

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

New England Power Generators Association, Inc.,)	
)	
Complainant,)	
v.)	Docket No. EL25-106-000
)	
ISO New England Inc.,)	
)	
Respondent.)	

**ANSWER TO COMPLAINT
OF ISO NEW ENGLAND INC.**

Pursuant to Rules 206(f) and 213 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“Commission”),¹ and the Commission’s Notice of Extension of Time issued on August 5, 2025, ISO New England Inc. (“ISO” or “ISO-NE”) submits this Answer² to the complaint³ filed by the New England Power Generators Association, Inc. (“NEPGA”) in this docket on July 25, 2025.

On June 24, 2025, after multiple days of high temperatures and high dew points across the region, New England experienced an extended, three-hour Capacity Scarcity Condition, when actual temperatures and dew points in the region increased above the load forecast during the early evening hours. The June 24 peak load of 26,551 MW was the highest the region had

¹ 18 C.F.R. §§ 385.206, 385.213.

² Capitalized terms used but not defined herein have the meanings ascribed to them in the ISO New England Transmission, Markets and Services Tariff (“ISO-NE Tariff”).

³ Complaint Requesting Fast-Track Processing of the New England Power Generators Association, Docket No. EL25-106-000 (July 25, 2025) (“Complaint”).

experienced in over 10 years.⁴

By many measures, the region’s generating and demand response resources responded strongly during the event. For nearly all intervals during the Capacity Scarcity Condition, the total energy and reserves required to meet the system’s needs were in excess of the total quantity of “committed” capacity, *i.e.*, capacity that held Capacity Supply Obligations in the Forward Capacity Market for the June 1, 2025 through May 31, 2026 Capacity Commitment Period.⁵ Responding to the incentives provided by ISO-NE’s Pay for Performance market rules,⁶ capacity suppliers—both those holding Capacity Supply Obligations and those without such obligations—provided substantial “over-performance,” averaging 3,972 MW (per hour) of energy and reserves over and above their total Capacity Supply Obligations;⁷ in accordance with the Pay for Performance market rules, these suppliers received over \$114 million in positive Capacity Performance Payments for this over-performance.⁸ Without this substantial response from the region’s suppliers, the region would not have been able to meet the combined system energy and reserve requirements during the June 24 Capacity Scarcity Condition, potentially leading to load shedding.

While the region’s capacity fleet responded to meet the needs of the New England system on June 24, and were compensated accordingly, suppliers with Capacity Supply Obligations were also charged over \$25.6 million pursuant to existing rules that hold suppliers

⁴ See August 2025 Report of Vamsi Chadalavada, ISO-NE Chief Operating Officer, to the NEPOOL Participants Committee, at slide 5, available at <https://www.iso-ne.com/static-assets/documents/100026/august-2025-coo-report.pdf> (“August 2025 ISO-NE COO Report”). The August 2025 ISO-NE COO Report provides substantial detail regarding the June 24 Capacity Scarcity Condition at slides 22–38.

⁵ See *id.* at slide 31.

⁶ See ISO-NE Tariff at Sections III.13.7.2 – III.13.7.4.

⁷ August 2025 ISO-NE COO Report at slide 31.

⁸ *Id.*

responsible for delivering more than their Capacity Supply Obligations during extreme scarcity events.⁹ These charges are the basis for the primary assertion of the Complaint, which is that the current Pay for Performance market rules unjustly and unreasonably charge capacity suppliers—in particular those that supplied energy and reserves at their Capacity Supply Obligation MW value—for failing to provide energy and reserves *in excess of* that obligated amount.¹⁰ As NEPGA asserts, this result is a function of a unique aspect of the Pay for Performance design, where suppliers with a Capacity Supply Obligation are responsible during Capacity Scarcity Conditions for a pro rata share of the system’s real-time requirements—energy and reserves—even when that pro rata share is in excess of the capacity the supplier has contracted to provide by acquiring a Capacity Supply Obligation in the Forward Capacity Auction.

As NEPGA explains,¹¹ this feature of the Pay for Performance design results from the fact that the Capacity Balancing Ratio (generally referred to herein as the “Balancing Ratio”), the value that reflects a capacity supplier’s share of the system’s requirements during a Capacity Scarcity Condition, can, in theory, go above one. This indicates that during particularly extreme events (as occurred on June 24th) the system’s total requirements for energy and reserves can be greater than the total quantity of contracted capacity (*i.e.*, the total Capacity Supply Obligation committed for the Capacity Commitment Period). However, NEPGA asserts, while the ISO had previously explained that the Balancing Ratio could, in theory, go above one, it was never

⁹ See Affidavit of Dr. Matthew White, Chief Economist and Vice President of Market Development and Settlements, ISO New England Inc., at 3 (“White Affidavit”), attached as Exhibit A. This value reflects the impact of the Capacity Balancing Ratio exceeding one during the Capacity Scarcity Condition, with a 1.031 event average Capacity Balancing Ratio. See August 2025 ISO-NE COO Report at slide 31.

¹⁰ Complaint at 4–7.

¹¹ *Id.* at 7.

considered a likelihood from a practical perspective,¹² and other features of the Forward Capacity Market design render it difficult for capacity suppliers to physically hedge the risk of such an occurrence. Further, NEPGA highlights that PJM’s version of the Pay for Performance rules administratively prevents the Balancing Ratio from going above one—a consequence of a Commission order imposing such a limit. NEPGA argues that the Commission should impose on the ISO the obligation to adopt PJM’s capped Balancing Ratio, to prevent such an occurrence in the future.¹³

Considering the broader context, the ISO notes that the extraordinary loads on June 24th, the resulting Capacity Scarcity Condition event, and the concerns raised in the Complaint, take place against a backdrop of increasing uncertainty with respect to the overall state of the New England region’s resource adequacy. New England has secured adequate capacity via the existing Forward Capacity Market to meet its resource adequacy needs through June 1, 2028. However, New England may be challenged to maintain its planning reserve margins beyond that date if the region loses substantial amounts of existing capacity that is not replaced with new entry. In this regard, the region has been anticipating substantial quantities of new offshore wind generation in coming years to help maintain resource adequacy; however, there are escalating uncertainties about the pace and ability of those projects to come to fruition.¹⁴ With this context, the ISO acknowledges NEPGA’s concerns with respect to the impacts of the

¹² *Id.* at 7, n.15.

¹³ *Id.* at 10.

¹⁴ *See, e.g.*, Letter re: Long-Term Contracts for Offshore Wind Energy Generation Pursuant to Section 83C of Chapter 169 of the Acts of 2008, as Amended – D.P.U. 23-42, citing federal uncertainty as basis for further delays in contract negotiations for the pending offshore wind projects selected by Massachusetts and Rhode Island in the 2023 multi-state procurement (June 30, 2025), *available at* [dpu-23-42-letter-to-the-department-6-30-25.pdf](https://www.dpu.state.ma.us/record/23-42-letter-to-the-department-6-30-25.pdf); Letter from the Maine Governor’s Energy Office requesting to delay the filing of plans for an offshore wind solicitation due to “recent shifts in the energy landscape that have caused significant uncertainty in the offshore wind industry” (June 13, 2025) (subsequently granted by the Maine Public Utilities Commission), *available at* https://www.maine.gov/energy/sites/maine.gov.energy/files/2025-06/MPUC_GEO_OSW_Energy_Procurement.pdf.

existing Pay for Performance rules on existing capacity resources that performed to their Capacity Supply Obligations during the June 24 Capacity Scarcity Condition.

Specifically, the ISO concedes NEPGA's primary assertion that a Balancing Ratio above one was considered to be a theoretical possibility that was unlikely to happen in practice. As is discussed herein, this is in fact consistent with events to date, as all but one of the Capacity Scarcity Conditions that have occurred since the inception of Pay for Performance had a Balancing Ratio below one.¹⁵ Further, certain features of the current Forward Capacity Market design that are related to how the Qualified Capacity of many capacity resources is determined and entered into Forward Capacity Auctions render it difficult for capacity suppliers to hedge the risk of a Balancing Ratio in excess of one.¹⁶ As a result, and as is discussed in greater detail in this Answer, the ISO would not oppose an order from the Commission to cap the Balancing Ratio at one, consistent with the treatment in PJM, so long as adequate time is provided for the ISO to evaluate and make other necessary changes to the Forward Capacity Market rules so that the capping does not create other problems.¹⁷ The ISO requests 180 days for the completion of such work and review of the proposed changes with New England stakeholders, and thus a 180-day compliance deadline. While uncertainties remain, as addressed herein and in the attached affidavit of Dr. Matthew White, capping the Balancing Ratio at one should be expected to continue to provide strong performance incentives under the Forward Capacity Market construct.¹⁸

However, the ISO opposes NEPGA's second assertion in the Complaint, that the current

¹⁵ See *infra* Section I.B.

¹⁶ See *id.*

¹⁷ See *infra* Section I.E.

¹⁸ See *infra* Section I.D.2.

rules for allocating the costs of the stop-loss mechanism under the Pay for Performance rules are also unjust and unreasonable.¹⁹ While the current stop-loss allocation rules caused suppliers with Capacity Supply Obligations to incur an additional \$17.2 million in charges from the June 24 Capacity Scarcity Condition,²⁰ as the ISO demonstrates herein, the only entities that should be responsible for the costs of the stopped losses are the entities that can benefit from the stop-loss mechanism—*i.e.*, the capacity suppliers with Capacity Supply Obligations.²¹ NEPGA’s assertions that this logic is faulty are unfounded, and its assertions related to cost causation are unsound.²² Moreover, with respect to NEPGA’s other arguments regarding the allocation of stop-loss costs,²³ it would not be unjust and unreasonable to cap the Balancing Ratio at one while maintaining ISO-NE’s existing stop-loss cost allocation approach, or to continue to employ different cost allocation mechanisms in ISO-NE and PJM.²⁴

Nevertheless, although the ISO opposes NEPGA’s argument with respect to the allocation of stop-loss costs, for expediency, and with acknowledgment of the significance of the costs suppliers with existing resources incurred as a result of the June 24th stopped losses, the ISO also addresses NEPGA’s request that the Commission impose upon the ISO the obligation to replace its current stop-loss cost allocation approach with the one employed in PJM.²⁵ As the ISO explains, implementing such a replacement rate is feasible under the 180-day compliance timeline identified above.

¹⁹ Complaint at 1, 25.

²⁰ White Affidavit at 6 (citing August 2025 ISO-NE COO Report at slide 33).

²¹ *See infra* Section I.C.

²² *Id.*

²³ *See Complaint* at 10, 35, 38.

²⁴ *See infra* Sections I.C.3, I.D.1.b., I.D.3.

²⁵ *See infra* Section I.D.2.

I. ANSWER TO COMPLAINT

A. The Current Balancing Ratio Functions as Intended

In its current form, the Balancing Ratio reflects the two-settlement Pay for Performance design as it was originally developed and accepted by the Commission.²⁶ Under the two-settlement design, a capacity supplier receives the forward Capacity Clearing Price in the Forward Capacity Auction for its forward physical and financial capacity position.²⁷ In real-time, during a Capacity Scarcity Condition, a capacity supplier's performance is measured against its forward financial position, resulting in a *settlement for deviations*, which is the performance payment (negative or positive) that the capacity supplier incurs or receives depending on how its resource performs during the event. This performance payment is based on the deviation between the resource's actual performance and its forward financial position. These deviations are credited or charged at the fixed Capacity Performance Payment Rate.²⁸

Particularly relevant to the current Balancing Ratio construct, under this design, a capacity supplier's forward financial position is not equal to its Capacity Supply Obligation, which is its forward *physical* position; rather, that forward financial position is a "[pro rata] *share* of the system's energy and reserve requirements in scarcity conditions during the Capacity Commitment Period."²⁹ When that pro rata share is *less than* the capacity supplier's Capacity

²⁶ See *ISO New England Inc.*, Filing to Implement Pay for Performance in the Forward Capacity Market, Docket No. ER14-1050 (filed Jan. 17, 2014). The transmittal letter, supporting testimony of Dr. Matthew White, and supporting testimony of David LaPlante, Internal Market Monitor, and Seyed Parviz Gheblealivand, are referred to herein, respectively, as the "PFP Transmittal Letter," the "PFP White Testimony," and the "PFP IMM Testimony;" see also *ISO New England Inc.*, 147 FERC ¶ 61,172 (2014) ("PFP Initial Order"); *ISO New England Inc.*, 153 FERC ¶ 61,223 (2015) ("PFP Rehearing Order"). The two-settlement Pay for Performance design is explained in detail at pages 21–25 of the PFP Transmittal Letter, and pages 54–70 of the PFP White Testimony.

²⁷ PFP White Testimony at 58–59.

²⁸ *Id.*

²⁹ *Id.* Thus, in accepting a Capacity Supply Obligation in a Forward Capacity Auction, the capacity supplier is accepting the financial obligation to deliver its pro-rata share of energy and reserves during Capacity Scarcity Conditions, *which may be either less than or greater than its physical Capacity Supply Obligation.*

Supply Obligation—as has historically been the case (in all but one instance)—a supplier has the opportunity to earn *positive* Capacity Performance Payments by delivering more energy or reserves during a Capacity Scarcity Condition than its pro rata share of the system’s energy and reserve requirements.³⁰ Because, under such circumstances, the pro rata share of system requirements is *less than* its Capacity Supply Obligation, if the supplier performs to its Capacity Supply Obligation, it will receive positive Capacity Performance Payments for delivering a portion of that energy (*i.e.*, for delivering the same energy for which it has received compensation on a forward basis for clearing in the Forward Capacity Auction).

Likewise, when scarcity conditions are more severe (as is less frequently the case), and a capacity supplier’s share of total system requirements during the Capacity Scarcity Condition is greater than its Capacity Supply Obligation, it can incur negative Capacity Performance Payments even if it delivers its full (forward) physical Capacity Supply Obligation.³¹ A supplier can also avoid those negative Capacity Performance Payments by delivering energy and reserves at or above its share of the system’s real-time requirements, if it has capability above its Capacity Supply Obligation.³²

The mechanism employed under the ISO’s Pay for Performance market rules for calculating a capacity supplier’s share of system needs during a Capacity Scarcity Condition is

³⁰ PFP Transmittal Letter at 23–24; PFP White Testimony at 71–75, 154–155.

³¹ PFP Transmittal Letter at 23–24; PFP White Testimony at 75–76, 159.

³² To summarize, under the two-settlement Pay for Performance design, a resource’s Monthly Capacity Payment for an Obligation Month is the sum of its Capacity Base Payment for the Obligation Month (for a resource whose offer has cleared in the Forward Capacity Auction, the Capacity Base Payment equals the product of its cleared Capacity Supply Obligation and the applicable Capacity Clearing Price) plus the sum of its (positive or negative) Capacity Performance Payments. ISO-NE Tariff, Sections III.13.7.1.1., III.13.7.3; PFP White Testimony at 59–60 (stating that a resource’s Capacity Base Payment represents the first of the two financial settlements and that the second settlement for deviation is a resource’s Capacity Performance Payment).

the *Capacity Balancing Ratio*. As NEPGA explains,³³ the Balancing Ratio reflects the total system needs during the event, *i.e.*, the total energy and reserves necessary to meet the system's load and minimum total operating reserve requirement during the scarcity event, relative to the total forward physical obligations—the aggregate Capacity Supply Obligation—of all resources.³⁴ A Balancing Ratio of less than one reflects that the total energy and reserves required during the Capacity Scarcity Condition was *less than* the aggregate quantity of Capacity Supply Obligations held by all capacity suppliers during the event.³⁵ A Balancing Ratio of greater than one reflects that the total energy and reserves required during the event was *greater than* that aggregate quantity of Capacity Supply Obligations.³⁶ Note that a resource is not expected to deliver energy exactly at its share of system obligation in real-time during a Capacity Scarcity Condition; rather, it is expected to follow the ISO's real-time dispatch instructions, which are aligned with suppliers' intended incentives to maximize their capabilities to provide energy and reserves.³⁷

³³ Complaint at 13.

³⁴ The Balancing Ratio is expressed in the ISO Tariff formulaically as $(Load + Reserve Requirement) / Total Capacity Supply Obligation$. ISO-NE Tariff, Section III.13.7.2.3. As Dr. White explained in his testimony, certain adjustments apply when the Capacity Scarcity Condition occurs only in a specific Capacity Zone (*see* PFP White Testimony at 156–157 for a discussion of these adjustments), but these adjustments are not relevant to the issues raised in the Complaint.

³⁵ *See* PFP White Testimony at 73–74 for an overview and example of the Balancing Ratio calculation.

³⁶ *See* PFP White Testimony at 158–160 for a discussion of the Balancing Ratio exceeding one.

³⁷ *See* PFP White Testimony at 64; PFP Transmittal Letter at 25 (“A supplier’s financial incentives under Pay For Performance – which are to maximize its resource’s capabilities to provide energy and reserves – are fully aligned with the system’s dispatch objectives to make maximum use of those capabilities during scarcity conditions. The share-of-system forward position, then, is not a physical dispatch target. It is a financial arrangement that serves to link payments to performance and thereby create stronger economic incentives for resources to enhance their capabilities to deliver.”).

B. The June 24, 2025 Capacity Scarcity Condition Brought to Light Reasonable Concerns with the Current, Uncapped Balancing Ratio

As the Complaint explains, the June 24, 2025 Capacity Scarcity Condition presented, for the first time, a Balancing Ratio that was greater than one. In this case, system real-time needs were greater than the aggregate quantity of forward positions held during the event, and the Capacity Balancing Ratio event average of 1.031 reflected this.³⁸ A capacity supplier that delivered energy only up to its Capacity Supply Obligation MW value delivered less than its share of the system's energy and reserve requirements during the event, and therefore had a negative deviation.³⁹ That negative deviation was settled at the real-time Capacity Performance Payment Rate, and the supplier incurred a negative Capacity Performance Payment.⁴⁰

As the Complaint explains, this outcome had been described by the ISO as a “theoretical” possibility,⁴¹ suggesting that it was not likely to occur in practice. In fact, of the six Capacity Scarcity Conditions that have occurred to date since the implementation of Pay for Performance over seven years ago (on June 1, 2018), all but the June 24, 2025 Capacity Scarcity Condition have resulted in Balancing Ratios less than one.⁴² This outcome is as anticipated, and reflects

³⁸ See August 2025 ISO-NE COO Report at slide 31.

³⁹ See August 2025 ISO-NE COO Report at slides 32–37 (providing details regarding resource performance, credits and charges during the June 24, 2025 Capacity Scarcity Condition).

⁴⁰ See August 2025 ISO-NE COO Report at slides 31, 33.

⁴¹ PFP White Testimony at 159 (explaining that a Balancing Ratio above one is possible “in theory”).

⁴² The average Balancing Ratio for the June 24, 2025 Capacity Scarcity Condition was 1.031, and the event lasted for approximately three hours. See August 2025 ISO New England COO Report slides 22–38. The average Balancing Ratio for the August 1, 2024 Capacity Scarcity Condition was 0.896, and the event lasted for approximately 2 hours and 20 minutes. See ISO New England August 1, 2024 Scarcity Event Report, available at <https://www.iso-ne.com/static-assets/documents/100015/npc-2024-09-05-04-scarcity-event-2024-08-01.pdf>. The average Balancing Ratio for the June 18, 2024 Capacity Scarcity Condition was 0.865, and the event lasted for approximately a half hour. See ISO New England June 18, 2024 Scarcity Event Report, available at <https://www.iso-ne.com/static-assets/documents/100014/august-2024-coo-op4-report.pdf>. The average Balancing Ratio for the July 5, 2023 Capacity Scarcity Condition was 0.79, and the event lasted for approximately a half hour. See ISO New England July 5, 2023 Scarcity Event Report, available at <https://www.iso-ne.com/static-assets/documents/2023/09/2023-07-05-op4-v6.pdf>. The average Balancing Ratio for the December 24, 2022 Capacity Scarcity Condition was 0.67, and the event lasted for approximately an hour and 20 minutes. See ISO New

that a central purpose for the Forward Capacity Market is to procure the resources that are necessary to meet the system's needs throughout the year, including when loads are at their highest.⁴³

NEPGA's primary concern as expressed in the Complaint is that under the current Pay for Performance rules a capacity supplier that meets its *physical* Capacity Supply Obligation (*i.e.*, provides energy and reserves equal to its Capacity Supply Obligation) during extreme scarcity events can nevertheless incur underperformance charges,⁴⁴ a possibility that was only raised in theory by the ISO. This concern is understandable, in particular in the context of the June 24, 2025 event. While such events are infrequent, the ISO concedes that certain other aspects of the current Forward Capacity Market rules make it difficult for capacity suppliers to hedge the risk of incurring such charges when extreme loads produce system needs that are greater than the aggregate available capacity (as reflected in Capacity Supply Obligations). Of particular note, as explained further below, the current rules for calculating resource Qualified Capacity values render it difficult for many resources to physically provide more energy than their Capacity Supply Obligation. While suppliers can in principle hedge this risk by accounting for it in their capacity offers, the ISO acknowledges that the risk of the Balancing Ratio going above one was discussed only as a theoretical possibility, and that suppliers very well may not have accounted for it as a result.

England December 24, 2022 Scarcity Event Report, available at <https://www.iso-ne.com/static-assets/documents/2023/01/december-2022-op4-coo-report.pdf>. The average Balancing Ratio for the September 3, 2018 Capacity Scarcity Condition was 0.72, and the event lasted for approximately two hours and 35 minutes. See ISO New England September 3, 2018 Scarcity Event Report, available at <https://www.iso-ne.com/static-assets/documents/2018/09/september-2018-op4-coo-report.pdf>.

⁴³ See PFP Transmittal Letter at 4, 18; PFP Initial Order at P 36.

⁴⁴ Complaint at 4 (explaining that the current Pay for Performance design “in effect obligates [capacity suppliers] to deliver energy and/or reserves above their Capacity Supply Obligation, and in many cases above the physical capability of the resource, else face significant financial charges,” so that “fully performing resources are charged as if they failed to perform.”).

As NEPGA highlights in its Complaint,⁴⁵ many capacity resources hold Capacity Supply Obligations at or close to the level of their maximum capability, as measured during seasonal audits. As a result, these resources are not capable of providing more (or significantly more) energy during Capacity Scarcity Conditions than their Capacity Supply Obligations, and therefore cannot physically hedge (once the commitment period begins) against incurring negative Capacity Performance Payments when the Capacity Balancing Ratio is above one.⁴⁶

This current feature of the Forward Capacity Market design is largely a function of the manner in which the Qualified Capacity of many capacity resources is calculated. Under the ISO Tariff, each resources' Qualified Capacity—*i.e.*, the measure of capacity that is offered into each annual Forward Capacity Auction—is, for many resources, a function of its performance during peak hours, when its output is most likely to be closest to its maximum capability.⁴⁷ In turn, existing resources are obligated to offer this capability into the annual auction, and generally take

⁴⁵ See Complaint at 8–9, 25–26, 29–30.

⁴⁶ The ISO disagrees with the breadth of the conclusion NEPGA draws from its observation regarding the inability of suppliers to deliver more than their Capacity Supply Obligations. It asserts that “[t]he current uncapped Balancing Ratio requires a capacity resource to provide more power than its output,” *id.* at 26, and that “it unreasonably holds resources to a standard that in most instances is physically impossible.” *Id.* at 25. These assertions are technically incorrect. As is explained above, the Balancing Ratio reflects that under the Pay for Performance design, a supplier is financially responsible for its share of system load. See *supra* Section I.A. It can meet this obligation either through a financial payment *or* through physical delivery of energy or reserves. Thus, the design does not mandate physical performance even when a supplier is incapable of performing, though it does (not unreasonably) incent resources to improve the capability of their resources so that they can meet their financial responsibility through physical delivery—which, contrary to the Complaint’s assertion at 31–32, could help to improve reliability for the entire system. Nevertheless, the ISO acknowledges that the current expectation (if not obligation) that resources will clear their full Qualified Capacity make it less feasible to physically hedge this particular risk.

⁴⁷ See, *e.g.* the ISO Tariff provisions for the calculation of the seasonal Qualified Capacity values of Existing Generating Capacity Resources, ISO-NE Tariff, Section III.13.1.2.2. Pursuant to these provisions, an Existing Generating Capacity Resource’s seasonal Qualified Capacity is calculated as a function of its most recent Seasonal Claimed Capability ratings, ISO-NE Tariff, Sections III.13.1.2.2.1.1 and III.13.1.2.2.1.2, which are in turn calculated using participant-initiated Seasonal Claimed Capability audits, pursuant to Section III.1.5.1.3 of the ISO-NE Tariff. For Generating Capacity Resources that are intermittent (*e.g.* wind, run-of-river hydro and solar resources), Qualified Capacity values are a function of the resource’s historical performance during defined seasonal reliability hours. See ISO-NE Tariff, Section III.13.1.2.2.2.

on Capacity Supply Obligations in those auctions at or close to resource Qualified Capacity values.^{48, 49}

Given the infrequency of extreme Capacity Scarcity Conditions that produce a Balancing Ratio above one, and the identified interactions with the current Forward Capacity Market rules, the ISO would not oppose a directive from the Commission to cap the Balancing Ratio at one, as is done in PJM. To be clear, while the current, uncapped Balancing Ratio meets the stated objectives of the two-settlement Pay for Performance design, and conforming with PJM's capped Balancing Ratio is not necessary to ensure the design achieves its overall objectives, a Balancing Ratio capped at one should not materially undermine performance incentives under the current Pay for Performance rules and Forward Capacity Market construct.⁵⁰ We address this point in more detail below.

⁴⁸ See the tables of Capacity Supply Obligations from Forward Capacity Auctions one through 18, *available at* https://www.iso-ne.com/static-assets/documents/2018/02/fca_obligations.xlsx. As this spreadsheet reflects, suppliers generally clear Capacity Supply Obligations (expressed monthly in columns X through AI) at or very close to the Qualified Capacity (reflected in Column W). The monthly Capacity Supply Obligation values of Intermittent Power Resources are adjusted to reflect seasonal differences, as is addressed in ISO-NE Tariff, Section III.13.2.7.6.

⁴⁹ The Complaint also asserts that, when Pay for Performance was first established, the total Capacity Supply Obligation would not change following the Forward Capacity Auction, even if Capacity Supply Obligations were exchanged or ended via ISO-NE buying them back, and that subsequent changes to Annual Reconfiguration Auctions ("ARA") allow the total Capacity Supply Obligation to be potentially less than the Capacity Supply Obligation established at the Forward Capacity Auction, thereby decreasing the Balancing Ratio denominator and increasing the risk of a Balancing Ratio exceeding one. Complaint at 16–17. The ISO concedes that this risk was relatively high for the 2025–2026 Capacity Commitment Period, given the reduction of over 1,600 MW in total Capacity Supply Obligations that occurred in the third ARA. However, it has been possible for the total Capacity Supply Obligation for a given Capacity Commitment Period to change through ARAs since the inception of the Forward Capacity Market, and total Capacity Supply Obligations have fairly consistently decreased through this process, sometimes substantially. Initially, ISO-NE could submit supply offers and demand bids in ARAs to address year-to-year changes in the Installed Capacity Requirement. *See ISO New England Inc.*, 119 FERC ¶ 61,239, at P 9 (2007) ("Reconfiguration auctions provide a mechanism for resources to either acquire or shed capacity supply obligations."). Following the implementation of sloped demand curves, the ARAs allow ISO-NE to procure or release capacity on behalf of load by using sloped demand curves in the auction, with capacity suppliers having the opportunity to increase or decrease Capacity Supply Obligations through ARA participation. *See* ISO-NE Tariff, Sections III.13.4.5. and III.13.4.8.

⁵⁰ *See infra* Section I.D.2. The ISO wants to underscore the narrowness of this concession. The current Balancing Ratio reflects the sound and economically efficient two-settlement Pay for Performance design. There is nothing inherently unjust or unreasonable about charging suppliers for deviations at the spot price when real-time system needs are greater than the supplier's forward physical position, anymore than it is unjust or unreasonable to pay

C. ISO-NE's Stop-Loss Is Supported by a Just and Reasonable Cost Allocation Approach

In contrast to the ISO position with respect to the capping of the Balancing Ratio, the ISO opposes NEPGA's arguments in favor of modifying the current stop-loss cost allocation rules. Allocating the costs of the stop-losses to the pool of suppliers with Capacity Supply Obligations is supported by the Commission's cost allocation precedent. While the Complaint "takes no issue with the stop-loss mechanism itself"⁵¹ and only seeks to change the allocation of costs when the stop-loss mechanism is triggered,⁵² it does not demonstrate that the Commission-accepted approach to allocating the costs of the stop-loss is unjust and unreasonable.

1. Under ISO-NE's Design, the Capacity Suppliers that Benefit from the Financial Protection of the Stop-Loss Mechanism Pay for It

As the Commission has recognized, the stop-loss mechanism is an important component of the overall Pay for Performance design that helps mitigate the risk to suppliers.⁵³ In establishing the Pay for Performance construct, the Commission recognized that "it is not commercially reasonable for a capacity supplier to face potentially unlimited losses for non-

them for deviations at the spot price when real-time system needs are less than the supplier's forward physical position and they nevertheless deliver their full Capacity Supply Obligation. The logic of the two-settlement design, and the real-time settlement for deviations at the Performance Payment Rate, was explained in substantial detail in the ISO's Pay for Performance filing. *See* 21–25 of the PFP Transmittal Letter, and 54–70 of the PFP White Testimony. The concession in the ISO's instant Answer reflects only that certain, discrete features of the current Forward Capacity Market may interfere with a capacity supplier's ability to hedge the risks of underperformance payments when the Balancing Ratio goes above one.

⁵¹ Complaint at 20.

⁵² Complaint at 35.

⁵³ *See* PFP Initial Order at P 62 (finding that ISO-NE's proposed Tariff revisions reflecting multiple mechanisms to help mitigate the risk to suppliers, including the monthly and annual stop-loss mechanisms, are just and reasonable); *see also id.* at P 75 ("We find that, taken together, [the stop-loss mechanism, Capacity Performance Bilaterals, the phase-in of the Capacity Performance Payment Rate, and allowing resources to offer their capacity in blocks] properly balance the region's need for more reliable resources with suppliers' need to have a quantifiable risk profile in order to secure financing for new resources and calculate the appropriate level of investment to maintain existing resources.").

performance.”⁵⁴ To limit suppliers’ downside exposure, the Pay for Performance design includes a monthly stop-loss limit, which limits a resource’s net financial losses in each month of the Capacity Commitment Period,⁵⁵ and an annual stop-loss limit, which limits a resource’s net financial losses over the entire annual Capacity Commitment Period.⁵⁶ These provisions were designed to provide financial protection to suppliers “with minimal distortion to the Pay for Performance incentives and in a manner that is relatively simple and transparent.”⁵⁷

As NEPGA acknowledges, ISO-NE’s stop-loss mechanism functions as a “mutual insurance system among all resources with a Capacity Supply Obligation.”⁵⁸ In this design, the “insured pool” is all capacity suppliers,⁵⁹ and each capacity supplier in the pool is financially protected against losses beyond the stop-loss limit.⁶⁰ If one or more capacity supplier reaches the stop-loss limit, the other capacity suppliers in the pool—those that did not reach the stop-loss limit—pay for the stop-loss in the form of reduced net Forward Capacity Market payments.⁶¹

⁵⁴ PFP White Testimony at 173.

⁵⁵ *Id.* at 184; ISO-NE Tariff, Section III.13.7.3.1. The monthly stop-loss limit caps a resource’s negative Capacity Performance Payment to an amount equal to the product of the applicable Forward Capacity Auction Starting Price multiplied by the resource’s Capacity Supply Obligation for the Obligation Month. *Id.*; *see also* PFP White Testimony at 185.

⁵⁶ *Id.* at 184. Under the annual stop-loss limit a capacity resource cannot be worse-off, on an annual basis, than three times its maximum monthly potential net loss. *Id.* at 200; *see* ISO-NE Tariff, Section III.13.7.3.2.

⁵⁷ PFP Transmittal Letter at 44 (citing PFP White Testimony at 172–176).

⁵⁸ PFP White Testimony at 176; *see* Complaint at 20.

⁵⁹ PFP White Testimony at 182.

⁶⁰ *Id.* at 180, 182.

⁶¹ *Id.* at 176, 180. In effect, “capacity suppliers are insuring one another, in part, against the adverse financial consequences if one of them experiences very poor resource performance.” *Id.* at 180.

These costs are allocated on a Capacity Supply Obligation pro rata basis.⁶² In short, the pool of “capacity resources eligible to receive [the] insurance benefit also pay for it.”⁶³

This design is consistent with the beneficiary pays principle, *i.e.* that those who benefit from a service should pay for the costs of that service.⁶⁴ All capacity suppliers potentially benefit from the stop-loss mechanism because—in addition to limiting a supplier’s net financial losses—it enables a supplier to know its maximum loss exposure prior to participating in the Forward Capacity Auction, and to communicate its maximum loss exposure to third parties with which it may do business, such as external entities providing financing.⁶⁵

On the other hand, resources without a Capacity Supply Obligation do not receive any forward payment through the Forward Capacity Market (*i.e.*, they do not receive a monthly Capacity Base Payment that could be offset through underperformance in real-time), and therefore have “no potential financial losses in [Forward Capacity Market] settlement, and nothing to ‘insure’ through the stop-loss mechanism.”⁶⁶ Accordingly, under ISO-NE’s design,

⁶² *Id.* at 179, 183.

⁶³ *Id.* at 176. In describing the stop-loss mechanism in the initial Pay for Performance proposal, Dr. White explained that “if a capacity resource reaches the stop-loss limit, the other capacity suppliers will receive reduced net payments.” *Id.* at 180. As Dr. White further explained, this allocation is analogous to the conventional mutual insurance dividend in a mutual insurance system, where the conventional mutual insurance dividend is a variable amount that is returned to the mutually-insured parties if—and only if—covered losses are less than the surplus premiums. *Id.* at 183.

⁶⁴ *See, e.g., ISO New England Inc.*, 142 FERC ¶ 61,024, at P 1, 18 (2013) (accepting ISO-NE Tariff revisions that allocate the costs for ISO-NE-initiated generator audits to market participants with Real-Time Load Obligations where, “[b]ecause the participants with Real-Time Load Obligations are the beneficiaries of real-time load service, it is appropriate that they pay for those audit costs.”).

⁶⁵ PFP White Testimony at 174.

⁶⁶ *Id.* at 184. As Dr. White explained more fully, at 183–194: “Only resources with a Capacity Supply Obligation participate in the stop-loss mechanism. This is not a stop-loss design decision per se, but rather a direct consequence of the Pay For Performance two-settlement design overall. Specifically, a resource without a Capacity Supply Obligation cannot incur financial losses in the capacity market because it does not have a share-of-system financial performance obligation. It receives no Capacity Base Payment, and cannot receive a negative Capacity Performance Payment. This means a resource without a Capacity Supply Obligation has no potential financial losses in FCM settlement, and nothing to ‘insure’ through the stop-loss mechanism. Accordingly, these resources do not have stop-loss limits, and are not included in the allocation of the net surplus (whether positive or negative).”

non-Capacity Supply Obligation resources do not have stop-loss limits, and in no way are they able to benefit from the stop-loss mechanism.⁶⁷

2. The Complaint Does Not Demonstrate that ISO-NE’s Approach to Allocating Stop-Loss Costs Is Unjust and Unreasonable

In arguing that resources with a Capacity Supply Obligation that perform in accordance with their capacity MW obligation during a Capacity Scarcity Condition should not be charged when other resources hit the stop-loss limit, NEPGA argues that “[c]ost-causation principles cannot impose the costs of a resource’s non-performance on a separate resource.”⁶⁸ However, this logic does not support the argument that cost allocation under ISO-NE’s current stop-loss design is unjust and unreasonable. First, in allocating the costs of one or more resources hitting the stop-loss limit to the other capacity resources that benefit from the mutual insurance system, ISO-NE’s stop-loss mechanism applies the beneficiary pays principle, which is “an extension” of the cost causation principle.⁶⁹

Moreover, it is not possible to accomplish the financial objective of the stop-loss—to insulate the supplier from unbounded financial risk—while directly imposing the cost of the stop-loss on the entity that “causes” that cost—*i.e.*, the very supplier whose performance-related charges are to be stopped. In this regard, under cost causation principles as NEPGA utilizes

⁶⁷ In the implementing Tariff language, they are not included in the allocation of the net surplus (whether positive or negative). See PFP White Testimony at 184. Without a stop-loss mechanism, the Pay for Performance design results in a net surplus each time scarcity conditions occur because the total amount of resource under-performance (in MW) exceeds the total amount of resource over-performance (in MW) (if this were not the case, there would have been no scarcity condition.) *Id.* at 177. Application of the stop-loss limit reduces the net surplus, see *id.* at 178–179, and can produce a negative net surplus. *Id.* at 181.

⁶⁸ Complaint at 37.

⁶⁹ See *Midcontinent Indep. Sys. Operator, Inc.*, 191 FERC ¶ 61,231, at P 28 (2025) (citing *S.C. Pub. Serv. Auth. v. FERC*, 762 F.3d 41, 85 (D.C. Cir. 2014)) (additional citations omitted); see also *Midcontinent Indep. Sys. Operator, Inc.*, 191 FERC ¶ 61,231, at P 28 (2025) (“[T]he beneficiary pays principle is simply ‘another prism through which to view the question of cost causation.’”) (citing *K N Energy, Inc. v. FERC*, 968 F.2d 1295, 1302 (D.C. Cir. 1992)) (additional citations omitted).

them in this context, NEPGA’s proposed replacement rate, which allocates costs of the stopped losses “among over-performing generators,”⁷⁰ regardless of whether they have a Capacity Supply Obligation, is even less justifiable. This approach would allocate costs among all overperforming resources, none of which caused any stopped-out resource’s non-performance.⁷¹ In contrast, the mutual insurance pool logic of the ISO’s current stop-loss allocation is sound, allocating the costs to all (and only) capacity suppliers who can benefit from the mechanism, and thus cause such costs on a mutual basis.

3. There Is Ample Basis for Maintaining the Distinct ISO-NE and PJM Stop-Loss Cost Allocation Approaches

Should the Commission determine that NEPGA has failed to meet its burden under Section 206 of the FPA to demonstrate that the current stop-loss cost allocation mechanism is unjust and unreasonable, then contrary to NEPGA’s assertions,⁷² the Commission is not required to reconcile the differences between ISO-NE’s and PJM’s stop-loss cost allocation mechanisms, anymore than it is required to reconcile other differing features of those mechanisms. “[I]t is well-established that there can be more than one just and reasonable rate.”⁷³ In conditionally accepting PJM’s Capacity Performance Filing, the Commission noted that, “in submitting proposed tariff changes pursuant to a FPA section 205 filing, PJM need only demonstrate that its

⁷⁰ Complaint at 35. NEPGA advocates for adopting the PJM approach, which would “cap the Balancing Ratio at 1.0 and split the bonus pool (after adjustments) among over-performing generators.” *Id.*

⁷¹ Using the data for the June 24, 2025 event, NEPGA’s proposal would allocate 41% of the \$17.2 million in costs associated with resources hitting their monthly stop-loss limit to resources that did not take on a Capacity Supply Obligation, and therefore are not receiving monthly Capacity Base Payments, for the 2025–2026 Capacity Commitment Period. This percentage reflects the pro rata share of overperformance by resources that did not hold Capacity Supply Obligations during the June 24 event. *See* August 2025 ISO-NE COO Report at slide 33.

⁷² *See* Complaint at 33–34 (“[T]here is no good reason to impose different [Balancing Ratio] rules for PJM and ISO-NE,” because “PJM’s Capacity Performance mechanism and ISO-NE’s Pay-for-Performance Mechanism are substantially similar.”).

⁷³ PFP Rehearing Order at P 90 (citing *Me. Pub. Utils. Comm’n v. FERC*, 520 F.3d 464, 470-71 (D.C. Cir. 2008), (*rev’d in part on other grounds sub nom*)) (additional citations omitted).

proposed revisions are just and reasonable, not that its proposal is the most just and reasonable among all possible alternatives.”⁷⁴ As the Commission has acknowledged, “RTOs may take somewhat different approaches to similar problems.”⁷⁵ “Thus, the existence of another potentially just and reasonable approach does not render [an approach] unjust and unreasonable.”⁷⁶

Here, in addition to other differences between ISO-NE’s Pay for Performance design and PJM’s version,⁷⁷ there are notable differences between ISO-NE’s and PJM’s stop-loss mechanisms. First, while ISO-NE has both monthly and annual stop-loss limits, with each limit applied separately,⁷⁸ PJM has only an annual stop-loss limit.⁷⁹ Additionally, ISO-NE and PJM calculate their stop-loss limits differently. In ISO-NE, a resource’s monthly stop-loss is limited to an amount equal to the product of the applicable Forward Capacity Auction Starting Price

⁷⁴ *PJM Interconnection, L.L.C.*, 151 FERC ¶ 61,208, at P 167 (2015); see also *City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984) (affirming that the Commission’s authority to review rates under the FPA is “limited to an inquiry into whether the rates proposed by a utility are reasonable – and [does not] extend to determining whether a proposed rate schedule is more or less reasonable than alternative rate designs”).

⁷⁵ *PJM Interconnection, L.L.C.*, 155 FERC ¶ 61,157, at P 167 (2015) (citations omitted); see *id.* (finding that the removal of PJM’s initially proposed monthly stop-loss limit was not unjust and unreasonable simply because ISO-NE took a different approach).

⁷⁶ PFP Rehearing Order at P 90. In support of its argument, NEPGA cites to *New Eng. Power Generators Ass’n v. FERC*, 881 F.3d 202 (D.C. Circuit 2018), in which the United States Court of Appeals for the D.C. Circuit found that the Commission had failed to adequately explain why it accepted the institution of a price-lock mechanism in ISO-NE’s capacity market after rejecting such a mechanism for PJM’s capacity market. *Id.* at 211. However, this decision does not mandate identical market rules across RTOs, even where the market mechanisms share similar features of the sort NEPGA identifies in its Complaint. Rather, it mandates only that the Commission engage in reasoned decisionmaking when it expressly permits a market feature in one RTO market that it expressly denied in another RTO market. *Id.* at 211 (“Although case-by-case adjudication sometimes results in decisions that seem at odds but can be distinguished on their facts, it is the agency’s responsibility to provide a reasoned explanation of why those facts matter.”).

⁷⁷ See, e.g., *infra* note 92.

⁷⁸ See ISO-NE Tariff, Sections III.13.7.3.1, III. 13.7.3.2; PFP White Testimony at 184–185.

⁷⁹ See PJM Open Access Transmission Tariff (“PJM Tariff”), Attachment DD, Section 10A (f-1); see also *PJM Interconnection, L.L.C.*, 155 FERC ¶ 61,157, at P 78 (2015) (denying rehearing requests regarding the elimination of PJM’s original proposal of a monthly stop-loss provision).

multiplied by the resource’s Capacity Supply Obligation for the Obligation Month.⁸⁰ Under ISO-NE’s annual stop-loss mechanism, a capacity resource cannot be worse-off, on an annual basis, than three times its maximum monthly potential net loss.⁸¹ PJM’s Non-Performance Charge Limit, calculated as a function of the capacity auction clearing price, cuts off non-performance charge risk only after the resource has to return all of its capacity market revenue for the delivery year and pay an amount equal to half that annual revenue amount.⁸²

NEPGA does not argue that each component of the materially different stop-loss limits and designs in PJM and ISO-NE must be conformed to one another to remain reasonable.⁸³ And they provide no basis for their assertion that aligning the two, distinct cost allocation approaches *alone* is necessary. In short, given the material differences between the two regions’ stop-loss mechanisms, it is just and reasonable for ISO-NE and PJM to maintain distinct cost allocation mechanisms.⁸⁴ Ultimately, each such mechanism functions in accordance with the other, unique, aspects of each region’s stop-loss rules; ISO-NE need not conform its cost allocation approach to PJM’s anymore than it needs to conform any other aspect of its stop-loss mechanism.

⁸⁰ ISO-NE Tariff, Section III.13.7.3.1. For example, assuming a capacity resource that has a 10 MW Capacity Supply Obligation and a Forward Capacity Auction Starting Price of \$15,000 per MW-month, the resource would have a monthly stop-loss limit of \$150,000 (\$15,000 per MW-month × 10 MW = \$150,000). PFP White Testimony at 185.

⁸¹ PFP White Testimony at 200; *see also id.* at 204 (explaining the general formula for determining the annual stop-loss limit that is used in the ISO-NE Tariff); ISO-NE Tariff, Section III.13.7.3.2.

⁸² *PJM Interconnection, L.L.C.*, 186 FERC ¶ 61,080, at P 224 (2024); PJM Tariff, Attachment DD, Section 10A (f-1) (the Non-Performance Charges for each Capacity Performance Resource shall not exceed a Non-Performance Charge Limit equal to 1.5 times the Base Residual Auction clearing price for the applicable Delivery Year times the megawatts of Unforced Capacity committed by such resource).

⁸³ *See* Complaint at 20, 35.

⁸⁴ *See PJM Interconnection, L.L.C.*, 155 FERC ¶ 61,157 at P 84 (2016) (rejecting arguments that “the PJM stop-loss limit provision is unjust and unreasonable because it differs from the stop-loss limit provision adopted in [ISO-NE’s] Pay for Performance capacity market construct” because “capacity market constructs in PJM and ISO-NE are different in a number of aspects” and “RTOs may take somewhat different approaches to similar problems”) (citing *PJM Interconnection, L.L.C.*, 151 FERC ¶ 61,208 at P 174 (2015) (“[I]n submitting proposed tariff changes pursuant to a FPA section 205 filing, PJM need only demonstrate that its proposed revisions are just and reasonable, not that its proposal is the most just and reasonable among all possible alternatives.”)).

D. Should the Commission Order ISO-NE to Implement a Replacement Rate for its Current Balancing Ratio or Stop-Loss Cost Allocation, the PJM Methodologies Appear to be Implementable, and Significant (though Reduced) Performance Incentives Would Remain

While the arguments set forth above demonstrate that NEPGA has failed to meet its burden under Section 206 with respect to, at the very least, its assertions related to the existing ISO-NE stop-loss mechanism, for expediency the ISO addresses here NEPGA's proposed replacement rate for both the Balancing Ratio and stop-loss cost allocation approach.

In the event the Commission determines that the current Balancing Ratio and/or stop-loss cost allocation approach in ISO-NE's Pay for Performance design is not just and reasonable, the ISO agrees with NEPGA that the mechanisms employed by PJM constitute potentially just and reasonable alternatives for New England's Forward Capacity Market. Even in the stressed Capacity Scarcity Conditions presented on June 24, 2025, implementing the capped Balancing Ratio would continue to provide strong performance incentives; and even if stop-loss costs had also been allocated in a manner similar to PJM, resources would continue to face significant performance incentives under the current Forward Capacity Market construct.

Nevertheless, implementing the PJM balancing ratio and stop-loss mechanisms in the context of the ISO's Pay for Performance design would require further evaluation, to ensure that these mechanisms function properly, and do not create concerns for other provisions of the Pay for Performance rules (as explained further below). Therefore, should the Commission direct the ISO to replace its current uncapped Balancing Ratio and/or stop-loss cost allocation rules with the analogous approach in place in PJM, the ISO requests that the Commission allow it 180 days to complete the necessary design work, review the changes with New England stakeholders, and file the revised rules with the Commission.

1. The Current PJM Balancing Ratio and Stop-Loss Mechanisms Play Parallel Roles to the ISO-NE Versions of These Mechanisms, But Have Important Differences

The basic mechanics of PJM’s pay for performance market are largely similar to the ISO-NE design. In PJM, “Capacity Resources”⁸⁵ are assessed a charge when they fail to perform at their expected level during Performance Assessment Intervals (“PAI”),⁸⁶ triggered when PJM declares an Emergency Action (*i.e.*, PJM’s version of a Capacity Scarcity Condition).⁸⁷ The collected revenue from these non-performance charges are then used by PJM to make “bonus payments” to resources that perform above expectations.⁸⁸

The Commission recently accepted PJM’s proposal to establish a uniform Non-Performance Charge Rate based on RTO-wide Net Cone beginning with PJM’s 2026–2027 delivery year.⁸⁹ Underperforming resources are charged “based on their Performance Shortfall in each [Performance Assessment Interval] times the penalty rate.”⁹⁰ “A Performance Shortfall is measured as Expected Performance minus Actual Performance, where Expected Performance is the resource’s capacity commitment (measured in unforced capacity) times the Balancing

⁸⁵ PJM, Reliability Assurance Agreement (“RAA”), Article 1, Definitions (Capacity Resources).

⁸⁶ RAA, Article 1, Definitions (Performance Assessment Intervals); PJM Tariff, Definitions – O – P – Q.

⁸⁷ PJM Tariff, Definitions E – F. The Commission recently accepted PJM’s proposal to narrow the definition of Emergency Action so that it is triggered less frequently. *PJM Interconnection, L.L.C.*, 184 FERC ¶ 61,058, at P 1 (2023) (accepting section 205 proposal to narrow definition).

⁸⁸ PJM Tariff, Attachment DD Section 10A(g). *See also Energy Harbor LLC v. PJM Interconnection, L.L.C.*, 185 FERC ¶ 61,203, at P 2 (2023) (describing capacity performance construct in a case denying a complaint challenging PJM’s Non-Performance charges).

⁸⁹ *PJM Interconnection, L.L.C.*, 190 FERC ¶ 61,088, at PP 12, 73 (2025) (accepting section 205 proposal on several capacity market changes). For years before the 2026/2027 Delivery Year, the rate is calculated as “the annual Net Cost of New Entry (Net CONE), stated in terms of installed capacity (ICAP), for the relevant Locational Deliverability Area and delivery year, divided by 360 (the assumed number of PAIs per year).” *Energy Harbor LLC*, 185 FERC ¶ 61,203, at PP 1, 4 (2023).

⁹⁰ *Id.* at P 4.

Ratio.”⁹¹ Under PJM’s design, revenues collected from assessment of Non-Performance Charges for a Performance Assessment Interval are distributed to overperforming resources, and such “bonus payments” are not paid out at a pre-determined rate.⁹²

a. *The PJM Balancing Ratio Is Functionally Similar to the ISO-NE Balancing Ratio, But Is Capped at One*

The PJM Balancing Ratio serves generally the same purpose as the ISO-NE Balancing Ratio. As FERC explained in discussing the PJM pay for performance design, “[t]he Balancing Ratio is a parameter in the Capacity Performance construct that determines, based on system conditions, what portion of a Capacity Performance Resource’s committed capacity the resource must deliver (in the form of energy or reserves) during a Performance Assessment Hour to avoid Non-Performance Charges.”⁹³ As in New England, the PJM Balancing Ratio is calculated generally as the ratio of actual resource performance, including reserves, during the measured performance period to the sum of all capacity with a capacity obligation for the delivery period.⁹⁴

Unlike the ISO-NE Balancing Ratio, the PJM Balancing Ratio is capped at a value of one,⁹⁵ which prevents a capacity resource from being charged for non-performance in excess of its capacity obligation (*i.e.*, if system load and reserve requirements during the scarcity event

⁹¹ *Id.*; PJM Tariff, Attachment DD, Section 10A(c). *See also Energy Harbor LLC v. FERC*, 143 F.4th 388, 390–391 (D.C. Cir. 2025).

⁹² PJM Tariff, Attachment DD, Section 10A(g); *PJM Interconnection, L.L.C.*, 151 FERC ¶ 61,208, at P 342 n.285 (2015) (“Performance Bonus Payments represent an over-performing resource’s *pro rata* share of all Non-Performance Charges collected.”); Complaint, Exhibit 1, Testimony of Zachary Ming on behalf of New England Power Generators Association at 17 (“Ming Testimony”) (“PJM does not have a pre-specified bonus rate but rather limits bonuses to charges collected”). In contrast, in ISO-NE the Capacity Performance Payment Rate is the same, Tariff-specified rate for both charges to underperforming resources and payments to overperforming resources. ISO Tariff, Section III.13.7.2.5.; PFP White Testimony, at 58–59 (“The deviations are credited or charged at a fixed rate specified in the Tariff []”); *id.* at 87 “[T]he Capacity Performance Payment Rate is the price at which suppliers transact, through the pool []”).

⁹³ *PJM Interconnection, L.L.C.*, 162 FERC ¶ 61,159, at P 58 n.69 (2018) (describing the Balancing Ratio in a section 205 proceeding approving certain PJM capacity market changes).

⁹⁴ *Id.*; PJM Tariff, Attachment DD, Section 10A(c).

⁹⁵ *Id.*

exceed total system capacity obligations). This cap, which was not part of PJM’s original pay for performance market design, was added after several parties argued that the Balancing Ratio “could exceed one, both in concept and in practice, and that a resource delivering its contractually committed capacity during a compliance hour might still be exposed to paying the Non-Performance Charge.”⁹⁶ The Commission agreed, explaining that “[s]uch an outcome is inconsistent with the capacity obligation within the Capacity Performance design.”⁹⁷ In response, PJM proposed that the Balancing Ratio not exceed a value of one “to ensure that a capacity resource’s expected performance for any Performance Assessment Hour will not exceed 100 percent of its cleared Unforced Capacity quantity.”⁹⁸ This proposal was accepted by the Commission without comment.⁹⁹

b. *PJM’s Stop-Loss Mechanism Is Materially Different From ISO-NE’s Stop-Loss Mechanism*

As in New England, PJM employs a stop-loss mechanism in its pay for performance rules, referred to as a Non-Performance Charge Limit.¹⁰⁰ This mechanism is meant to “protect[] resources against exceedingly large penalties resulting from an unforeseen event”¹⁰¹ while not “unduly limiting the performance incentive underlying the Non-Performance Charge provisions.”¹⁰² The Commission explained that the Non-Performance Charge Limit must balance competing objectives, *i.e.*, giving resources a “strong incentive to perform during times

⁹⁶ *PJM Interconnection, L.L.C.*, 151 FERC ¶ 61,208, at P 54 (2015).

⁹⁷ *Id.* at P 177.

⁹⁸ *PJM Interconnection, L.L.C.*, 155 FERC ¶ 61,157, at P 293 (2016). *See also* *PJM Interconnection, L.L.C.*, Compliance Filing Transmittal Letter for PJM Interconnection, L.L.C., Docket No. ER15-623-004, at 10 (July 9, 2015).

⁹⁹ *PJM Interconnection, L.L.C.*, 155 FERC ¶ 61,157, at PP 299-305 (2016).

¹⁰⁰ *See* PJM Tariff, Attachment DD, Section 10A (f-1).

¹⁰¹ *PJM Interconnection, L.L.C.*, 155 FERC ¶ 61,157, at P 78 (2016).

¹⁰² *Id.* at P 80.

of system stress”¹⁰³ while ensuring that participating in the capacity market “is an economically viable option for capacity resources.”¹⁰⁴

As addressed above, PJM’s stop-loss mechanism is functionally distinct from the ISO-NE mechanism in important respects. First, unlike in ISO-NE, which employs both monthly and annual stop-losses, PJM employs only an annual stop-loss.¹⁰⁵ Furthermore, the annual stop-loss limits in ISO-NE¹⁰⁶ and PJM¹⁰⁷ relate very differently to the delivery year’s capacity auction clearing price, which could produce very different stop-loss limit values.

Of particular importance for the instant proceeding, in contrast to ISO-NE’s approach of allocating, through its Pay for Performance two-settlement design, stop-loss costs only to resources with a Capacity Supply Obligation,¹⁰⁸ PJM’s stop-loss cost allocation approach simply reduces the total underperformance charges that are collected and that become available to pay to

¹⁰³ *PJM Interconnection, L.L.C.*, 186 FERC ¶ 61,080, at P 235 (2024). This order accepted PJM’s most recent section 205 changes to its stop-loss methodology. *Id.* at P 1.

¹⁰⁴ *Id.* at 235.

¹⁰⁵ See PJM Tariff, Attachment DD, Section 10A (f-1). In PJM’s original stop-loss proposal, some parties argued that PJM should have a monthly component in addition to an annual component, like ISO-NE. *PJM Interconnection, L.L.C.*, 155 FERC ¶ 61,157, at P 84 (2016). The Commission rejected those arguments primarily on the basis that RTOs may take different approaches. *Id.*

¹⁰⁶ See *supra* note 81.

¹⁰⁷ When PJM’s capacity performance construct was first designed in 2015, the stop-loss mechanism was indexed to 1.5 times the Net CONE used to determine PJM’s demand curve. *PJM Interconnection, L.L.C.*, 155 FERC ¶ 61,157, at P 304 (2016). Following the 2022–2023 disputes about penalty amounts following Winter Storm Elliott, PJM filed to index the stop-loss calculation to 1.5 times the Base Residual Auction (“BRA”) clearing price instead. See *PJM Interconnection, L.L.C.*, 186 FERC ¶ 61,080 (2024). Essentially, this means that a resource has to return all of its capacity market revenue for the delivery year *and* pay an amount equal to half that annual revenue amount. The Commission found that this penalty calculation “maintains a key element of PJM’s existing stop-loss— ‘put[ting] at risk full capacity auction revenues if a resource completely fails to perform during Performance Assessment Hours.’” *Id.* at 235.

¹⁰⁸ See *supra* Section I.C.1. (explaining that resources that do not have a Capacity Supply Obligation are not included in the allocation of the net surplus (whether positive or negative)).

the over-performing resources. As NEPGA acknowledges,¹⁰⁹ this can produce an underperformance charge rate that can materially differ from the overperformance payment rate.

2. Employing PJM’s Capped Balancing Ratio and Stop-Loss Cost Allocation Would Reduce Performance Incentives, Though Significant Performance Incentives Would Remain

As Dr. White explains in his supporting affidavit, the central purpose of the ISO’s Pay for Performance market rules is to provide “simple, strong, and direct financial incentives for resource owners to make investments and take actions to ensure their assets perform when the system is at heightened reliability risk.”¹¹⁰ It is therefore important to consider the extent to which these incentives would be reduced under the proposed replacement rate that NEPGA puts forth, separating the impacts of the capped Balancing Ratio from the impacts of the change in stop-loss cost allocation.

Dr. White provides several observations in his supporting affidavit to help evaluate the impact of resources’ performance incentives under NEPGA’s proposed replacement rate, using information from the June 24, 2025 Capacity Scarcity Condition event. As he explains, capping the Balancing Ratio at one, in the context of the June 24 event, would have reduced the effective Performance Payment Rate paid to overperformers from the ISO-NE Tariff-specified rate of \$9,337 per MWh to \$7,243 per MWh, a reduction of approximately \$2,094 per MWh.¹¹¹

He goes on to explain that, while in an absolute sense this rate reduction is large, “[r]esources accurately anticipating this reduction should still perceive a high marginal incentive to perform,” and this rate (when combined with the high real-time energy prices on June 24th)

¹⁰⁹ Ming Testimony at 43 (explaining that a drawback to using the PJM approach as the replacement rate is that “charge rates and bonus rates will likely differ,” and that “[a] theoretically optimal market construct would send the same performance price signal to all resources”).

¹¹⁰ White Affidavit at 2.

¹¹¹ *Id.* at 4.

“would continue to provide strong performance incentives.”¹¹² Thus, he concludes with respect to the capping of the Balancing Ratio, that given the ISO’s prior experience at lower Performance Payment Rate,¹¹³ the reduction in the effective Performance Payment Rate to \$7,243 per MWh would not be considered to “to pose a major concern for resources’ performance incentives.”¹¹⁴

Additionally replacing the current ISO-NE cost allocation rules for its stop-loss mechanism with the approach employed in PJM, in the context of the June 24 event, would, when added to the impact from capping the Balancing Ratio, have a significantly larger impact on performance incentives. As Dr. White explains, adding to the proposed replacement rate PJM’s approach to allocating stop-loss costs would further reduce the effective Performance Payment Rate that overperforming resources receive during a Capacity Scarcity Condition, because, instead of recovering the Capacity Performance Payments that are not collected from resources whose charges exceed the Tariff’s stop-loss limits from other capacity suppliers that do not reach a stop-loss limit, NEPGA’s alternative would combine the total stopped-losses dollar amount and the under-collection imbalance arising from the capped Balancing Ratio.¹¹⁵

Dr. White goes on to explain that, assuming no change in resources’ performance due to the reduction in the payment rate, capping the Balancing Ratio and employing PJM’s approach to allocating stopped losses would have, collectively, reduced the effective Performance

¹¹² *Id.* at 5.

¹¹³ See discussion of the phase in of the Performance Payment Rate in earlier Capacity Commitment Periods at pages 8–9 of the White Affidavit.

¹¹⁴ *Id.* at 5. Dr. White caveats this conclusion by noting that under other circumstances, the impact to the effective Performance Payment Rate could be higher or lower, with the latter (potentially) reducing incentives further; however, he notes, the June 24 loads were “extraordinary,” and thus “it is plausible that the reduction in incentives [in future such events] may not be dramatically more than the data from the June 24, 2025 event indicate.” *Id.*

¹¹⁵ *Id.* at 6.

Payment Rate by approximately \$3,499 per MWh, resulting in an effective Performance Payment Rate for over-performance of $\$9,337 - \$3,499 = \$5,838$ per MWh for the June 24th event.¹¹⁶

While this reduction in the effective Performance Payment Rate is substantial, as Dr. White explains, “an effective performance payment rate above \$5,000 per MWh, in combination with the value of the real-time energy price (which always exceeds \$1,000 per MWh in a Capacity Scarcity Condition), jointly provide a significant payment rate for real-time energy and reserves,” one that is significantly greater than the Performance Payment Rate that was in place for the first six years the Pay for Performance rules were in place.¹¹⁷ He notes further that, during this same period, “the region experienced well-documented improvements in resource performance during stressed system conditions,” including increased investment in dual fuel capability, reduced generator non-performance issues due to natural gas-related issues, significant reductions in generator forced outage rates, a decline in slow or failed starts for large fossil-steam generating units, and improved performance of fast start resources, and concurrently “a dramatic decline in the frequency of real-time operating reserve shortages.”¹¹⁸

With the caveat that there is “considerable uncertainty ... about the magnitude of the effective Performance Payment Rate in future events under the NEPGA alternative,” based on

¹¹⁶ *Id.* at 7. Dr. White again cautions that “if the system experiences more Capacity Scarcity Conditions in the future, then total system stopped losses may be greater, and under NEPGA’s proposed replacement rate, the effective performance incentive for over-performance would fall further,” noting further that “there is simply too little data to draw firm conclusions about how frequently a substantially reduced effective Performance Payment Rate will recur when the system is at heightened reliability risk.” *Id.* at 7–8.

¹¹⁷ *Id.* at 8; ISO-NE Tariff, Section III.13.7.2.5.

¹¹⁸ White Affidavit at 8–9. *See also* ISO New England Memorandum to NEPOOL Markets Committee regarding Performance of Capacity Resources and Pay for Performance, September 7, 2022, at 2–5, available at https://www.iso-ne.com/static-assets/documents/2022/09/a03_mc_2022_09_13-14_performance_of_capacity_resources_memo_rev1.pdf (summarizing the ISO’s evaluation of resource performance improvements following the implementation of the Pay for Performance rules).

the observations provided in his affidavit, Dr. White “cautiously conclude[s] that ... resources would continue to face significant performance incentives” if the capped Balancing Ratio and alternative stop-loss allocation are implemented under the current Forward Capacity Market construct.¹¹⁹ This determination is particularly important given the overall state of the New England region’s resource adequacy, and the escalating uncertainties, noted above, about the development of anticipated new generation projects that are essential to maintaining the region’s resource adequacy in the face of potential resource retirements over the next decade.¹²⁰

3. It is Feasible to Implement PJM’s Capped Balancing Ratio and Stop-Loss Cost Allocation, or to Implement Only the Capped Balancing Ratio and Retain the Existing Stop-Loss Cost Allocation; and NEPGA’s Assertion to the Contrary is Not Accurate

In its Complaint, NEPGA attempts to inextricably tie Balancing Ratio capping with PJM’s allocation methodology for under-collections when the stop-loss is triggered.¹²¹ NEPGA asserts that “it may prove unworkable” to do otherwise, and to “disentangle the different types of under-collections.”¹²² As a mechanical matter, that is not accurate. The ISO could implement, should the Commission direct it, a Balancing Ratio capped at one and allocate the resulting settlement imbalance to over-performing resources, while continuing to administer the allocation of stopped losses to resources with Capacity Supply Obligations.¹²³

¹¹⁹ White Affidavit at 9.

¹²⁰ *See supra*, at 4.

¹²¹ Complaint at 3, 10.

¹²² *Id.* at 38.

¹²³ FERC’s “discretion is at its zenith” in developing a just and reasonable alternative under section 206. *See, e.g., Pub. Util. Comm’n of Calif. v. FERC*, 462 F.3d 1027, 1053 (9th Cir. 2006) (*citing Niagara Mohawk Power Co. v. FPC*, 379 F.2d 153, 159 (D.C. Cir. 1967)).

As explained in this Answer, the ISO does not oppose capping the Balancing Ratio at one, but the ISO continues to view the existing stop-loss mechanism, including its allocation design, as just and reasonable. Thus, it is important to correct the record on this narrow issue.

There are a number of ways that the ISO could implement the capping of the Balancing Ratio. For example, existing settlement system logic can be modified to apply a capped Balancing Ratio to determine all resources' Capacity Performance Scores (which are resources' over- and under-performance MWh), and their corresponding Capacity Performance Payments. The settlement imbalance that would then result (solely) from capping the Balancing Ratio at one, potentially offset by (all or part) the net surplus that arises under the Pay for Performance design,¹²⁴ can then be apportioned to resources that over-performed (pro-rata to their MWh of over-performance). Subsequent to that calculation, any remaining settlement imbalance arising from the net surplus and the stop-loss mechanism can be allocated to resources with Capacity Supply Obligations (that did not reach a stop-loss limit).¹²⁵ In sum, it is not correct, as NEPGA asserts, that it would be unworkable for the ISO to “disentangle” these different sources of under-collections, in the event that the Commission directs the ISO to cap the Balancing Ratio and continues to find allocating the costs of the stop-loss mechanism to resources with Capacity Supply Obligations to be just and reasonable.

NEPGA attempts to support its claim that such a resolution would be “unworkable” not by explaining the settlement calculations, but rather by asserting that it “produces anomalous results—such as negative performance payments for over-performing resources in some

¹²⁴ See *supra* notes 66, 67. Under NEPGA's replacement rate proposal, if the Balancing Ratio is capped and no resources' underperformance charges exceed a stop-loss limit, then the net surplus would contribute to the pool of “bonus payments” to over-performing resources.

¹²⁵ See ISO-NE Tariff, Section III.13.7.4 (addressing the allocation of deficient or excess Capacity Performance Payments).

circumstances.”¹²⁶ The sole basis for that assertion is found in a cursory example in a footnote in Mr. Ming’s Testimony.¹²⁷ In it, Mr. Ming puts forth a set of assumed system conditions that produce a Balancing Ratio of approximately 1.07, and then asserts (without supporting calculations) that this would produce a negative effective Performance Payment Rate. The example, however, appears to omit the net surplus in Capacity Performance Payments that occurs in a reserve deficiency under the Pay for Performance design.¹²⁸ Once that omission is corrected, the effective Performance Payment Rate to over-performers in that example would not be a negative number, as NEPGA asserts.¹²⁹

E. Implementation of NEPGA’s Proposed Replacement Rate Would Require Sufficient Time (180 Days) for Further Assessment of ISO-NE Tariff Impacts and Development of Necessary Changes on Compliance

While NEPGA characterizes its proposed replacement rate as narrowly focused on the Balancing Ratio and stop-loss cost allocation mechanisms, implementing such changes requires an assessment of impacts to other aspects of the existing ISO-NE Pay for Performance rules. Thus, if the Commission agrees to part or all of NEPGA’s proposed replacement rate, the ISO requests that the Commission provide 180 days to complete its development and filing of such

¹²⁶ Complaint at 10.

¹²⁷ Ming Testimony at 40, n.59.

¹²⁸ Elsewhere, Mr. Ming recognizes that under the Pay for Performance design “reserve shortages create revenue excess (as described earlier). Because reserve shortages are inherent to a scarcity event, this condition always applies.” Ming Testimony at 32.

¹²⁹ For completeness, the intermediate calculations applicable to the footnote 59 in Mr. Ming’s Testimony example are as follows. In that example capping the Balancing Ratio at one would yield an under-collection of $((30,000 \text{ MW} / 28,000 \text{ MW}) - 1) \times 28,000 \text{ CSO MW} \times \$9,337 \text{ PPR} = \$18,674,000$ system-wide. The reserve deficiency in that example is 1000 MW, yielding a partially-offsetting over-collection (the “net surplus”) of $1000 \text{ MW} \times \$9,337 \text{ PPR} = \$9,337,000$. Under the NEPGA alternative all over-performing resources would be allocated any settlement imbalances, which in this case is the difference $\$18,674,000 - \$9,337,000 = \$9,337,000$. The total over-performance assumed in the example is 1000 MWh, so the pro-rata allocation rate to over-performing MWh is $\$9,337,000 / 1000 \text{ MWh} = \$9,337$ per MWh. For each over-performing MWh, the nominal Performance Payment Rate of $\$9,337$ per MWh would therefore be reduced by a charge of $\$9,337$ per MWh, resulting in an effective Performance Payment Rate of zero.

changes on compliance, to ensure that Pay for Performance continues to function as intended, and that the changes do not create other adverse outcomes, undermine resource incentives to perform, or introduce material implementation challenges. This requested period accounts for time needed to review such changes, and receive feedback thereon, from New England stakeholders using the Participant Processes contained in the Participants Agreement.¹³⁰

This section highlights four Pay for Performance design elements that would require further assessment and likely ISO-NE Tariff changes beyond the replacement rate outlined in NEPGA's complaint. This list is not exhaustive, and constitutes key areas identified to date. Other potential ISO-NE Tariff changes may be identified as the region works through the details of implementing either or both elements of NEPGA's proposed replacement rate.

Further, while the ISO has endeavored to consider various settlement implementation practicalities since it was apprised of NEPGA's complaint, this is by no means complete. The ISO's experience implementing complex settlement system changes has taught us that even when there are seemingly-equivalent alternative ways of implementing settlement calculations, some ways can prove considerably more difficult and time-consuming to implement in actual software systems than others. For this reason, and in combination with the substantive matters explained below, we urge the Commission to provide the ISO with ample time to develop and file ISO-NE Tariff rules that achieve any high-level direction that may emerge from this proceeding.

¹³⁰ See Participants Agreement among ISO New England Inc., the New England Power Pool, and Individual Participants as defined therein, available at https://www.iso-ne.com/static-assets/documents/2015/10/parts_agree.pdf.

1. Capacity Performance Bilaterals

Among the many tools that the ISO affords Market Participants to manage their capacity positions are Capacity Performance Bilaterals, which are “a financial transaction between two resource owners...to enable a capacity supplier to reduce its financial exposure to negative Capacity Performance Payments during a period when it may expect to perform poorly.”¹³¹ Presently, this tool is broadly available to capacity suppliers to manage risk. In its current form, use of Capacity Performance Bilaterals does not raise concerns about gaming opportunities because both resources involved in the Capacity Performance Bilateral are subject to the same Performance Payment Rate, and thus face the same marginal incentive to deliver energy and reserves during a Capacity Scarcity Condition.

As is addressed above,¹³² under the proposed replacement rate, due to the capping of the Balancing Ratio and different approach to allocating stop-losses, resources that overperform could face a different (and potentially significantly lower) effective Performance Payment Rate than resources that underperform. At the margin, the introduction of different effective Performance Payment Rates introduces a gaming opportunity, as a Market Participant (or multiple Market Participants) would have an incentive to transfer the performance score of higher performing resources to lower performing resources through the existing Capacity Performance Bilateral mechanism. This would increase the transacting parties’ total revenue, at the expense of other over-performing market participants.¹³³ In a worst-case scenario, use of

¹³¹ PFP White Testimony at 160. Capacity Performance Bilaterals are addressed in Section III.13.5.3 of the ISO-NE Tariff, and are effectuated via the transfer of the Capacity Performance Score from one resource to another, so long as both resources were subject to the same Capacity Scarcity Condition.

¹³² See *supra* Section I.D.2.

¹³³ A simple example illustrates the concern. Imagine that a Market Participant owns two resources, A and B, where during a Capacity Scarcity Condition, Resource A over-performs and Resource B under-performs, and that the effective Performance Payment Rate applied to over-performers is less than that for under-performers because of the

such transfers would reduce the Performance Payment Rate for over-performing resources to zero, undermining entirely any incentive to overperform.

Given the potential for such a game and the challenges it would present, if the Commission were to grant NEPGA's requested replacement rate, the ISO would need to modify or discontinue the existing Capacity Performance Bilateral rules to prevent such gaming opportunities.

2. Interval Used to Determine Resource Performance and Calculate the Effective Performance Payment Rate

The use of a distinct Performance Payment Rate for overperforming resources (where underperformance collections are simply aggregated and then allocated to overperformers) introduces the need to determine the interval (*e.g.*, five-minute vs. monthly) to use for purposes of calculating the effective Performance Payment Rate for overperformers. As NEPGA notes in its complaint, PJM calculates the rate at a frequency of each performance interval; ISO-NE's rules also determine resources' Capacity Performance Scores and Pay for Performance settlements (including allocation of any stopped losses) on a five-minute interval basis. In contrast, and with relatively little clarifying explanation, NEPGA proposes that such calculation be done at a monthly interval.¹³⁴ Depending on how an aggregated approach is designed and implemented, it could impact the characterization of over versus under-performance, and

proposed changes to the Balancing Ratio or stop-loss cost allocation. In such a case, the Market Participant would have a financial incentive to use a Capacity Performance Bilateral to transfer the Capacity Performance Score from Resource A to Resource B. Using the existing Capacity Performance Bilateral rules, the Market Participants would be charged (in the bilateral transaction) the lower effective Performance Payment Rate associated with each MWh of over-performance transferred from Resource A, while being credited the higher Performance Payment Rate for the same MWh quantity of performance that is now assigned to Resource B. In aggregate, this results in an increase in the Market Participant's net revenues despite no change in either resource's actual performance, and bleeds funds from the pool that would remain (under the NEPGA alternative rate) to be paid to all other over-performers. The same transfer could be effectuated between multiple Market Participants, with the same adverse consequence to the rest of the system's overperformers, absent reforms to the existing Capacity Performance Bilateral rules to preclude such inefficiencies.

¹³⁴ See Ming Testimony at 33.

resources' corresponding Capacity Performance Payments.¹³⁵ The ISO would need to assess the potential consequences of changing the timing basis and provide its conclusions on the merits of such a change; this would require time to bring forth a more complete analysis and fulsome response (with any potential ISO-NE Tariff changes) in compliance.

3. Capacity Zones

While all Capacity Scarcity Conditions experienced to date have occurred at the system level, it is also possible for an event to occur in a subset of the region's Capacity Zones.¹³⁶ This occurs when the energy and reserve shortage are geographically limited within New England, and in such cases, the Pay for Performance design appropriately limits the market signal to those resources that can help alleviate the zonal shortage.

Implementation of the proposed replacement rate would require further assessment to evaluate what additional changes are needed to maintain the proper function of Pay for Performance at the zonal level. Such an assessment is likely to interact with the consideration of performance intervals discussed above, as aggregating performance and the calculation of the effective Performance Payment Rate across periods or events may result in a zonal Capacity Scarcity Condition affecting the settlement for resources outside the impacted zone(s), and vice

¹³⁵ Three potentially separate interval determinations must be made. First, the design would need to determine the interval over which resource performance is measured. This can be done for each five-minute interval, where a resource may overperform in one interval, and then underperform in the next. Alternately, resource performance could be aggregated in any number of ways, including at the event level, where the resource's total performance is calculated as its net performance across all of the five-minute intervals that comprise an event. Performance could also be aggregated further to the monthly level. Second, the design would need to determine the interval over which resources' stopped losses are calculated (*i.e.*, interval by interval, or only at the end of the accounting period (monthly or annually for monthly and annual stop-loss limits, respectively)). Third, the design would need to determine the interval over which the effective (*i.e.*, reduced) Performance Payment Rate applied to overperformers is calculated. A more granular interval (*e.g.*, each five-minute interval) would result in more unique effective Performance Payment Rates that may more accurately reflect actual performance, while a less granular interval (*e.g.*, monthly) may result in fewer unique effective Performance Payment Rates being employed. These alternative consequences have never been studied in the ISO-NE system, to our knowledge.

¹³⁶ White PFP Testimony at 140.

versa. Potentially, this could be addressed via the development of specific rules that treat zonal Capacity Scarcity Conditions as distinct for the purpose of determining resource performance and calculating the effective Performance Payment Rate for overperformers. However, it would require time to evaluate how such rules could work to ensure that they cover the set of conditions desired and do not have unintended consequences.

4. Market Power Mitigation

Under the Forward Capacity Market, existing resources are able to specify the minimum price at which they offer to acquire a Capacity Supply Obligation via a “de-list bid,” which is the market’s term for a capacity supply offer.¹³⁷ De-list bids that are priced at or above the Dynamic De-list Bid Threshold are generally reviewed by the Internal Market Monitor to assess whether they may reflect a potential exercise of seller-side market power.¹³⁸

The Internal Market Monitor’s market power mitigation review of de-list bids requires the submittal and review of information to determine whether the proposed de-list bid price is consistent with competitive conduct, a review that is heavily informed by the Pay for Performance design because it impacts resources’ expected costs and revenues.¹³⁹

Under NEPGA’s proposal, there would no longer be a uniform Performance Payment Rate that is applied to all energy and reserves provided during Capacity Scarcity Conditions. Rather, the effective Performance Payment Rate applied to overperformers would depend on

¹³⁷ See, e.g., ISO-NE Tariff, Section III.13.1.2.3.1.1.

¹³⁸ See, e.g., ISO-NE Tariff, Sections III.13.1.2.3.1.1, III.13.1.2.3.1.A.

¹³⁹ PFP IMM Testimony at 47–49. More specifically, this competitive offer price considers the opportunity cost of selling capacity forward, which is determined based on the Performance Payment Rate (which is currently known to all participants ahead of the auction), the expected Balancing Ratio during Capacity Scarcity Conditions (which is not known), and the expected quantity of hours of Capacity Scarcity Conditions (also not known).

numerous factors, including whether resources had reached their stop-loss limits for the month or year and whether the Balancing Ratio had reached its cap of one.

As a result, the equations used to estimate competitively priced de-list bids under the current Forward Capacity Market construct would no longer be applicable under NEPGA's proposal. The rules governing capacity market mitigation, including the mathematical formulas used to estimate the opportunity costs associated with acquiring a Capacity Supply Obligation and foregoing any "bonus payments" during the Capacity Commitment Period (that a resource may receive without a Capacity Supply Obligation) would need to be assessed and modified. While the ISO anticipates that such work can be done, it will require time to evaluate how competitive de-list bids would be expected to change in theory, and what data or analysis may be necessary to effectuate this theory in the mitigation process and associated rules.¹⁴⁰

II. CONCLUSION

For the foregoing reasons, the ISO respectfully requests that the Commission deny the Complaint on the merits with respect to NEPGA's claims regarding cost allocation for ISO-NE's Pay for Performance stop-loss mechanism, take account of ISO-NE's arguments and narrow concession with respect to the Complaint's arguments regarding the Balancing Ratio, and provide ISO-NE at least 180 days to file with the Commission any replacement rate deemed necessary as a result of the Complaint.

¹⁴⁰ Importantly, if the effective Performance Payment Rate would be expected to be lower, as would have occurred on June 24th, this would tend to reduce the opportunity cost associated with selling capacity. This occurs because the lower effective Performance Payment Rate applied to overperformers would reduce the expected revenues associated with not selling a Capacity Supply Obligation and instead earning capacity revenues via positive performance payments.

Respectfully submitted,

ISO NEW ENGLAND INC.

/s/ Christopher Hamlen

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August 21, 2025

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010, upon each person designated on the official service in this proceeding as compiled by the Secretary of the Federal Energy Regulatory Commission.

Dated at Holyoke, Massachusetts, this 21st day of August, 2025.

/s/ Julie Horgan

Julie Horgan
eTariff Coordinator
ISO New England Inc.
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Holyoke, MA 01040

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

New England Power Generators Association, Inc.,)	
)	
Complainant,)	
v.)	Docket No. EL25-106-000
)	
ISO New England Inc.,)	
)	
Respondent.)	

**AFFIDAVIT OF DR. MATTHEW WHITE
ON BEHALF OF
ISO NEW ENGLAND INC.**

1 My name is Matthew White. I am the Chief Economist and Vice President, Market
2 Development and Settlements, for ISO New England Inc. (“ISO” or “ISO-NE”). My business
3 address is One Sullivan Road, Holyoke, MA 01040.

4 My responsibilities include managing the design, development, and settlements of the ISO’s
5 suite of competitive wholesale electricity markets. To fulfill these responsibilities I oversee the
6 work performed by numerous professionals employed by the ISO, including economists,
7 engineers, market analysts, data analysts, programmers, settlement specialists, and other subject-
8 matter experts.

9 Prior to joining the ISO in 2010, I held faculty appointments at the University of Pennsylvania’s
10 Wharton School of Finance and Commerce (2002–2009) and Stanford University’s Graduate
11 School of Business (1995–2001). At these institutions I conducted research on electricity
12 demand, pricing, and market design, and taught graduate-level courses in economics and
13 decision analysis. My public service includes appointments as a senior staff economist at the

1 Federal Energy Regulatory Commission, Office of Energy Policy and Innovation (2009–2010)
2 and the Federal Trade Commission, Bureau of Economics (2001–2002). My research studies
3 have been published in peer-reviewed economics journals, and I have served as a referee and
4 evaluator for the National Science Foundation and over twenty-five journals spanning
5 economics, engineering, and political science. I received a M.A. in Statistics and a Ph.D. in
6 Economics from the University of California, Berkeley.

7 I am providing this affidavit in support of the ISO’s answer (“Answer”) to the complaint filed by
8 the New England Power Generators Association, Inc. (“NEPGA”) in Docket No. EL25-106-000
9 on July 25, 2025 (“Complaint”). Specifically, I address the impacts of NEPGA’s proposed
10 replacement rate on resources’ incentives under ISO-NE’s Forward Capacity Market construct.
11 That proposed replacement rate is summarized at page 2 of the Complaint, and would entail (1)
12 capping the Balancing Ratio in the Pay for Performance settlement rules so that it would not
13 exceed one, and (2) modifying the rules for allocating the costs of the under-collection that
14 results from the application of the existing stop-loss mechanism; these changes would reduce the
15 total under-performance charges that are collected, and that are available to pay Market
16 Participants with over-performing resources. NEPGA states that this approach is employed in
17 PJM’s pay for performance design.¹

18 The central purpose of the ISO’s two-settlement Pay for Performance capacity market rules is to
19 provide simple, strong, and direct financial incentives for resource owners to make investments
20 and take actions to ensure their assets perform when the system is at heightened reliability risk.

¹ Complaint at 35.

1 It is therefore important to consider the extent to which these incentives would be reduced under
2 NEPGA's proposed replacement rate.

3 It is not possible to determine the impact of NEPGA's proposed replacement rate with complete
4 certainty, as the impact would depend on the particulars of future event conditions (such as the
5 Balancing Ratio's value and the total dollar amount of stopped losses, as explained below).

6 However, NEPGA's assertion that, under its proposed replacement rate, the Capacity
7 Performance Payment Rate "is roughly equivalent to ISO-NE's current performance rate of
8 \$9,337/MWh"² is most certainly not accurate with respect to resource over-performance. To
9 facilitate a more fulsome understanding of the implications for resources' performance
10 incentives, I offer the following observations and data from the June 24, 2025 Capacity Scarcity
11 Condition event.

12 Generally, the impact of capping the Balancing Ratio will differ (quantitatively) from NEPGA's
13 proposed treatment of capacity suppliers' stopped-losses; thus, I consider each in turn. First,
14 consider the impact of capping the Balancing Ratio at one. As NEPGA correctly notes, for the
15 June 24th event, if the Balancing Ratio had been capped, there would have been an under-
16 collection in total (system-wide) performance payments of approximately \$25.65 million.³ If we
17 assume, for purposes of this calculation, that no portion of the \$9.2 million natural "net surplus"
18 in Pay for Performance settlements during the June 24, 2025 event is used to offset this under-

² Complaint at 37 (citing Testimony of Zachary Ming, Exhibit 1 to Complaint ("Ming Testimony"), at 34:3-5 (July 25, 2025)).

³ See Ming Testimony, at 19:10-12. Note that the testimony rounds this to \$25 million.

1 collection,⁴ then the \$25.65 million under-collected amount would be levied solely on Market
2 Participants with resources that over-performed, pro-rata to their MWh of event over-
3 performance. Total over-performance for this event was approximately 12,247 MWh.⁵ If we
4 assume no change in resources' performance, then under the Balancing Ratio capping
5 component of the NEPGA alternative, the impact of this under-collection is \$25.65 million
6 divided by 12,246 MWh, which is \$2,094 per MWh.

7 Stated summarily, capping the Balancing Ratio at one would have reduced the effective
8 Performance Payment Rate paid to each MWh of over-performance: It would have been reduced
9 from the nominal (Tariff-specified) Performance Payment Rate of \$9,337 per MWh⁶ by
10 approximately \$2,094 per MWh, resulting in an effective Performance Payment Rate for over-
11 performance of $\$9,337 - \$2,094 = \$7,243$ per MWh for this event. Note that this reduction
12 would apply only to the rate for over-performance; under-performers would continue to be
13 charged the Tariff-specified rate of \$9,337 per MWh of under-performance.

⁴ I make this assumption solely to provide here a conservative estimate of the ensuing effective Performance Payment Rate calculated presently. If a portion of the net surplus were used instead to reduce this under-collection, as may be appropriate if only the Balancing Ratio capping change is implemented, then the effective Performance Payment rate to over-performing resources would be greater (here, by up to \$751 per MWh) than that calculated presently. This would imply stronger incentives. The “net surplus” component of the current Pay for Performance design is explained in my testimony submitted in Docket No. ER14-1050 at pages 84–85. See *ISO New England Inc.*, Filing to Implement Pay for Performance in the Forward Capacity Market, Docket No. ER14-1050, Testimony of Matthew White on Behalf of ISO New England Inc., (filed January 17, 2014). Its value of \$9.2 million for the June 24, 2025 event is reported as the “Surplus Before Application of Stop-Loss Limit” in the August 2025 ISO-NE COO Report. See August 2025 Report of Vamsi Chadalavada, ISO-NE Chief Operating Officer, to the NEPOOL Participants Committee, at slide 33, available at <https://www.iso-ne.com/static-assets/documents/100026/august-2025-coo-report.pdf> (“August 2025 ISO-NE COO Report”).

⁵ This value is calculated directly from internal ISO settlement system data for the event. It is (approximately) equal to the product of the average (interval-level) event over-performance of 3,972 MW and the event duration of 37 5-minute intervals, as reported in the August 2025 ISO-NE COO Report, *op cit.*, at slide 31.

⁶ ISO New England Transmission, Markets and Services Tariff, Section III.13.7.2.5.

1 In an absolute sense, a rate reduction of over two-thousand dollars per MWh is a large change in
2 well-performing resources' potential compensation. However, context is important. Resources
3 accurately anticipating this reduction should still perceive a high marginal incentive to perform,
4 at approximately \$7,243 per MWh plus the value of the real-time energy price (which exceeded
5 \$1,000 per MWh throughout the June 24th event).⁷ Compensation rates at that combined level
6 are high payment rates for real-time energy and reserves, and I expect would continue to provide
7 strong performance incentives. Based on the ISO's prior experience at lower Performance
8 Payment Rates, which I discuss further below, I do not consider a reduction in the effective
9 Performance Payment Rate to \$7,243 per MWh to pose a major concern for resources'
10 performance incentives.

11 I caveat, however, that in other circumstances the impact could be higher or lower (depending,
12 primarily, on system load and the resulting Balancing Ratio). For example, capping the
13 Balancing Ratio in a (future) event when it would otherwise be greater than 1.031 would further
14 reduce the effective Performance Payment Rate for over-performance. With the inherent
15 uncertainty of future event conditions acknowledged, I note that total system load on June 24,
16 2025 was extraordinary—the highest experienced in New England in nearly 12 years.⁸
17 Accordingly, capping the Balancing Ratio at one may not attenuate over-performing resources'
18 compensation frequently; and when it does, it is plausible that the reduction in incentives may
19 not be dramatically more than the data from the June 24, 2025 event indicate.

⁷ August 2025 ISO-NE COO Report at slide 29.

⁸ *Id.* at slide 25.

1 Consider now the effect of NEPGA’s proposed treatment of under-performing resources’
2 stopped losses, that is, the negative Capacity Performance Payments that are not collected from
3 poorly-performing resources whose charges exceed the Tariff’s stop-loss limits. Instead of
4 recovering the under-collection of these charges from other capacity suppliers that do not reach a
5 stop-loss limit per current rules, NEPGA alternatively proposes to combine the total stopped-
6 losses dollar amount and the under-collection imbalance arising from the capped Balancing
7 Ratio. It describes this as the approach approved in PJM.⁹ For the June 24, 2025 event, the
8 impact would be to further reduce the effective Performance Payment Rate that over-performing
9 resources receive during a Capacity Scarcity Condition from my prior calculation. This is
10 because, under the PJM approach that NEPGA proposes to apply in ISO-NE, capping the
11 Balancing Ratio and not collecting funds to cover stopped Capacity Performance Payment
12 charges would each reduce the funds available to over-performing resources in the form of
13 Capacity Performance Payment credits. Again, as I understand the NEPGA alternative, the rate
14 applied to under-performing resources would not change.

15 The data from the June 24, 2025 event are again informative. In settlement, the total dollar
16 amount of stopped losses for that event that were allocated to other Market Participants that did
17 not reach the stop-loss limit (under current rules) was approximately \$17.2 million.¹⁰ Adding
18 this and the preceding \$25.65 million value associated with capping the Balancing Ratio yields

⁹ Complaint at 35.

¹⁰ August 2025 ISO-NE COO Report at slide 33. Note that the total stopped losses that were not charged to under-performing resources amounted to \$26.2 million. *Id.* Only a lesser portion of that amount, totaling \$17.2 million, is charged to other resources (that did not stop-out) in order to balance Pay for Performance settlements. The difference between those amounts, or \$9.2 million for the June 24, 2025 event, is the net surplus that is used to offset (in part) the under-collection. As I understand NEPGA’s proposed alternative rate, only the lesser portion of the stopped losses totaling \$17.2 million would be effectively apportioned to over-performing resources in this case, and my calculations proceed accordingly.

1 \$17.2 + \$25.65 = \$42.85 million.¹¹ If we assume—critically—no change in resources’
2 performance due to the reduced effective payment rates, then under the NEPGA proposed
3 replacement rate the compensation rate for over-performance would have been reduced by
4 approximately \$3,499 per MWh (*i.e.*, \$42.85 million divided by total system over-performance
5 of 12,247 MWh).

6 In sum, adopting the settlement mechanism based on PJM’s approach to capping the Balancing
7 Ratio and allocating stopped-losses would have significantly reduced the effective Performance
8 Payment Rate paid to each MWh of over-performance. Using the data from the June 24th event,
9 the effective Performance Payment Rate would have been reduced from today’s nominal (Tariff-
10 specified) rate of \$9,337 per MWh by approximately \$3,499 per MWh, resulting in an effective
11 Performance Payment Rate for over-performance of $\$9,337 - \$3,499 = \$5,838$ per MWh.
12 Resources that over-performed would have received an effective Performance Payment Rate
13 that, at the margin, is only 62.5% (or $\$5,838 / \$9,337$) of the higher performance incentive faced
14 by resources that under-performed.

15 I again caution that in future events, the impact on incentives could be smaller or larger than the
16 reduction in the effective Performance Payment Rate calculated here. Indeed, the June 24, 2025
17 event is the only Capacity Scarcity Condition to date for which the NEPGA alternative and the
18 existing rules would have produced different settlements at all. However, if the system
19 experiences more Capacity Scarcity Conditions in the future, then total system stopped losses

¹¹ NEPGA references a rounded value of \$42 million. *See* Complaint at 8. Note that this value is approximate, because capping the Balancing Ratio as NEPGA proposes may also alter the aggregate total dollar amount of stopped losses as presently calculated from the extant June 24, 2025 settlement data. *See* Ming Testimony at 20, n.38.

1 may be greater, and, under NEPGA's proposed replacement rate, the effective performance
2 incentive for over-performance would fall further than the value calculated here from the June
3 24, 2025 data. My caution stems from the fact that, at present, there is simply too little data to
4 draw firm conclusions about how frequently a substantially reduced effective Performance
5 Payment Rate will recur when the system is at heightened reliability risk.

6 Still, some additional observations from past experience are useful. In absolute terms, an
7 effective Performance Payment Rate above \$5,000 per MWh, in combination with the value of
8 the real-time energy price (which always exceeds \$1,000 per MWh in a Capacity Scarcity
9 Condition), jointly provide a significant payment rate for real-time energy and reserves.
10 Moreover, during the first seven years after Pay for Performance took effect in June 2018, the
11 Performance Payment Rate was much lower: As a transition mechanism, it was set at \$2,000 per
12 MWh from June 2018 through May 2021, then \$3,500 per MWh from June 2021 through May
13 2024, before reaching \$5,455 for June 2024 through May 2025.¹² During this period, the region
14 experienced well-documented improvements in resource performance during stressed system
15 conditions. These improvements include increased investment in dual fuel capability, reduced
16 generator non-performance issues due to natural gas-related issues, significant reductions in
17 generator forced outage rates, a decline in slow or failed starts for large fossil-steam generating

¹² A recalculation of the Performance Payment Rate using the same formula and principles applied to develop the \$5,455 per MWh rate produced the higher, current rate of \$9,337 per MWh effective June 1, 2025. See *ISO New England Inc.*, 175 FERC ¶ 61,172 (2021); *ISO New England Inc.*, Docket No. ER21-787-002 (FERC delegated letter order July 30, 2021).

1 units, and improved performance of fast start resources; concurrently, the system experienced a
2 dramatic decline in the frequency of real-time operating reserve shortages.¹³

3 All of these significant, long-term fleet performance improvements occurred following the
4 Commission's approval of the Pay for Performance rules in New England in 2014—and yet,
5 pertinent to present matters, they occurred at Performance Payment Rates that were comparable
6 to, or lower than, the \$5,838 per MWh effective Performance Payment Rate for over-
7 performance calculated above. While considerable uncertainty remains about the magnitude of
8 the effective Performance Payment Rate in future events under the NEPGA alternative, I
9 cautiously conclude that on the basis of the available information and past experience
10 summarized above, it is reasonable to expect that, if NEPGA's proposed replacement rate was
11 implemented, resources would continue to face significant performance incentives under the
12 current Forward Capacity Market construct.

13 I declare that the foregoing information is true and correct to the best of my knowledge and
14 belief.



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ISO New England Inc.

Executed on August 20, 2025.

¹³ See ISO New England Memorandum to NEPOOL Markets Committee regarding Performance of Capacity Resources and Pay for Performance, September 7, 2022, at 2–5, available at https://www.iso-ne.com/static-assets/documents/2022/09/a03_mc_2022_09_13-14_performance_of_capacity_resources_memo_rev1.pdf (summarizing the ISO's evaluation of resource performance improvements following the implementation of the Pay for Performance rules).