Capacity Auction Reforms (CAR) - Deactivations

Notification and Information Release

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PRINCIPAL ANALYST

CAR – Deactivations

WMPP ID: 184

Proposed Effective Date: Q2 2026

- Moving to a prompt capacity auction requires modification to the existing market rules and business processes for resource retirements
  - The deactivation process will be separated from the capacity market offer process
  - The retirement notification timeline will be shortened from 4 years to 2 years
  - Conforming changes will be required to ISO processes (notification collection, reliability reviews, market power reviews, information release)
- Today's presentation provides the ISO's responses to several questions from the January MC, and provides additional details on deactivation notifications and the information release

STAKEHOLDER Q&A FROM JANUARY 2025

Can the ISO provide additional details on the proposed deactivation notification timing?

- Proposal is a notification deadline 2 years ahead of the start of a Capacity Commitment Period (CCP)
- The 2-year timeline balances time required for:
  - Deactivation analyses (market power and reliability reviews)
  - Deployment of transmission solutions to address local reliability
  - Providing adequate notice for market participants to respond
- ISO welcomes stakeholder feedback and continued discussion of the notification timeline

Can the ISO provide additional details on the proposed deactivation notification timing (con't)?

- The notification lead time seeks to balance competing design objectives
  - Design objective 1: Efficient deactivation decisions
  - Design objective 2: Cost-effective deactivation response
- Bookending the potential deactivations timelines:
  - Collecting notifications as part of the qualification process for the prompt auction would place too little emphasis on design objective 2
  - Collecting notifications 4 years ahead of the planned deactivation date would place too little emphasis on design objective 1
- Narrowing the bookends:
  - Putting the notification time ahead of all other capacity market activities
  - Allowing time for a potential market response and transmission upgrades

How does the 2-year notification time allow time for a market response?

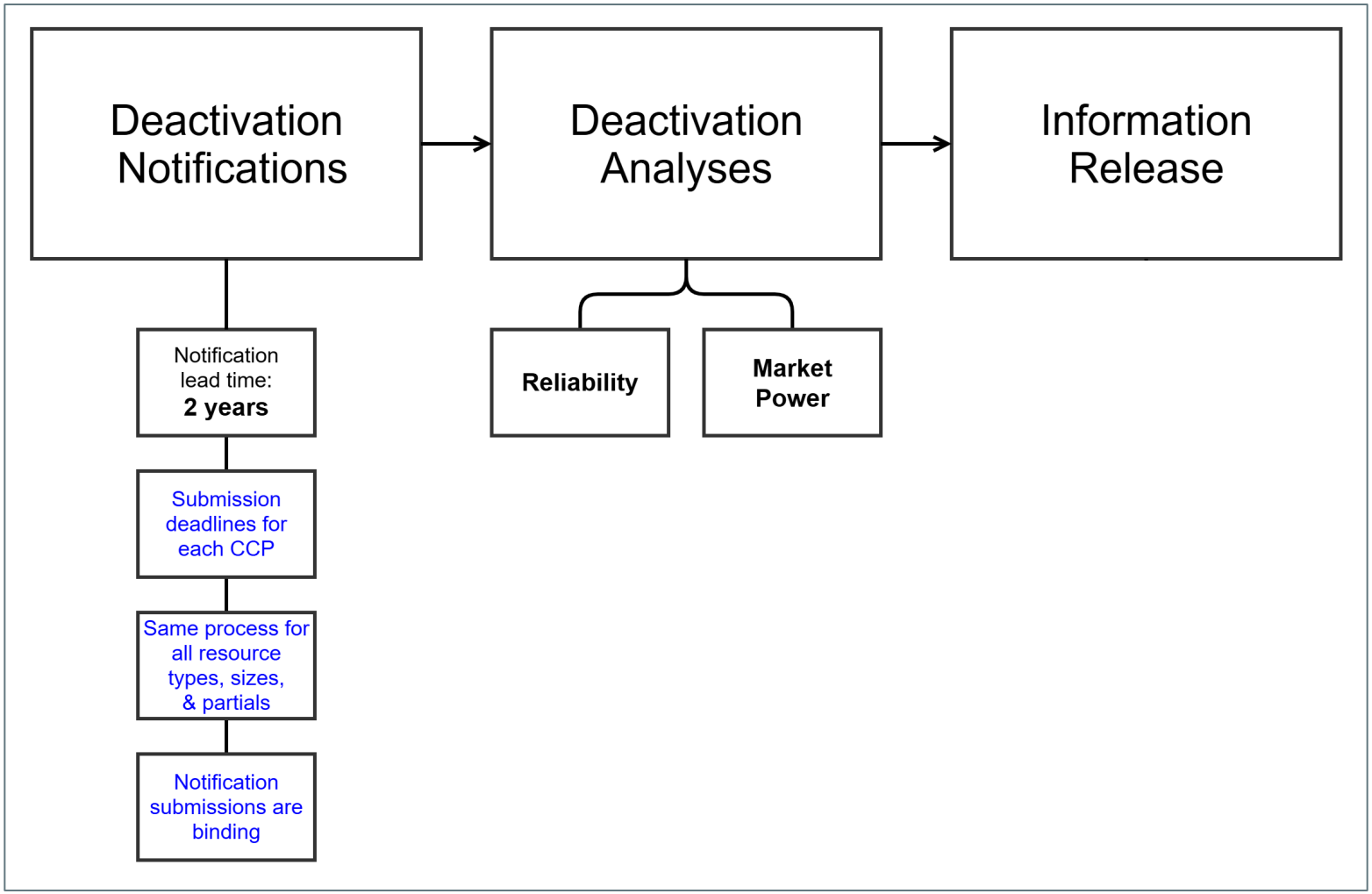
- Much like today, a market response is based on a set of expectations regarding future market conditions, across a multi-year period
- For example, expected energy and ancillary services revenues, demand growth, entry and exit, regulatory policies, etc.
- Existing resources that are on-the-fence about deactivating will update their expectations by observing other deactivations

How does the 2-year notification time allow time for a market response? (con't)

- The capacity market includes resources with relatively short timelines for development, including demand-side and storage resources
- If a market response takes longer than 2 years, the notification lead time will reduce the gap between when the deactivation occurs and when the market responds
- Longer timelines may produce more efficient outcomes even if they do not allow the full time required for a complete market response

DEACTIVATION PROCESS FLOW

Deactivations Notifications Process Flow



DEACTIVATION NOTIFICATIONS – ADDITIONAL DETAILS

Same process for all resource types, sizes, & partials

- All resources will utilize the same deactivation process
- This uniform treatment is consistent with the current retirement process and is non-discriminatory
- Collecting all deactivations 2-years ahead enables all downstream ISO processes (ICR, MRI, interconnection studies) to have an accurate accounting of the resource mix
- Aligns with design objective 3 (simplicity)

Notification submissions are binding

- Deactivation notifications will be binding
- Importantly, allowing the resource to withdraw a deactivation notification would undermine the market signal that the ISO intends the information release to send
- For example, if a developer is unsure if a deactivation will be rescinded, it may wait to see if the resource actually deactivates before making an investment decision

Notification submissions are binding (con't)

Reliability Retention Concerns

- Allowing withdrawals would let the resources 'test' if they would get a reliability retention contract without taking the actual risk of having to exit the market
- Resources could submit deactivation notices where they would only continue operating if they were retained for transmission security
- Significant concern that fishing could lead to an increase in the number of retentions

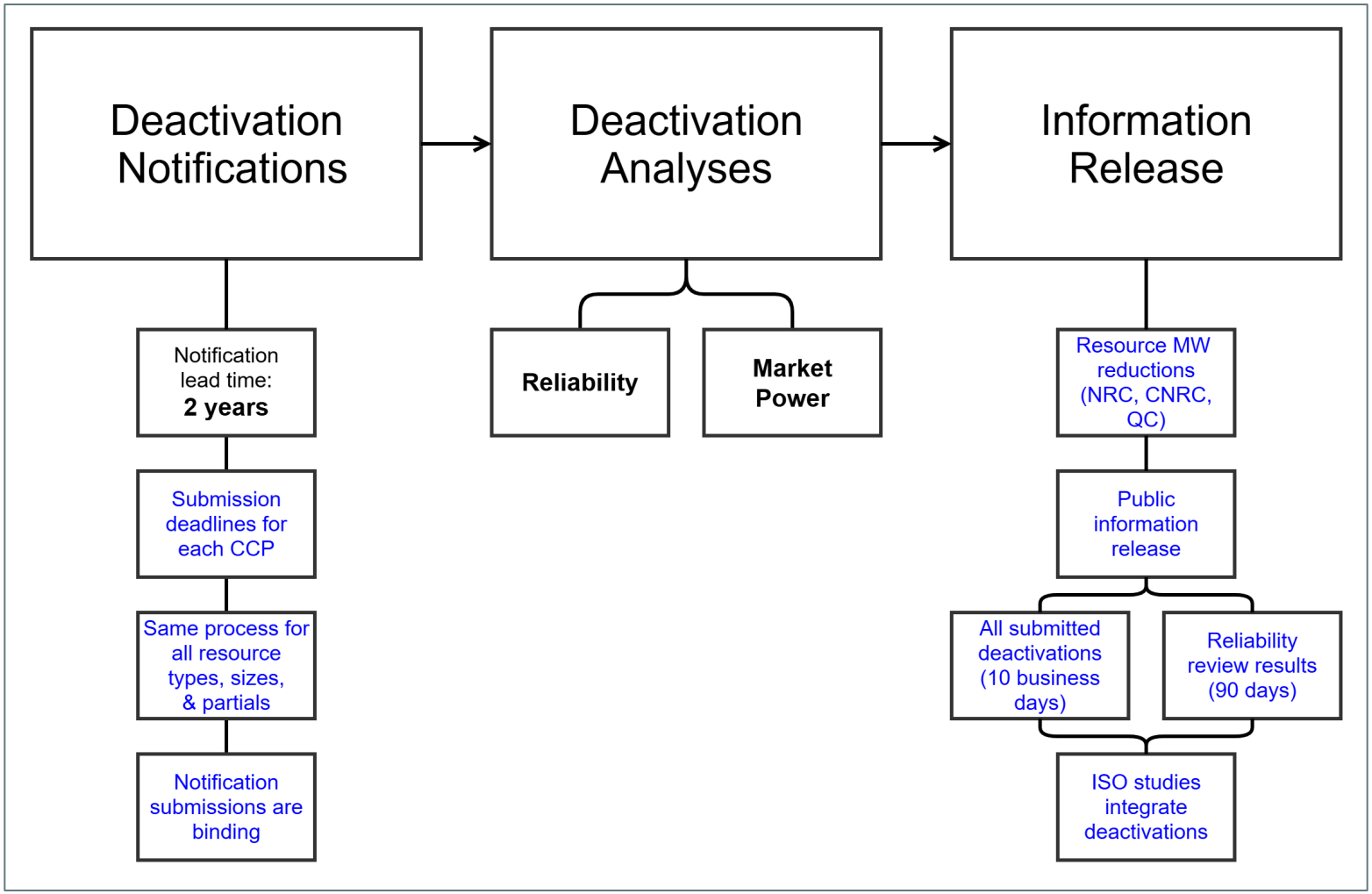
Notification submissions are binding (con't)

Market Power Concerns

- Allowing withdrawals also creates an incentive for participants to attempt to exercise market power
- While allowing such withdrawals may seem beneficial in a narrow sense, it creates incentives for resources to 'test' if they can get away with exercising market power with limited repercussions
- Significant concern that fishing could increase the frequency of participants attempting to act in a non-competitive manner

DEACTIVATION PROCESS FLOW

Deactivations Information Release Process Flow



INFORMATION RELEASE

Public Information Release

- The ISO will publicly release all submitted deactivations within 10 business days following a notification deadline
- If there is a transmission security retention, the planned deactivation date will be modified to conform with the retention contract
- Because deactivation notifications are binding, no other changes to planned deactivation dates will occur

Public Information Release (con't)

- Releasing detailed information regarding upcoming deactivations, as soon as possible, benefits the market
- Both participants and the ISO can utilize this information in subsequent analyses
- The ISO will not publicly release any identifying information regarding the market power reviews
- Doing so could increase the ability for other resources to learn they have market power

Resource MW Reductions (CNRC, NRC, QC)

- Deactivations will reduce the MW capability for the submitting resource on its deactivation date
- For resources with interconnection service:
  - Network Resource (NR) Service
  - Network Import (NI) Interconnection Service
  - Capacity Network Resource (CNR) Interconnection Service
  - Capacity Network Import (CNI) Interconnection Service
- For other resources that do not have interconnection agreements, the Qualified Capacity (QC) will be reduced

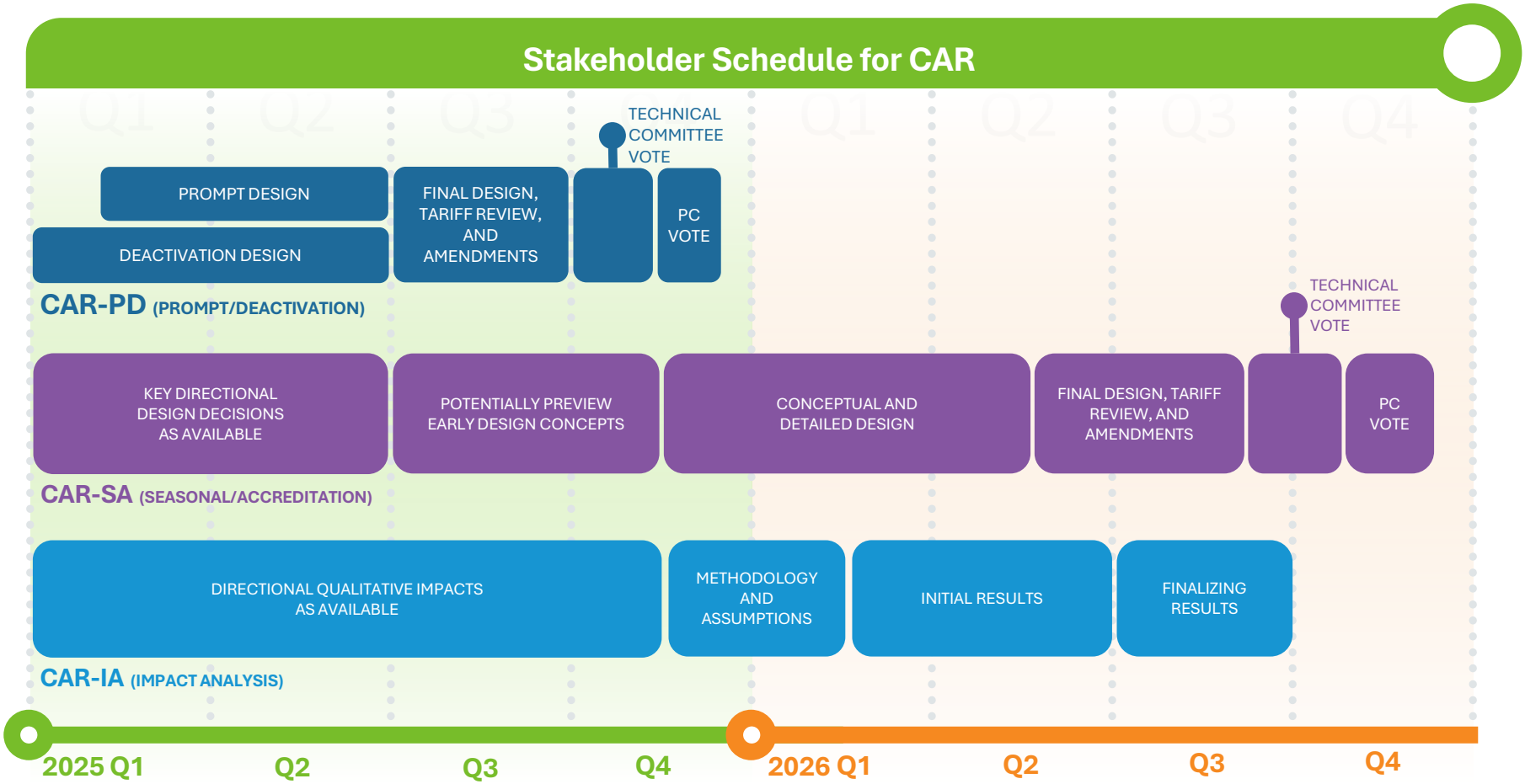
Resource MW Reductions (CNRC, NRC, QC) (con't)

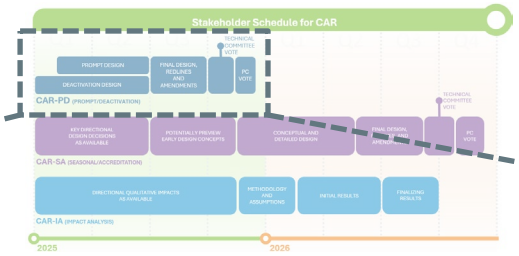
- Deactivated capacity will not be eligible to participate in the CCP for which it has a planned deactivation date
  - For example, a resource that submits a planned deactivation for June 1, 2028 will not have that capacity eligible for CCP 19
  - Similarly, a resource that submits a planned deactivation for July 1, 2028, or August 1, 2028, will not be eligible to sell in the prompt capacity auction
- The eventual shift to seasonal CCPs is naturally compatible with this design
- Any required conforming changes will be part of the CAR-SA project

Conclusion and Next Steps

- All resources will utilize the same deactivation notification timeline and submission process
- Deactivation notifications will be binding
  - Improves the market's knowledge of expected supply
  - Lowers likelihood of reliability retentions and market power
- The ISO will publicly release information on all submitted deactivations within 10 business days following a submission deadline
- If you have additional questions or feedback to share after this meeting or would like time to present at the March MC, please reach out to the MC Secretary, James Woods (jwoods@iso-ne.com), by February 26, 2025

Stakeholder Schedule for CAR





Stakeholder Schedule for CAR-PD

PROMPT DESIGN

DEACTIVATION DESIGN

FINAL DESIGN, TARIFF REVIEW, AND AMENDMENTS

TECHNICAL COMMITTEE VOTE

PC VOTE

CAR-PD (PROMPT/DEACTIVATION)

PROVIDE QUESTIONS AND FEEDBACK ON DESIGN

CONCEPTUAL AMENDMENTS

PRESENT AMENDMENTS

Stakeholder Activity

PRESENT DESIGN & RESPOND TO FEEDBACK

PROVIDE QUESTIONS AND FEEDBACK ON AMENDMENTS

ISO Activity

Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025

CAR-Deactivation Topic Schedule

The list below provides a projection of when committee discussions will begin on topics related to the deactivation framework:

Deactivation Topic	Projected Start of Committee Discussions
Introduction and notification timeframe	January 2025
Additional design details on notifications and information release	February 2025
Reliability reviews	March 2025
Market power evaluation framework	March 2025
Market power evaluations detail	April 2025

CAR-Prompt Topic Schedule

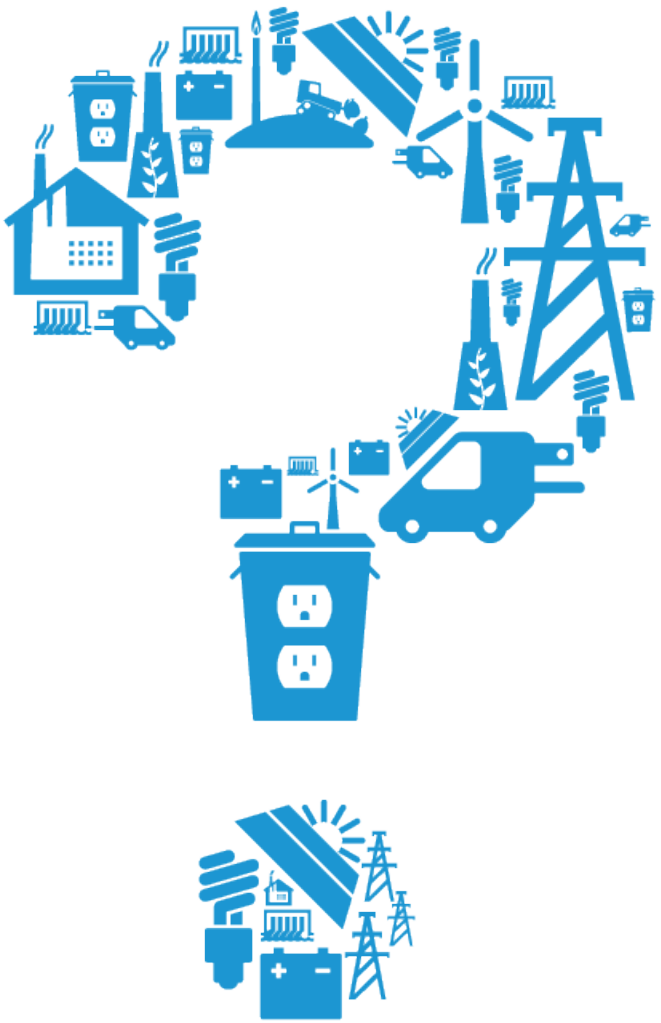
The list below provides a preliminary projection of when committee discussions will begin on the following CAR-Prompt topics:

Prompt Topic	Projected Start of Committee Discussions
Price Formation and Offer Formation	March 2025
Non-Commercial Participation	March 2025
Auction Design and Structure	March 2025
Activity Schedule	March 2025
Resource Qualification Criteria and Process	April 2025
Capacity Interconnection Service	April 2025
Market Power and Mitigation	April 2025
RAA/ ICR Process	April 2025
Self-Supply	April 2025

CAR-Seasonal/Accreditation Key Directional Design Decisions

- As available, the ISO will be sharing key directional design decisions related to CAR-SA. To date the following design decisions have been discussed:
  - Sequential auction framework (see Oct. MC slides 15-16; Nov. MC slides 5-14)
- At the March MC meeting, the ISO plans to share its directional decision related to the seasonal structure for a prompt/seasonal market and provide further information regarding a question about the impact of ambient temperature changes

Questions



APPENDIX:
DESIGN OBJECTIVES

Presented to the January 2025 Markets Committee

Design Objectives

- **Objective 1. Efficient deactivation decisions**
  Foster efficient individual deactivation decisions by maximizing the amount of decision-relevant market information available to participants
- **Objective 2. Cost-effective deactivation response**
  Maximize the market's ability, including present and potential future participants, to respond to deactivation decisions to maintain reliability as cost-effectively as possible
- **Objective 3. Simplicity**
  Seek a straightforward solution that facilitates the region's efficient and cost-effective transition to the future grid

Objective 1. Efficient deactivation decisions

- The ISO recognizes that committing to deactivation can have significant financial and logistical consequences for resources
- The longer the deactivation horizon, the less accurate market, operative, and investment information will be
- This increases the resource's risk associated with declaring deactivation too early, leading to an increased likelihood of inefficient deactivation decisions
- Objective 1 aims to design a deactivation process that allows resources to consider as much relevant information as possible, maintaining as much option value as possible, hence improving the probability of efficient deactivation decisions
- Objective 1 favors a shorter deactivation timeline

Objective 2. Cost-effective deactivation response

- Deactivations can affect the transmission system's reliability and market conditions
- Any deactivation notification horizon must provide the ISO and participants a reasonable amount of time to assess and respond to the impact of a deactivation on transmission security and market conditions
- Affording such time may reduce the duration of any out-of-market retentions and instead support market-based responses to address reliability needs
- Objective 2 favors a longer deactivation timeline

Objective 3. Simplicity

- The design's simplicity should improve participants' understanding of the deactivation process rules, related actions (e.g., deactivation notification), and timeframe
- The design should allow participants to access market information in a timely manner that enhances efficient decision-making