

NEPGA-Proposed FCM Working Group Issues

	<i>Issue</i>	<i>Description</i>	<i>Item # in July FCMWG Listing</i>
1	LSR/TSA/Zones	Locational capacity prices should reflect the economic fundamentals of supply and demand in each potentially constrainable zone in New England. Current rules (a) do not align the reliability standard in all phases of the FCM, leading to inaccurate price signals; (b) fails to allow zonal price separation unless there is an absolute physical shortage of existing resources in a zone; and (c) may unduly limit the ability of resources to trade CSOs.	2
2	APR	The current APR fails in its intended purpose, namely preventing out-of-market capacity from suppressing the capacity clearing price below a competitive level. Markets require appropriate price signals to alert investors when increased entry is needed. By allowing OOM to artificially depress prices, these necessary price signals may never be seen.	5
3	Mitigation of New Capacity Bids	Definition of OOM needs to be changed to ensure resources are considered non-competitive if (among other reasons) any portion of the offer includes any uncompetitive distortion, such as direct subsidies, preferential financing, feed-in tariffs or other terms and conditions not generally available to resources clearing in the FCM. Bids from OOM new resources may need to be mitigated or imputed to ensure just and reasonable pricing in the FCA or RAs.	6
4	CONE Readjustment	CONE serves more than a dozen purposes in the FCM design, and the current level of CONE is well below any plausible estimate of the levelized cost to construct new generation. Given this disconnect, each of the uses of CONE should be examined to ensure that the market will operate reasonably and, where appropriate, an alternative measure should be proposed. Alternatively, CONE itself could be reset for each future FCA to a value consistent with new merchant generation costs relevant to that supply obligation period and location.	7
5	ICR: Reserved Issues	Accurate modeling of internal transmission limits and tie benefits is essential to ensure that the FCA procurement targets are set accurately so as to achieve the target level of reliability, and therefore accurately and economically price capacity.	1

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6	PER	If PER is intended as a hedge for load against high spot market prices, changes should be considered to (a) align the PER with actual purchases and sales in DA and RT, rather than assuming all resources receive, and all load is exposed to, the RT price, and (b) ensure that all resources with CSO face comparable PER exposure.	8
7	Comparable Rights and Obligations Across Resources	In order for the FCM to produce meaningful clearing prices, capacity resources must compete on an “apples” to “apples” basis. However, the current FCM rules apply a single clearing price to very different capacity products, with different (a) obligations to offer energy, (b) measures of non-availability, (c) applicability of PER deductions, and (d) range of non-priced grid support services produced, and (e) flexibility to trade Capacity Supply Obligations. In addition, current energy market mitigation rules blur the necessary distinction between resources with a CSO and those without (see, e.g., Item 17).	9
8	Price Collar	Although a permanent price collar could result in inefficient market dynamics, a short-term extension of the collar should be considered in light of the uncertainty created by the various rule changes being considered and the substantial dis-equilibrium of supply and demand that currently exists. Very low FCA prices could have the unintended consequence of driving out Demand Resources, as well as newer generation that has higher annual going-forward costs than older, relatively inefficient generation.	10
9	Non-Binding De-List Bids for FCA#4	Uncertainty in the rights and obligations of CSO resources in, and the overall structure of, FCA#4 makes it difficult for suppliers to price De-List Bids accurately and to commit to them months in advance. A modification should be considered to the rules requiring that all De-List Bids must be submitted by 12/1/09 and entered into FCA#4 at their INTMMU-approved bid price.	Raised verbally
11	Market-Based Replacement of All FCA-Cleared Resources in RAs	All resources, including those whose De-List Bids were rejected for reliability in the FCA, should be allowed to offer to shed their CSOs in subsequent RAs, potentially allowing those required resources to be replaced by in-market resources (subject to reliability review).	4

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12	Allow Capacity Wheel-Through	Currently, ISO New England accepts capacity that is wheeled-through a neighboring system, e.g. Quebec – New York – New England. The FCM has no provision to allow ISO New England to be the intervening system, e.g. Quebec – New England – New York, thereby impeding efficient interstate and international commerce.	
13	Comparable Reporting of OOM Offers and De-List Bids	The INTMMU files substantially more information regarding Permanent and Static De-List Bids than it does for offers from New Capacity Resources below 0.75 times CONE. Given that these reviews serve symmetric roles in assuring the competitiveness of the FCA results, the reporting requirements should be symmetric.	6
14	Multi-Year Static De-List Bids	Mothballing a generator is costly, both initially and to bring the resource back into commercial operation. Allowing this cost to be amortized over more than one year would allow a generator to offer a lower-priced Static De-List Bid with greater commercial certainty.	2.8
15	Repowering Offers	Current FCM rules regarding offers to repower a resource may unduly limit the flexibility of the supplier to make commercially reasonable and economic offers.	
16	Delist Mitigation Rules	Current delist mitigation rules should be revisited in light of experience from the first two FCA's. Potential issues include thresholds for INTMMU review of permanent and static delist bids, the components and calculation of "Net Risk Adjusted Going Forward Cost," and whether or not to use different price thresholds such as a Structure and Impact Test in light of other FCM improvements that are being contemplated by the region.	2
17	Energy mitigation rules for Non-CSO Resources	In response to stakeholder concerns, the ISO, at the March PC meeting, expressed a willingness to consider different energy mitigation rules for delisted, versus listed capacity resources "in the context of broader FCM issues."	9