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Study on Regional Fuel Security to be Delayed Pending Resolution of DOE Proposal on Grid Resiliency Pricing

ISO New England has been working for more than a year to study and quantify the operational impacts of growing fuel-security issues in the region. Fuel security refers to the ability of power plants to have or obtain the fuel needed to generate electricity to meet demand.

The ISO was planning to finalize and release its *Operational Fuel-Security Analysis* in mid-October and begin discussing the results with stakeholders starting October 24. However, this schedule will be delayed in light of the US Department of Energy (DOE) Notice of Proposed Rulemaking (NOPR) issued to the Federal Energy Regulatory Commission (FERC) on September 28, 2017. The FERC regulates the wholesale electricity markets operated by ISO New England and the other Independent System Operators and Regional Transmission Organizations in the US.

The DOE NOPR, called the “Grid Resiliency Pricing Rule,” directs the FERC to make changes to wholesale electricity markets in order to provide full cost recovery to baseload resources with 90 days of onsite fuel storage, such as coal-fired and nuclear power plants. The NOPR’s premise is that the wholesale power markets don’t adequately compensate the “resiliency attributes” of resources with onsite fuel.

Competitive markets have worked effectively in New England to bring forward the resources needed to ensure reliable power system operations while reducing power system emissions and wholesale power prices. Reliability services can be provided by a wide range of resources and technologies, including those that have onsite fuel, and the ISO believes that the most efficient solution is to procure those services through a competitive market whenever feasible. Providing full cost recovery for certain technologies and not others will ultimately undermine the competitive wholesale market construct and lead to cost-of-service for all resources. The ISO New England plans to file comments with the FERC supporting a market-based approach to procuring reliability services and fully explaining why the DOE proposal is inappropriate.

New England’s bulk power system has experienced challenging operating conditions, particularly during winter. The ISO has identified fuel security as one of the potential risks to future system reliability, and launched the *Operational Fuel-Security Analysis* in late 2016 to further its understanding of the region’s fuel-security risks. The ISO study analyzes future power system operations in winter 2024/2025 based on a range of different resource combinations.

The target winter was selected because challenges to power system reliability are expected to be manageable in the near term given the regional resource mix committed through the Forward Capacity Market and the tools currently available to the ISO. These tools include measures such as the new pay-for-performance rules to be in place in the Forward Capacity Market in 2018 and the Winter Reliability Program.

The objective of the study is to quantify the potential fuel security risks with the intent of engaging

regional stakeholders in a discussion on the degree of risk that can be tolerated and whether it is necessary to make improvements to the wholesale market design.

The identification of appropriate market design improvements will be a complex undertaking and will require a systematic and deliberative regional process for examining the risks and potential solutions. The ISO planned to discuss the study results with stakeholders over the remainder of 2017 and into early 2018 and begin discussions of solutions after that process. The ISO's goal has always been to work with stakeholders—market participants, regulators, policymakers, and others—to address New England's unique fuel-security challenges through the wholesale market construct.

However, the US DOE NOPR has raised the potential for significant changes to the wholesale electricity markets in the US. Therefore, the ISO has concluded that it is prudent to delay finalizing the study until the FERC has provided direction to the industry on how to interpret the DOE NOPR in the context of competitive wholesale markets. ISO New England intends to release the *Operational Fuel-Security Analysis* once the NOPR is sufficiently resolved.