

# Capacity Auction Reform - Prompt Design

*Discussion of Conforming Changes to  
Financial Assurance Policy (FAP)*

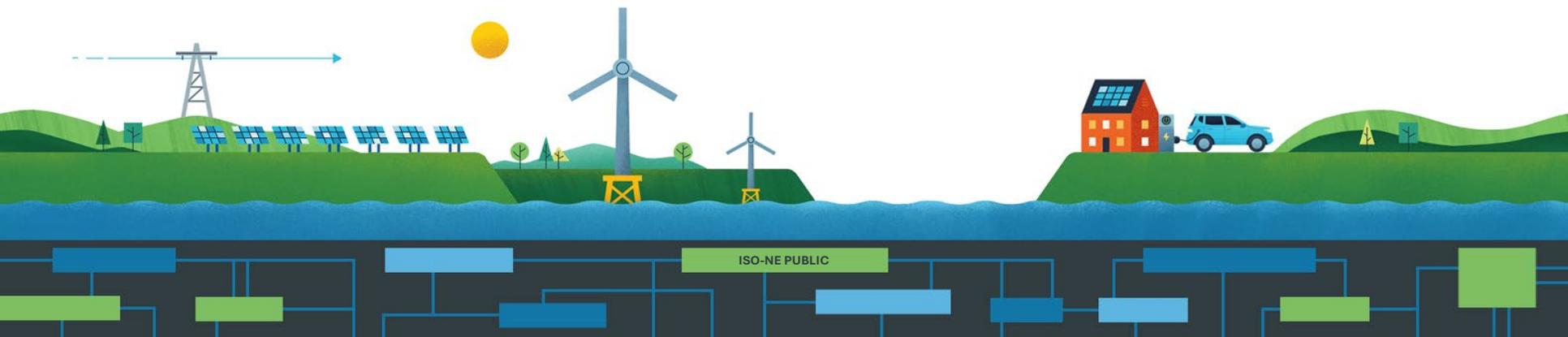
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*NEPOOL Budget & Finance Subcommittee*



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# CAR – Prompt: Financial Assurance Policy

Earliest Target Effective Date: Q2-Q3 2026

- The CAR-Prompt project replaces the current forward capacity construct with a prompt capacity auction
- Today, the ISO will be discussing conforming changes to the Financial Assurance Policy (FAP) based on the current-status of the capacity market design changes presented and discussed at the Markets Committee
  - Billing Policy impacts will be presented separately
- This presentation reflects the ISO’s current thinking regarding how several components of the FAP are expected to conform with the prompt market design principles
- The ISO is evaluating when to complete these changes (i.e., as part of the CAR-Prompt filing or as part of a separate project)

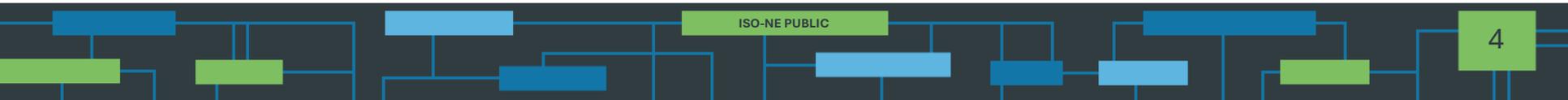
# CAR – Prompt: Financial Assurance Policy

Earliest Target Effective Date: Q2-Q3 2026

- There are two design principles of the capacity auction reforms which have been presented to the Markets Committee which are currently driving the conforming changes to the FAP outlined in this presentation
- Firstly, all capacity must be commercial to acquire a Capacity Supply Obligation, which results in the following conforming changes to the FAP
  - All forms of Non-Commercial Financial Assurance and associated provisions will be eliminated
  - Credit test percentage consequences for Non-Commercial Capacity (NCC) will be eliminated
  - Financial Assurance (FA) for NCC Deferrals will be eliminated
- Secondly, the Annual Auction is expected to occur as close as possible to the start of the Capacity Commitment Period, which results in the following conforming changes to the FAP
  - FA for Annual Reconfiguration Auctions and Annual Reconfiguration Transactions will be eliminated

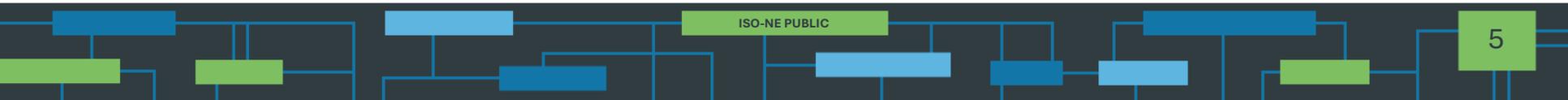
# CAPACITY MUST BE COMMERCIAL TO ACQUIRE A CAPACITY SUPPLY OBLIGATION

*Conforming changes to the Financial Assurance Policy (FAP)*



# **A primary principle of CAR-Prompt design is that capacity must be commercial before acquiring a Capacity Supply Obligation (CSO)**

- To acquire a CSO via the Annual Auction, Monthly Reconfiguration Auction or bilaterally, resources must demonstrate that they have achieved in-service operation ahead of such acquisition
- Consequently, there are several elements of the financial assurance policy pertaining to Non-Commercial Capacity (NCC) that will no longer be needed in a prompt market



# FCM Deposit will not be necessary under the prompt auction construct

- The FAP requires Designated FCM Participants offering Non-Commercial Capacity (NCC) into an upcoming Forward Capacity Auction (FCA) to include an FCM Deposit in the calculation of their FCM Financial Assurance Requirements
- This deposit, calculated as \$2/kW times the Qualified Capacity for the FCA, is a commitment to offer the full FCA Qualified Capacity at the FCA Starting Price
- Since NCC is prohibited from acquiring a Capacity Supply Obligation (CSO), there would be no offering of this capacity into the prompt auction, and thus the requirement for a deposit for NCC would be eliminated

# Non-Commercial Capacity Financial Assurance Amount (NCCFA) will not be necessary under the prompt auction construct

- The FAP defines and calculates the “NCCFA” for Non-Commercial Capacity (NCC) cleared in a Forward Capacity Auction (FCA)
  - This amount is initially calculated based on the Qualified Capacity, FCA Starting Price, and a Multiplier, reduced by the FCM Deposit
  - After the FCA, it is recalculated based on the awarded CSO, the clearing price (or acquisition price), and potentially a "NCC Trading FA" component
- Since NCC is prohibited from acquiring CSOs, the calculation and requirement for the NCCFA would be unnecessary, as this metric is directly tied to having cleared a CSO

# NCC Trading FA will not be necessary under the prompt auction construct

- For CSOs acquired in FCAs from the thirteenth auction onwards, the "NCC Trading FA" (Non-Commercial Capacity Trading Financial Assurance) component is added to the NCCFA after the start of the Capacity Commitment Period
- This component accounts for potential gains from shedding the NC-CSO in reconfiguration auctions or bilateral transactions, or from failure-to-cover charges
- Since this is a component of the NCCFA, if NCC is prohibited from acquiring a CSO, the NCC Trading FA calculation would not be necessary

# **NCC Cure Period & Default Charges will not be necessary under the prompt auction construct**

- The FAP includes specific provisions for default related to NCC CSOs
- If a Designated FCM Participant with NC-CSOs defaults and fails to cure, they are assessed a default charge of one percent of their total NCCFA per day
- If not cured by the end of the NCC Period, the CSOs associated with NCC are terminated, and the NCCFA is drawn down
- As NCC cannot acquire CSOs, these specific default provisions, cure periods, and associated default charges for NCC would not be necessary

# Forfeiture of Financial Assurance will not be necessary under the prompt auction construct

- The FAP states that if a new resource that is not commercial fails to provide required financial assurance or has its CSO terminated, it loses its CSO, right to payments, and forfeits any financial assurance (NCCFA) provided with respect to that CSO
- As NCC is prohibited from obtaining CSOs, the potential for forfeiture of financial assurance specifically tied to NCC CSOs would no longer be necessary
- Any associated settlement provisions will also be removed

# Credit Test Percentage consequences for Provisional Members related to NCC will not be necessary under the prompt auction construct

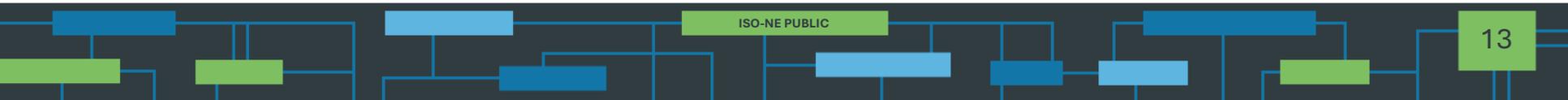
- The FAP provides a specific exception for Provisional Members, stating that certain consequences of their Market Credit Test Percentage equaling 80% or 90% do not apply if they are required to provide additional financial assurance solely in connection with a supply offer of NCC into an FCA and their obligation to pay Participant Expenses
- Since NCC cannot not be offered in the Annual Auction, this basis for requiring additional financial assurance for Provisional Members related to such offers would cease
- Consequently, this specific exemption related to Provisional Members offering NCC would no longer be necessary

# Financial assurance for NCC Deferrals will not be necessary under the prompt auction construct

- A NCC deferral is a process where a Project Sponsor requests permission from the Commission to postpone the start date of a resource's CSO by one year, due to reasons critical to achieving commercial operation and beyond the sponsor's control
- If the Commission approved this request to defer the CSO pursuant to Section III.13.3.7 of Market Rule 1, this triggers a specific financial assurance requirement
  - The requirement to provide this additional financial assurance begins at 8 a.m. (Eastern Time) 30 days after the Commission approves the deferral request
- As NCC is prohibited from acquiring a CSO under the prompt market design, this financial assurance is no longer needed

# PROMPT AUCTION TO OCCUR AS CLOSE AS POSSIBLE TO THE START OF THE CAPACITY COMMITMENT PERIOD

*Conforming changes to the Financial Assurance Policy (FAP)*



# The Prompt Auction will occur as close as possible to the start of the capacity commitment period (CCP)

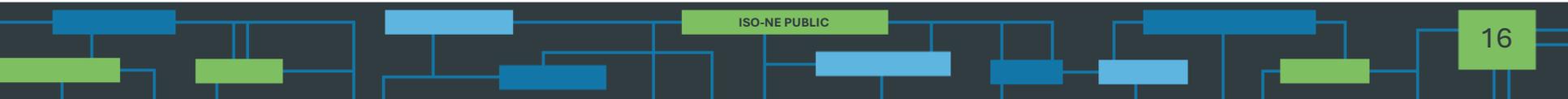
- The CAR Prompt design includes changing the Prompt Auction timing from a forward auction held more than three years ahead to an auction held shortly before the start of the CCP
- ISO is currently thinking that the Prompt Auction will be run in the April/May timeframe for the CCP set to start on June 1, 2028
  - This places the Prompt Auction approximately one month prior to the CCP
- Consequently, trading activities related to CSOs which previously occurred after the first Annual Auction up to the third Annual Reconfiguration Auction (ARA3) are no longer possible, which means the associated Financial Assurance can be eliminated

# Financial assurance related to Annual Reconfiguration Auctions (ARAs) and Annual Reconfiguration Transactions (ARTs) will no longer be necessary

- ARAs and ARTs are eliminated under the prompt design due to the compressed timeline of the Prompt Auction
  - The Prompt-Auction is designed to be run approximately one month prior to the Capacity Commitment Period (CCP)
  - Because the Prompt Auction is happening so close to the delivery period, the need for intermediate auctions like ARAs to update capacity positions ahead of the CCP is eliminated
- Currently, the FAP requires the Market Participants in ARAs and those submitting ARTs (i.e., those seeking to transfer a CSO in a reconfiguration auction) must meet specific financial assurance requirements to cover potential liabilities (i.e., losses) from these activities
- Financial assurance related to ARAs and ARTs will therefore be eliminated

# STAKEHOLDER SCHEDULE

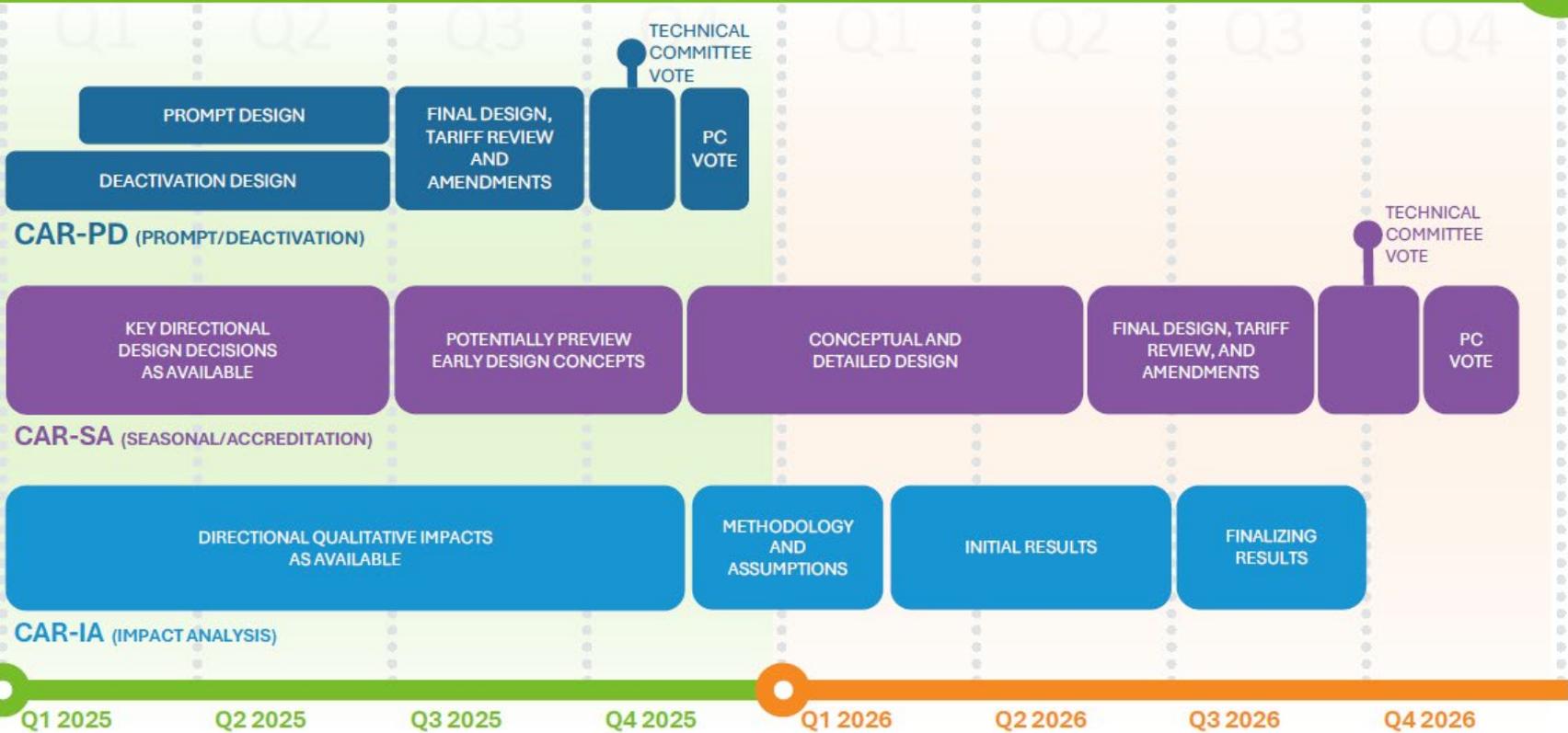
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# Stakeholder Process and Next Steps

Steps	Timeline
Initial discussion with Budget and Finance Subcommittee	July 18 <sup>th</sup>
Presentation of FAP Redlines	TBD
Presentation of FAP Redlines	TBD
Vote at the Participants Committee	TBD
FERC Filing	TBD
Effective Date	Earliest Q2-Q3 2026

## Stakeholder Schedule for CAR



# Questions

