

TO: JAMES WOODS, MARKETS COMMITTEE SECRETARY

FROM: STEFAN KOESTER, CHELSEA MATTIODA, WOODYDYNNE DEJEANLOUIS, ARIELLA FUZAYLOV; SYNAPSE ENERGY ECONOMICS

DATE: JULY 22, 2024

RE: FEEDBACK TO ISO ON PRELIMINARY SCOPING PLAN FOR CAPACITY AUCTION REFORM EFFORTS

Synapse submits this feedback as part of our role representing clients at NEPOOL and in regard to the request for project scope feedback at the July 9th Markets Committee on the ISO's Capacity Auction Reform (CAR) efforts.¹ Synapse is a leading voice for public interest and government clients in providing rigorous analysis of the electric power sector. We would like to thank the ISO for the opportunity to provide feedback and suggestions on the scope of the Capacity Auction Reforms.

Please see our specific feedback below. While these comments reflect Synapse's views and not necessarily the views of any individual client, the Connecticut Office of the Consumer Counsel and the New Hampshire Office of the Consumer Advocate have expressed support for the views outlined below.

I. We support CAR efforts and encourage ISO to be transparent in this process to ensure timely filing.

Overall, we believe that these efforts to redesign the region's capacity markets from a three-year forward capacity model to a prompt and seasonal market, alongside efforts to reform capacity resource accreditation, will benefit consumers by more accurately reflecting needed demand during commitment periods, improving reliability, and facilitating the ongoing energy and market transitions that the region is experiencing. We appreciate that this is the beginning of a long, multi-year iterative process which is likely to require significant time and attention from ISO staff and NEPOOL participants. We encourage the ISO to remain committed to providing timely and transparent updates regarding both the scoping of the CAR as well during the formal process of developing the program.

II. ISO-NE should detail and develop fundamental market design objectives.

We support calls for the ISO to lay out what it sees as the key market design objectives of any reforms to the capacity market. Clearly articulating the ISO's objectives for these reforms at the beginning of this process will help guide the scoping process, the subsequent stakeholder discussions, and the ultimate filing with FERC. The ISO has an opportunity as it begins the scoping process for the CAR to lay out objectives in a concise and approachable manner that will enable stakeholders to meaningfully participate in the scoping and design process to support their alignment with the ultimate objectives.

¹ ISO-NE, Capacity Auction Reforms: Kick-Off Discussion of Project Scope, https://www.iso-ne.com/static-assets/documents/100013/a08_mc_2024_07_09-10_initial_car_scope_considerations.pdf.

III. ISO should ensure a timely transition to a prompt and seasonal market while limiting the number of market disruptions.

We encourage the ISO to make the development of a prompt and seasonal market its top priority to ensure that the region transitions by the critical deadline of November 2027. To achieve this objective, we understand that the ISO will likely have to prioritize this over other issues and that other market reforms may fall outside of the scope of the CAR. While we acknowledge that lower capacity prices, and ultimately lower consumer prices, are not guaranteed from a shift to a prompt and seasonal market, we believe that it is a critical benefit of any design effort. Additionally, ensuring that reliability of the regional system under a prompt and seasonal market remains a top priority in any new program is critical to the overall success of these reform efforts.

At the July Markets Committee, ISO staff noted that the CAR process may be split up into two or more sequential FERC filings. This could ensure timely implementation of parts of the program but also poses risks in how a sequential filing process may affect how each core scope item interacts with the other. A dual-filing approach also has the potential to increase disruptions in the market should the FERC ultimately require significant alterations to one or more core scope reforms. We encourage the ISO to pursue and prioritize simultaneous reforms to encourage stability and limit market disruptions. ISO should make it a priority to limit the number of market disruptions that it undertakes in reforming the capacity markets. These markets are incredibly complex and require market participants and stakeholders to have proper and adequate time to review potential changes. Each intervention in the market requires additional time and effort by stakeholders to ensure that all elements of the market function properly together.

IV. We support prioritization of resource accreditation framework, especially for gas resources.

A key element to the CAR will be the development of a new resource accreditation framework for a diverse array of resources. We encourage continued prioritization of the market constraint gas resource accreditation framework that the ISO has proposed to align with the overall objectives of the RCA. By using a more accurate capacity accreditation for resources in a prompt market, the total system costs are likely to be lower as the most cost-effective resources are updated on a more frequent basis. Additionally, we support the consideration of gas constraints in the reformed accreditation framework to account for firm and non-firm gas resources as well as gas resources that may be limited in where they sit on the natural gas pipeline transmission network. These reforms can help the market function better and provide consumer cost benefits by aligning payments to resources with a more accurate representation of their individual ability to provide capacity to the market. Reforms to how the region accredits gas resources should be a priority in the ISO's CAR scoping plan to ensure that the benefits of a prompt market are known early in the program design process.

V. Improvements to the load forecast error modeling should be prioritized.

A key advantage of a prompt market is the reduction in load forecast and ICR uncertainties. By updating net-ICR closer to the commitment period, using the most recent load forecast available in advance of the commitment period, a prompt market is likely to avoid costly over-capacity commitments for

resources that are not ultimately needed. We support and encourage the ISO to prioritize these reforms to the ICR process in the scoping plan.

VI. Revaluation of tie benefits is not a critical priority at this stage of the CAR scoping plan.

The ISO's presentation at the July Market's Committee stressed that stakeholders will need to jointly agree on a feasible scope and avoid unnecessary project scope expansion or changes that may undermine other objectives to ensure timely implementation of the program. While the discussion regarding the value of tie benefits is separate from the discussions on CAR, the tie benefits discussion is likely to have an impact on total system capacity needs. While we recognize that several stakeholders see this as an important issue, we find that the impact is likely to be small and this should be considered a low priority, to be taken up in subsequent auction reforms as time permits.

VII. Treatment of Retained Resources should be left out of the CAR scope.

At the July Markets Committee meeting the ISO offered for a discussion a reevaluation of the current treatment of retained resources, commonly known as Reliability-Must-Run (RMR) resources. We agree with the ISO's initial assessment that RMRs will pose little threat in the near term and believe that this should be left out of the CAR scope. The risks of the RMR status quo, however, pose meaningful concerns and leaving it out of the scope in the near-term should not be taken as a lack of concern regarding the need to address this issue in the future. While we appreciate the attention that the CAR will require on the part of the ISO, we believe that the ISO must continue to pursue additional, broader market reforms simultaneously.

VIII. Revising the existing Load Model to more accurately match current expectations fits within scope.

During the July Markets Committee's discussion, the ISO briefly presented thoughts regarding revisions to the load model, including such core RCA model assumptions as the weather years used for seasonal load shapes and how those loads are scaled within the model to match current load levels. Although we understand this to be somewhat vague proposal, we find this item to be fundamental to the RCA design and should be included in the scope for FCA-19. Some of the extra time afforded by the move to a prompt market should be used to revisit the assumptions of how load is represented in the model to ensure it matches current expectations.

Thank you for your consideration of this feedback. We welcome any communication if we can help to clarify our positions and look forward to the robust stakeholder discussion that lies ahead.