone for the appropriate month divided by the sum of the Real-Time Load Obligations for the appropriate Load Zone for the appropriate month.

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