

Day-Ahead Ancillary Services Post-Implementation Adjustments



*Targeted changes to the DA A/S design
based on IMM recommendations*

Ben Ewing

TECHNICAL MANAGER

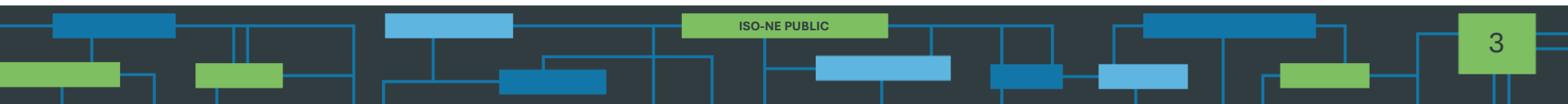


Proposed Effective Date: Early Q4 2026 (targeting implementation on 10/22/26 for clearing of 10/23/26)

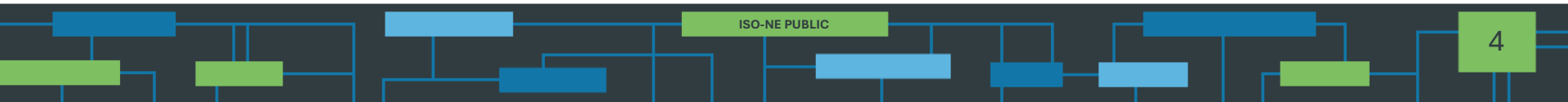
- In February 2026, the ISO's Internal Market Monitor (IMM) issued a set of [DA A/S recommendations](#), with two goals:
 - Enhance the cost-effectiveness of the market design based on observations over first year of operation
 - Cost effectiveness may be enhanced by addressing inefficiencies observed in the market design which may result in higher-than-necessary costs
 - Maintain the core DA A/S design principles of transparently procuring, pricing, and compensating the services required for a secure DA operating plan
- The IMM's recommendations were targeted at three specific inputs to the DAM with the intent of making changes straightforward to implement: the Forecast Energy Requirement (FER) Demand Quantity (DQ), the Non-Performance Factor (NPF) applied in 10- and 30-minute reserve requirements, and the Strike Price (K)
- The ISO has reviewed the reviewed IMM's recommendations and is generally supportive. The ISO's proposed adjustments are consistent with the recommendations and market design objectives
- In addition, the ISO is proposing a clean-up item related to Day-Ahead Net Commitment Period Compensation (DA NCPC)
- Today's discussion will focus on the ISO's considerations for evaluating design adjustments and introduce the proposed adjustments to the FER DQ and Strike Price as well as the DA NCPC clean-up item
 - The proposed NPF adjustment will be discussed at the April Reliability Committee meeting and Markets Committee members are encouraged to attend
 - At the May MC, the ISO plans to share simulations to backcast estimated cost impacts of the proposed changes

ISO Considerations When Evaluating Design Adjustments

1. Maintain core DA A/S objectives of transparently procuring and pricing the reliability attributes associated with a secure day-ahead operating plan, while maintaining performance incentives when they are most important
2. Reduce or eliminate inefficiencies associated with the existing design that may contribute to unnecessary costs
3. Ensure ability to implement changes quickly
4. Strike an appropriate balance between performance incentives, reducing inefficiencies, and implementation speed while recognizing that no solution will be perfect but that directional improvements are possible

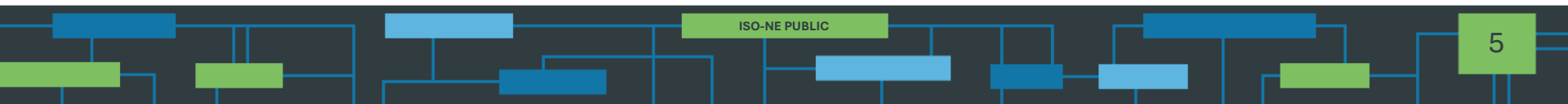


FORECAST ENERGY REQUIREMENT DEMAND QUANTITY ADJUSTMENT



IMM Recommendation – FER DQ

- IMM recommends a downward adjustment to the Forecast Energy Requirement Demand Quantity to fully reflect the expected reliability contribution of front-of-the-meter wind and solar generators (FtM W/S)
- Such an adjustment is intended to:
 - Align treatment of FtM W/S in the DAM's FER constraint with the treatment of these resources in the ISO's day-ahead reliability assessment, the Reserve Adequacy Analysis (RAA) process
 - Align treatment of FtM W/S with that of BtM W/S
- ISO agrees with this recommendation
 - Adjustment to the FER DQ will help address the potential for procuring more supply than necessary to satisfy reliability needs, improving market efficiency
- *Next*, we'll provide some background on DAM and RAA processes, and how FtM W/S are considered in them

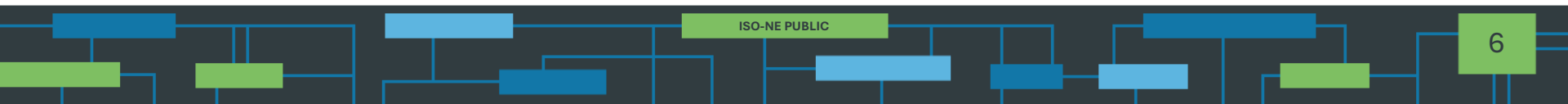


DAM and FER Background

- The FER constraint reflects the reliability need to satisfy the day-ahead load forecast within the clearing of the DAM, and transparently prices that need
 - In doing so, the FER constraint reflects a component of the ISO's out-of-market Reserve Adequacy Analysis (RAA) process through a market construct
- The FER constraint is constructed as follows:

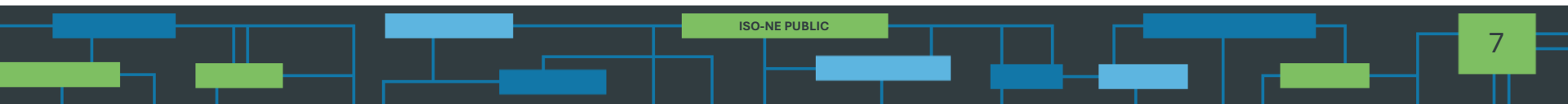
$$\text{Generator}_{\text{DA Energy}} + \text{Import}_{\text{DA Energy}} + \text{EIR} \geq \text{FER DQ} + \text{Export}_{\text{DA Energy}}$$

- Today, FER DQ is set equal to the load forecast, which reflects the physical energy supply the ISO expects to need to meet next-day energy demand
 - Energy and EIR awards cleared on all front-of-the-meter (FtM) resources (including wind and solar), serve to meet this demand (*more on why this matters in a moment*)
- Expected output of behind-the-meter (BtM) generation (i.e., solar) is fully accounted for in the DAM by reducing the load forecast. Illustrative example:
 - Gross New England Load = 12,500 MW
 - Expected BtM generation = 500 MW
 - Load Forecast = 12,000 MW



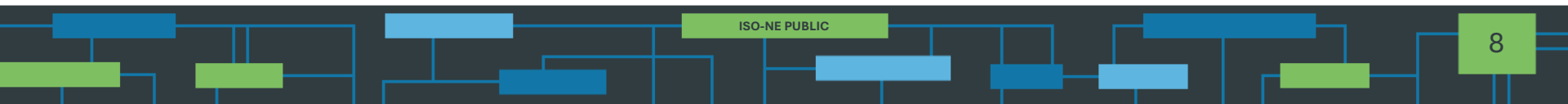
RAA Process Background

- After the DAM runs, the Reserve Adequacy Analysis process takes the DAM solution and evaluates its ability to meet forecasted load and reserve requirements
 - This is the ISO's reliability assessment
- RAA process considers all DAM committed and fast-start generation using real-time supply offers
- Generally, this means that when assessing reliability the RAA process counts on FtM W/S to operate at MWh levels equal to the ISO's resource-specific forecast of energy output
 - RT supply offers are typically $\leq \$0/\text{MWh}$
 - Binding transmission constraints can cause RAA to count FtM Renewables at less than forecast

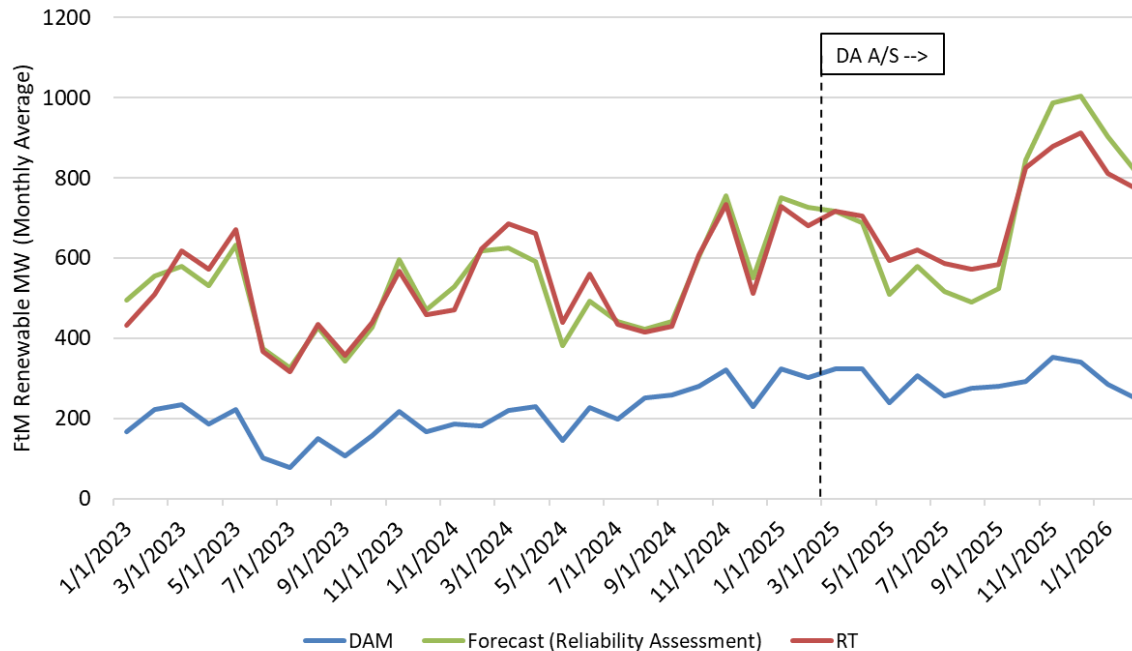


DAM vs RAA - FtM Wind/Solar Accounting

- **DAM:** FtM W/S often offer a portion of their capability at a low price, and the remainder of their capability at a higher price
 - In doing so, resources with CSO satisfy the ‘must offer’ requirement, but clear energy below their forecast
 - As a result, FtM W/S typically contribute less energy than their forecast to the FER constraint
- **RAA:** FtM W/S generally counted toward system needs at ISO’s forecast of their real-time output
 - This tends to be greater than DA cleared quantities
- This means that the FER undercounts FtM W/S contributions relative to the RAA process, the ISO’s standard reliability assessment
 - As a result, the DAM may commit additional resources or clear other forms of supply in place of FtM W/S to meet the load forecast
- Procuring more supply than is needed to satisfy a reliability requirement can be costly and inefficient



FER vs RAA - FtM Wind/Solar Accounting (*cont'd*)



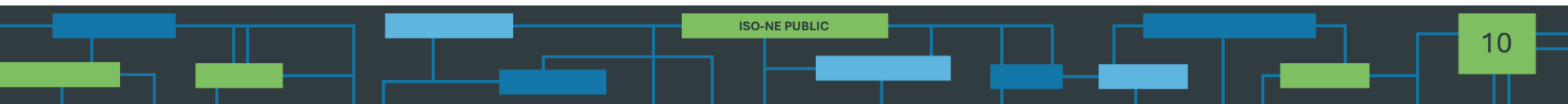
- Varies month-to-month, but on average FtM W/S clear ~40% of forecast in DAM
- This share has not increased with DA A/S implementation

FER Demand Quantity Adjustment Proposal

- ISO proposes to adjust the FER Demand Quantity (currently set equal to the ISO's load forecast) down by the expected amount of forecasted but uncleared real-time FtM W/S generation

$$\text{Proposed FER DQ} = \text{Load Forecast} - \max(\text{FtM W/S Forecast} - \text{Expected FtM W/S Cleared Energy and EIR}, 0)$$

- This approach has a number of desirable properties:
 - It directly addresses the inefficiency observed by the IMM by better aligning treatment of FtM W/S in the FER constraint with the treatment of FtM W/S in the ISO's reliability assessments; 'extra' supply will not be committed or cleared to satisfy load forecast
 - It aligns FtM W/S treatment with BtM W/S treatment in that the forecasted output of each is fully counted at forecasted value in the DAM
 - It will 'automatically' adjust as FtM renewable offer behavior changes in the future; as these resources clear more energy, the size of the adjustment will shrink
 - FtM renewable resources will continue to be paid the FER Price for the energy and EIR that they do clear in the DAM
 - It can be implemented relatively quickly



FER Demand Quantity Adjustment Impact

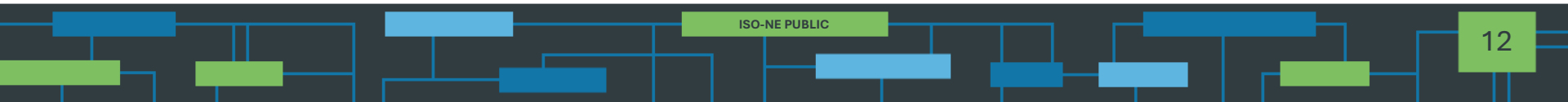
Statistic	FER DQ Adjustment MW (FtM RAA MW - FtM DA Clear MW)
25th percentile	162
Median	370
Average	422
75th Percentile	607
95th Percentile	1,039

- On average, proposal would reduce the ISO's load forecast by ~422 MW when calculating the FER DQ that serves as an input to the DAM
- FER DQ adjustment is 0 MW in ~3% of hours
- Estimates of cost impacts to come in May

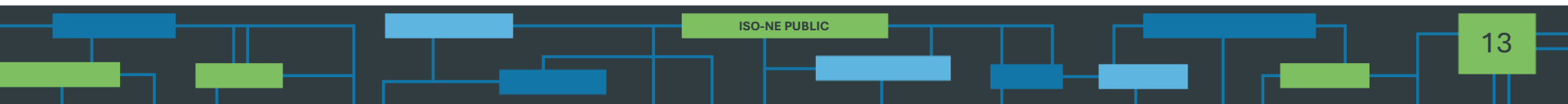
Data Timeframe:
Mar 2025 - Feb 2026

FER DQ Adjustment – Key Takeaways

- Currently, the FER constraint in the DAM tends to count on less FtM W/S supply than the ISO's day-ahead reliability evaluation in the RAA process
- This results in a market inefficiency, in that the DAM may commit additional generation and/or procure more physical supply than necessary to satisfy the load forecast
- The ISO proposes to adjust the FER DQ down in a manner that accounts for this discrepancy, improving alignment of the FER and ISO reliability assessments and reducing this inefficiency



STRIKE PRICE ADJUSTMENT

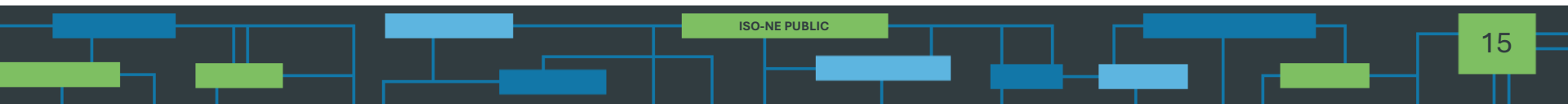


IMM Recommendation – Strike Price

- IMM recommends an upward adjustment to the Strike Price (K) to better align it with the short-run marginal cost (SRMC) of DA A/S providers
 - Specifically, IMM recommends consideration of dynamically applying a floor to K based on the SRMC of a combustion turbine (CT)
- **Objective:** Better align K with the SRMC of resources observed to be clearing most DA A/S awards
 - Setting K ‘too low’ for DA A/S sellers provides limited incremental reliability value but additional closeout cost risk, as resources will not physically cover obligation when RT LMP falls above K but below SRMC (IMM memo, p. 6)
 - This may contribute to higher DA A/S offer prices, or lack of DA A/S participation
- IMM acknowledges that changes to K require a ‘balancing act’
 - Setting K ‘too low’ may increase offer prices and decrease participation
 - Setting K ‘too high’ will reduce performance incentives

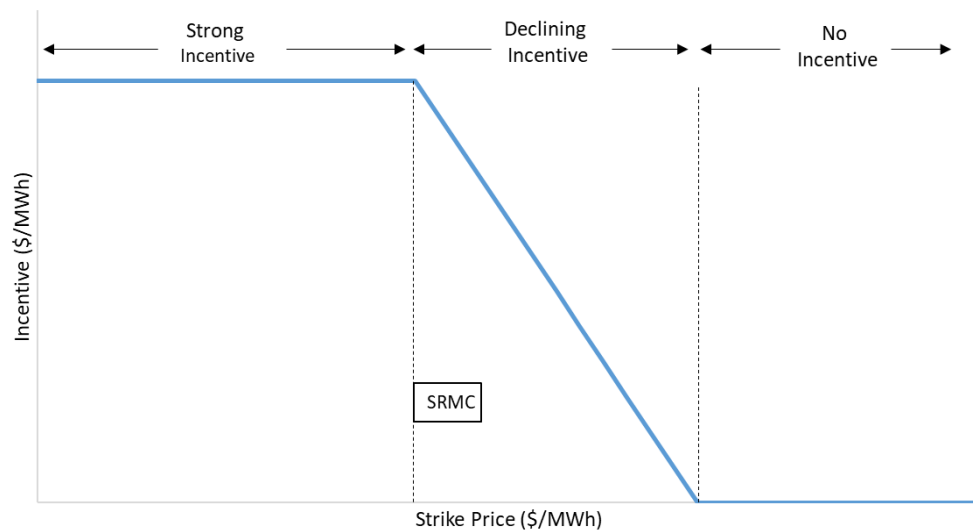
ISO Perspective – Strike Price Recommendation

- ISO acknowledges IMM's observations and objective
 - CTs have cleared a majority of DA A/S awards to date, though many other resource types also contribute
 - Setting K far below SRMC for resources does not improve their incentives, but does increase closeout-related risk
 - Participation may increase with a higher K and a lower risk of closeout
- ISO supports applying a floor to K
 - An approach that applies a floor based upon simple logic will be straightforward to implement
- Any approach to adjusting K comes with tradeoffs, and there is no perfect solution given (1) heterogeneity of DA A/S suppliers' technologies and energy costs and (2) the uniform, system-wide hourly value for K
 - As K is adjusted upward and becomes better aligned with the SRMC of one class of resources, it may exceed the SRMC of other resources and thereby reduce their performance incentives
- *Next, we'll discuss ISO's considerations related to this balancing act*



Strike Price and Incentives

- The incentives provided by the DA A/S design reflect the difference in a seller's expected net revenue if its resource is able to operate in RT, relative to its expected net revenue if its resource is not able to operate in RT
- Incentives are efficient when $K \leq \text{SRMC}$, and declining when $K > \text{SRMC}$
 - As K exceeds MC , incentives decline because the difference in closeout charges between the 'can operate' and 'cannot operate' scenarios decreases (toward zero)
 - See [November 2022 DASI presentation](#) for detailed discussion (begin slide 49)



- Our evaluation of incentives therefore considers whether K exceeds the SRMC of each seller of DA A/S
 - If $K \leq \text{SRMC}$, incentives are fully retained
 - If $K > \text{SRMC}$, incentives are not fully retained

DA A/S Seller Characteristics

- DA A/S sellers are predominantly Combustion Turbine (CT) and Combined Cycle (CC) resources, with CTs clearing the majority of DA A/S awards

Asset Type	DA A/S Cleared GWh	Percent DA A/S Awards Cleared	Percent FRS Awards Cleared	Percent EIR Awards Cleared	Full Load Average Heat Rate (MMBtu/MWh)
CT	13,600	64.7%	64.3%	71.6%	12
CC	6,041	28.7%	29.1%	21.1%	8
Other	1,387	6.6%	6.6%	7.3%	<i>n/a</i>

- Heat rates for CCs fall within a relatively tight band, while heat rates for CT have more variability

Type	Full Load Average Heat Rate Statistics					
	10th Pctl	25th Pctl	Median	Average	75th Pctl	90th Pctl
CC	7	7	7	8	7	9
CT	9	10	11	12	14	15

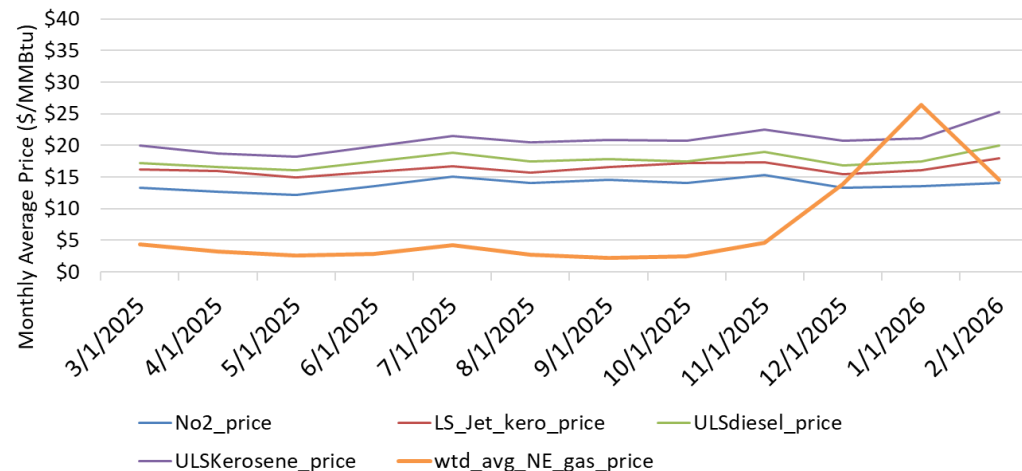
Data Timeframe:
Mar 2025 - Feb 2026

DA A/S Seller Characteristics (cont'd)

- While CCs generally operate on natural gas, there is more variability in fuel types across the CT fleet

CT - Fuel	DA A/S Cleared GWh	Percent DA A/S Awards Cleared on CTs
Oil - ULSKerosene	6,478	48%
Natural Gas	3,491	26%
Oil - Diesel	2,016	15%
Oil - No2	1,144	8%
Oil - LS Jet Kero	470	3%

- Distillate fuel prices were stable during the past year, but differ by fuel

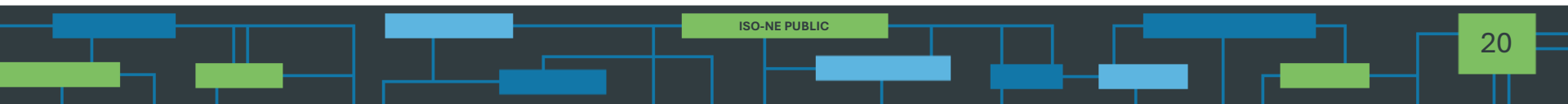


ISO Proposal Overview

- ISO proposes to use indicative characteristics of CTs to tailor a floor for the strike price
 - Consistent with IMM recommendation (p. 5-7)
- In doing so, we seek to balance three goals:
 - Increase strike price to be better aligned with the SRMC of most sellers of DA A/S
 - Reduce incentives the least (for all DA A/S sellers) in hours when reliability risk is highest
 - Allow for quick implementation
- ISO will continue to evaluate GMM for ways to improve its performance
 - Implementation of floor on the strike price does not imply that such work would end

ISO Proposal Overview (*cont'd*)

- Proposed floor on the strike price is based on characteristics of an efficient CT using the lowest-cost distillate fuel
- Using efficient CT characteristics will help ensure $K \leq \text{SRMC}$ of the oil-fired offline fast-start fleet, which the system relies upon to respond to challenging and/or unanticipated reliability conditions
 - These resources clear a significant share of DA A/S awards (winter and summer)
- This will reduce incentives for some sellers clearing DA A/S on gas-fired resources (primarily CCs), which will often have $\text{SRMC} < K$ under this proposal
 - However, analysis indicates that this proposed approach to a strike price floor will minimally reduce incentives for the resources clearing DA A/S during highest load conditions (in summer), and during highest fuel-price conditions (in winter) (*more on this ahead*)



Proposed Strike Price Floor

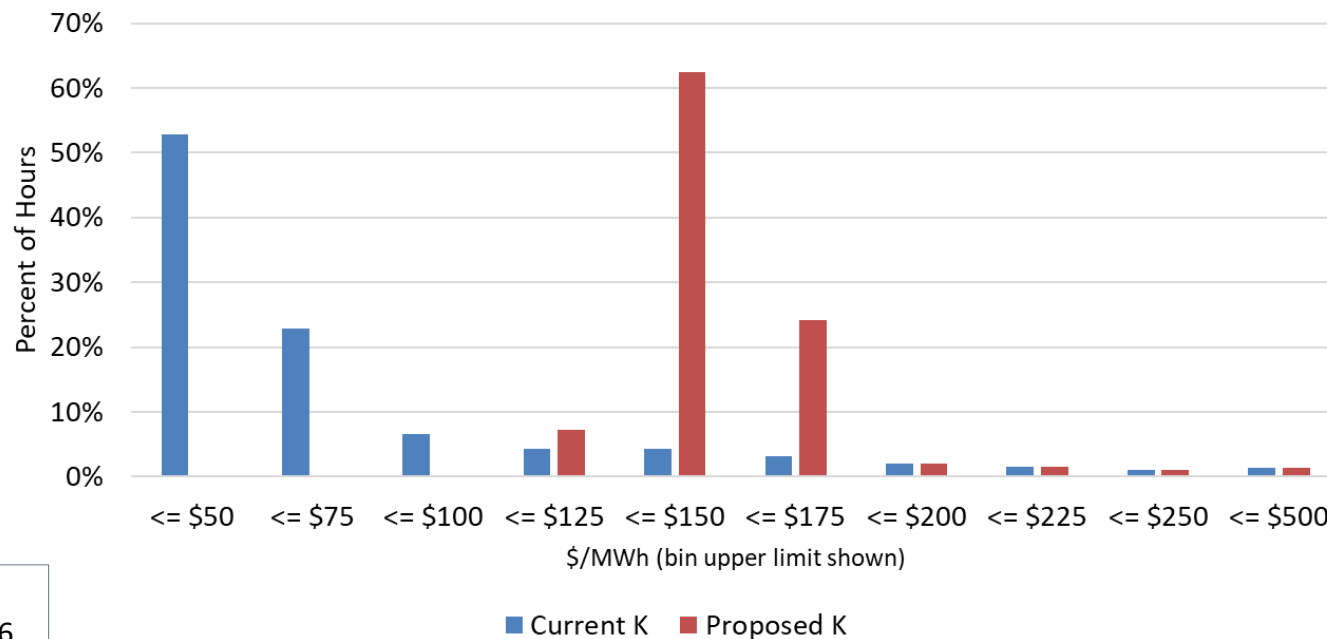
- Heat Rate of an efficient CT
 - Propose to use 9 MMBtu/MWh in implementation
- Fuel-Related Costs
 - Use the lowest cost of the four distillate fuels used by CTs observed to clear DA A/S
 - Costs reflect both fuel price and emissions costs (in \$/MMBtu)
 - Natural gas is not considered (*More on this in later slides*)
 - These fuels are ULS Kerosene, ULSD Diesel, LSJ Kerosene, and No2 Oil
 - Generally, No2 Oil has the lowest cost historically

$$K_{\text{floor}} = 9 \text{ MMBtu/MWh} \times \text{Min}(\text{ULSK}_{\text{cost}}, \text{ULSD}_{\text{cost}}, \text{LSJK}_{\text{cost}}, \text{No2}_{\text{cost}})$$

- Proposed $K = \text{Max}(K_{\text{floor}}, E[\text{RT LMP}] + \$10)$
 - Note the \$10 adder is still proposed to be reflected in the strike price (*More on this in later slides*)
- By selecting an efficient heat rate and low-cost fuel, we increase the strike price to a level conceptually aligned with the SRMC of CTs
 - However, incentives will be impacted for some DA A/S sellers (*More on this later slides*)

Effect on Strike Price

- Proposed average $K_{\text{floor}} = \$141/\text{MWh}$, and the floor results in a higher strike price in ~90% of hours
- GMM sets the strike price in ~10% of hours
- Strike price, with floor applied, falls in \$110-\$175/MWh range in 94% of hours



Data Timeframe:
Mar 2025 - Feb 2026

Effect on Incentives by Load Forecast

- DA A/S seller's incentives are considered 'fully retained' if proposed K falls below the SRMC of energy blocks cleared for DA A/S
 - Floor is most impactful in low-load hours, with a 41-47% decrease in the MWh of DA A/S awards that fully retain the current DA A/S design's incentives
 - Floor is less impactful in high-load hours, with only a 12-16% decrease in the MWh of DA A/S awards fully retaining incentives
 - Median [SRMC – K] delta decreases across all hours, but particularly low-load hours
- Takeaway:** smaller reductions in incentives in high-load hours indicates proposal strikes a reasonable balance between increasing K and retaining incentives at times when they are needed most

Percentile of Load Forecast Bin	Stats Across Hours when K changes			Percent Decrease in DA A/S awards fully retaining Incentives	Median Hourly Delta (SRMC - K _{Curr}) (\$/MWh)	Median Hourly Delta (SRMC - K _{Prop}) (\$/MWh)
	% Hours K changes	Avg K _{Curr} (\$/MWh)	Avg K _{Prop} (\$/MWh)			
0 - 25th	100%	\$36	\$137	-47%	\$115	\$11
25 - 50th	100%	\$49	\$141	-41%	\$122	\$29
50 - 75th	95%	\$65	\$142	-30%	\$121	\$41
75 - 90th	70%	\$81	\$145	-19%	\$113	\$64
90 - 95th	42%	\$75	\$147	-12%	\$105	\$66
95 - 100th	62%	\$84	\$147	-16%	\$102	\$45

Data Timeframe:
Mar 2025 - Feb 2026

Effect on Incentives by Gas Price

- Floor is most impactful in hours with low gas prices
 - 41-43% decrease in the MWh of DA A/S awards that fully retain the current DA A/S design's incentives
- Floor is less impactful in hours with high gas prices, setting K in few hours and maintaining incentives in-line with existing design
- Median [SRMC – K] delta decreases across all hours, but particularly hours with low gas prices

Percentile of Natural Gas Price Bin	Stats Across Hours when K changes			Percent Decrease in DA A/S awards fully retaining Incentives	Median Hourly Delta (SRMC - K_{Curr}) (\$/MWh)	Median Hourly Delta (SRMC - K_{Prop}) (\$/MWh)
	% Hours K changes	Avg K_{Curr} (\$/MWh)	Avg K_{Prop} (\$/MWh)			
0 - 25th	100%	\$37	\$139	-43%	\$117	\$15
25 - 50th	100%	\$46	\$140	-41%	\$122	\$27
50 - 75th	100%	\$59	\$143	-38%	\$119	\$34
75 - 90th	83%	\$92	\$143	-23%	\$107	\$64
90 - 95th	31%	\$129	\$143	-1%	\$86	\$81
95 - 100th	3%	\$132	\$145	0%	\$134	\$132

- Takeaway:** smaller reductions in incentives in hours with high gas prices indicates proposal strikes a reasonable balance between increasing K and maintaining incentives when needed most

Effect on Incentives by Asset Type

- CCs have the largest decrease in incentives from the proposal, while CTs have the smallest
- Spreads between SRMC and K are significantly reduced by proposal

Type	% Decrease in DA A/S awards fully retaining Incentives	Median Spread (SRMC - K _{Curr}) (\$/MWh)	Spread (SRMC - K _{Prop}) percentiles (\$/MWh)			
			25th	50th	75th	90th
All Days						
CC	-79%	\$31	-\$78	-\$56	-\$31	\$37
CT	-17%	\$154	\$55	\$70	\$89	\$107
Other	-36%	\$174	\$28	\$103	\$267	\$344
15 Tight Summer Days						
CC	-82%	\$33	-\$64	-\$43	-\$28	-\$9
CT	-16%	\$146	\$50	\$64	\$78	\$88
Other	-28%	\$111	\$12	\$40	\$56	\$85
15 Tight Winter Days						
CC	0%	\$113	\$55	\$113	\$222	\$448
CT	0%	\$127	\$104	\$127	\$153	\$188
Other	0%	\$227	\$147	\$227	\$331	\$497

Data Timeframe:
Mar 2025 - Feb 2026

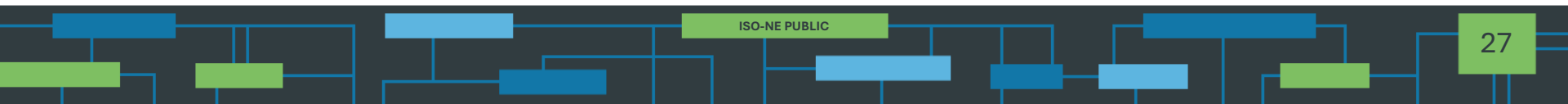
- Proposal is impactful on 15 selected 'tight' summer days
- Proposal has **no impact** on 15 selected 'tight' winter days
 - With high gas prices, K from the GMM exceeds the proposed floor
- Takeaway:** GMM continues to play an important role in setting K when the strike price it calculates exceeds floor

The ISO proposes to retain the \$10/MWh adder

- Proposed strike price floor affects K in 90% of hours (obviating the adder), and has no effect on K in the other 10% of hours
- In this other 10% of hours, expected system conditions were sufficiently tight that $E[\text{RT LMP}] + \$10$ exceeded the proposed floor for K
 - This includes all hours during the extended cold period between January 25 and February 8, a notably high-cost time period
- Eliminating the \$10 adder would serve to reduce the value of K during this set of hours, when energy prices are expected to be high
 - During such high-load, high-priced hours, the adder's impact on incentives is minimal
 - See [April 2023](#) MC presentation, slide 9
- ISO does not intend to reduce the value of K in any hour as part of this set of proposed changes

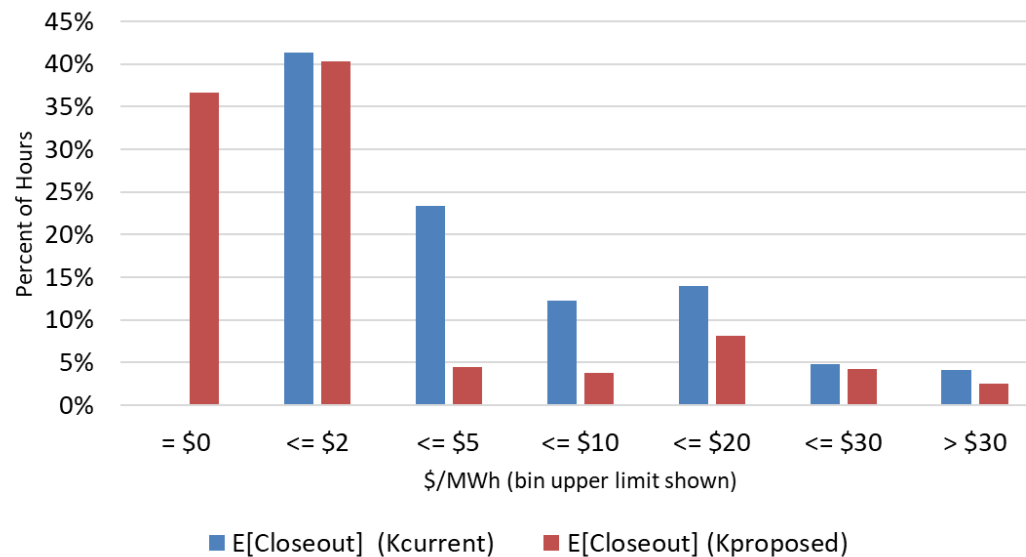
The ISO proposal doesn't reflect natural gas prices in the floor

- Combined Cycles, and some CTs, offer on natural gas and clear a notable share of DA A/S awards
- In assessing approaches for applying a floor for K, use of the prevailing natural gas price was considered
 - For instance, we considered using the lesser of gas and oil prices
- Generally, we found that inclusion of natural gas prices in the floor for K had minimal impact on K, or on the difference between K and SRMC for many DA A/S sellers
 - This is an expected outcome, as gas prices are an important input when the GMM's determination of the strike price under current rules
- An approach that reflects gas prices, or representative characteristics of gas-fired generation, would not materially impact DA A/S market outcomes



Effect on Expected Closeout

- Under proposal, $E[\text{Closeout}]$ will be determined using the 'new' K , reflecting application of the floor
 - Lower $E[\text{Closeout}]$ values reflect the decreased likelihood of a non-zero closeout charge when the floor is applied to the strike price
- Proposal will reduce competitive costs associated with DA A/S awards, and would be expected to reduce DA A/S offer prices



DA A/S Mitigation Considerations

- Expected Closeout is a key component of competitive DA A/S offer prices, and factors directly into the Benchmark Level (BL), Conduct Test Threshold (CTT), and Impact Test Threshold (ITT) parameters used in mitigation

Benchmark Level = $E[\text{Closeout}] + \text{Avoidable Input Cost (AIC)}$

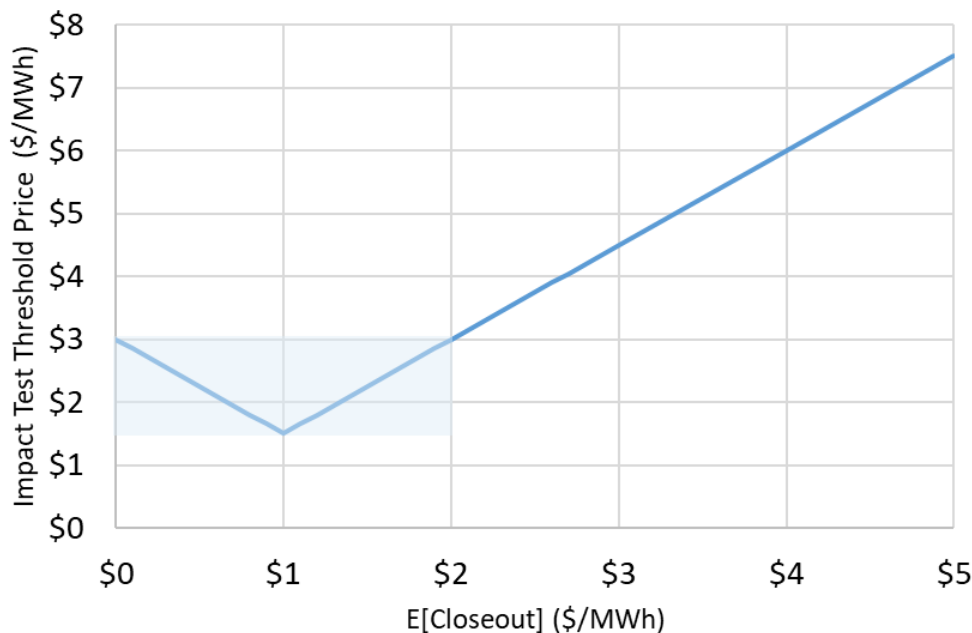
CTT = $\text{Max}(\$2, 2 \times E[\text{Closeout}]) + 1.5 \times \text{AIC}$

ITT = $1.5 \times \text{Median}[\text{CTT} - \text{BL}]$

- Greater frequency of hours with low $E[\text{Closeout}]$ values may result in more frequent violations of the impact test in low-priced hours when market power is not a significant concern
- The ISO proposes a targeted revision to the ITT calculation to address this issue
- This proposal aligns with External Market Monitor feedback in their [2024 Assessment of ISO-NE Electricity Markets](#) (recommendation 2024-2)

DA A/S Mitigation Considerations (*cont'd*)

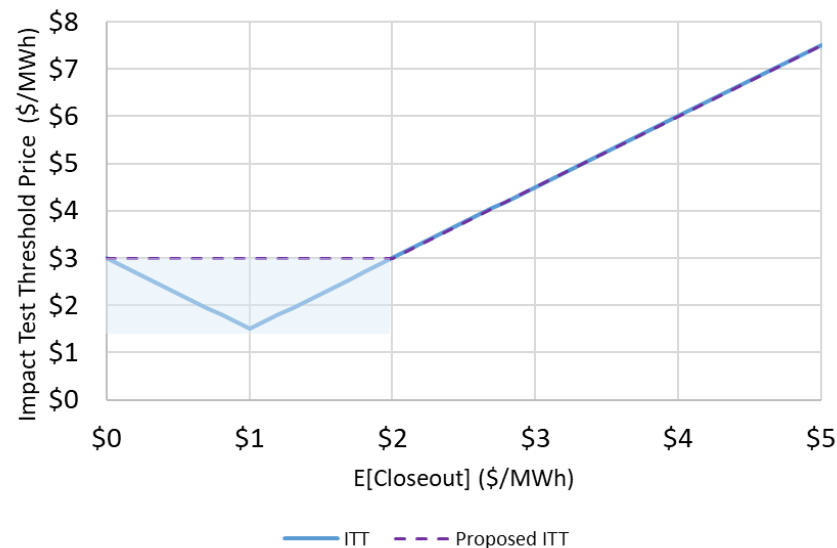
- Under the current design, the ITT initially becomes more stringent as $E[\text{Closeout}]$ increases from \$0/MWh (illustrative example below)
 - This is an effect of the \$2 CTT floor
 - When $E[\text{Closeout}] = \$0$, the ITT is \$3
 - In the range $\$0 < E[\text{Closeout}] < \2 , the ITT can be less than \$3, and as low as \$1.50/MWh



- This property of the ITT calculation was not intended
 - As competitive costs (i.e., $E[\text{Closeout}]$) increase, the acceptable change in clearing prices (i.e., the ITT) should not decrease
- With proposed floor for K , $E[\text{Closeout}]$ values may fall within this problematic range more frequently

Proposed Change to Impact Test Threshold

- ISO proposes to set a floor for the ITT at \$3/MWh
 - This will prevent the ITT from becoming more stringent when $E[\text{Closeout}]$ exceeds \$0 than it is when $E[\text{Closeout}] = \$0$
- This targeted change is intended to address the potential for over-mitigation in hours when the expected closeout is very low, and market power is not a significant concern (see EMM Assessment, p. 39)
 - This could become more prevalent with the proposed floor for K

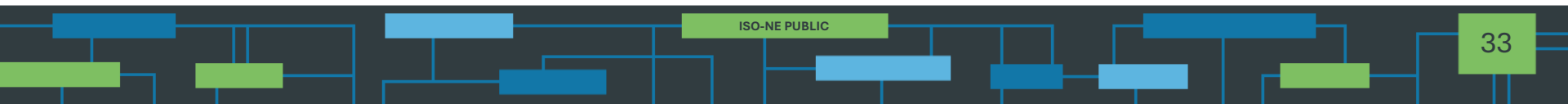


Expected Effect of Floor on Costs – Initial Qualitative Considerations

- Proposal may affect three key factors that impact consumer costs
 - **(1) DA A/S Offer Prices** are expected to decrease, resulting in lower A/S clearing prices
 - **(2) Realized Closeout Charges** are expected to decrease, resulting in smaller closeout credits to load
 - **(3) Participation** may increase, potentially putting downward pressure on A/S clearing prices
- (1) Lower clearing prices and (2) lower closeout charges will offset to some extent
- DA A/S clearing prices are a function of both offer prices and cross-product opportunity costs
 - Proposal may lead to only modest decreases in A/S clearing prices, because a higher strike price for DA A/S does not change A/S sellers' energy opportunity costs
- For purposes of estimating revenue/cost changes, assumptions will be required
 - DA A/S Offer Prices should be adjusted downward to reflect changes in expected closeouts
 - Participation changes are not possible to predict, and ISO plans to hold participation consistent with that observed historically for simulation purposes
- Estimates of cost impacts to come in May

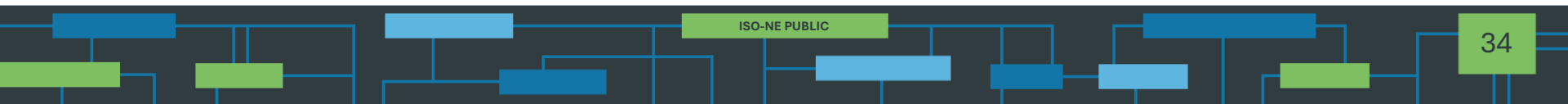
Strike Price Adjustment – Key Takeaways

- ISO proposes to set a floor for K based on representative SRMC of an efficient CT
- ISO's proposal strikes a reasonable balance between better aligning the value of K with the SRMC of a majority of DA A/S sellers, and maintaining incentives in high-load hours when they are most important
- ISO proposes an adjustment to the DA A/S Impact Test Threshold calculation to reduce the likelihood of mitigations during periods when market power is not a significant concern



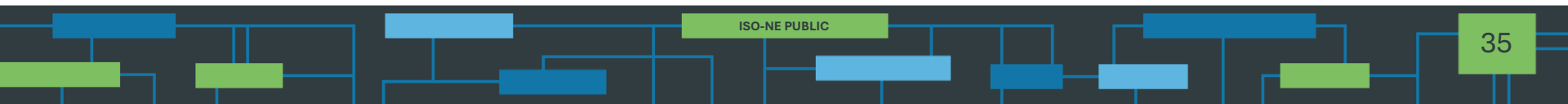
DA NCPC CLEAN-UP ITEM

Adjustment to DA NCPC Credits for Import Transactions



DA NCPC for Imports - Background

- DA cleared imports must have a corresponding RT transaction in place in order to be eligible for the FER Credit
- Currently, DA NCPC calculations consider this eligibility criteria when assessing hourly revenue
 - If a DA cleared import does not have a corresponding RT transaction, the FER price is not included in its calculation of hourly revenue
- Issue: Under current NCPC rules, DA cleared imports that are ineligible for the FER Credit can effectively receive this credit through DA NCPC payments (*more on this next*)
- This issue is infrequent, but has resulted in FER-related DA NCPC payments of ~\$73K to DA Imports ineligible for the FER Credit (Mar 2025 – Feb 2026)



DA NCPC for Imports – Illustrative Example

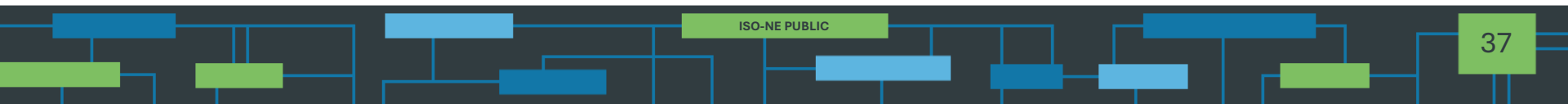
- Consider a 1 MW cleared DA Import that is on the margin for energy supply:

Concept	Value (\$/MWh)
DA Import Supply Offer	\$60
DA LMP	\$50
FER Price	\$10

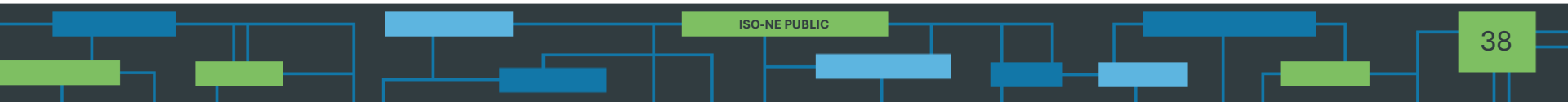
- Assume this import has no corresponding RT transaction, and is therefore ineligible for the FER Credit
- Current DA NCPC Credit Calculation:
 - Hourly Revenue = DA LMP = \$50
 - Hourly Cost = Supply offer = \$60
 - DA NCPC Credit = $\max(\text{Cost} - \text{Revenue}, 0) = \10
- This import effectively receives the FER price through its DA NCPC credit, despite not meeting eligibility requirements

DA NCPC for Imports – Proposal

- ISO proposes to include the FER price in DA NCPC hourly revenue calculations for Imports, regardless of FER Credit eligibility
- Proposed DA NCPC Credit Calculation:
 - Hourly Revenue = DA LMP + FER Price = \$60
 - Hourly Cost = Supply offer = \$60
 - DA NCPC Credit = $\max(\text{Cost} - \text{Revenue}, 0)$ = \$0
- This simple fix will prevent FER-ineligible imports from receiving some or all of the FER price through DA NCPC credits



NEXT STEPS AND STAKEHOLDER SCHEDULE



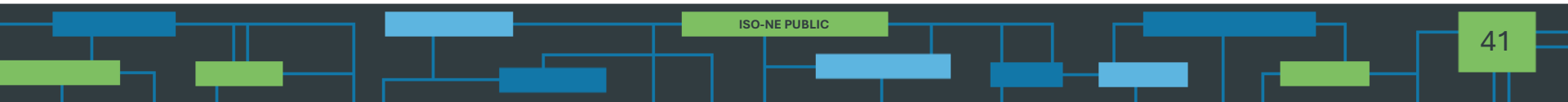
Conclusion and Next Steps

- ISO proposes a set of targeted changes to the DA A/S design in response to IMM's recommendations
 - FER Demand Quantity adjustment for FTM wind and solar generation (discussed today)
 - Strike Price adjustment, and corresponding change to Impact Test Threshold (discussed today)
 - Non-Performance Factor adjustment (to be discussed at April RC)
- In addition, the ISO proposes a clean-up change to DA NCPC calculations for Imports
- Next month, ISO will bring quantitative 'back-cast' calculations to estimate how these proposals might have impacted DA A/S market outcomes over the past year (had they been in effect at the time)
- Next month, ISO will bring proposed Tariff language

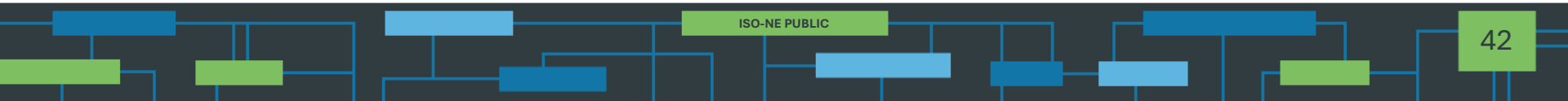
Stakeholder Schedule

Stakeholder Committee and Date	Scheduled Project Milestone
Markets Committee April 14-16, 2026	Overview of ISO proposal
Reliability Committee April 22, 2026	Review change to the Non-Performance Factor
Markets Committee May 12-14, 2026	Estimate of market impacts, initial review of proposed Tariff languages, and if applicable stakeholder amendments
Markets Committee June 9-11, 2026	Additional review of proposed Tariff language, amendments, and vote
Participants Committee June 16-18, 2026	Vote

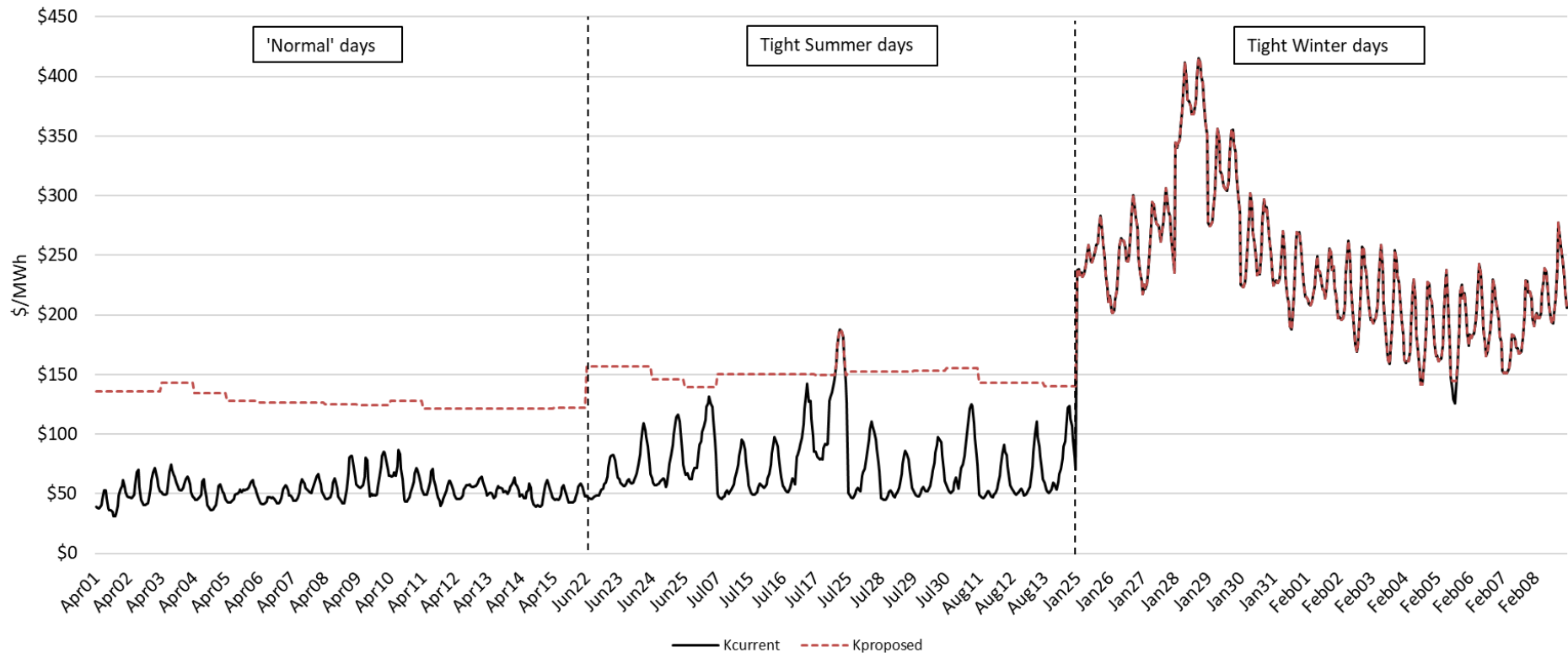
Questions



APPENDIX



Strike Price proposal on representative days



Strike Price proposal on representative days (*cont'd*)

