



Pay-For-Performance Revisions:

Proposed Change to the Performance Payment Rate (PPR)

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Proposed Effective Date: September 1, 2026

- The Performance Payment Rate (PPR) is the \$ per MWh rate at which capacity resource over and underperformance during Capacity Scarcity Conditions (CSC) is settled
- Addressing concerns that stakeholders have raised, the ISO is proposing to reduce the PPR from \$9,337 to \$3,500
- Today's discussion recaps the basis for the proposal and reviews the corresponding redline Tariff changes
 - Additional rationale from the March MC is provided in the appendix

Primary Purpose of Pay-for-Performance

- The Pay-for-Performance construct was put into place to provide a market mechanism to incent improved investments and performance during stressed system conditions
- This design was motivated by an observed reduction in resource performance over time, as the previous capacity market construct created limited incentives to perform



Performance Payment Rate: Background

- The Performance Payment Rate (PPR) represents the per MWh rate at which resources are credited/charged for over/underperformance during Capacity Scarcity Conditions
- The PPR has been set at various levels over the period in which PFP has been in place, ranging from \$2,000 during the first set of CCPs to \$9,337 at present
- Stakeholders have encouraged the ISO to consider potential revisions to the PPR to address concerns with financial risk for resources and impacts on consumer costs



Challenges with the Formula-Based Rate

- As discussed in March, the current \$9,337 rate was established based on a formula that uses:
 - Net CONE
 - The expected balancing ratio (BR)
 - The expected number of scarcity hours (H)
- These parameters can change significantly based on market fundamentals and/or modeling inputs and assumptions
 - The formula-based PPR increased from \$5,455 to \$9,337
 - There is uncertainty regarding how these parameters may evolve in the future, especially with the proposed CAR changes
- This formula does not consider:
 - Potential interactions with the stop loss
 - The impacts associated with capping the balancing ratio

Performance Payment Rate: Considerations

- The ISO seeks to set the rate at a level to incent investment and strong performance while accounting for the fact that a higher rate may increase the risks and costs to selling capacity:
 - Higher performance risk associated with holding a CSO
 - Increased likelihood that resources reach the monthly or annual stop loss limits, where any charges not covered by the stopped-out resource are incurred by all other CSO holders
- To the extent that the higher PPR leads to elevated costs/risks with little corresponding reliability benefit, this may adversely impact market outcomes
- Could also result in resources that provide reliability value to the region choosing to exit because the performance risks are simply too great
 - Such outcomes would run counter to the aims of PFP
- The ISO therefore aims to set the rate in a manner that continues to provide strong performance incentives to achieve the original objectives of PFP while also considering these cost and potential reliability impacts

Performance Payment Rate: Basis for Proposal

- The ISO is proposing to update the PPR to be \$3,500 based on these considerations
- Setting a fixed PPR will provide a degree of stability and transparency amidst the various capacity market reforms underway
- Analysis of resource investment and performance [shared with stakeholders in 2022](#) found that the core objectives of PFP were being achieved
- At the time of this analysis, the PPR was \$3,500, indicating that this rate (in conjunction with energy market scarcity pricing) incents strong levels of investment and resource performance, while also helping to address concerns about excessive risk associated with the current rate

Financial Assurance is Unchanged

- No changes to the FA rules are required with the change in the PPR
- The maximum exposure under the monthly and annual stop losses is unchanged
- Similarly, when the PPR was increased for various CCPs that had already occurred, there were no corresponding changes to the FA requirements



REDLINE REVIEW



Proposed Changes to III.13.7.2.5

Section	Tariff or Manual Change	Reason for Change
III.13.7.2.5	III.13.7.2.5 Capacity Performance Payment Rate. For the three Capacity Commitment Periods beginning June 1, 2018 and ending May 31, 2021, the Capacity Performance Payment Rate shall be \$2000/MWh. For the three Capacity Commitment Periods beginning June 1, 2021 and ending May 31, 2024, the Capacity Performance Payment Rate shall be \$3500/MWh. For the Capacity Commitment Period beginning on June 1, 2024 and ending on May 31, 2025, the Capacity Performance Payment Rate shall be \$5455/MWh. For the Capacity Commitment <u>p</u>eriod beginning on June 1, 2025 and ending on August<u>May</u> 31, 2026 and thereafter, the Capacity Performance Payment Rate shall be \$9337/MWh. <u>Thereafter, the Capacity Performance Payment Rate shall be \$3500/MWh.</u> The ISO shall review the Capacity Performance Payment Rate in the stakeholder process as needed and shall file with the Commission a new Capacity Performance Payment Rate if and as appropriate.	Incorporation of proposed numerical adjustment

Proposed Changes to III.15

Section	Tariff or Manual Change	Reason for Change
III.15.8.2.5	III.15.8.2.5. Capacity Performance Payment Rate. The Capacity Performance Payment Rate shall be \$93373500/MWh. The ISO shall review the Capacity Performance Payment Rate in the stakeholder process as needed and shall file with the Commission a new Capacity Performance Payment Rate if and as appropriate.	Incorporation of proposed numerical adjustment
III.15.a	are set forth in Section III.15.7. Payments and charges resulting from participation in the Annual Capacity Market, Monthly Reconfiguration Auctions, and bilateral transactions, <u>as well as Capacity Performance Payments</u>, are set forth in Section III.15.8. The publication of auction-related information is set forth in Section III.15.9.	Addition to 'Annual Capacity Market Overview'
III.15.d	(d) Effectiveness for the 2028-2029 Capacity Commitment Period and Thereafter. The provisions of this Section III.15 are effective for the Capacity Commitment Period that runs from June 1, 2028 through May 31, 2029 and all Capacity Commitment Periods thereafter. Unless otherwise expressly stated, the provisions of this Section III.15 are not applicable to the Forward Capacity Market. Section III.13, addressing the administration of the Forward Capacity Market, shall continue to be effective for Capacity Commitment Periods through May 31, 2028. Unless otherwise expressly stated, the provisions of Section III.13 are not applicable to the Annual Capacity Market, Monthly Reconfiguration Auctions and monthly bilateral transactions addressed in this Section III.15 of Market Rule 1.	Punctuation

Key Takeaways and Next Steps

- The ISO proposes to update the PPR to \$3,500 with the aim of filing and implementing the change as soon as possible
- This proposed revision will help address stakeholder concerns related to heightened risks, which may impact capacity costs and could facilitate the exit of resources that provide reliability value
- Please submit any questions following the meeting to the Markets Committee Secretary, Jasleen Singh (jsingh@iso-ne.com) by April 24, 2026

Stakeholder Schedule

Stakeholder Committee and Date	Scheduled Project Milestone
Markets Committee March 10-12, 2026	Delivery of the proposed design
Markets Committee April 14-16, 2026	Review of proposed Tariff language and any stakeholder amendments
Markets Committee May 12-13, 2026	Additional review of proposed Tariff language, any stakeholder amendments, and vote
Participants Committee June 16-18, 2026	Vote

Questions



APPENDIX



Background: What is the PPR?

- The Performance Payment Rate (PPR) is the \$ per MWh rate at which capacity resource over and underperformance during Capacity Scarcity Conditions (CSC) is settled
- The PPR does not directly impact wholesale energy consumers as it represents a financial transfer between suppliers, but they may be impacted when capacity sellers consider the PPR in their capacity offer prices
- *Next: How the PPR Impacts Market Outcomes*

The PPR's Impact on Wholesale Market Outcomes

- The PPR can impact market outcomes in a number of ways
- It (along with energy market prices) creates incentives for resources to perform to maximum capability during Capacity Scarcity Conditions (CSC)
- It also may impact the costs of selling capacity, and therefore may affect capacity supplier offer prices and capacity clearing prices, through several avenues:
 - The PPR is an input into the 'common value component' which may inform a resource's capacity offer price and represents the expected incremental revenue from capacity performance payments that it would give up by taking on a CSO
 - A higher PPR may increase the financial risk associated with underperformance during CSCs
 - A higher PPR increases the risk that resources will reach the stop loss limits, which can result in costs being borne by other CSO holders

Historic PPR Values

- 2014: Pay for Performance is filed and approved with a series of transitional rates
- 2018 – 2021: \$2,000
- 2021 – 2024: \$3,500
- 2024 – 2025: \$5,455
- 2025 – Present: \$9,337

Historic Basis for Setting the PPR

- The ISO proposed the \$5,455 value in its 2014 filing to provide sufficiently large performance incentives to avoid ‘money for nothing’
 - Based on formula that considers Net CONE value and expected number of scarcity events (when the system is at-criteria)
- As part of this filing, it proposed \$2,000 and \$3,500 as interim values
- The ISO updated the \$5,455 value to \$9,337 using updated assumptions and inputs in 2021

Concerns About the Current PPR

- Some stakeholders have raised concerns that the current \$9,337 is higher than necessary to incent strong resource performance
 - When combined with the high energy market prices during CSCs (which include RCPFs), the total incentive is ~\$12,000 per MWh
- If the PPR is set higher than necessary to incent performance, it may increase costs to sellers (via performance and stop loss risk) and to consumers (via higher capacity clearing prices reflecting the higher-priced bids) with little corresponding reliability benefit
- Some resources may find the increased PPR, and the volatility associated with it, makes the risks and potential costs of selling capacity too high
 - This could result in retirements from resources that can still make meaningful contributions to system reliability
 - Such outcomes run directly counter to the objectives of Pay for Performance
- CAR also seeks to improve performance incentives by more closely linking accreditation to resource performance

ISO Analysis of Resource Performance Under PFP

- In response to earlier stakeholder questions and input, the ISO assessed the impact of Pay for Performance on resource performance across a number of dimensions
- Results of that assessment were shared with stakeholders in [a memo in September 2022](#)
- Key finding: As of 2022, Pay for Performance materially improved resource performance across numerous dimensions:
 - Dual fuel capability
 - Generator availability
 - Resource start performance
- At the time of these findings, the effective PPR was \$3,500 suggesting that Pay for Performance was incenting the desired resource behavior before reaching the \$5,455 and \$9,337 values

ISO Proposes to Update PPR to \$3,500

- Continues to create strong performance incentives for all resources (~\$6,000 between PPR and energy market LMP)
 - History suggests that resources make investments and perform strongly at this rate
- Reduces the risk of selling capacity to help:
 - Incent continued capacity market participation among existing resources
 - Reduce capacity costs borne by consumers
- Decouples PPR from Net CONE and RAA model outputs, which may change under CAR-SA

PPR Update Will Proceed as Standalone Item

- The ISO proposes to bring the updated PPR to stakeholders and FERC as a standalone item, to file and implement the change as soon as possible
- Updated PPR would go into effect after FERC approval, rather than waiting until the next capacity auction in 2028
- This approach is consistent with the ISO's goal of bringing forward design changes expeditiously when possible

