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July 22, 2024

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Re: *Capacity Auction Reform: Feedback on Project Scope and Sequencing*

The Massachusetts Attorney General's Office ("AGO") would like to thank the ISO New England ("ISO") team for the status update on what the ISO now terms its Capacity Auction Reform ("CAR") initiative at the July 9–10 Markets Committee ("MC") meeting ("July MC"). In response to the ISO's invitation to stakeholders to provide feedback as the ISO continues to develop the scope, sequencing, and timeline for the CAR initiative, the AGO submits the following feedback and recommendations.

***Feedback on CAR Scope***

The scale, scope, and complexity of the ISO's capacity reform efforts have expanded significantly since the early iterations of the ISO's Resource Capacity Accreditation ("RCA") initiative. Regardless of the ultimate design details, the currently proposed CAR initiative will likely impact nearly every aspect of the capacity market, and—in addition to its obvious effects on the New England capacity market itself—it may have effects on the region's other wholesale energy markets, generation fleet, rate of progress in the clean energy transition, bulk power system reliability, and retail electricity rates.

The ISO is rightly concerned about defining a limited scope for CAR that can be completed in time for Capacity Commitment Period ("CCP") 19,<sup>1</sup> and has set objectives for defining project scope in an effort to mitigate this concern.<sup>2</sup> The AGO recognizes that the magnitude of this undertaking as well as time and resource limitations will require the ISO to carefully define the scope for CAR, and that some reforms that stakeholders view as critical for the capacity market

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<sup>1</sup> CCP 19 begins on June 1, 2028, and the ISO has stated that the capacity auction design likely needs to be completed, filed, and approved "well in advance of" CCP 19. July 10, 2024 ISO-NE Presentation ("July MC Presentation"), Slide 11.

<sup>2</sup> The July MC Presentation laid out three objectives in developing the scope for CAR, (1) "[c]omplete the work in time for CCP 19 to facilitate benefits of CAR to region and confidence to marketplace;" (2) "prioritize design work that provides the most value to the region in the shortest time;" and (3) "avoid project scope expansion or changes that risk Objectives 1 and 2." July MC Presentation, Slide 10.

design may not be included for consideration in advance of CCP 19. We note, however, that this effectively pushes the prospect of such reforms years into the future and makes those reforms' eventual future adoption entirely speculative. With that in mind, we echo the comments of other stakeholders at the July MC that the ISO should develop a longer-term strategic plan and roadmap for consideration and implementation of needed capacity market reforms that are outside the scope of CAR for CCP 19.<sup>3</sup> In addition, while the July MC Presentation describes the way “non-core” elements included in CAR will be prioritized according to the value each element provides,<sup>4</sup> the AGO suggests that the ISO establish some clear design objectives against which the various feasible CAR scope packages can be evaluated. Similarly, the AGO asks that the ISO provide more clarity over how it defines “value” and “benefits to the region” related to its Scope Objective #2.<sup>5</sup>

Additionally, while the ISO and stakeholders have many important and interdependent decisions to make in shaping the capacity market design under CAR, there are certain threshold decisions about market structure that will form the foundation upon which subsequent design decisions are made, and those threshold decisions should be made as early in the process as possible. For example, decisions about whether to retain the Descending Clock Auction (“DCA”) format or move to a sealed-bid auction format; and decisions about the seasonal auction schedule and timing, including whether to run seasonal auctions simultaneously or serially. These decisions need to be made as early as possible in the process to facilitate subsequent design work within the context of an overall market design foundation.

#### ***Additional Impact Analysis Considerations***

The AGO requests that, to the extent that the ISO decides to separate its CAR initiative into multiple Federal Energy Regulatory Commission (“FERC”) filings, that it provide an Impact Analysis (“IA”) with the initial filing, and then for subsequent filings, provide subsequent IAs that incorporate the impact of any previous filings to date. While we understand that impacts may look quite different as layers of reform are developed in sequence, understanding the impact of as-filed reforms will be critical to stakeholder support for the filings.

The AGO also requests that the ISO review its processes and models in the near term to consider whether there are ways to increase the speed and flexibility of the IA for CAR, even to the extent it may require non-trivial investment in systems, processes, and methodologies. The IA will play a critical role in helping the ISO and stakeholders understand the implications of design decisions, and a faster, more nimble process will increase the value of the IA analysis immeasurably. This could potentially allow the effects of individual design decisions to be better understood, and could be particularly helpful, for example, when investigating the effect of a

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<sup>3</sup> The July MC Presentation listed a number of these issues that should be included for consideration in the ISO’s long-term capacity market plan and roadmap.

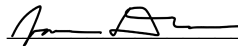
<sup>4</sup> Addressing non-firm gas resource accreditation has been a priority for the AGO, *see* Massachusetts Attorney General’s Office Letter Regarding Alternative FCM Commitment Horizons (January 19, 2024), and the AGO appreciates, and continues to emphasize the importance of, the ISO’s inclusion of the development of a market constraint to reflect limited gas availability within the scope of CAR.

<sup>5</sup> July MC Presentation, Slide 14.

model input with non-linear effects on outcomes, because it would allow for more model runs at incremental values of the input being tested.

Finally, the AGO asks the ISO to consider how it might present analyses that allow stakeholders to compare different proposals more readily with the status quo and each other. For example, the ISO's market clearing results comparison of the RCA proposal with the status quo showed that under the RCA proposal the auction cleared fewer MW of capacity at a higher clearing price, resulting in both higher total cost and higher reliability.<sup>6</sup> An additional comparison of the two regimes on an equivalent-reliability basis could have more clearly delineated the efficiency impact of the proposal.

Thank you for the opportunity to provide this feedback, and the AGO looks forward to future discussions about the scope and sequencing for the CAR initiative, including at the August MC meeting.



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<sup>6</sup> May 7, 2024 ISO-NE MC Presentation, Slides 11 and 21.