

Alternative FCM Commitment Horizons – ISO Proposal to Delay FCA 19 to Facilitate Prompt/Seasonal Design



Chris Geissler

DIRECTOR

CGEISSLER@ISO-NE.COM



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Proposed Effective Date: June 2024

- Since August 2023, ISO and Analysis Group have discussed considerations and tradeoffs associated with the potential development of a prompt and/or seasonal capacity market with stakeholders
 - Culminated in an Analysis Group recommendation for the ISO to develop a prompt and seasonal capacity market
- Consistent with Analysis Group’s recommendation, the ISO is proposing a further delay to FCA 19 to allow time to design a prompt and seasonal capacity market
- This presentation reviews the ISO’s consideration to move to a prompt and seasonal capacity market and introduces an additional delay to the FCA 19 processes to incorporate time to develop a prompt and seasonal capacity market design

Background: Summary of Discussions to Date

- ISO, Analysis Group, and stakeholders have discussed the tradeoffs associated with prompt and/or seasonal capacity market concepts across several Markets Committee meetings
- Discussions have covered a range of topics including:
 - Potential market and reliability impacts
 - Possible interactions with capacity accreditation
 - Anticipated impacts under a future decarbonized grid
 - Key outstanding design questions and details
- Culminated in an [Analysis Group report](#) recommending the ISO develop a prompt and seasonal capacity market

ISO Proposal

- Consistent with this recommendation, ISO is proposing a further two-year delay to FCA 19 to allow for time to design a prompt and seasonal market for CCP 19
 - Also allows time for ISO to develop capacity accreditation reforms for CCP 19 in the context of a prompt and seasonal market
 - A two-year delay will provide maximum flexibility to develop three core components – prompt, seasonal, and accreditation reforms – for CCP 19
 - Timing of when auction(s) for CCP would be run under prompt and/or seasonal would be determined as part of detailed design
- Under the proposed delay, if necessary, FCA 19 would be run in February, 2028
 - Thus, the two year delay serves as a “backstop” that would be triggered only in the event that the redesign of the capacity market is not completed or accepted by FERC

Key Benefits of a Prompt Capacity Market

- Better accommodates new resource development timelines and addresses phantom entry and commercial delay concerns
- Reduces time between capacity sale and delivery, which may decrease risks (to both buyers and sellers)
- More accurately reflects demand and resource capabilities used to determine capacity awards, thereby producing more cost effective outcomes
- Also heard stakeholder feedback about key outstanding design considerations (*discussed further later in presentation*)

Key Benefits of a Seasonal Capacity Market

- Helps facilitate region's shift towards increased winter risk
- More accurately accounts for seasonal differences in resources' supply capabilities and forecast energy demand, thereby producing more cost effective capacity awards
- Provides more flexibility for sellers to reflect seasonal costs and performance in their offers
- Improves effectiveness of capacity accreditation design
- Also heard stakeholder feedback about key outstanding design considerations (*discussed further later in presentation*)

STAKEHOLDER FEEDBACK ON PROMPT/SEASONAL CAPACITY MARKET

Stakeholder Feedback on a Move to Prompt/Seasonal

While stakeholders noted many benefits with such a change, they also highlighted several areas that will require further consideration:

- Retirement process and potential for out-of-market retentions
- Impact on capacity market clearing prices
- Coordination of prompt and seasonal market changes
- Backstop provisions

Next: ISO outlines its current thinking on each

- ISO agrees these are important topics that will require further consideration and discussion with stakeholders
- In some cases, the discussion will be most informative in the context of a detailed design, which would begin after the delay filing is approved

Retirement Process and Resource Retentions

- The ISO recognizes that developing a prompt market requires changes to the resource retirement process, which is currently linked to capacity market
- While the region could continue to require a (approx.) 4-year notification notice, potential to shorten timeframe
- Discussed in [AGI's report](#) (pages 41 – 46)

Retirement Process and Resource Retentions (con't)

- Benefit of shorter timeframe: Allows existing resources to make retirement decisions with better information about resource/market conditions
- Drawback to shorter timeframe: Provides less time for markets to respond to retirement notifications
- ISO plans to prioritize evaluating retirement process reforms, including tradeoffs between shorter and longer timeframes, and to discuss its recommendations with stakeholders early in the prompt/seasonal design discussions

Auction Structure's Impact on Clearing Prices

- As an auction moves closer to delivery period, a capacity supplier may have fewer costs that remain avoidable
- This may result in lower offer prices from some capacity suppliers
- Stakeholders have asked whether this would lead to lower capacity prices generally and less opportunity to recover costs for maintenance, etc.
- ISO plans to assess further, but initial thinking is that this would not produce systematically lower capacity prices

Auction Structure's Impact on Clearing Prices (con't)

Logic explaining why prices would not decrease was outlined in

- [ISO's September presentation](#) (slides 12-13) and in
- [AGI's final report](#) (pages 53-57)
- Additional detail on ISO's current thinking is included in the appendix
- As part of detailed design effort, it will be important to assess the mitigation rules governing how resources participate in the auction, and what costs can be included in offers/bids to ensure sensible auction price formation

Key Design Details

- In addition to the topics discussed earlier, stakeholders have asked about a number of key design details including:
 - Timing of prompt auction
 - Number and duration of seasons under a seasonal design
 - Assessment of simultaneous auction that determines awards for each season in a single auction
- ISO has not yet been able to assess these items in detail, but agrees that they are important and plans to prioritize them items in its detailed design work

Coordination of Prompt and Seasonal

- Several stakeholders indicated a preference for the ISO to pursue both a prompt and seasonal market for CCP 19, rather than phasing the implementation across multiple CCPs
- ISO shares this preference given the benefits it sees to having prompt, seasonal, and accreditation reforms in place as soon as possible
- Desire to have all of the changes in place for CCP 19 informs the ISO's decision to seek a two year delay, as this provides maximum flexibility to do the work necessary to design a prompt and seasonal capacity market with accreditation reforms

Further Two Year Delay and Backstop Provisions

- The delay filing proposes pushing the capacity auction for CCP 19 back two more years to February 2028
 - Under the backstop, the qualification period for FCA 19 would begin in February 2027
- This proposed two-year delay serves as the “backstop” that would be used if a prompt and/or seasonal capacity market is not accepted
- Follows the same framework to the backstop that was approved by FERC as part of the November 2023 one year delay filing for FCA 19

Backstop Overview

- Shifts all FCA 19 activities back by another two years (three years total)
 - No Annual Reconfiguration Auctions for CCP 19, 20, and 21
- Employs a 10 month schedule over many auction cycles to return to three year forward schedule
 - Reduced number of Annual Reconfiguration Auctions during ‘back to forward’ transition period
- Includes language allowing resources with early in-service dates to submit qualification materials in 2025 and 2026

Summary of Proposed Tariff Changes

Tariff Section	Tariff Change	Reason for Change
III.13.A.1	Revises overview of interim Forward Capacity Auction schedules; previous material now organized according to new subparts	Expands interim Forward Capacity Auctions overview to FCA 37; subparts added for improved readability
III.13.A.1.1	New subpart revising existing language to explain FCA 19 (CCP 2028-2029) will be delayed by three years	Delay FCA 19 by 3 years
III.13.A.1.2	New subpart revising existing language to explain that the ISO will not run ARA 1 for FCAs 19-36	Eliminate ARA 1 during transition back to 3.5 year forward auction
III.13.A.1.3	New section explaining that ARA 2 will not run for FCAs 19-28	Eliminate ARA 2 until it occurs at least one year after the primary auction during transition back to 3.5 year forward auction

Summary of Proposed Tariff Changes

Tariff Section	Tariff Change	Reason for Change
III.13.A.1.4	New section explaining that ARA 3 will not run for FCAs 19-21	Eliminate ARA 3 until it occurs at least six months after the primary auction during transition back to 3.5 year forward auction
III.13.A.1.5	New section revising existing language to explain that FCAs 20-36 (CCPs 2029-2047) will run on a 10-month schedule	Ten month auction schedules under a two year further delay return to 3.5 years forward by CCP 37
III.13.A.2	New language allowing for submittal of qualification materials in 2025 and 2026 for resources with early in-service dates	Enable qualification for earlier reconfiguration auctions

Conclusion

- Consistent with Analysis Group recommendation, ISO is proposing a further two-year delay to FCA 19 to allow for time to design a prompt and seasonal market for CCP 19
- A two-year delay will provide maximum flexibility to develop three core components – prompt, seasonal, and accreditation reforms – for CCP 19
- Under the proposed delay, if necessary, FCA 19 would be run in February, 2028

Stakeholder Schedule

Stakeholder Committee and Date	Scheduled Project Milestone
Markets Committee, July 11, 2023 , Aug 8-10, 2023 , Sept 12-13, 2023	ISO reviews alternative FCM commitment period horizon key considerations
Markets Committee, Oct 11-12, 2023	ISO overview of scope of AGI's work
Markets Committee, Nov 7-8, 2023	AGI outlines methodology, gathers stakeholder feedback
Markets Committee, Dec 12-14, 2023	AGI publishes draft report and presents key findings, gathers stakeholder feedback
Markets Committee, Jan 9-11, 2024	AGI reviews final report; gathers stakeholder feedback
Markets Committee, February 6-8, 2024	ISO recommendation develop a prompt/seasonal proposal. Introduce FCA 19 additional delay
Markets Committee, March 12-14, 2024	Vote on FCA 19 additional delay
Participants Committee, April 4, 2024	Vote on FCA 19 additional delay

Parallel Stakeholder Processes

- The ISO is proposing to take additional time to prepare for CCP 19 to develop a prompt and seasonal capacity market
- While the ISO recommends developing a prompt and seasonal capacity market for CCP 19 and beyond, it is continuing to develop and prepare to implement RCA in a forward, annual construct with the auction delayed to 2026 while it awaits a FERC order on the further delay
- Below are the parallel stakeholder processes associated with these CCP 19-related efforts

		2023			2024												
		Q4			Q1			Q2			Q3			Q4			
		O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	
RCA Forward, Annual (for FCA 19 with One-Year Delay)	Refresher	Conceptual and Detail Design					Final Design, Review Tariff, and Amendments			MC/RC Vote	PC Vote; File					Eff. Date	
FCA 19 One-Year Delay	Review Tariff; MC Vote	PC Vote; File			Eff. Date												
Alternative FCM Commitment Horizons	Analysis - Scope & Methodology	Analysis Findings & Stakeholder Feedback			Introduce proposal to incorporate additional time to develop a prompt and seasonal capacity for CCP 19		MC Vote on additional FCA 19 delay	PC Vote on additional FCA 19 delay; File			Eff. Date						

APPENDIX: AUCTION STRUCTURE'S IMPACT ON CLEARING PRICES

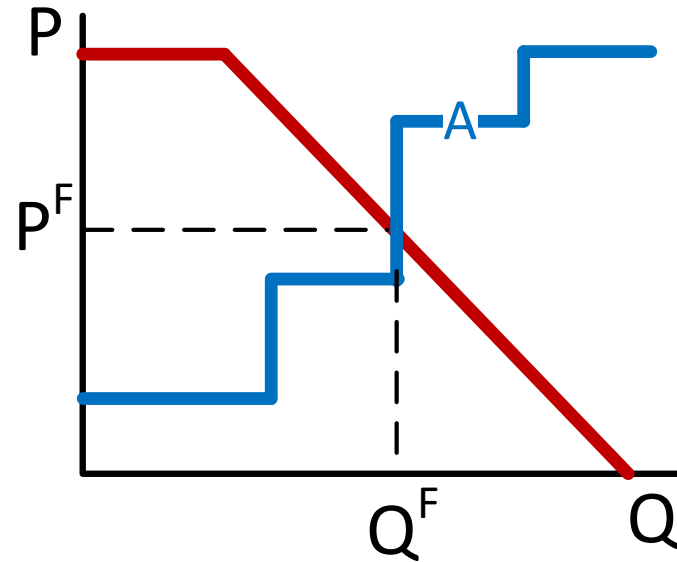
Auction Structure and Capacity Prices: Set Up

- Imagine Resource A has costs that exceed the forward FCA
 - Resource A could be an existing resource, or a potential new resource considering whether to be built
- Key assumption: These costs are avoidable at the time the FCA is run, but are no longer avoidable in a prompt setting
- *Next:* Walk through expected resource offer/bidding behavior under both a forward and prompt setting



Forward Market Outcome

- In a forward setting, Resource A accounts for these avoidable costs in its offer/bid price
- Because this offer/bid price exceeds the clearing price, it is not awarded a CSO



Prompt Market Outcome: Options for Resource A

- Now consider the resource's options under a prompt auction, where it would have to incur these costs before the auction
 - In other words, these costs are no longer avoidable at the time that the auction is run
- **Option 1:** Incur these costs and then offer capacity at a lower price (since these costs are no longer avoidable)
- **Option 2:** Do not incur these costs and therefore do not sell capacity in the auction
- What option would we expect Resource A to pursue?

Prompt Market Outcome: Expect Resource A to Choose Option 2

- Prevents Resource A from incurring costs that it would not expect to recover in the capacity market
- Outcome is consistent with competitive behavior, and expected outcomes in other markets
- For example, we wouldn't expect a resource to incur investment costs to provide ancillary services if it did not expect to recoup the costs through (incremental) ancillary service revenues

Choosing Option 2 Results in Same Price Under Prompt as Occurs Under a Forward Auction

- Resource A's offer is removed from supply stack, but clearing prices (and quantities) are unchanged between a forward and prompt auction structure

