

**NESCOE Responses to Issues Raised Regarding
Tie Benefits Design Basis Document**
October 7, 2010

The Tie Benefits Design Basis Document (DBD) adopted at the September 22, 2010 Reliability Committee removed two paragraphs¹ that added reserve requirements to the DBD (NESCOE Amendment).² The NESCOE Amendment effectively leaves the treatment of reserves in the calculation of ICR unchanged from current practice at an amount of 200 MW as specified in a current Market Rule. ISO-NE's proposal as set forth in the DBD provisions (removed by the NESCOE Amendment) would have increased ICR by about 1,200 MW by: 1) reducing the proposed upper operational tie benefit limit by about 700 MW; and, 2) increasing the current 200 MW requirement in the ICR calculation to about 700 MW. These two 700 MW amounts are separate and each are equal to one half the largest source contingency such that together they equal the largest single source contingency of about 1,400 MW.

This memo addresses two concerns a few stakeholders have raised in informal conversation about the effect of the NESCOE Amendment. Its purpose is to help provide clarity.

First, a few stakeholders have suggested that the NESCOE Amendment would decrease the ICR by about 1,150 MW. That is not the case. The 1,150 MW is the difference between the upper operational tie benefit limit, 2,950 MW without a reserve reduction as calculated by ISO-NE, less the 1,800 MW tie benefit assumption recently used in ICR calculations.³ This difference is not applicable because the 2,950 MW

¹ The two passages removed from the DBD at the September 22, 2010 Reliability Committee meeting, which ISO-NE had added to the DBD dated September 16, 2010, are as follows:

3.A.iii

Step c: Given the requirement to maintain operating reserves as part of normal system operations, reduce the available external interconnection capability calculated in Step b by reserving an amount of external interconnection import capability equal to one half the largest source contingency for purposes of meeting operating reserve requirements.

4.F.i

In calculating the Installed Capacity Requirement, an amount of internal resource capacity equal to one half the largest source contingency will be maintained to meet operating reserve requirements and not utilized to meet load requirements.

² A question has also been raised as to whether NESCOE's Amendment was to delete the two passages of the DBD or to do something broader (i.e., reflective of other possible alternatives for consideration discussed at the Reliability Committee). The Amendment was to delete two passages, which deletion leaves things as they are with regard to reserves.

³ It is important to note that the 1800 MW tie benefits recently used for the third reconfiguration auction was based on the assumptions used for the ICR for the first FCA. Thus there is nothing talismanic about that specific megawatt amount. *See ISO-New England, Inc. New England Power Pool*, 130 FERC ¶ 61,105 (2010). In fact, in that case, FERC approved a tie benefits level that when considered with the ICR

calculated by ISO-NE was described as the total tie line transfer capability without consideration of: 1) available resources on the other side of those ties; or 2) whether they are used for contracts or emergency relief. A Hydro Quebec contract of 1,000 MW alone would reduce the upper limit to 1,950 MW, for example. Calculations performed by ISO-NE's Planning Group evaluate the availability of resources and if lower, they would apply.

A few stakeholders have also asked whether NESCOE suggests ISO-NE is double counting reserves in the ICR calculations. That is not the case. NESCOE's concern with the addition of reserves to the ICR calculation is that it adds an operating criterion of maintaining reserves equal to the largest source contingency on top of the planning criterion of not disconnecting customers more often than 0.1 days per year. It does not appear that NERC or NPCC require this procedure.

In sum, the NESCOE Amendment to the DBD would have little effect on the calculation of ICR compared to current practice. On the other hand, ISO-NE's proposed additions of 500 MW of reserves to the ICR requirement and 700 MW of reserves added to the upper operational limit would increase requirements by about 1,200 MW. Other provisions of the DBD may result in additional increases to the ICR.

produced a reserves level of 9.7 %. FERC disagreed with a comparison of that reserve level to the NYSRC reserve amount noting that the reserve margin is not a determinant of but rather a byproduct of the ICR.