



TO: ISO New England Inc.

FROM: Bruce Anderson, SVP & General Counsel

DATE: July 23, 2024

RE: Capacity Auction Reforms Scope

The New England Power Generators Association, Inc. (“NEPGA”) thanks ISO New England Inc. (“ISO-NE”) for the opportunity to comment on ISO-NE’s draft objectives and scope of work for the Capacity Auction Reforms (“CAR”), as presented by ISO-NE at the July 10, 2024, NEPOOL Markets Committee meeting. NEPGA offers the following comments and asks that ISO-NE make several changes to its proposed objectives and scope. First, NEPGA asks ISO-NE to add, as the primary CAR objective, the development of a market design that allows for economic price formation and sends economic price signals to promote the efficient entry and exit of capacity from the market. Second, NEPGA asks ISO-NE to amend the CAR scope to include as priority scope items: (1) what costs may be reflected in a capacity market offer / offer price mitigation; (2) the pricing treatment of a resource operating under a Reliability Must Run agreement; and (3) applying the same Resource Capacity Accreditation (“RCA”) design principles applicable to all supply and demand to the accounting of tie benefits.

I. Sound Market Design Should be a Primary Objective

ISO-NE offers two primary objectives against which the scope of design changes should be measured: (1) can be completed in time for effect beginning in FCA 19; and (2) prioritize design work that “provides the most value to the region in the shortest time.” Though NEPGA does not necessarily disagree with these objectives, the more fundamental objective that must be satisfied in the initial scope of work is to prioritize those design elements that contribute to economic price formation and signals, efficient market entry and exit, and system reliability. Failing to measure potential design elements against these fundamental design principles risks undermining the market improvements ISO-NE intends to create with RCA and a prompt/seasonal design.

The RCA design newly recognizes constraints on energy inputs (and other factors contributing to the ability to produce energy) to more accurately measure resource contributions to the region’s capacity needs. Under this construct, all resources are measured against a common metric - “perfect capacity” – making each MW of capacity priced in the market

substitutable. Likewise, demand is reflected as a measure of “perfect capacity,” i.e., the amount of perfect capacity the market must procure to meet New England’s resource adequacy needs. Together, more accurate measurements of capacity contributions and a substitutable capacity product sharpen price signals and improve upon the efficient entry and exit of capacity from the market. To the extent there is capacity (whether as a measure of supply or demand) not subject to the more precise resource adequacy measurements and/or is not substitutable with other capacity MWs, the design is undermined. ISO-NE should prioritize design elements that promote rather than undercut the intent of the RCA design changes, including those discussed further below.

Likewise, among other benefits cited by proponents, the move to a prompt/seasonal market design is intended to improve upon capacity market price signals and efficient entry and exit. For the reasons given above with respect to RCA, the prompt/seasonal design changes should as well include as a primary objective the application of sound market design principles within the prompt/seasonal construct.

II. Consistent With Sound Market Design, the Scope Should Include Offer Price Formation, RMR Pricing and Tie Benefits

As an initial matter, NEPGA generally supports ISO-NE’s draft “core scope items” and expects ISO-NE will maintain and complete those core items for effect beginning in FCA 19. As discussed further below, however, three design elements not currently in ISO-NE’s initial core scope proposal contribute directly to a sound economic market design and should be added to the core scope items. These design elements are consistent with ISO-NE’s proposed objectives to prioritize work that provides “the most value to the region in the shortest time” and that can be completed for effect beginning in FCA 19.

First, central to price formation and price signals are capacity supplier offer prices, yet the current (forward market) rules governing what costs a Market Participant may include in a capacity market offer price may not allow for meaningful offer price formation under a prompt design. To date, ISO-NE has suggested that most if not all capital costs (and potentially other pre-commitment period costs) may not be reflected in a capacity market offer price under a prompt market design. In addition, the Internal Market Monitor, in its January 31, 2024, memorandum to the NEPOOL Markets Committee, opines that a prompt/seasonal design “is likely to require some significant changes to existing seller-side and buyer-side market power mitigation rules and processes.” With this apparent uncertainty and given how critical offer price formation is to the efficient and economic clearing of the capacity market, ISO-NE should add as a priority scope item the rules governing offer prices and offer price mitigation. This scope item would provide

great value to the region, in that it would add transparency and greater certainty to the capacity costs the region bears.

Second, the current price-taker treatment of RMR resources depresses capacity clearing prices below economic levels, undermining price signals for market entry and exit. Moving to a prompt design may increase the likelihood of ISO-NE retaining resources through RMR agreements and the duration of those RMR agreements (i.e., risk of multi-year RMRs). Further, depressing prices below economic levels while at the same time ISO-NE looks to sharpen price signals and price formation through the CAR changes would be counterproductive. This is a critical issue that should be addressed as a priority scope item. This scope item likewise will benefit the region, in that uneconomically retaining resources and pricing them at \$0/kW-month: (1) displaces both other resources seeking to enter the market (including those favored by the New England states in furtherance of their policy goals) and existing resources offering to provide capacity at an economic price; and (2) undermines cost effective outcomes to meet the region's resource adequacy needs.

Third, the measure of firm "emergency energy" (tie benefits) should be added as a priority scope item. As discussed above, the RCA changes convert both supply and demand to a "perfect" or "firm" capacity equivalent for purposes of clearing the market. At present, the tie benefit value is used to reduce the demand quantity on (essentially) a one for one basis – effectively counting tie benefits as "perfect capacity" without any critical consideration of the availability of emergency energy in all hours (and more importantly, during scarcity condition hours). Thus, where all other supply and demand within the capacity market is critically reviewed for constraints and evaluated against "perfect capacity," tie benefits are assumed to be perfect capacity. This disconnect must be remedied as part of the RCA changes – and given the magnitude of the tie benefits value (approximately 2,100 MW in FCA 18) should be remedied as a priority scope item. The region will benefit from a more critical review of tie benefits, in that overvaluing the contribution of emergency energy to meet ISO-NE's resource adequacy needs: (1) risks resource adequacy and reliability; and (2) undervalues capacity, which in turn can lead to inefficient retirements (and inefficient new resource costs).