UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

ISO New England Inc.	)))	**Docket No. ER25-1445-000**

MOTION TO INTERVENE AND COMMENTS OF THE ISO NEW ENGLAND EXTERNAL MARKET MONITOR

Pursuant to Rules 212 and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission, 18 C.F.R. §§ 385.212 and 214 (2025), Potomac Economics respectfully moves to intervene in the above-captioned proceedings concerning ISO New England's ("ISO-NE's") filing on February 28, 2025. ISO-NE's filing proposes tariff provisions, expedited action, and a shortened comment period to allow it to recover any duties necessary to comply with the President's February 1, 2025, Executive Order "Imposing Duties to Address the Flow of Illicit Drugs Across Our Northern Border" ("Canadian Tariff Order").

Potomac Economics is the independent External Market Monitor ("EMM") for ISO-NE and is responsible for monitoring its electricity markets. As the EMM, we identify rule changes that would enhance market efficiency and competition. These comments explain our reasons for supporting the ISO's proposed tariff revisions. Potomac Economics has a unique perspective and responsibility that cannot be represented by any other party. It should therefore be permitted to intervene herein.

I. NOTICE AND COMMUNICATIONS

All correspondence and communications in this matter should be addressed to:

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II. COMMENTS

On February 1, the President's Canadian Tariff Order announced that duties would be levied on "articles that are products of Canada." While it is uncertain whether duties will ultimately be applied to electricity imports from Canada, ISO-NE has taken the initiative to file tariff provisions which would allow the collection of duties on electricity imports to New England from Quebec and New Brunswick if such duties are ultimately imposed.

ISO-NE proposes tariff revisions allowing it to charge each import transaction scheduled to flow from Canada to ISO-NE.[1] Whether the duty is set at 10 or 25 percent, ISO-NE proposes to collect the appropriate percentage based on the payment to the importer for scheduling power to flow into ISO-NE. We support ISO-NE's proposal because it would allow the ISO to comply with the Canadian Tariff Order in a manner that is most efficient and consistent with cost causation principles.

The imposition of a duty on imports from Canada to New England would likely require the collection of tens of millions of dollars of revenue. As with any significant expense, these duties should be collected in a manner that is consistent with cost causation and beneficiary pays principles. Given ISO-NE's uniform-clearing auction market design, we support the proposal to collect the duties from revenues paid to import transactions as most consistent with cost

[1] See ISO-NE's *Exigent Circumstances Filing of Revisions to Transmission, Markets and Services Tariff to Permit Recovery of Import Duties*, filed Feb. 28, 2025 in this docket.

causation principles. ISO-NE's day-ahead and real-time markets accept the lowest cost offers and set a clearing price at each location equal to the marginal cost of supplying the location considering transmission losses and congestion from moving power across the grid. This market design provides each competitive supplier with an incentive to offer to sell at its marginal cost since this ensures the offer will be scheduled whenever it would earn a profit.

ISO-NE's proposal would provide each importer with an incentive to increase its import offer price by the amount of the expected duty. For example, if the duty rate is 25 percent, an importer with a cost of supply of $30 per MWh would not want to be scheduled unless the LMP was going to be at least $40 per MWh. Hence, ISO-NE's proposal would give the importer an incentive to mark-up its offer by 33.3 percent since this would ensure that it receives a sufficient margin to earn a profit after the duty is collected.[2]

To the extent that there is an indirect cost of the duty on electricity consumers, ISO-NE's proposal will tend to allocate this to the beneficiaries of Canadian imports. This is because ISO-NE's market design assigns costs to consumers based on the marginal cost of serving demand at each location, and this holds true regardless of whether there is transmission congestion. For example, before the duty is imposed, suppose 600 MW of imports is offered into ISO-NE at $15 per MWh and 400 MW is offered at $24 per MWh, causing the LMP to fall from $35 to $30 per MWh and benefiting consumers in the form of lower electricity prices. After the duty is imposed, the same importers would have an incentive to mark-up their offers by 33.3 percent to 600 MW at $20 per MWh and 400 MW at $36 per MWh. If we suppose this would lead to a lower import schedule of 600 MW and a smaller reduction in the LBMP from $35 to $32 per

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[2] This offer strategy works under all conditions. For example, if the LMP is $44 per MWh, resulting in a duty of $11 per MWh, the importer will receive a net payment of $33 per MWh, resulting in a $3 per MWh profit for an import with a cost of $30 per MWh. On the other hand, if the LMP is $36 per MWh, resulting in a duty of $9 per MWh, the importer will not be scheduled, which is appropriate since this would result in a net loss of $3 per MWh.

MWh. In this example, the imposition of the duty results in a price increase of $2 per MWh, which is borne by consumers.

The indirect costs of the duty are also borne appropriately by consumers under the proposal when there is transmission congestion. Modifying the previous example, suppose a transmission outage separates ISO-NE into Area A, where the Canadian imports sink, and a higher priced load pocket ("Area B"). Further suppose the price in Area A drops to $28 per MWh and the price in Area B rises to $40 per MWh. In this case, the import benefits consumers by reducing prices in Area A, but it does not reduce prices in Area B. Accordingly, the duty will lead to higher prices for consumers in Area A, which is the area that benefits from imports. On the hand, prices in Area B will not be affected by the duty since Area B does not benefit from the imports. Hence, we recommend the Commission approve ISO-NE's proposal since it assigns costs consistent with cost causation and beneficiary pays principles.

III. CONCLUSION

For these reasons, we respectfully recommend that the Commission accept ISO-NE's proposed tariff revisions and request for expedited treatment.

Respectfully submitted,

/s/ David B. Patton

David Patton
President
Potomac Economics, Ltd.

March 10, 2025

CERTIFICATE OF SERVICE

I hereby certify that I have this day e-served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 10th day of March 2025 in Fairfax, VA.

/s/ David B. Patton