ISO new england

press release

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Seventh Capacity Auction Procures New Power System Resources Required for 2016–2017 in New England

Market Attracts Needed New Generation and Energy Efficiency for North Shore and Greater Boston

Holyoke, MA—February 7, 2013—An auction to purchase the resources needed to meet New England's expected electricity demand in 2016–2017 concluded this week with sufficient capacity in each of the region's four zones, according to ISO New England Inc., the operator of the region's bulk power system and wholesale electricity markets.

For the first time since the first Forward Capacity Market (FCM) auction was held in 2008, the region was divided into four zones to elicit capacity price signals that reflect resource needs in specific areas of the region more precisely.

This seventh auction, which concluded Tuesday, is highlighted by three major outcomes, according to preliminary results. First, the auction concluded by procuring enough capacity resources needed to serve New England reliably in the 2016–2017 timeframe. Second, the three zones representing most of New England each concluded at the auction floor price of $3.15 per kilowatt-month (kW-month) with surplus capacity, which means the price will be reduced. However, with the retirement of existing power plants and other resources, the zone representing Northeast Massachusetts and Greater Boston (NEMA/Boston) will need new resources. This auction procured the capacity needed to ensure reliable power for NEMA/Boston residents and businesses, closing at $14.99/kW-month, near the auction ceiling price of $15.00/kW-month.

"The market worked as designed to bring new resources where they are needed, which includes both new generation and energy-efficiency measures as a part of the mix," said Gordon van Welie, president and CEO of ISO New England. "The monthly clearing price for these new resources in NEMA/Boston is much higher than the price in the rest of New England, but this is indicative of the cost of developing new resources in this zone. Consumers in this area will see reliability benefits for years to come when these new resources are developed as proposed, but without these additions, grid reliability in the North Shore and Greater Boston area would be in question."

Forward Capacity Market Auction Basics

Under the FCM, ISO New England estimates consumer demand and power system needs three years in advance and holds an annual auction to purchase the power resources that will meet demand in that future year. The auction is held three years in advance to provide time for new resources to be developed.

Capacity in New England is purchased in different categories including “new” resources, which are offered into the auction for the first time, or “existing” resources, which have participated in and been accepted as capacity in past auctions. Capacity resources can include traditional power generation or demand-side resources such as load management and energy-efficiency measures. Resources that clear in the auction are committed to provide power or curtail demand when called upon by the ISO.

For this most recent auction, the six-state New England region was divided into four zones: Connecticut, Maine, NEMA/Boston, and “Rest of Pool,” which covers the rest of New England—New Hampshire, Rhode Island, Vermont, and the remainder of Massachusetts. NEMA/Boston generally consists of communities in the north and east section of the Route 495 loop up to the New Hampshire border, including the city of Boston.

The four zones reflect the topology of the power system, which affects the ability to move power into, within, and out of these areas. A lower capacity price in a zone indicates that the area will have sufficient or even surplus capacity to meet future demand levels; a higher price signals the need for new and existing resources to maintain system reliability. Each zone pays the cost of the capacity located within it.

In advance of and during the auction, existing power plants and demand-side resources may submit “delist” bids to withdraw from the capacity market. These bids are evaluated to determine whether the resource is needed to ensure reliability on the power system in each zone. Numerous resources did exit the market in this auction, including both generation and demand-side resources.

Zonal Requirements and Preliminary Auction Results

Capacity by zone—The capacity needed for each zone and the amount that cleared the auction and is committed to provide capacity in 2016–2017 is outlined below. For the Rest of Pool zone, the amount of capacity needed is determined based on how much capacity clears in the other three zones, while ensuring that the system-wide total requirement of 32,968 MW is met. The cleared capacity values include capacity that can be imported from neighboring regions.

Connecticut:	Minimum needed: 7,603 MW; cleared: 8,372 MW
Maine:	Maximum allowed: 3,709 MW; cleared: 3,950 MW
NEMA/Boston:	Minimum needed: 3,209 MW; cleared: 3,716 MW
Rest of Pool:	Minimum needed: Dependent on amounts cleared in other zones; cleared: 20,182 MW
System-wide:	Minimum needed: 32,968 MW; cleared: 36,220 MW

Clearing price by zone—New England’s capacity is priced at a kilowatt per month (kW-month) rate. The descending-clock auction started at a price of $15/kW-month for all four zones, with each subsequent auction round decreasing in price. Because each zone differs in the amount of capacity required and the levels of existing and new capacity participating in the auction, results among zones varied.

For FCA #7, the clearing prices in the zones ranged from the auction floor price of $3.15/kW-month to $14.99/kW-month. When more than enough resources clear in a zone at the floor price, resources can choose to prorate the level of megawatts they will commit to provide or the price they receive because the total amount to be paid to capacity is limited to the number of megawatts needed within a zone multiplied by the clearing price.

By zone, the clearing prices are as follows:

Connecticut: Auction bidding concluded at the auction floor price of $3.15/kW-month. There are adequate resources to meet this zone's capacity requirements. Because more than enough resources cleared in this zone, the prorated price will be set at $2.83/kW-month.

Maine: Auction bidding concluded at the $3.15/kW-month floor price. There are adequate resources to meet this zone's capacity requirements. Because more than enough resources cleared in this zone, the prorated price will be set at $2.74/kW-month.

NEMA/Boston: The auction closed during the first round when a new resource submitted a bid to withdraw. If the resource had withdrawn from the capacity market for 2016–2017, the zone would have fallen short of the required capacity, so the auction was concluded and that resource, as well as other new resources in that zone, will be paid $14.99/kW-month in 2016–2017. All existing resources will be paid $6.66/kW-month because there was insufficient competition in NEMA/Boston and these resources will be needed.

Under the FCM rules agreed upon by the region's stakeholders and approved by the Federal Energy Regulatory Commission in 2006, the 3,033 MW of existing resources in NEMA/Boston will be paid $6.66/kW-month in 2016–2017. The formula for compensating resources in zones with insufficient competition grew out of the settlement agreement as a way to balance the interests of those paying for capacity and those providing capacity. The pricing rules were designed to provide incentives for new resources to be developed in resource-short zones, while capping compensation to existing resources at a level below that paid to new resources. This market design builds in price protection for consumers while encouraging competition.

Rest of Pool: Auction bidding concluded at the floor price of $3.15/kW-month. There are adequate resources to meet this zone's capacity requirements. Because more than enough resources cleared in this zone, the prorated price will be set at $2.74/kW-month.

Breakdown of Wholesale Costs

In 2012, capacity accounted for about 19% of the total cost of wholesale electricity, while ancillary services such as reserves and regulation accounted for about 1% and the cost of electric energy accounted for about 80%. The total cost of wholesale electricity has declined significantly in recent years; in 2012, the price of electric energy fell by 23%, to its lowest level since 2003, when markets in their current form were launched in New England. The decline is largely due to falling natural gas prices, which dropped 20% in 2012. Natural gas is the predominant fuel used to generate electricity in New England. The region's competitive wholesale markets are structured to allow the prices of inputs, such as fuel, to flow through to final wholesale electricity costs.

Next Steps

Finalized auction results, including information on any resources retained for reliability, will be included in a filing with the Federal Energy Regulatory Commission within the month. This filing will include resource-specific information.