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ISO-NE Capacity Auction Secures Sufficient Power System Resources, At a Lower Price, for Grid Reliability in 2019-2020

2016 auction clearing price is 25% lower than last year's auction

Holyoke, MA—February 11, 2016—New England's annual capacity auction concluded Monday with sufficient resources to meet demand in 2019-2020, at a lower price, and with more than 1,400 megawatts (MW) of new generating capacity that will help replace recently retired and retiring generators. The auction is run by ISO New England Inc. to procure the resources that will be needed to meet projected demand three years in the future.

The tenth Forward Capacity Market (FCM) auction (FCA #10) attracted significant competition among resources to provide reliability services in New England. Before the auction, a total of 40,131 MW of resources, including 6,700 MW of new resources, qualified to compete in the auction to provide the 34,151 MW Installed Capacity Requirement (ICR) for 2019-2020.

"Competition was robust in this year's Forward Capacity Auction," said Gordon van Welie, president and CEO of ISO New England. "The high participation in the auction demonstrates the interest in the New England marketplace and bodes well for meeting future resource adequacy requirements."

Recent and pending retirements of coal, oil, and nuclear power plants expected to shut down by 2019 total more than 4,200 MW, including the 680 MW Pilgrim Nuclear Power Station that announced its retirement before this auction.

"Developers were drawn to the New England marketplace because the price of capacity supports construction of new resources," continued van Welie. "It's important to have a capacity market that places an appropriate value on the product to maintain an adequate supply. This auction procured the resources needed to keep the lights on in New England at a price lower than last year's auction and, in fact, lower than the estimated cost of building a new power plant. More than 850 megawatts of new generating capacity cleared in the Greater Boston, Southeast Massachusetts and Rhode Island zone where the resources are needed most."

Preliminary results of FCA #10:

- About 35,567 MW of capacity cleared the auction to meet the 34,151 MW ICR for 2019-2020. (The region can acquire more or less than the specific capacity requirement, depending on reliability standards and price.)
 - 31,371 MW of generation, including 1,459 MW of new generation
 - 2,746 MW of demand-side resources, including 371 MW that is new
 - 1,450 MW of imports from New York and Canada

Preliminary clearing price:

- The auction closed for resources within New England after four rounds of competitive bidding at \$7.03/kW-month, at the point on the demand curve where there were still sufficient resources to meet demand. The clearing price will be paid to all resources in both capacity zones in the region. *[Clarification]* Imports from Quebec over Phase II and Highgate also cleared at \$7.03/kW-month.
- The clearing price was more than 25% lower than last year's \$9.55/kW-month for most resources. The lower clearing price demonstrates strong competition among resources and also illustrates that the capacity market is continuing to work: higher prices resulting from resource shortfalls in earlier auctions provided the incentives for developers to bring new—and needed—resources to the market.

- At \$7.03/kW-month, the total value of the capacity market in 2019-2020 will be approximately \$3 billion, compared to the estimated \$4 billion for 2018-2019.
 - The price of \$7.03/kW-month is less than the pre-auction estimate of the cost of building a new natural-gas-fired power plant in New England, at \$10.81/kW-month
- The auction continued for a fifth round for 181 MW of New Brunswick imports, which will receive \$4.00/kW-month. New York imports totaling 1,044 MW, which cleared in the fourth round, will receive a price of \$6.26/kW-month.

Highlights of FCA #10:

- **Three large, new, dual-fuel power plants totaling 1,302 MW** cleared the auction. The proposed plants are all near the region's largest population centers, and two are in the former Southeast Massachusetts/Rhode Island zone, where a capacity shortfall materialized before last year's auction for 2018-2019. All three will burn natural gas as their primary fuel, with oil as their secondary fuel:
 - About 485 MW of the Burrillville Energy Center 3 in Burrillville, Rhode Island
 - 484 MW at Bridgeport Harbor 6 in Bridgeport, Connecticut
 - 333 MW at Canal 3 in Sandwich, Massachusetts
- **27 megawatts of new wind** and **44 megawatts of new solar** cleared the auction; in all, 135 MW of wind and 65 MW of solar facilities cleared FCA #10

Several firsts, including:

- 6.8 MW from the first offshore wind farm under construction in the US cleared the auction: Deepwater Wind's 34-MW facility off Block Island, RI
- With the development of the first, multi-state, long-term forecast of solar growth in the nation, small-scale solar facilities around New England were incorporated into the calculation of how much capacity will be required. Forecasted demand reductions from solar reduced the ICR in 2019-2020 by 390 MW.
- Two large fuel cell facilities, providing 2.5 MW each, cleared the auction.

For FCA #10, the region was divided into two zones: Rest of Pool (ROP) which includes Connecticut, western and central Massachusetts, Vermont, New Hampshire, and Maine; and Southeastern New England (SENE), which includes Northeast Massachusetts/Greater Boston and Southeast Massachusetts/Rhode Island. The SENE zone was created based on transmission limitations that restrict the level of power that can be imported into the area, as well as local resource levels and needs. The clearing price in FCA #10 applies to resources in both zones.

Market design changes now in effect

Several significant FCM enhancements went into effect with last year's auction, including Pay for Performance incentives. The market redesign work by ISO New England, market participants, policymakers and regulators, and others, is helping remove risks from the market and providing developers with the financial stability needed to invest in new resources. The enhancements also provide consumers with greater assurance that the region's power system will have sufficient capacity to keep the lights on, and that those resources will perform when called on. These market changes, as well as other steps taken by the ISO, helped incentivize the 1,302 MW of new, dual-fuel power plants that cleared FCA #10. These dual-fuel generators will enhance reliability because if one fuel is unavailable, they can turn to the second fuel.

Forward Capacity Market auction basics

The annual FCM auction is held three years before each capacity commitment period to provide time for new resources to be developed. Capacity resources can include traditional power generation, renewable generation, or

demand-side resources such as load management and energy-efficiency measures. Resources that clear in the auction will receive a monthly capacity payment in that future year in exchange for their commitment to provide power or curtail demand when called upon by the ISO. The capacity market is separate from the energy market, where resources compete on a daily basis to provide power, and are paid for the electricity they produce.

Next Steps

Finalized auction results will be included in a filing with the Federal Energy Regulatory Commission within the month. The finalized results filing will include resource-specific information.

ABOUT ISO NEW ENGLAND

Created in 1997, ISO New England is the independent, not-for-profit corporation responsible for the reliable operation of New England's electric power generation and transmission system, overseeing and ensuring the fair administration of the region's wholesale electricity markets, and managing comprehensive regional electric power planning.



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