Capacity Auction Reforms (CAR) - Deactivations

Shortening the notification timeline, additional explanation of proxy capacity offers, and detail on deactivation cost workbook submissions

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CAR – Deactivations Proposal

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 **1 year**
  - Conforming changes will be required to ISO processes (notification collection, reliability reviews, market power reviews, information release)
- Today's presentation summarizes the ISO proposal, discusses a shorter notification lead time, and provides additional detail on the proxy supply offer process to mitigate the impact of physical withholding

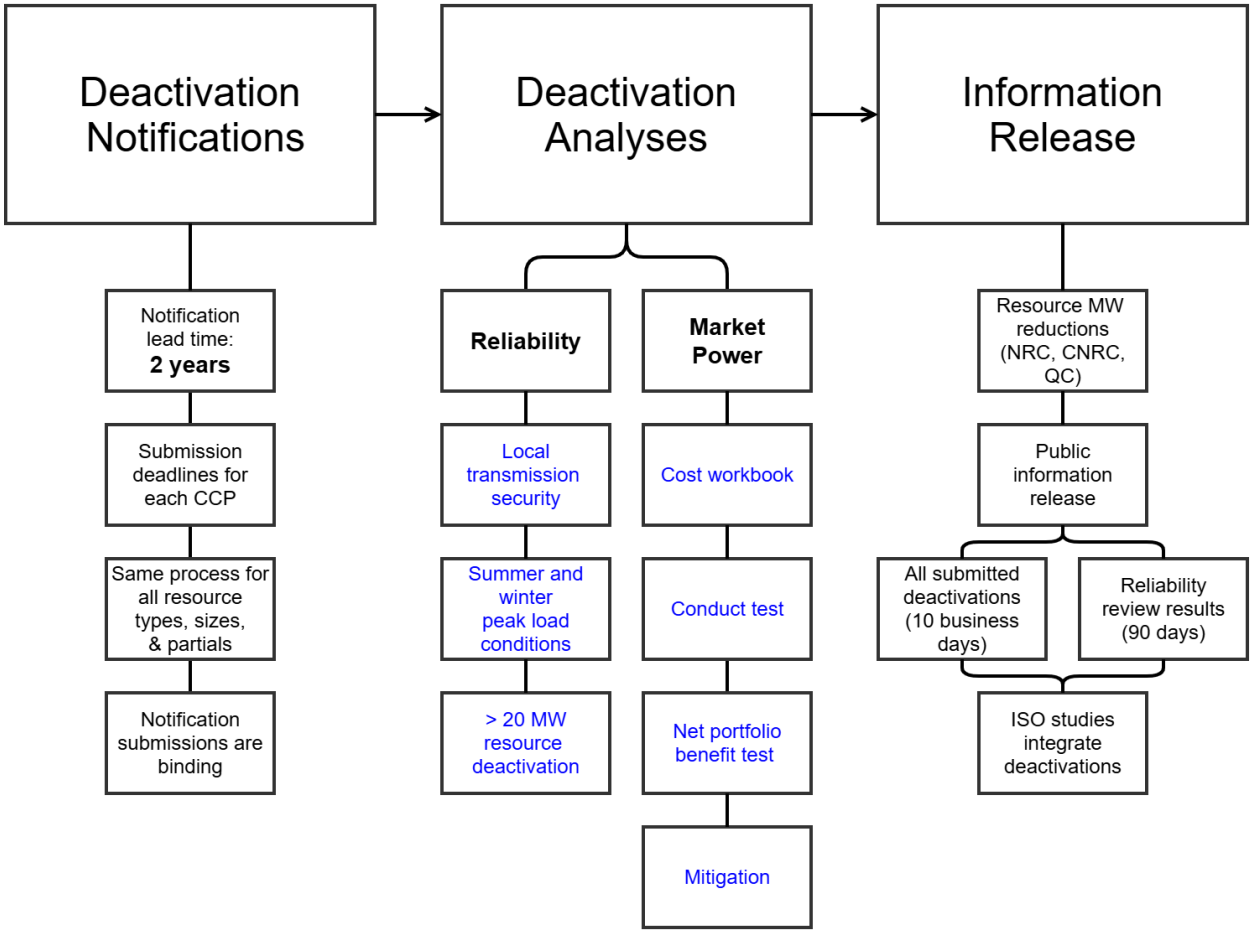
SUMMARY OF ISO'S DEACTIVATION PROPOSAL

Summary of the ISO's deactivation proposal

- Starting in January, elements of the deactivations design have been discussed at every MC meeting
- Tariff language effectuating the deactivation design so far was presented at the June MC and TC
- Responding to stakeholder feedback, the ISO proposal has been modified:
  - The Market Power Charge was removed from the design
  - A Proxy Capacity Offer will be utilized when physical withholding is identified
  - Deactivations may be accelerated to the first month without a CSO
- The ISO is shortening the notification lead time to be 1 year

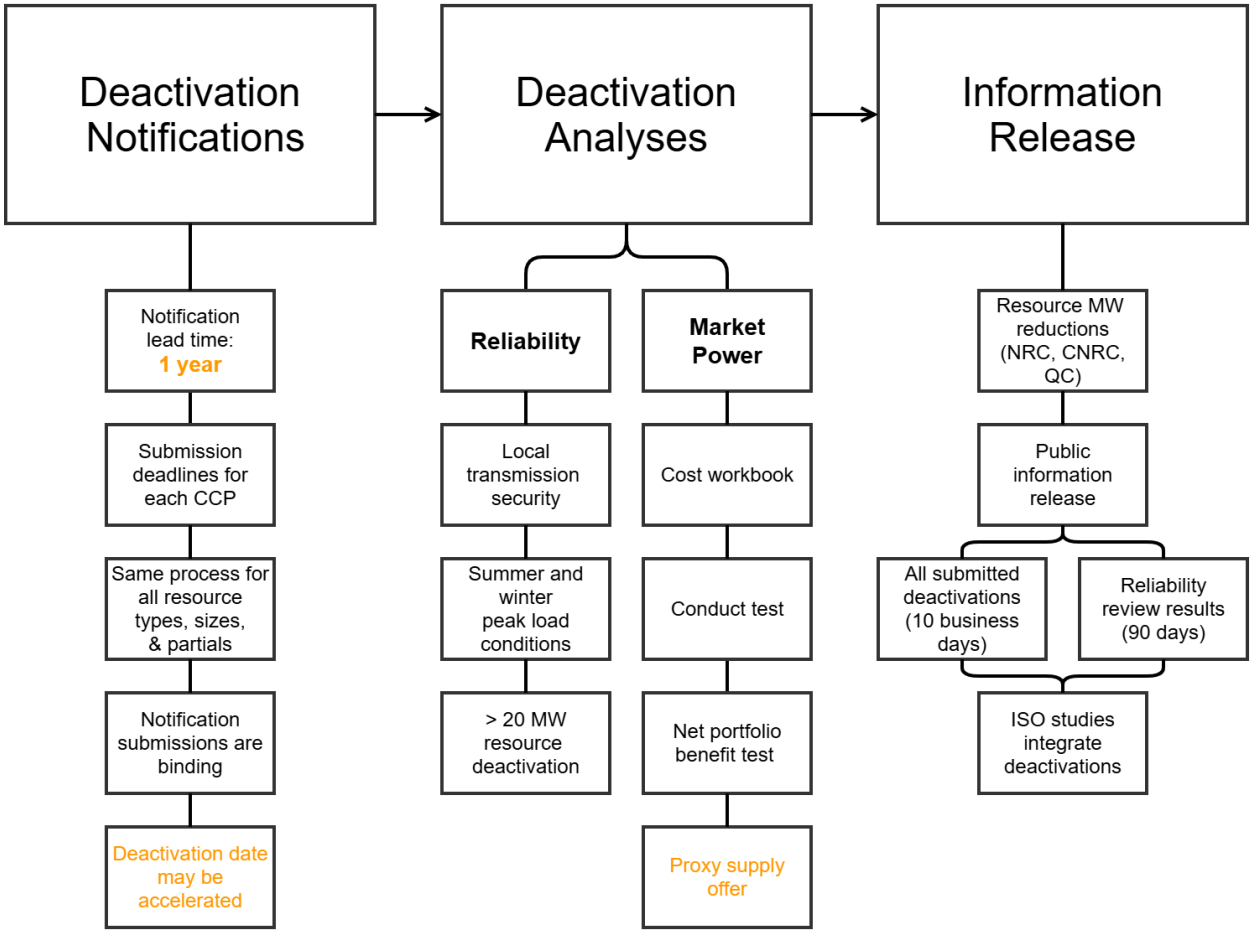
Deactivations Notifications Process Flow

(presented to the March MC)



Deactivations Notifications Process Flow

(modifications in orange)



SHORTENING THE DEACTIVATION NOTIFICATION LEAD TIME

Stakeholder feedback is valued

- ISO heard and carefully considered feedback from prior meetings regarding the 2-year notification lead time and the revocability of deactivation notifications
- Some stakeholders wondered whether a shorter, irrevocable notice provide more certainty to the market
- The IMM considered revocability to be a “potentially valuable option for the region”, while noting several important design details
- The EMM voiced concerns with a comparatively long notification lead time and the lack of revocability

The notification lead time will be shortened from 2 years to 1 year

- Deactivation notification deadline is 1 year ahead of the start of a Capacity Commitment Period (CCP)
- Submissions will be binding
- Planned deactivations may be accelerated
- The timings of the information release remain:
  - 10 business days for all submitted deactivations
  - 90 days for the reliability review results
- ISO studies will integrate planned deactivations, as available

The deactivation design objectives, introduced in January, are employed to evaluate and balance the tensions and tradeoffs between competing 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

Both a shorter lead time and revocable notifications are consistent with objective 1, and both provide increased option value

- As discussed in January, the ISO recognizes that committing to deactivation can have significant financial and logistical consequences for resources
- A shorter notification lead time 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
- A shorter notification timeline helps resources make efficient decisions regarding potential exit, which will provide efficiency gains to the system by avoiding inefficient (premature) deactivations
- A shorter notification timeline provides resources with additional periods where the exit decision can be further analyzed
- With a shorter notification timeline, revocability yields less option value as fewer periods exist where the exit decision is re-evaluated

Allowing deactivation notifications to be revoked presents many important design complications

- As discussed by the IMM in June, there are numerous thorny issues to consider with revocability, including but not limited to:
  - Interconnection utilization and network capacity release, specifically when a new entrant looks to utilize the network capability of a deactivating resource
  - Cluster study finality and the potential need for re-study
  - Needs assessments and network upgrade determinations when a deactivation triggers needed transmission investment
  - The conditions and circumstances when a deactivation is warranted
  - Seller-side market power reviews, specifically the net benefits test that relies on a participant's portfolio

A shorter timeline without revocability aligns with objective 3, simplicity

- The shorter notification lead time with binding notifications is consistent with objective 3, simplicity
- All pre-auction activities, such as ICR and MRI, can account for resource exit
- Participants considering resource entry can proceed with a predictable resource mix
- Allowing deactivation notifications to be revoked introduces many complications both for market participants and the ISO
- In summary, the shorter notification lead time achieves most of the benefits of allowing revocability while being significantly simpler in scope and execution

PROXY CAPACITY OFFER DESIGN

Proxy Capacity Offers

- Stakeholders expressed interest in more information regarding the application of Proxy Capacity Offers instead of a market power charge as a measure to minimize the impact to the market of the exercise of market power in the context of deactivations
- The Proxy Capacity Offer materials presented today are consistent with the Tariff language presented in June

A Proxy Capacity Offer will be utilized to mitigate the impact of physical withholding

- Requirement: IMM identified net portfolio benefits
  - Failed both conduct test (cost workbook) and impact test (NPB)
  - The NPB test is "objective," the 10% threshold for uncertainty is applied in the cost workbook
  - Deactivation is consistent with a potential exercise of physical withholding
- To protect the market against the effects of physical withholding, the ISO will use proxy offers:

	The resource belongs to a portfolio with a NPB Test that is…		
The resource's Conduct Test is…		Passed	Failed
	Passed	No Proxy Offer	No Proxy Offer
	Failed	No Proxy Offer	Proxy Offer

Proxy Capacity Offer will be filed with the commission ahead of the prompt auction

- To disincentivize the potential exercise of market power through physical withholding and protect the market from potential impact of withholding, the ISO will confidentially file the Proxy Capacity Offer and supporting materials with FERC
- FERC filing mirrors existing Commission filing process for Proxy De-List Bids
- This proxy offer filing is distinct and separate from a "FERC referral" on the specific participant

Proxy Capacity Offer auction mechanics

- The auction is conducted in two runs
- In the first round, the supply is constructed using capacity offers and proxy offers
- If a proxy offer clears in the first run, a second auction run is conducted, removing all proxy offers from the stack
- Any incremental awards of CSO in the second round will receive the 2nd run price
- Settlements will pay CSO-specific payment rates

Proxy Capacity Offer parameters

- Location will be the capacity zone where the deactivating resource is located
- Duration will be 1 year, for the forthcoming CCP where the deactivation will occur
- Offer quantity is non-rationable, consistent with existing Tariff

Proxy Capacity Offer price

- The Commission-approved price will be used as the Proxy Capacity Offer price
- The price will reflect costs and revenues associated with deactivation decision
- This reflects the fact that if the actual auction clearing price is lower than the resource's requirement including long term costs, it is economically logical for a resource to exit
- This is consistent with the current process, where similar pricing logic applies

Proxy Capacity Offer price (con't)

- The ISO will not share the price or quantity of the proxy supply offer prior to the auction
  - Consistent with the ISO's Information Policy, all offers in the capacity auction are confidential, market-sensitive information
- The 2nd run price and cleared proxy offer quantity will be released in MIS reports and public results, consistent with existing process

COST WORKBOOK SUBMISSIONS

Cost workbooks must be submitted with deactivation notifications

Introduced March 2025 MC Meeting

- The ISO will perform reliability reviews on (full or partial) deactivations greater than 20 MW
  - Cost workbooks are required for these deactivations for the IMM to review going forward costs if there is a reliability retention
- A cost workbook for each deactivation in the same portfolio is required if the participant notifies the deactivation of 20 MW or more, but not all, of its portfolio

Scenario	Reliability Review	Market Power Review	Cost Workbook Required
Deactivation of all the portfolio, adding up to less than 20MW	No	No	No
Deactivation of all the portfolio adding up to 20MW or more, but every resource under 20MW	No	No	No
Deactivation of all the portfolio adding up to 20MW or more, with at least one resource over 20MW	Yes, for deactivating resources greater than 20 MW	No	Yes, for deactivating resources greater than 20 MW

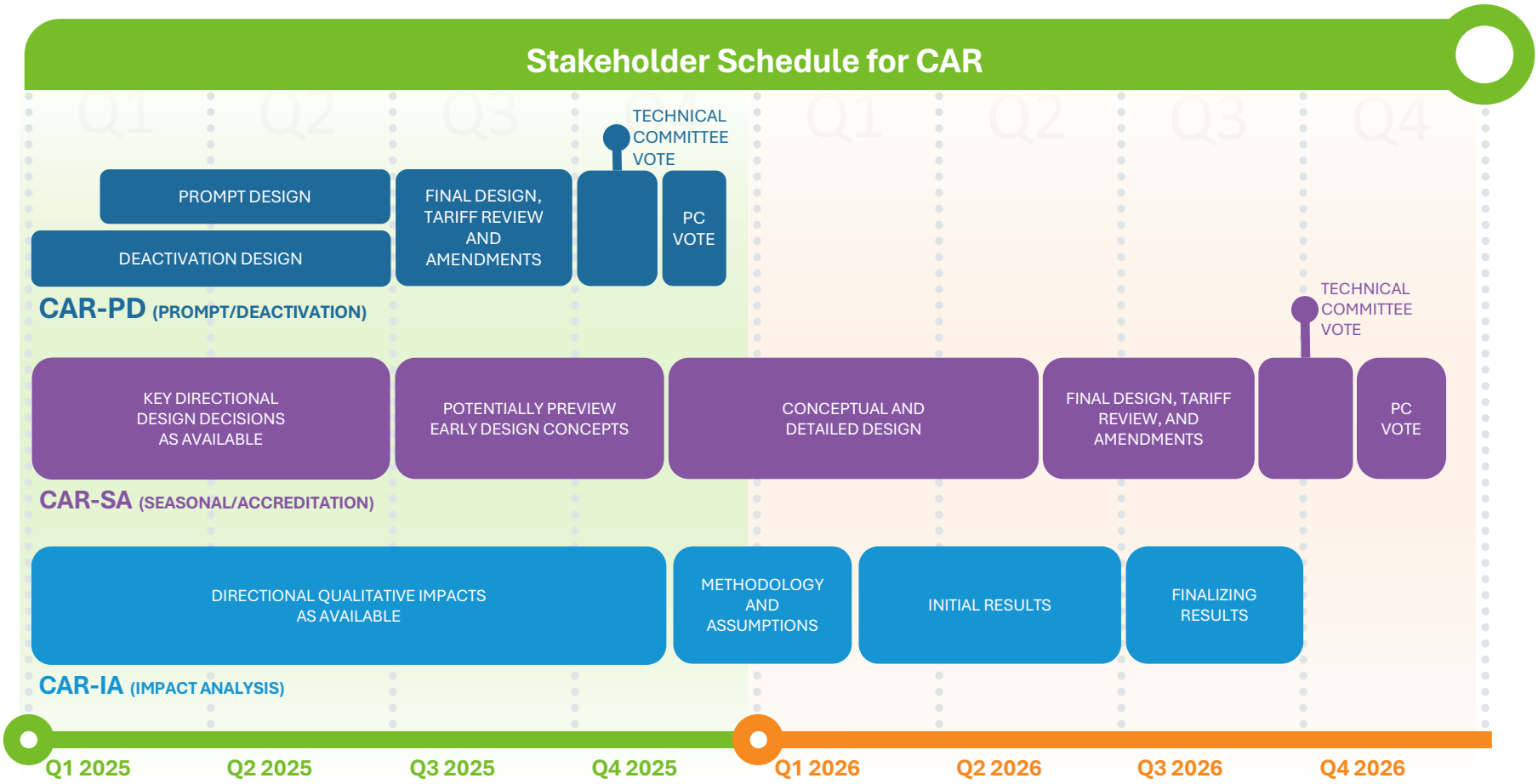
Scenario	Reliability Review	Market Power Review	Cost Workbook Required
Deactivation of part of the portfolio, adding up to less than 20MW	No	No	No
Deactivation of part of the portfolio, adding up to more than 20MW, but every resource under 20MW	No	Yes	Yes, for all deactivating resources
Deactivation of part of the portfolio adding up to 20MW or more, with at least one resource over 20MW	Yes, for deactivating resources greater than 20 MW	Yes	Yes, for all deactivating resources

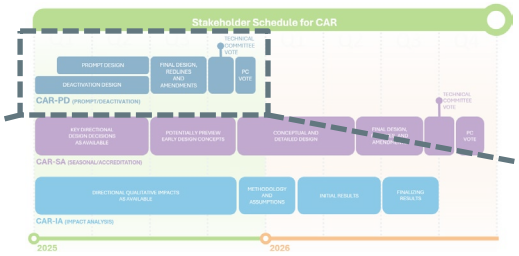
Conclusion and Next Steps

- The ISO is proposing a shorter deactivation notification lead time of 12 months
  - Deactivation notifications will remain binding under the shorter lead time
- The ISO will use a Proxy Capacity Offer process to mitigate the impact of physical withholding
- Stakeholders proposing amendments should contact the MC Secretary (jwoods@iso-ne.com) for time on the agenda by July 21, 2025

STAKEHOLDER SCHEDULE

Stakeholder Schedule for CAR





Stakeholder Schedule for CAR

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-PD Schedule Projection

- **July**
  - **Budget and Finance Subcommittee:** July 18th introduction to Financial Assurance Policy conforming changes
- **August**
  - **MC/RC/TC Joint Meeting:** A summary of the CAR-PD design will be provided, review detailed design refinements and review core Prompt Tariff revisions. Stakeholders proposing conceptual amendments should contact the MC Secretary for time on the agenda by July 21, 2025
- **September**
  - **MC:** Review design refinements and continue review of Tariff revisions. Stakeholders proposing amendments should contact the MC Secretary for time on the agenda by August 27, 2025
  - **RC:** Review design refinements and continue review of Tariff revisions. Stakeholders proposing amendments should contact the RC Secretary for time on the agenda by September 3, 2025
  - **TC:** Review design refinements and continue review of Tariff revisions. Stakeholders proposing amendments should contact the TC Secretary for time on the agenda by September 11, 2025
- **October – Technical Committee Votes**
- **November – Participants Committee (PC) Vote**

All NEPOOL members are invited to attend meetings where CAR topics are discussed

APPENDIX – PROXY OFFER EXAMPLE

From the IMM's June MC Presentation

Proxy Bid Approach for Non-Priced Retirements

Example Assumptions:

- 6 Resources (A-F)
- **Resource D** is Deactivating
- Resource D fails the Conduct Test and NBT; its IMM Price is $3.60/kW-mo
- All capacity is rationable

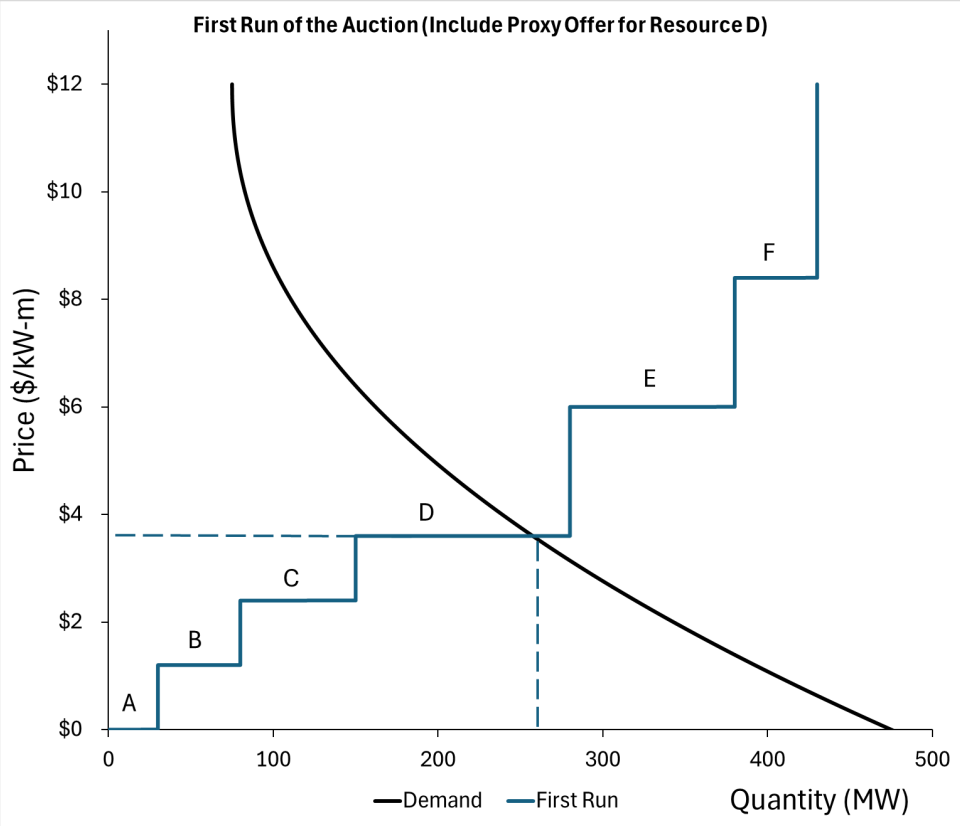
Resource	MW	Price ($/kW-mo)
A	30	$0.00
B	50	$1.20
C	70	$2.40
D	**130**	**$3.60**
E	100	$6.00
F	50	$8.40

Terminology in this example:

- **Auction Economics**: the Price and Quantities at the intersection of Supply and Demand in Run 1 and Run 2 of the auction
- **Auction Procurement:** The Actual Quantities procured, and Prices paid to resources from Run 1 and Run 2 of the auction

From the IMM's June MC Presentation

Proxy Bid Approach for Non-Priced Retirements



Auction Economics

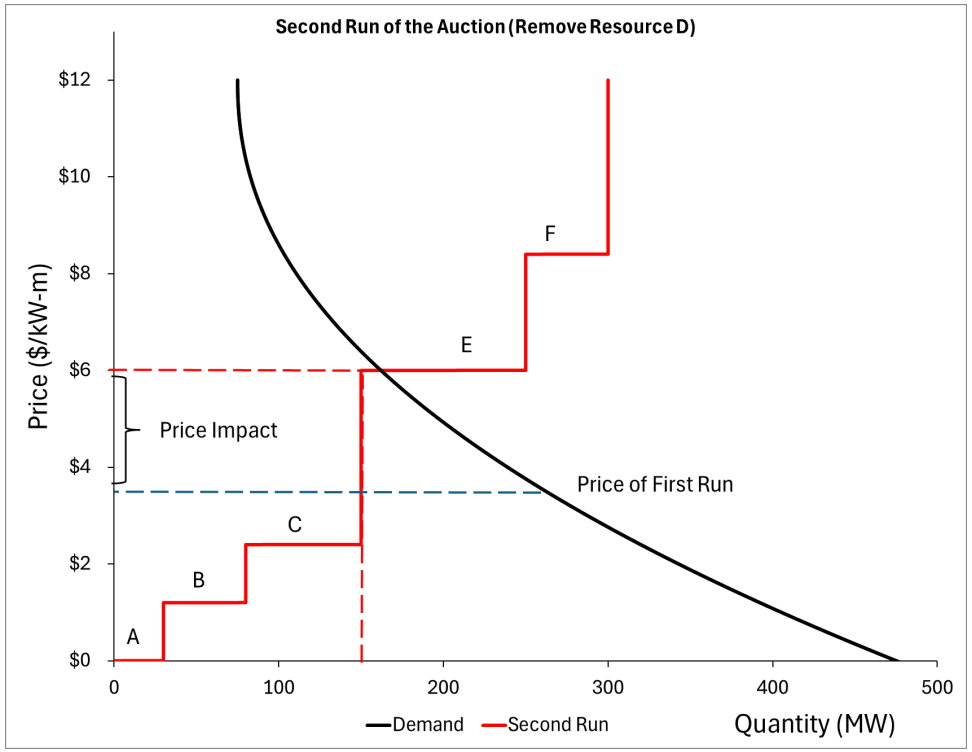
Resource	Quantity (MW)	Price (kW-mo)	Value ($m)
A	30	$3.60	$1.30
B	50	$3.60	$2.16
C	70	$3.60	$3.02
D	104	$3.60	$4.49
Total	**254**		**$10.97**

Auction Procurement

Resource	CSO (MW)	Price (kW-mo)	Payment ($m)
A	30	$3.60	$1.30
B	50	$3.60	$2.16
C	70	$3.60	$3.02
Total	**150**		**$6.48**

From the IMM's June MC Presentation

Proxy Bid Approach for Non-Priced Retirements



Auction Economics

Resource	Quantity (MW)	Price (kW-mo)	Value ($m)
A	30	$6.00	$2.16
B	50	$6.00	$3.60
C	70	$6.00	$5.04
E	20	$6.00	$1.44
Total	**170**		**$12.24**

Auction Procurement

Resource	CSO (MW)	Price (kW-mo)	Payment ($m)
E	20	$6.00	$1.44