

IMMU's Review of Below-0.75 Times CONE Offers in the FCA

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Basis for IMMU Review

Market Rule 1 provides the basic framework for our review:

Capacity Resources Other Than Demand

Section III.13.1.1.2.6: IMMU shall determine whether the offer is consistent with the long-run average costs of that resource net of expected net revenues other than capacity revenues. ... IMMU shall consider whether any contract revenues relied on by the New Generating Capacity Resource reasonably represent the market price for the non-capacity products or services provided. If IMMU determines that the offer is not consistent with long-run average costs net of expected net revenues, as described above, then the amount of capacity clearing from that offer shall be considered Out-of-Market Capacity for purposes of determining the applicability of the alternative price rule.

Basis for IMMU Review

Demand Resources

Section III.13.1.4.2.4(b): IMMU shall determine whether the offer is consistent with the long-run average costs of that resource net of expected net revenues for its Demand Reduction Value other than capacity revenues.... IMMU shall consider whether any contract revenues relied on by the New Demand Resource reasonably represent the market price for the non-capacity products or services provided. If IMMU determines that the offer is not consistent with the long run average costs net of expected net revenues for its Demand Reduction Value other than capacity revenue, as described above, then the amount of capacity clearing from that offer shall be considered Out-of-Market Capacity for purposes of determining the applicability of the Alternative Capacity Price Rule.... The long run average cost of a New Demand Resource shall be that resource's total cost (including opportunity costs, as appropriate) minus the customer's avoided electric charge at the point of delivery, on a levelized net present value basis over the resource's Measure Life.

Timeline of Activities

- Participant submission by specified FCA deadline
- Weeks 1-3: preliminary IMMU review; IMMU clarifying questions submitted to participants by end of week 3
- Weeks 3-5: participants respond to questions
- Weeks 5+: IMMU final review of data

IMMU Review

- Per Market Rule 1's guidance, IMMU uses the resource's long-run average costs (over resource's economic life) net of expected benefits (or revenues) to determine appropriate capacity price offer.
- That is:
Capacity Offer Price = PV of (Costs – Non-capacity Benefits)
- The capacity offer price is a residual value, representing the revenues needed to break-even (fully recover long-run costs) on the project after considering other revenue sources.

Cost-Benefit Review

- IMMU's review of costs and benefits, for the OOM determination, considers the following elements:
 - Costs
 - Benefits
 - Discount rate
 - Data requirements
 - Calculation documentation
 - Cross-project comparisons and benchmarking data

Cost-Benefit Review: Costs

- All project costs by period (monthly or yearly) and by category.:
 - Initial and recurring capital investments;
 - Periodic operating costs, such as equipment maintenance and variable operations (fuel and other consumables), labor, use/purchase of pollution credits;
 - Administrative, marketing, taxes, etc.
- Other issues:
 - DR resources: Total costs include costs borne by aggregators, third-party providers, and the end-use customer to establish and maintain the resource.
 - Common costs should be included

Cost-Benefit Review: Benefits

- Need a detailed indication of benefits
- This should include all benefits incremental to the project, except for capacity benefits, by period (monthly or yearly) and by category.
 - Exclude expected capacity benefits, because the purpose of these cost-benefit calculations is to define the level of capacity benefits needed for the project to break even.
- Benefits may include:
 - Energy market revenues/benefits,
 - Ancillary market revenues/benefits,
 - Pollution credits (when available for DR resources),
 - Other benefits.
- Special issue:

Revenues From Outside The ISO-NE Markets

- There Are Many Sources Of Revenues Form Outside Of ISO-NE Markets.
 - Production Tax Credits
 - Renewable Energy Credits
 - Demand Side programs
- The rules provide only broad guidance on which of these revenues to include
- The IMMU Has Included Those Revenues That Are Broadly Available To All Market Participants Throughout The Region.

Treatment of Revenues from Outside of ISO-NE Markets

Revenue Source	Cost-Benefit Treatment	Rationale
Grant Payments to Developers/Long Term Contracts	Exclude	State Specific
System Benefit Funding	Exclude	State Specific
Federal Production Tax Credit	Include	Region-wide
Federal Investment Tax Credit	Include	Region-wide
REC	Include	Region-wide
Long-term Contract	Exclude	State Specific

Cost-Benefit Review: Discount Rate

- The discount rate should reflect the riskiness of the project.
- To the extent possible, it should utilize market-based measures of the borrowing costs for such a project.

Cost-Benefit Review: Data Requirements

- Time-series data: annual or monthly periodicity (as appropriate), for economic life of project.
- Level of detail: sufficient detail to document fully the key assumptions of the analysis; the appropriate level of detail would be consistent with a project financial pro forma.
- Data documentation: data sources and assumptions should be provided.

Cost-Benefit Review: Documentation for Calculations

- The cost-benefit analysis should include documentation for calculations used to prepare the cost-benefit analysis, where appropriate.
- Documentation may consist of spreadsheet formulas, a written explanation for how values are calculated, etc.

Cost-Benefit Review: Benchmarking

- Part of the cost-benefit review within INTMMU is utilizing benchmark data for assessing the reasonableness of data and assumptions.
- Benchmark data may be based on other participant submissions or may be obtained from publicly-available data sources or data vendors.
- Benchmark data are used to identify outliers that require additional scrutiny.