



# ISO New England Update

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## *Consumer Liaison Group Meeting*

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# FORWARD CAPACITY MARKET UPDATE



# Forward Capacity Market Overview

- Procures capacity to meet New England's forecasted Installed Capacity Requirement (ICR) three years in the future
- Allows new capacity projects to compete in the market and set the price for capacity in the region
- Selects a portfolio of supply and demand resources through a competitive Forward Capacity Auction (FCA) process
  - Resources must be pre-qualified to participate in the auction
  - Resources must participate and clear in the auction to be paid for capacity during the capacity commitment period
- Provides a long-term (up to 7-year) commitment to new supply and demand resources to encourage investment



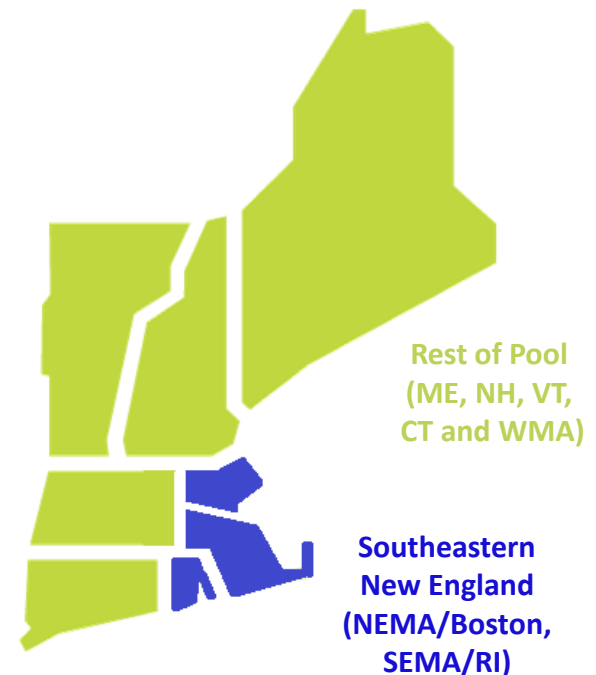
# Forward Capacity Auction #10 Update

- On **April 6, 2015**, ISO New England submitted a filing to the Federal Energy Regulatory Commission (FERC) identifying two *potential* new boundaries for capacity zones for the tenth Forward Capacity Auction (FCA #10)
  - “Southeastern New England Capacity Zone”
  - “Northern New England Capacity Zone”
- The filing was consistent with a **FERC requirement** that the ISO have a **process** for determining the appropriate number and boundaries of capacity zones in the New England region over time as conditions change
  - Under current market rules, new capacity zones must be approved by FERC prior to the qualification deadline for existing resources, which was June 1, 2015 for FCA #10
- FCA #10 is scheduled to take place in **February 2016** for resources needed beginning June 1, 2019



# Forward Capacity Auction #10 Update, *continued*

- On **May 29, 2015**, FERC issued an order accepting the ISO's filing regarding the two potential new capacity zones for FCA #10
- With the potential boundaries accepted by FERC, the ISO applied **objective criteria** to determine whether the potential zones would actually be modeled as separate capacity zones in FCA #10
- The results of the objective criteria testing this summer indicated that there will be **two capacity zones** modeled for FCA #10:
  - **Southeastern New England Capacity Zone** (import-constrained)
    - Including: Northeastern Massachusetts/Boston (NEMA/Boston) and Southeastern Massachusetts/Rhode Island (SEMA/Rhode Island)
  - **Rest-of-Pool Capacity Zone**
    - Including: Maine, New Hampshire, Vermont, Connecticut and Western Massachusetts



# Finalizing Zones for Forward Capacity Auction #10

- In **November**, the ISO will file the zonal modeling (and ICR value) calculations with FERC via a pre-FCA informational filing



# WINTER RELIABILITY PROGRAM UPDATE



# Winter Reliability Program Update

- On **July 15, 2015**, the ISO and NEPOOL submitted two alternative sets of market rule changes to establish a winter reliability program for the next three winters
  - Procedurally, when NEPOOL achieves at least a 60% vote on an alternative to an ISO rule change, a **“jump-ball”** scenario occurs and FERC may choose to adopt either proposal or a combination of the proposals
- Both proposals were intended to address **regional winter reliability challenges** created by New England’s increased reliance on natural gas-fired generation
- Both proposals would serve as a stop-gap measure until longer-term capacity market changes go into effect on June 1, 2018 (the ISO’s **Pay-for-Performance (PFP)** incentives)





## Winter Reliability Program Update, *continued*

- **NEPOOL's proposal** was based on the design of last winter's (2014-2015) program, which provided compensation for:
  1. Carrying costs of fuel oil that was unused at the end of the winter;
  2. Unused liquefied natural gas contract volumes; and
  3. Supplemental demand response
- The **ISO's proposal** shared the first two design features of NEPOOL's proposal, but also provided compensation for any generator that is supplied by on-site fuel
  - Any assets that are **supplied by on-site fuel** could participate, including, for example, nuclear units (fueled by uranium), coal-fired units, biomass resources, and units fueled by water, including pumped storage facilities

## Winter Reliability Program Update, *continued*

- On **September 11, 2015**, FERC accepted the NEPOOL proposal as **just and reasonable**, and **preferable** to the ISO proposal
- While the ISO proposal was an attempt to comply with FERC's request to work with stakeholders to expand the program, the record did not reflect that including the additional resource types would incent any additional fuel procurement
- In addition, the NEPOOL proposal was **widely supported** by a majority of stakeholders representing the six NEPOOL sectors

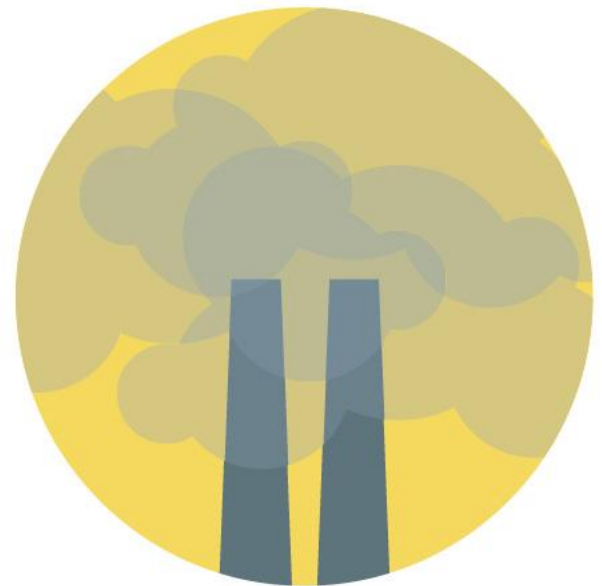
## Winter Reliability Program Update, *continued*

- FERC acknowledged that **neither of the proposals were market-based**, but recognized that out-of-market solutions might be appropriate in certain circumstances
- “Given the difficulties associated with creating and implementing a temporary and effective market-based reliability solution in a short timeframe, we are satisfied that an **out-of-market program** is an **appropriate and necessary** interim measure to aid in maintaining reliability during the next three winters, until the market-based Pay-for-Performance revisions become effective in 2018.”

# CLEAN POWER PLAN UPDATE

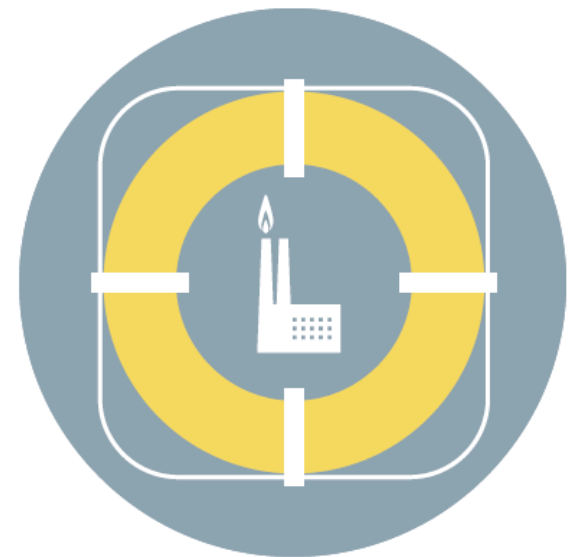
# An Overview of the Final Clean Power Plan

- On **August 3, 2015**, EPA released the **final rule** to regulate CO<sub>2</sub> emissions from existing power plants under Section 111(d) of the Clean Air Act
- Overall, EPA projects the rule will achieve a **32% reduction** in power plant CO<sub>2</sub> emissions from 2005 levels by 2030
- The program starts in 2022 with an eight-year interim period, and final targets in 2030
- EPA requires states to submit **plans** by September 6, 2016, but all states can request an extension to file final plans by September 6, 2018



# Reliability Considerations Incorporated into Final Rule

- EPA notes that the Clean Power Plan's **inherent flexibility** minimizes the chance of reliability concerns
- EPA also notes that changes to the final rule, especially moving the start of interim compliance to 2022 and making the interim goals more gradual, further reduce this risk by providing sufficient time to plan for **system reliability**
- However, EPA has incorporated **three** additional changes that are specifically geared toward incorporating reliability considerations into the final rule



# Reliability Considerations Incorporated into Final Rule

## 1. State Plan Revisions

- A state may submit a revision to its state plan in order to address changes in circumstances that could have reliability impacts

## 2. Reliability Demonstration

- Each state must demonstrate as part of its final plan that it considered reliability issues (e.g., through consultation with the appropriate ISO, RTO, or planning authority)

## 3. Reliability Safety Valve

- A state may seek temporary relief from an emissions standard for a reliability-critical generating unit due to an unanticipated event or other extraordinary circumstances



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