

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

	)	
Modernizing Electricity Market Design	)	Docket No. AD21-10-000
Resource Adequacy in the Evolving	)	
Electricity Sector	)	

**PRE-CONFERENCE STATEMENT OF ISO NEW ENGLAND INC.**

ISO New England (“ISO-NE”) is pleased to offer these written comments in advance of the second conference in this series, focusing on the New England region, to be held on May 25, 2021. We look forward to actively participating in the conference.

ISO-NE remains committed to its Forward Capacity Market (“FCM”) as an essential tool to ensure reliability, and believes that FCM has worked, as designed, to cost-effectively ensure resource adequacy for the region. However, market conditions are changing – particularly as the states have taken a more active role in resource procurement – and, therefore, the market’s design must also change.

Specifically, to better accommodate state-sponsored resources in FCM, ISO-NE is committed to working with the states and stakeholders to eliminate FCM’s Minimum Offer Price Rule (“MOPR”). Without further action, the MOPR may prevent sponsored resources from clearing in the market.

Of course, ISO-NE and the Commission are responsible for ensuring that any change to FCM is consistent with the market’s central mission, which is to ensure that the region has enough capacity to meet New England’s reliability needs. While this is true in all regions with centralized capacity markets, New England has unique reliability concerns that require us to make concomitant changes to the market rules to ensure that the elimination of the MOPR does not adversely impact reliability.

**The Relationship of the MOPR to FCM’s Reliability Objective**

While the elimination of the MOPR will remove the barrier to entry for sponsored policy resources, it will also result in uncertainty regarding the volume and timing of the entry of those sponsored policy resources, and their subsequent impact on prices. This uncertainty translates into greater financial risk for unsponsored merchant resources (both existing and new).

If left unaddressed, this uncertainty could have two unintended consequences. The first unintended consequence is the potential failure of the wholesale market to clear new entry when required. If the capacity market demand curve does not adjust for this greater financial risk, new

entry offers will be higher than the cost we have estimated to date. In effect, an unadjusted sloped capacity demand curve will procure fewer new resources, at a higher price, while falling short of the resource adequacy requirement. This problem is unlikely to self-correct in the capacity market and would require further interventions.

The second unintended consequence is the potential for inefficient retirements from existing unsponsored merchant resources if capacity prices are subject to persistent downward price pressure due to sponsored resource entry. The implications of such an outcome are magnified if the resources choosing to permanently shut down are necessary to maintain reliability through an extended clean energy transition.

In general, we know that – at least for now – much of the merchant fleet is needed to supply energy when intermittent and other “just in time” resources cannot. We also know that these merchant resources rely on their capacity market revenues, as many of them run infrequently in the energy market. Over time, these capacity market revenues will decrease as state procurements of intermittent resources – and our reliance on these merchant generators – increase.

### **New England’s Unique Reliability Concerns**

ISO-NE understands that PJM and NYISO may eliminate their versions of the MOPR without concurrent action to protect reliability. However, the three regions have different energy security concerns, resource mixes, and capacity margins. Most critically, New England sits at the far end of the natural gas pipeline network, such that the region is adding intermittent resources to a system that is already fuel-constrained.

Indeed, unlike PJM and NYISO, ISO-NE has been identified by the North American Electric Reliability Corporation (“NERC”) as one of the three most vulnerable regions in the nation (along with California and Texas).<sup>1</sup> In its most recent Winter Reliability Assessment, NERC stated in its “Key Findings” that “[f]uel supply and energy assurance risk remains a reliability concern in New England.”<sup>2</sup>

New England’s energy security concerns became evident for the first time during a cold snap in January 2004. At the time, approximately 8,000 MW of gas fired generation reported that they could not procure fuel in the daily gas markets; as remains the case, the regional pipeline system could not simultaneously support both heating load and electric generation during cold weather.<sup>3</sup> Some variation of this pattern has repeated itself in many cold snaps since, including as recently as the December 2017/January 2018 polar vortex.

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<sup>1</sup> *Power Struggle: Examining the 2021 Texas Grid Failure, Hearings before the Subcommittee on Oversight and Investigations, Committee on Energy and Commerce, 117<sup>th</sup> Cong.* (Mar. 24, 2021), testimony of James B. Robb, [https://energycommerce.house.gov/sites/democrats.energycommerce.house.gov/files/documents/Witness%20Testimony\\_Robb\\_OI\\_2021.03.24.pdf](https://energycommerce.house.gov/sites/democrats.energycommerce.house.gov/files/documents/Witness%20Testimony_Robb_OI_2021.03.24.pdf) at 7-8.

<sup>2</sup> See NERC 2020-2021 Winter Reliability Assessment, November 2020, [https://www.nerc.com/pa/RAPA/ra/Reliability%20Assessments%20DL/NERC\\_WRA\\_2020\\_2021.pdf](https://www.nerc.com/pa/RAPA/ra/Reliability%20Assessments%20DL/NERC_WRA_2020_2021.pdf) at 5.

<sup>3</sup> ISO New England Inc., *Final Report on Electricity Supply Conditions in New England during the January 14 - 16, 2004 “Cold Snap”* (Oct. 12, 2004), [Cold Snap Report \(nerc.com\)](https://www.nerc.com/pa/RAPA/ra/Reliability%20Assessments%20DL/NERC_WRA_2020_2021.pdf) at 27.

Over the years, the ISO has implemented a variety of operational and market improvements to address the energy security risks that first emerged in 2004, including the Pay For Performance incentive in the capacity market and an operational procedure to forecast energy availability over a twenty-one day look-ahead period.<sup>4</sup> We also implemented a number of out-of-market programs to address fuel security, including various targeted winter programs.<sup>5</sup> These efforts culminated most recently in our filing of the Energy Security Improvements (“ESI”) in response to the Commission’s requirement that ISO-NE develop a market-based solution to its energy security problem.<sup>6</sup> ESI was intended to optimize the utilization of existing fuel and energy infrastructure, by stimulating generation resources of every type to invest in forward fuel/energy arrangements or fuel/energy storage. The Commission rejected the ESI proposal in October 2020.<sup>7</sup>

### **Short and Long-Term Plans to Facilitate the Entry of Sponsored Resources While Maintaining Reliability**

As previously discussed, the elimination of the MOPR will increase risk for the merchant generating fleet. In the short term, that greater risk must be reflected in the FCM parameters if we are to avoid the potential reliability impacts noted above. To achieve this objective, we have asked our External Market Monitor, Potomac Economics, to help provide a framework to assess and quantify the additional uncertainty and accompanying risk that capital markets may impose on new or existing resources in a market without a MOPR when merchant resource investment is necessary.

We expect that Potomac will have preliminary recommendations ready in mid-July. The ISO will then begin outreach to the New England states and NEPOOL stakeholders, with the goal of developing a solution that is implementable, along with the elimination of the MOPR, in time for the seventeenth Forward Capacity Auction, for which qualification processes begin in March 2022. Accordingly, we are targeting a filing for the first quarter of 2022.

In the longer term, ISO-NE believes that the capacity market must continue to evolve to reliably operate the future grid. With or without the MOPR, a key step in this process will be the development of a new mechanism to accurately reflect the resource adequacy contributions of all

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<sup>4</sup> Performance Incentives Market Rule Changes, *ISO New England Inc.*, Docket No. ER14-1050-000 (Jan. 17, 2014); *ISO New England Inc.*, 147 FERC ¶ 61,172 (2014), *order on further compliance*, 49 FERC ¶ 61,009 (2014), *order denying reh’g on initial filing*, 153 FERC ¶ 61,223 (2014), *order denying reh’g of compliance filing*, 153 FERC ¶ 61,224 (2015). *See also* ISO New England Inc., *ISO New England Operating Procedure No. 21 - Operational Surveys, Energy Forecasting & Reporting and Actions During An Energy Emergency* (Jan. 12, 2021), [https://www.iso-ne.com/static-assets/documents/rules\\_proceeds/operating/isone/op21/op21\\_rto\\_final.pdf](https://www.iso-ne.com/static-assets/documents/rules_proceeds/operating/isone/op21/op21_rto_final.pdf).

<sup>5</sup> Winter 2013-2014 Reliability Program, *ISO New England Inc.*, Docket No. ER13-1851-000 (Jun. 28, 2013); Winter 2014-1015 Reliability Program, *ISO New England Inc.*, Docket No. ER14-2407-000 (Jul. 14, 2014); Winter Reliability Solutions, *ISO New England Inc.*, Docket No. ER15-2208-000 (Jul. 15, 2015).

<sup>6</sup> Compliance Filing of Energy Security Improvements Addressing New England’s Energy Security Problems, *ISO New England Inc.*, Docket No. ER20-1567-000 (Apr. 15, 2020).

<sup>7</sup> *ISO New England Inc.*, 173 FERC ¶ 61,106 (Oct. 20, 2020).

resources, whether new or existing, sponsored or merchant. This mechanism would affect both the supply and the demand sides of the capacity market (that is, the qualification process and the installed capacity target), and, ultimately, the capacity market's outcomes. Its complexity means that it is on a different schedule than the elimination of the MOPR. The same is also true for other changes, such as the development of new ancillary services that may be necessary to meet the demands created by the clean energy transition.

## **Conclusion**

As stated in its previous comments, ISO-NE understands that there are significant challenges ahead. These include facilitating the clean energy transition that our states have spearheaded, while simultaneously continuing to ensure reliability. We hope to work closely with our states and stakeholders to meet these challenges.

Thank you for the opportunity to submit these written comments.

Respectfully submitted,

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