



Capacity Auction Reforms

Key Benefits and Elements of a Prompt Auction

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Earliest Target Effective Date: Q2-Q3 2026

- The ISO is proposing phased Capacity Auction Reforms (CAR) that would first transition the Forward Capacity Market to a prompt market and then to a seasonal market with accreditation reforms
- Today's discussion reviews the elements associated with moving to a prompt auction to help refresh the committee on the benefits and objectives of the project ahead

Summary of Today's Discussion

- Follow ups from November MC discussion
- Key benefits of moving to a prompt auction
- Key design elements that must be considered in a prompt auction framework

All Proposed Changes to Capacity Accreditation Will Be Discussed with Stakeholders

- The ISO plans to explain and discuss all proposed changes to capacity accreditation, including those that are consistent with the previously proposed RCA framework, as if they are being presented for the first time
- The ISO will indicate whether proposed accreditation changes are consistent with those discussed under RCA, or whether they differ (and how)

Follow Up: Assessment of Ambient Temperature Adjustments

- At the November MC, the ISO explained its rationale for not considering ambient temperature derates in the scope of CAR, and instead assessing this topic as part of the roadmap that follows CAR
- Stakeholders asked that the ISO provide information on the size of the impact associated with ambient temperature derates
- The ISO will explore whether it is possible to include this information as part of its future assessment of ambient temperature derates that follows CAR

Overview: Prompt Design Filing

- The ISO plans to pursue two filings under CAR
- The first filing will include the move to prompt and reforms to the retirement/deactivation process
 - This filing will maintain annual commitment periods and use the qualified capacity concept (i.e., not include the market reliability impact accreditation reforms)
 - However, this first filing must be complete and implementable on its own
- *Next:* Discussion of the benefits of a prompt auction



BENEFITS OF A PROMPT AUCTION



A Prompt Auction Offers Several Benefits

- The ISO has identified several benefits to moving from its current forward capacity auction to a prompt auction
- Many of these benefits are independent of the other changes being proposed under CAR
 - E.g., Even without moving to a seasonal capacity market with accreditation enhancements, there are several ways in which a prompt market will help to improve market efficiency
- However, several additional prompt benefits accrue with the subsequent move to a seasonal market with accreditation reforms
- *Next:* Discuss several of the prompt benefits in more detail, including those that are independent of other changes, and those that interact with the seasonal and accreditation reforms



A Prompt Auction Helps to Avoid Adverse Impacts of Phantom Entry and Delayed Operation

- By running the auction much closer to the start of the delivery period, end users are more likely to get the capacity that they pay for, and the price associated with this capacity better aligns with its actual marginal reliability impact
- This reduces risks to end users and capacity sellers
 - **End Users:** Helps address ‘money for nothing’ concern, where consumers buy capacity that is not operational for the commitment period
 - **Capacity sellers:** Will only compete to sell capacity with resources that will be able to provide capacity during the commitment period

A Prompt Auction Provides More Accurate Information for the Development of Auction Input Parameters

- A prompt auction cycle enables the use of more up-to-date forecasts for the commitment period, rather than forecasting many years out, benefiting the development of many auction input parameters including:
 - The MRI-based capacity demand curve
 - Derivation of capacity accreditation values
- The prompt auction's use of more accurate auction inputs and information will facilitate more cost-effective outcomes as it helps ensure the auction buys the right amount of capacity from the right resources to meet the region's resource adequacy needs
- The benefits of up-to-date inputs will grow as key drivers change the region's reliability needs:
 - Decarbonization policies in the region
 - Innovation and new technologies (generation, storage, demand-side)
 - Electrification of key sectors (e.g., heating, transportation)

A Prompt Auction Provides Better Information for Capacity Suppliers

- Resources are expected to have more up-to-date information about their operational capacities, and expected system and market conditions when determining their offer price
 - For example, they will have more accurate information about PFP risk (both due to resource performance and expected number of hours) associated with selling capacity that can factor into their offer price
- A prompt auction allows for a shorter retirement/deactivation notification window, which may allow resources to make more informed decisions about when to cease operations
- A prompt auction better aligns with the timeframe in which gas resources may procure winter gas contracts
 - Many winter gas contracts are executed in the summer/fall leading up the winter, rather than several years forward



Earlier Discussion of Benefits of Prompt

- [The ISO summary](#) prior to 'further delay' filing in Q2 of this year
- [Analysis Group report](#) recommending move to a prompt and seasonal capacity market
- [Analysis Group slides](#) summarizing key findings in their report

KEY DESIGN ELEMENTS OF A PROMPT AUCTION



Key Design Elements of a Prompt Auction

The move to a prompt capacity market requires careful consideration of numerous design elements, including:

- Development of a new retirement/deactivation process
- Auction structure and bid/offer collection process
- Assessment of competitive price formation and mitigation
- Development of a revised new capacity qualification process
- Creation of a new auction activity schedule
- Other substantive and conforming changes that do not neatly fit into the above categories

Next: Discuss each further

- More detailed discussion on these topics will begin in early 2025

Development of a New Deactivation Process

- Currently, resources indicate their intent to cease operations via the capacity market, where retirement delist bids are collected more than 4 years before the start of the commitment period
- With the move to prompt, the ISO will decouple the deactivation process from the capacity market auction's offer/bid process
- Deactivation notices would be due less than 4 years in advance, but well before the auction is run to allow the ISO time to assess whether the deactivation raises any concerns with respect to local transmission security or market power
- The ISO will begin discussions on this topic in January

Auction Structure and Bid/Offer Collection Process

- As the ISO has explained previously, it expects to move from its current descending clock auction (DCA) to a sealed bid auction as part of the CAR reforms
- Moving away from the DCA format is sensible as one of the DCA's core benefits is that it provides information to potential entrants during the auction, a benefit that is largely obviated with the move to a prompt auction
- This requires numerous changes to the auction administration, including changes to how and when bids/offers are collected from stakeholders



Competitive Price Formation and Mitigation

- ISO will assess how competitive offer prices are developed under a prompt auction, and how this translates into capacity clearing prices
 - For example, the change in timing may impact what costs are avoidable
- Mitigation rules must be developed that are consistent with competitive offer prices under a prompt framework and changes to the retirement/deactivation process



Development of a Revised New Capacity Qualification Process

- Under the current forward auction structure, new projects can sell capacity years before they expect to achieve commercial operation
 - Reflects fact that there is significant time between auction and delivery period for projects to be completed and resources to become commercial
 - Requires process to track project against development milestones
- Under a prompt auction, where the auction is run much closer to the delivery period, new resource qualification can be substantially simplified
- The shorter auction activity timeline and new resource qualification rules may alleviate the concerns about phantom entry and delayed operation that exist today

Prompt-Annual Auction Activity Schedule

- The current auction activity schedule runs from ~52 to ~40 months ahead of the commitment period
- This example [schedule](#) includes numerous activities, windows, and deadlines, where many are dependent on others being completed
- Current activities include:
 - Qualification for new and existing resources
 - Submission and finalization of offers/bids
 - Composite offer and self-supply windows
 - Review processes for local transmission security and market power
 - Deadlines for submission of Financial Assurance
 - Determination of auction demand parameters including zonal determinations, Net ICR, derivation of MRI-based demand curves
 - Numerous filings to FERC



Prompt-Annual Auction Activity Schedule (con't)

- The move to a prompt auction will require that this activity schedule be changed
- Additionally, with the expected capacity market changes, including the move to a seasonal auction framework where each auction is held in advance of the season, the evaluation will need to consider ways in which to shorten the activity schedule



Other Substantive and Conforming Change Examples

- With a change of this magnitude, the ISO expects that there will be many other changes that are identified and discussed with stakeholders, including but not limited to:
 - Modifications to the qualification processes (including for existing resources)
 - Likely to include numerous cases where existing market rules can be simplified or eliminated with the move to a prompt auction
 - E.g.: ARAs, ARTs, and related activities would be eliminated

Conclusion and Next Steps

- Starting in January, the ISO plans to begin discussions related to the proposed deactivation process under CAR
- The ISO appreciated stakeholder interest and engagement on the CAR scoping effort and looks forward to continued discussion and feedback as we start design discussions

PRELIMINARY CAR SCHEDULE



Schedule Summary

The ISO plans to pursue two filings under CAR

- Filing 1: Prompt market and retirement/deactivation reforms
 - Start discussion of proposed design in Q1 of 2025
 - Target filing date: Q4 of 2025
- Filing 2: Seasonal market and accreditation reforms
 - Start discussion of proposed design in late 2025
 - Key design decisions on seasonal market and accreditation reforms will be shared and discussed earlier if/as they are available
 - Target filing date: Q4 of 2026

Current Thinking: Stakeholder Process - Overview

Introduced
October
MC Meeting

There are several broad phases laid out in the anticipated stakeholder process:

- Capacity Auction Reforms - Prompt and Deactivation (CAR-PD)
 - Final scope and design reset/refreshers: Q4 2024
 - Conceptual & Detailed Design: Q1 2025 – Q2 2025
 - Finalize Design, Review Tariff Language, and Stakeholder Amendments: Q2 2025 – Q3 2025
 - Voting: Q4 2025 (Technical Committees) and Q4 2025 (Participants Committee)
- Capacity Auction Reforms – Seasonal Accreditation (CAR-SA)
 - Conceptual & Detailed Design: Q3/Q4 2025 – Q2 2026
 - Finalize Design, Review Tariff Language, and Stakeholder Amendments: Q2 2026 – Q3 2026
 - Voting: Q3/Q4 2026 (Technical Committees) and Q4 2026 (Participants Committee)
- Capacity Auction Reforms – Impact Analysis (CAR-IA)
 - Directional qualitative impacts to be delivered as soon as they become available
 - Projected earliest review of methodology and assumptions: Q4 2025
 - Projected earliest review of initial results: Q1 2026
 - Final Results: Q3 2026

Current Thinking: Stakeholder Schedule for CAR

Introduced
October
MC Meeting

	2024		2025				2026					
	Q4		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
CAR Scope	Final Scope Determined											
		Design Refresher										
CAR-PD (Prompt/Deactivation)			Deactivation Design		Finalize design, Redlines, and Amendments	Tech. Comm Vote(s)	PC Vote					
				Prompt Design								
CAR-SA (Seasonal /Accreditation)		Key Directional Design Decisions as Available			Potentially Preview Early Design Concepts		Conceptual and Detailed Design		Final Design, Redlines, and Amendments	Tech. Comm Vote(s)	PC Vote	
CAR-IA (Impact Analysis)			Directional Qualitative Impacts as Available				Methodology and Assumptions	Initial Results		Finalizing Results		

Questions

