

To: New England Power Pool Participants Committee
New England Conference of Public Utilities Commissioners
New England States Committee on Electricity

From: Gordon van Welie

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Subject: FCM Performance Incentives

As part of the regional discussions on the Strategic Planning Initiative, ISO New England prepared the attached paper that explains the ISO's proposed market design for improving the performance incentives in the Forward Capacity Market ("FCM") for all capacity resources.

Earlier this year, ISO New England released a paper that outlined how the FCM could be used to meet the region's strategic challenges ("FCM Whitepaper"). In the FCM Whitepaper, ISO New England described three key categories of changes needed in the FCM to address the risks identified in the Strategic Planning Initiative. The first area of change focused on creating appropriate performance requirements, incentives for performance, and consequences for failure to perform. This area of improvement was also raised in the paper released in July on addressing issues related to natural gas dependence in New England ("Natural Gas Dependence"). In the Natural Gas Dependence paper, the ISO noted that the creation of sufficient incentives to cause generators to perform in accordance with their operating characteristics was necessary to address the reliability risks associated with increased dependence on natural gas for electricity generation. In both of these papers, the ISO indicated that responding to the identified strategic risks would require a number of changes across different markets, and a critical component of these changes was to modify the core capacity supply obligations of market participants to enhance resource performance and availability.

In the attached paper, ISO New England explains the current FCM design and objectives, why stronger performance incentives are necessary, and proposes a new "pay for performance" approach. The ISO is looking forward to discussing this paper. These discussions will begin at the NEPOOL Participants Committee meeting on November 2 and then in greater detail at the NEPOOL Markets Committee meeting on November 16, with further opportunities for stakeholders to provide feedback over the following months. Also, in furtherance of the stakeholder discussions, the ISO is preparing an impact analysis of the solutions raised in the Natural Gas Dependence paper, which includes a discussion on the impact of changes in performance incentives in the FCM. This analysis will be released in late November.

After consideration of your feedback, the ISO will provide greater details on this proposal with the goal of implementation in the ninth Forward Capacity Auction ("FCA9"), to be held in February 2015. Our preliminary plan is to provide additional details by the end of the first quarter of 2013, introduce market rules during the summer, and work with our stakeholders to bring a detailed market rule proposal to the NEPOOL Participants Committee for a vote in the fourth quarter of 2013. This will allow us to make a FERC filing by the end of 2013, which in turn allows sufficient time for FERC to act prior to the commencement of the resource qualification process for FCA9 in June 2014. I look forward to our continued discussions on solutions to the strategic risks facing the New England power system.