

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

New England Power Pool)
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Docket Nos: OA97-237-000,
ER97-1079-000,
ER97-3574-000,
OA97-608-000,
ER97-4421-000,
and ER97-499-000.

Affidavit of Peter Cramton

I am Professor of Economics at the University of Maryland and Vice President of Market Design Inc. Over the last 14 years, I have conducted research on auction theory and practice. This research appears in the leading peer-reviewed economics journals. During the last 5 years, I have applied this research in the design and implementation of auction markets in the U.S. and abroad. I have led the design and implementation of several high-stake auction markets in the telecommunications and electricity industries.

I have been asked by ISO New England to respond to various answers to the motion of ISO New England Inc. regarding market assessment and market implementation. My response will be brief and general. I will not address specific remarks or misunderstandings in the answers. Rather, I will clarify the position that Robert Wilson and I present in our report, "A Review of ISO New England's Proposed Market Rules," (hereafter, "Market Review") which was included as an attachment to ISO New England's filing of September 14, 1998.

In the Market Review, we conclude that the wholesale electricity market in New England can begin on December 1, 1998. However, we identified four major recommendations for long-run success:

- Switch to a multi-settlement system.
- Introduce demand-side bidding.
- Adopt location-based transmission congestion pricing, especially for the import/export interfaces.
- Fix the pricing of the ten minute spinning reserves.

We believe that the markets can and should begin on December 1, 1998, provided that by the start date the ISO and NEPOOL reach agreement in principle on these basic concepts and a tentative timetable for implementation. We believe that if the markets open without any sense of what improvements will be made or when they will be made, then it will be much more difficult to adopt and implement needed improvements.

An evolutionary “wait and see” approach would be too slow, and likely would result in damage to the markets that is difficult to correct.