

Capacity Auction Reforms (CAR) - Deactivations



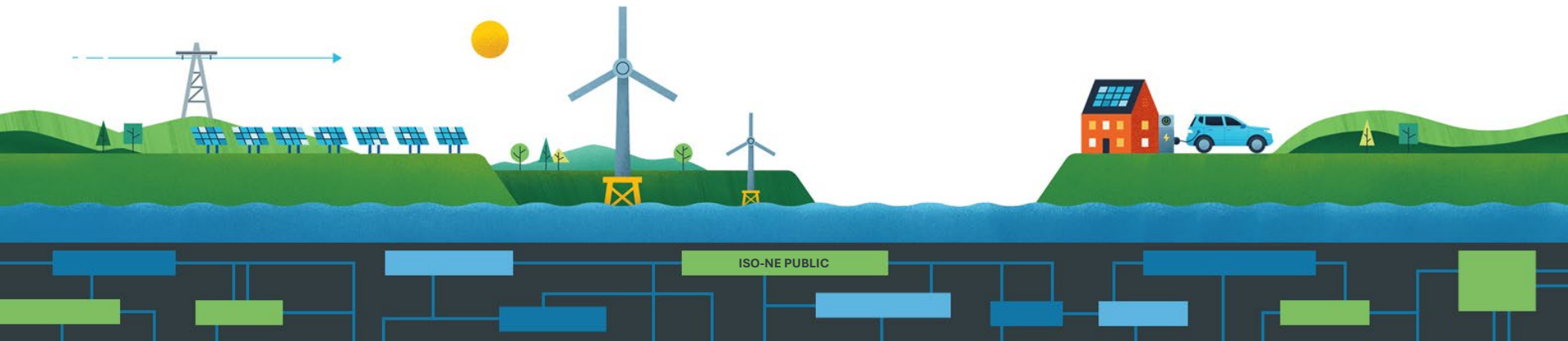
*Elimination of the Market Power Charge,
Deactivation Acceleration, and Q&A*

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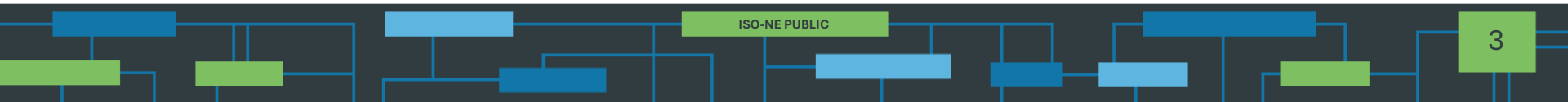


Proposed Effective Date: Q2 2026

- 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 discusses the removal of the market power charge, describes how a deactivation can be accelerated, and provides answers to stakeholder questions from the April MC

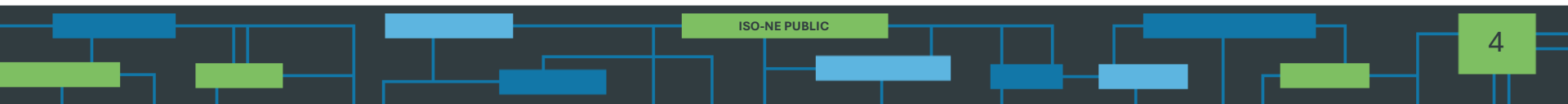


REMOVAL OF THE MARKET POWER CHARGE



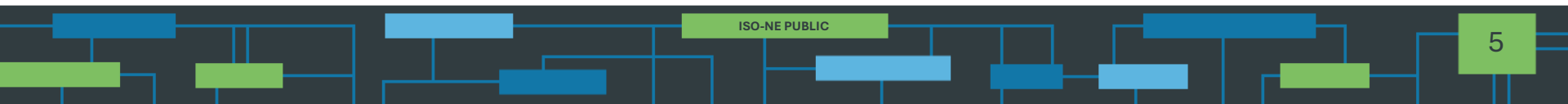
Stakeholder feedback is valued

- ISO heard and carefully considered feedback from prior Markets Committee meetings
- Multiple sectors shared concerns on potential issues associated with an imposition of the Market Power Charge (MPC) including but not limited to concern about the individualized nature of the penalty vs. the potential regional harm
- As a result, the ISO has reconsidered a key element of its CAR-PD design



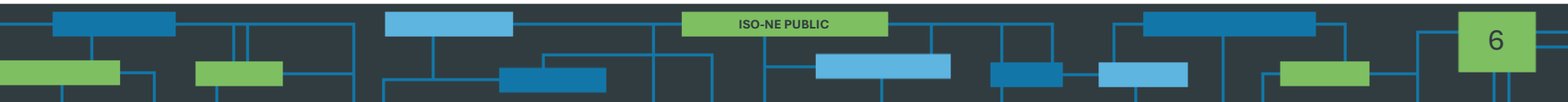
ISO is removing the Market Power Charge from the deactivation proposal

- There will not be a market power charge as part of CAR-PD
- The overall deactivation process will largely remain as proposed:
 - Binding notifications submitted 2-years ahead of the CCP
 - The IMM will perform a conduct test (cost workbooks) and impact test (net portfolio benefits)
- The ISO will analyze the existing framework of proxy delist bids to determine appropriate conforming changes
- Given this change, the ISO does not plan to pursue the ability to withdraw a deactivation request as part of CAR
- The ISO continues to believe that there could be benefits to a MPC, and may further assess such a framework after CAR is completed

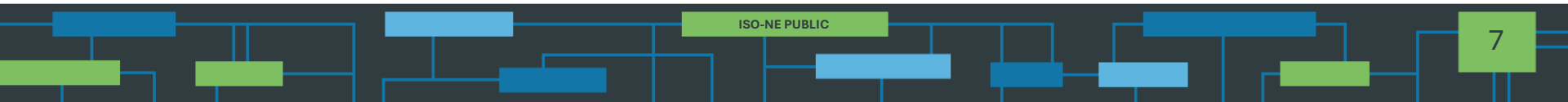


ISO plans to conform the existing framework for proxy delist bids for mitigating deactivations

- The ISO will further refine the proposal in the coming months, but is providing our current thinking regarding how the mitigation process could work
- Like today, the ISO will employ a proxy supply offer that addresses the price impact of physical withholding
- The proxy offer will only be applied to represent deactivating resources that failed both the IMM tests (the conduct and impact test)
- Resources will still exit on their planned deactivation date
 - Resources will not be waiting for the prompt auction outcomes to know their planned deactivation date
 - Information on resource exit will be publicly available, 2-years in advance
- Deactivation notifications will remain separate from capacity market priced supply offers

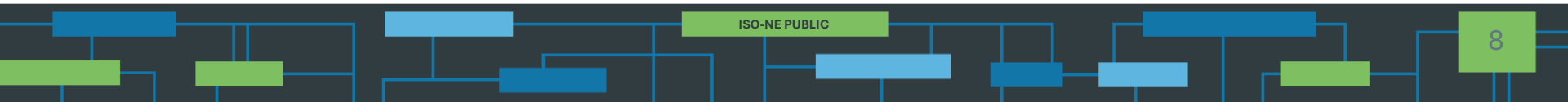


DEACTIVATION ACCELERATION



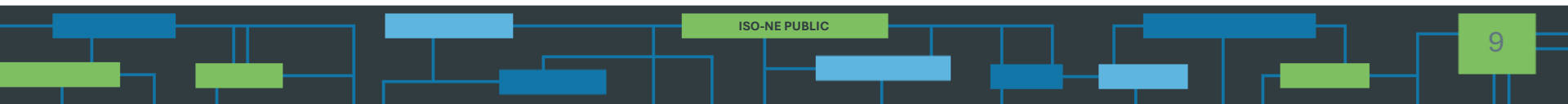
Deactivation Acceleration: Background

- Stakeholders expressed a desire to keep a form of the FCM's existing early retirement process
- Under the current market rules, Resources which have cleared a Retirement De-List Bid or a Permanent De-List Bid, and have shed all future CSO, can request an earlier retirement
 - <https://www.iso-ne.com/static-assets/documents/2022/03/gen-asset-with-fcm-resource-retirement-questionnaire.pdf>
- Stakeholders also expressed a desire to have the proposed deactivation process accommodate instances of a catastrophic failure



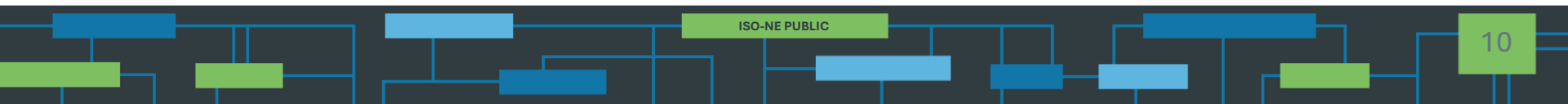
Deactivation Acceleration: Proposal

- The ISO proposes to enable resources to adjust, or “accelerate,” their planned deactivation date
- Resources **must pass both the deactivation reliability review and market power review** to be eligible for deactivation acceleration
- The earliest possible planned deactivation date will be the first month without a CSO
- An accelerated deactivation could eliminate the ability for a resource to participate in the interim prompt auction



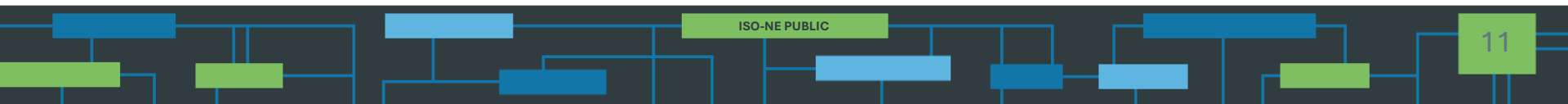
Deactivation Acceleration: Outage Coordination

- Deactivation acceleration requests will require coordination with the outage scheduling process
- Resources will not be eligible for reliability retentions stemming from a deactivation acceleration request
- If an operational need is identified, the ISO, transmission owner(s), and the participant will collectively work to accommodate acceleration at the earliest acceptable date
- Accelerated deactivations requests will be tracked, and once approved, the planned deactivation date will be updated in the publicly available information

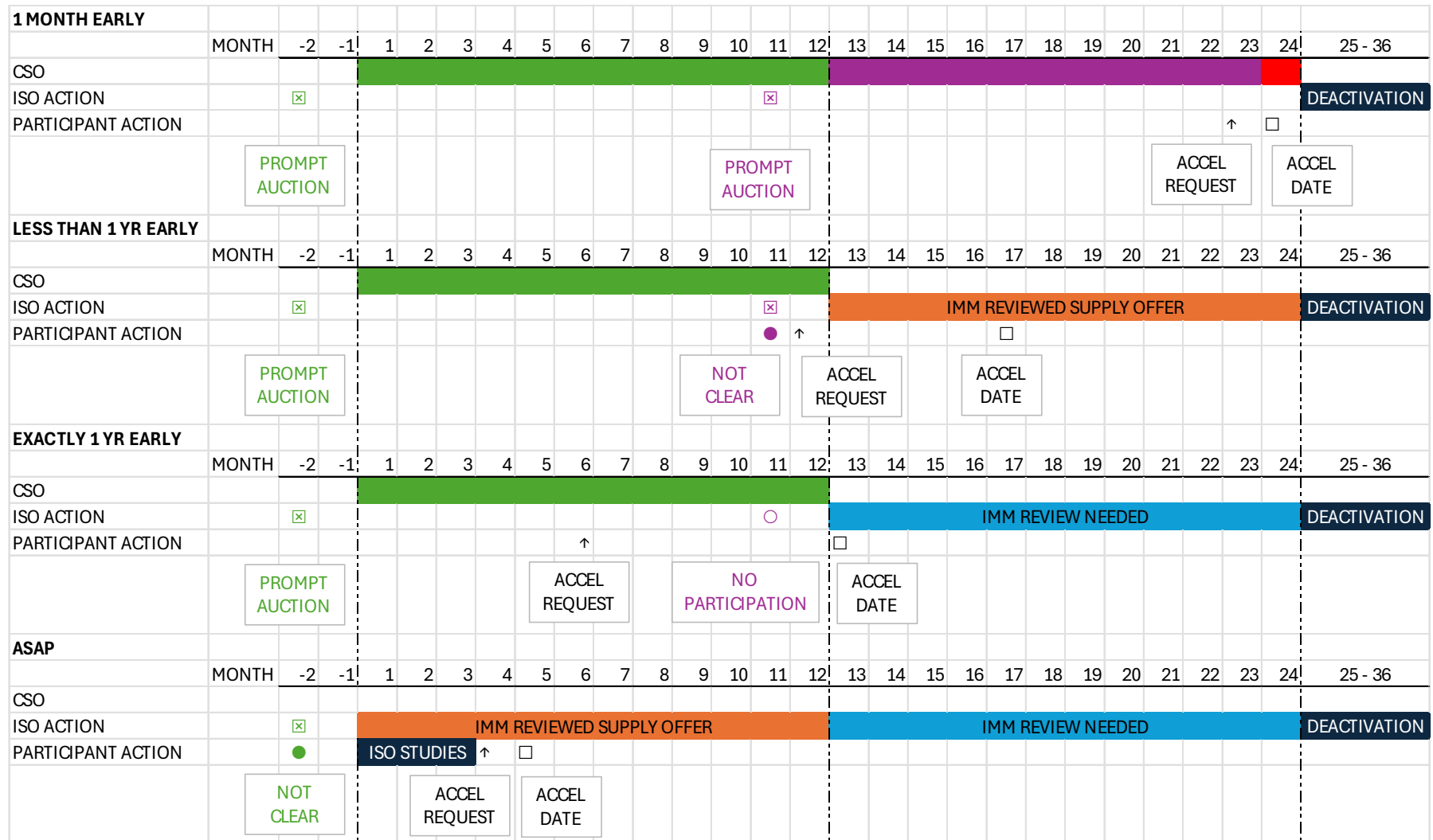


Deactivation Acceleration: IMM Review

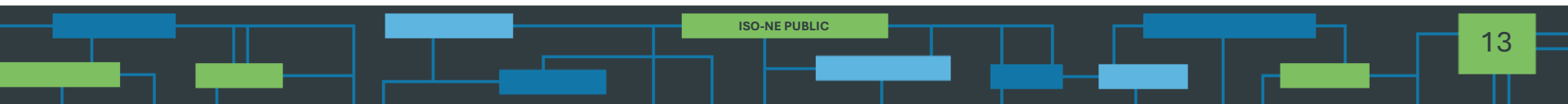
- The IMM may execute a market power review of an acceleration request, to ensure the resource is uneconomic in the interim period
- Current thinking is the deactivation acceleration market power review will be like the proposed deactivation market power review, consisting of a conduct test (cost workbook) and impact test (net portfolio benefits)



Deactivation Acceleration Timeline Examples

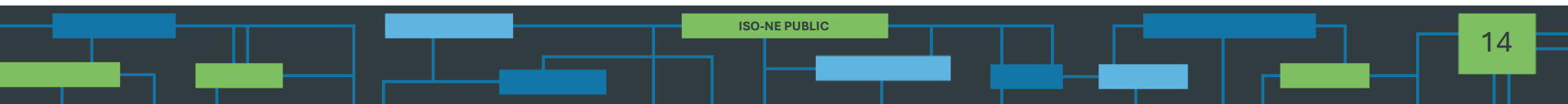


ADDRESSING FOLLOW-UP QUESTIONS AND SUGGESTIONS



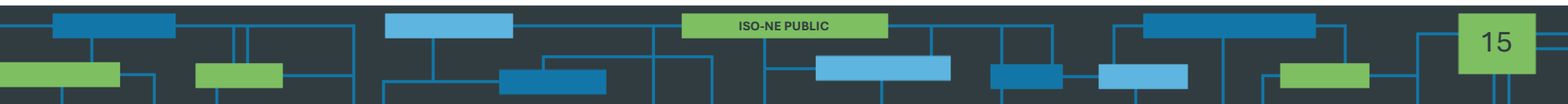
How will the Net Portfolio Benefits (NPB) test treat deactivating resources in export constrained zones?

- Both the baseline and counterfactual auction simulations will use the same capacity auction clearing engine, including zonal topology and its “marginal reliability improvement” based demand curves
- Adding capacity in an export constrained zone will increase supply, which will reduce capacity prices generally
- The ISO will procure capacity consistent with the marginal rates of substitution, or “bang for your buck”. There is no hard “cap” on capacity procured



Details of NPB implementation: NPB Cases Construction

- In April's MC, the ISO stated that “by evaluating market power at the notification deadline, we consider the perspective of the participant at the time of the deactivation notification”
- Stakeholders expressed that the baseline and counterfactual cases of the NPB test do not fully align with this view because participants may not know about other deactivations before submitting a deactivation notification



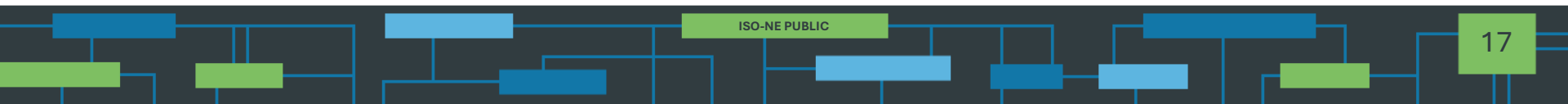
Details of NPB implementation: NPB Cases Construction (cont'd)

- This feedback is well received and has been accommodated into the design, as depicted below

Case	Original Proposal		New Proposal	
	Demand	Supply	Demand	Supply
Baseline	Last auction's demand	Last auction's supply, removing all deactivations in the market	Last auction's demand	Last auction's supply, removing all deactivations in the portfolio
Counterfactual	Last auction's demand	Last auction's supply, removing all deactivations in the market , except the ones that failed the conduct test in the portfolio	Last auction's demand	Last auction's supply, removing all deactivations in the portfolio, except the ones that failed the conduct test in the portfolio

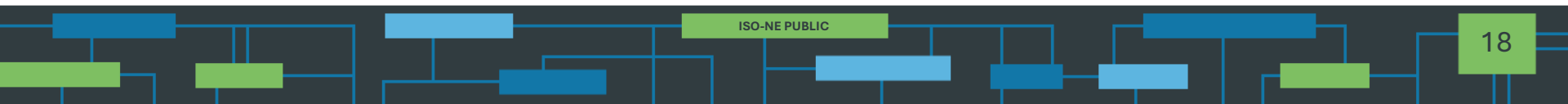
Details of NPB implementation: NPB Cases Construction (cont'd)

- In April's MC, the ISO showed that including (or excluding) deactivations outside of a portfolio in the NPB test does not systematically lead to a higher or lower estimated portfolio benefit from an uneconomic deactivation
- The final result depends on the demand and supply, along with the rest of the deactivations
- Therefore, we do not expect that this change in the NPB test design will systematically change the incentives created by the market power assessment



Details of NPB implementation: Can we use profit instead of revenue in the NPB test?

- At April's MC, a stakeholder asked whether we could consider profit margin ($\text{Price} - \text{Offer}$) for the NPB test
 - The current FCA retirement NPB test considers revenue
- Modifying the NPB test to consider profit instead of revenue can create practical and theoretical issues that require economic analysis beyond the timeline and scope of this project
- Example: the NPB test uses the supply from last auction, but not all offers in the last auction are reviewed (below DDBT or End of Round) or mitigated (non-pivotal)
- A participant may have the incentive to over-bid in the auction knowing that the offer is unlikely to be mitigated, but in a way that makes it less likely to fail the conduct test in the next auction, due to an overestimated marginal cost proxy for the NPB test
- This incentive to over-bid one auction before deactivating does not exist when the NPB test is based on revenues



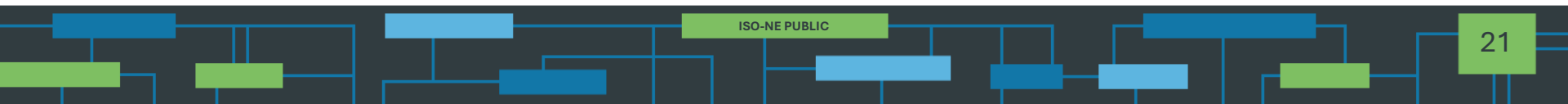
Conclusion and Next Steps

- The market power charge is removed from the deactivations proposal
 - The overall deactivation process will largely remain as proposed
 - The ISO will analyze the existing framework of proxy delist bids to determine appropriate conforming changes
- Deactivations may be accelerated
 - Resources must pass both the deactivation reliability review and market power review to be eligible for deactivation acceleration
 - Resources must coordinate an outage, and may be required to share additional information with the IMM
- Additional questions following the meeting can be submitted in writing to James Woods (jwoods@iso-ne.com) by May 22, 2025

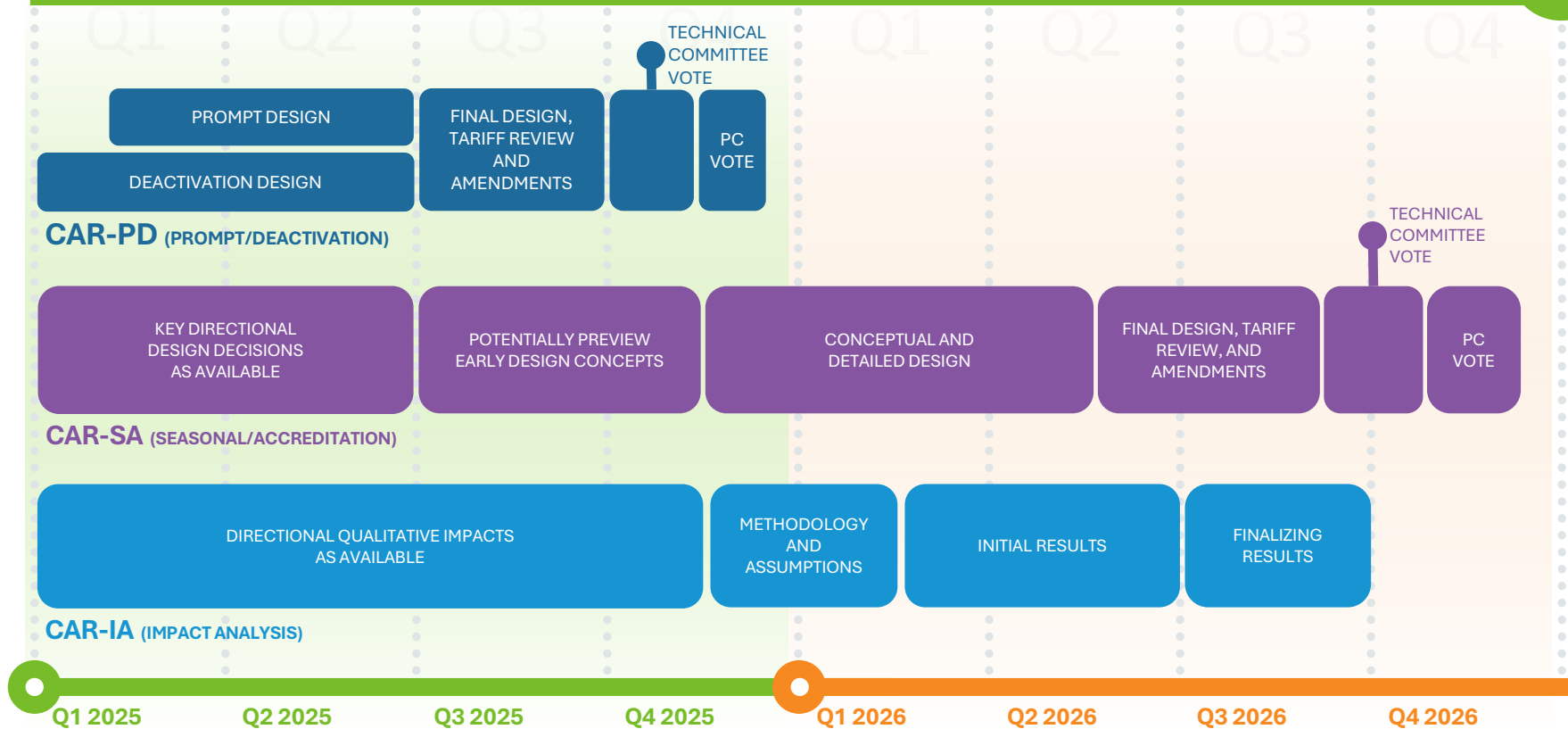
Questions

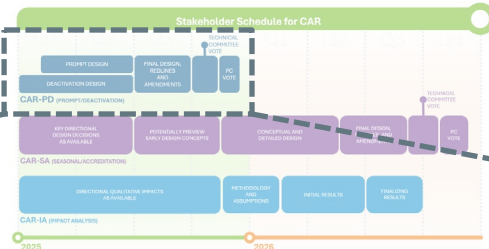


STAKEHOLDER SCHEDULE

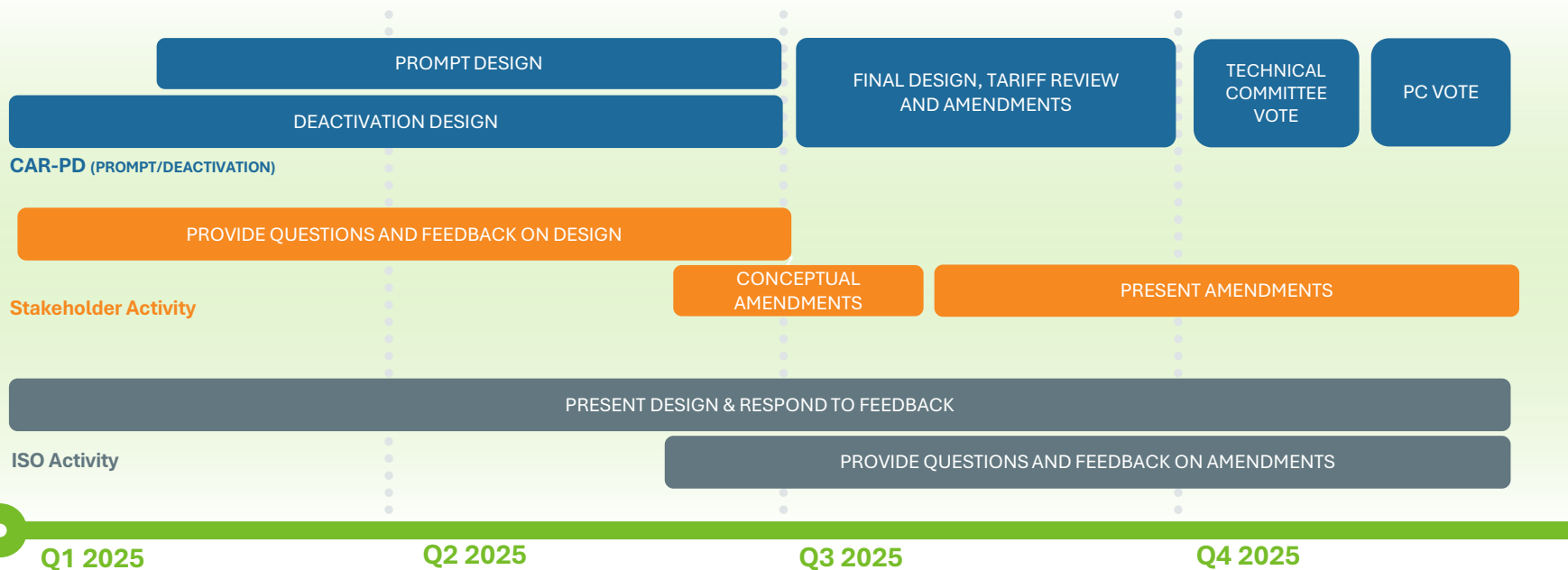


Stakeholder Schedule for CAR





Stakeholder Schedule for CAR



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 Overview	March 2025
ICR Process	April 2025
Market Power and Mitigation	April 2025
Resource Qualification Criteria & Process	May 2025
Activity Schedule	May 2025
Capacity Interconnection Service	June 2025
Resource Auditing, Financial Assurance, Settlements, CSO Trading Activities	June 2025
Initial Tariff Overview	July 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
Follow-ups and additional design details	May 2025
Introduce Tariff Changes	June 2025
Additional proxy de-list design detail, continued Tariff review	July 2025