

James B. Sinclair

Manager, Public Information & Governmental Affairs

October 22, 1997

Mr. Tom Austin

Project Manager Regulatory Assistance Project

177 Water Street

Gardiner, ME 04345

Dear Tom:

Attached are ISO-New England's comments on the final report by the Regulatory Assistance Project (RAP) Report, "Uniform Consumer Disclosure Standards for New England".

ISO-NE is disappointed that RAP still misunderstands the planned settlement system's inability to provide source-to-sink tracking for all settlement transactions. As we have stated, the settlement system cannot track source(unit)-to-sink for system transactions. This would significantly impair the suggested hybrid tracking scheme in the RAP proposal.

As stated before, the ISO will need more detail than contained in the current report to make further judgments. Additionally, we have not commented on Appendix D, the model rules, at this time due to a lack of time on our part.

Please do not hesitate to call me, if you have any questions.

Sincerely,

Jim Sinclair

Manager, Governmental Affairs and Public Information

cc: R. Charpentier

P. Shortley

C. Ide

P. Peterson (NECPUC)

D. Allegretti (NEPOOL)

Comments on the RAP Final Report on "Uniform Consumer Disclosure Standards for New England"

The following comments are limited to those sections of the report that impact on ISO-NE's ability to: put a market in place by April 1, 1998; settle transactions efficiently and cost effectively; manage the details of an efficient market and maintain the independence and credibility of the newly formed Independent System Operator.

In reviewing this document, the guiding questions were as follows:

- Can the market settlement system currently being designed and scheduled for implementation provide the data requested without modification?
- Will the efficiency of the markets be impaired?
- Is the data required by the RAP proposal included in the data that is to be collected?
- Can the ISO maintain it's needed independence?
- Is confidentially of the data impacted?
- Is competitive advantage or market power created or destroyed by use of ISO-based information?

We are still not in a position to address cost issues relative to implementation or maintenance of the RAP proposed tracking scheme.

Section 3.4 Fuel Disclosure

The ISO-NE settlements process is being designed to identify net rights to unit capability after all bilateral unit contracts have been considered. It will be able to track LSE-owned generation and specific LSE-own customers' load as well as the net spot market purchased or sold after consideration of all energy credits and obligations. The ISO-NE system will not track generation for bilateral source system sales nor will it identify the sequence of such transactions. The ISO also has no need to know the make-up (attributes or sources) of a system sale to settle the transaction.

RAP states that additional information could be accommodated within the system structure to respond to regulatory or other concerns. The additional information required to track hydroelectric plant size, "local" generation and union labor content further complicates the process. This goes beyond the goals set forth in the report. Supporting market claims or state regulatory policy are supposedly "secondary". It is important to keep the settlements process simple and accurate.

While this section (3.4) raises the issue of the accurate tracking of generation from the source to the LSE through the transmission system, it remains silent on the issue.

It has been recognized in the disclosure meetings, as well as in the report, that electrons follow physical laws, not contactual paths, and therefore tracking from source to sink in physical terms is not considered possible. The settlements process only follows contract terms. Therefore, if one is looking for physical accuracy, it cannot be provided within the contract settlement system.

There is no way under the planned ISO settlement process to provide the LSE with a unit resource designation for the energy it's consuming, with the exception of a bilateral unit contract or LSE-owned generation serving the LSE's own customers.

Maintaining an attribute data set for the settlement process would complicate the settlement process and could have other negative impacts. Addressing the requirements for disclosure (and other regulatory requirements), could require another system using certain inputs from the proposed settlement tracking system. However, not all the information on tracking that RAP requires for its hybrid tracking is contained in the planned settlement process. Other data and many assumptions would be necessary to provide all of RAP's implied information on generation that specifically serves an individual load. This would unduly complicate both the settlement system and the market trading process. The issues of attaching attributes and tracking to specific units may also lead to inefficiencies of the markets. Markets need to be broad enough not to create inefficiencies in trading or in the market.

Section 3.5 Emissions Data

While ISO-NE is currently comprised of former NEPOOL staff, the designation NEPOOL still exists as the term represents the participants in the New England marketplace. NEPOOL contracts with ISO-NE to provide market and transmission services.

ISO-NE will no longer collect fuel, fuel cost or heat rate data from participants for settlement purposes. When markets start, dispatch will be based on a bid price as opposed to a cost basis. ISO-NE (formerly the NEPOOL Planning Staff) was provided emissions data by NEPOOL participants for use in specific studies. ISO-NE does not plan to routinely collect emissions data. NEPOOL participants may request an "emissions study" and therefore provide emissions data to answer specific questions for a study. Therefore, any emissions data coming from other sources will need to be carefully matched to the energy data supplied to ISO-NE for settlement in order to be compatible for disclosure. Considerable accuracy could be lost averaging emissions data annually, particularly when presented with hourly data and hourly tracking of unit entitlement generation to meet hourly customer load. The ISO is not in a position to determine how much information is appropriate for consumer disclosures. Clearly, as one moves to simplify and modify ISO provided data, the ISO must have the ability to disassociate itself, if the data use or modification could impact the ISO's credibility.

4.1 The Settlement (ISO) Approach

The ISO settlement approach, as described by RAP in this section, does not mirror the current settlement approach, nor does it recognize the flexibility of the marketplace.

The settlement process is one that solely settles the difference between the quantity of a product (i.e. energy) provided and the quantity of the used product. The product has no attributes such as how it was manufactured. Attributes are not attached, but recognizable, for unit bilateral contracts and for LSE-owned generation for the same LSE's customers. There is no plan to attach attributes to the settlement system that needs to be operational early next year. Since the settlement system deliberately does not plan to track the timing of trades it could not track the attributes of system energy trades to the end user. The ISO settlements system will not need to and doesn't tie "system energy" purchases to units. RAP's understanding fails when it goes to tie the energy used by an LSE to a specific source of generation in all cases and for all hours. The ISO will not do this under the settlement system currently planned.

Simplifications suggested by RAP, for data not provided to the ISO, will potentially reduce the accuracy of the fuel mix and consequentially emissions below a potentially useful level because of averaging.

What RAP currently wants from a tracking system --- the hour-by-hour tracking of every transaction back to its source of generation --- is just not practical within the planned ISO settlement system. Many simplifying assumptions will be necessary to approximate the data the proposed RAP Hybrid system requires.

RAP indicates that the consumer will consider their hybrid tracking system as more credible than the tagging proposal offered by others. ISO-NE has no position on which system is better however, the complexity of the ISO tracking and RAP's hybrid proposal will make it difficult for consumers to understand.

We do not see any difference in the ISO tracking from the tagging system with respect to consumer protection. The fact that company A can sell its "undesirable power" in the market and contract for more "desirable power" and therefore claim more desirable power in its marketing exists in both systems.

4.3 Recommended Trading Approach

Accurate and acceptable to consumers are two separate concepts. An ideal disclosure system, therefore, needs more than three attributes mentioned in this section. An acceptable system should also be measured against the goals it is to support.

A key goal was to make the market more efficient. The four step process RAP recommends as part of its hybrid tracking system has the potential to make the market less efficient. Traders would no longer freely buy and sell the energy commodity. They would have to contract for preferred attributes (i.e., specific generation) before the actual

generation occurs and as part of the transaction. In addition, the changes would modify any pro-rata system of unit accounting, would create a whole new monthly bidding system, and a whole new stacking of units system based on "ANI" use.

As far as we understood, a tag represents a unit of energy with a specific attribute actually supplied to the grid during the time the tag was in circulation. Therefore, we see the tag system as the same as the hybrid tracking system without the complexity.

(Page 26) - The ISO has clearly stated that it is still not sure whether the systems will be in place and tested for the April 1998 market opening target date. Therefore, we do not think that RAP's "belief" that, with clear direction from the six New England states that an interim tracking system can be in place by then. It has been stated not only by the ISO but by NEPOOL members, that market opening is the critical activity and other efforts will be given either a lower or no priority status until the market system is properly running.

The RAP proposed hybrid tracking system seems to reduce accuracy by virtue of the hourly energy closing, monthly system contracts and ANI settlement, and annual averaging of emissions. We don't think accurate information can be provided with this temporal mixing of data due to the differing levels of uncertainty. We also think this has the potential to decrease the credibility of ISO-NE with the public and we would need to evaluate this much more carefully considering it could impact on the ISO's credibility and ability to meet its goals as set by the restructuring process.