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Auction Ends with Slight Shortfall in Power System Resources Needed for 2017–2018 in New England

Resource shortage pushes up capacity market costs

Holyoke, MA—February 5, 2014—New England’s auction to acquire the power system resources required to meet consumer demand in 2017–2018 concluded Monday with a slight shortfall, resulting in rising prices that reflect the need for new resources, according to ISO New England Inc., the operator of the region’s bulk power system and wholesale electricity markets.

Preliminary results show that the Forward Capacity Market (FCM) auction concluded with about 33,700 megawatts (MW) of the 33,855 MW of capacity required for the 2017–2018 capacity commitment period. The auction commenced at a starting price of \$15.82/kilowatt-month (kW-month) and concluded with a capacity clearing price of \$15.00/kW-month when a resource submitted a bid to withdraw from the auction if the price fell lower.

The capacity clearing price of \$15.00/kW-month will be paid in 2017–2018 to about 1,370 MW of new capacity resources cleared in this auction while about 24,885 MW of existing resources will be paid \$7.025/kW-month. Another 1,030 MW of existing resources with multi-year supply obligations will be paid at rates set in previous auctions. In Northeast Massachusetts/Boston (NEMA/Boston), 3,085 MW of both new and existing resources will be paid \$15.00/kW-month based on administrative pricing rules. Another 3,330 MW of self-supply resources will not be paid through the FCM.

Under the FCM, consumer demand and power system needs are determined through a regional stakeholder process and approved by FERC three years in advance, and an annual auction is held to purchase the power resources that will meet demand in that future year.

The prices are set through the Forward Capacity Market design developed from a 2006 regional settlement among ISO New England, market participants and the states, and approved by the Federal Energy Regulatory Commission (FERC). FERC also recently approved FCM administrative pricing rules that apply in situations such as this, when too few resources compete to provide capacity. These rules are designed to protect consumers from the potential exercise of market power that could inappropriately raise prices, while providing incentives to attract and retain resources.

A preliminary estimate of the total cost of the capacity market in New England in 2017–2018 is about \$3.05 billion; by comparison, through the first seven auctions, the total cost to the region ranged from about \$1.06 billion in 2013 to \$1.77 billion in 2009.

The first seven auctions concluded at the floor price with a significant surplus of capacity (with the exception of the NEMA/Boston zone, which had insufficient competition in the previous auction). However, for the first time in auction history, New England's capacity auction was conducted this year without a floor price; and in recent months, the region's capacity was substantially reduced, resulting in a small shortfall relative to the requirement. In advance of this auction, 3,135 MW of resources announced plans to retire, in addition to several major plants that had previously announced their plans to retire starting this year.

"The large number of resource retirements—nearly 10% of the region's total capacity—announced in just the past few months has caused a dramatic shift in the region's power supply landscape," said Gordon van Welie, ISO New England's president and chief executive officer. "The region abruptly went from a capacity surplus and low prices in previous auctions to a capacity shortfall and relatively high prices. The slim capacity margin and the resulting auction prices are a clear signal to the marketplace that the region needs more power generation and demand reduction capacity."

Major power plants planning to retire by June 1, 2017, include Brayton Point, a 1,535-MW power plant located in southeastern Massachusetts; Vermont Yankee, a 600-MW power plant located in southern Vermont; Salem Harbor, a 750-MW generator in northeastern Massachusetts; and Norwalk Harbor, a 350-MW power plant located in southwestern Connecticut. In addition, about 600 MW of demand resources submitted retirement requests.

While the auction closed with slightly less capacity than will be needed in 2017–2018, the FCM design provides mechanisms for such gaps to be closed through periodic reconfiguration auctions held over the next three years.

Forward Capacity Market Auction Basics

The annual FCM auction is held three years in advance to provide time for new resources to be developed. 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.

The administrative pricing formula applied in this auction arose out of the 2006 FCM settlement approved by FERC. The formula was designed to provide incentives for new resources to be developed when needed, while capping compensation to existing resources. The current market design balances the interests of consumers paying for capacity by building in price protection under conditions of scarcity, and the interests of resources providing capacity, by paying a price that reflects the need to attract new resources and retain existing capacity.

The \$7.02/kW-month administrative price for existing resources was recently approved by FERC, which concluded in a [January 24 order](#) that the price helps to "ensure reliability while protecting consumers and the market from sudden, significant price increases." The Commission also concluded that a lower price would "result in prices that are likely inadequate to incent new entry and retain existing resources."

In its January 24 order, the Commission also required ISO New England to speed up its plan to develop a sloped demand curve that would address several concerns about the structure of the capacity market, including reducing price volatility, and would eliminate the need for administrative pricing rules such as those implemented in this auction. The ISO is committed to filing a sloped demand curve with the Commission by its April 1 deadline.

Next Steps

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