

SETTLEMENT SHORTFALL CAUSED BY THE ENERGY EFFICIENCY RESOURCE EXEMPTION FROM PAY FOR PERFORMANCE PENALTIES IN OFF-PEAK HOURS

**NEPOOL Markets Committee Meeting
November 7-8, 2018**

**Bruce Anderson
New England Power Generators Association, Inc.**

The Avoidance and Reallocation of Penalties

2

- ❑ Under current FCM rules, energy efficiency (EE) resources are exempt from Pay for Performance charges/credits during off-peak hours.
- ❑ This exemption causes a settlement deficit because total payments \neq total penalties.
- ❑ The ISO adjusts the settlement by assessing a *pro rata* charge on all capacity suppliers to balance the equation.

- ❑ On September 3, 2018, a Capacity Scarcity Condition occurred during off-peak hours.
- ❑ If EE had been subject to performance penalties like all other capacity resources, they could have potentially incurred up to \$8 million in performance charges, depending upon their actual performance.
- ❑ Instead, all other capacity suppliers incurred a *pro rata* share of the \$8 million in performance penalties.

- ❑ **RESULT:** net performers are paid less and net under-performers are penalized more than they would otherwise but for the avoidance and reallocation of EE performance penalties.

The Current Treatment Undermines the PffP Design and Violates Basic Legal Principles

3

- ❑ The performance exemption and reallocation frustrates the FCM design in two primary respects:
 - ❑ Dilutes the price signals by:
 - ❑ Assessing a share of underfunded, underperformance charges to resources that supply energy and operating reserves during a scarcity condition;
 - ❑ Arbitrarily reallocating costs avoided by a particular resource type; and
 - ❑ Creating inefficient incremental risk, in that a Market Participant must factor into its FCA offer the risk of incremental penalties.
 - ❑ It also violates two basic legal principles:
 - ❑ It is unduly discriminatory, in that EE resources can measure their load reduction in real-time or on a periodic/seasonal basis, like all other capacity resources which are measured in all hours.
 - ❑ It violates the cost causation principle, imposing on other capacity resources costs they did not cause, and worse yet imposing them on capacity resources that provided benefits to the system during a scarcity condition.

The Commission Ordered ISO-NE to Link Scarcity Condition Performance Values to Demand Reduction Values

4

- ❑ The Commission ordered ISO-NE to develop:
 - “Tariff revisions ensuring that energy efficiency resources’ Capacity Performance Payments are calculated only for Capacity Scarcity Conditions during hours in which demand reduction values are calculated under the Tariff for that particular type of resource.” Order on PI Jumpball, P 89.
- ❑ The Commission correctly noted that EE resources are required to measure their performance (their qualified capacity) only during peak hours and thus there is presently no mechanism to appropriately measure (and compensate) performance in off-peak hours.
- ❑ A just, reasonable and appropriate solution could be achieved under this mandate in one of two ways (if not more):
 - ❑ Allocate the costs of the EE Exemption on a cost-causation basis; or
 - ❑ Measure EE resource load reductions in off-peak hours.

Allocate the Costs on a Cost-Causation Basis

5

- ❑ The Commission did not dictate any cost allocation methodology for the EE exemption.
- ❑ The distribution of EE resources in New England is largely a function of the respective state policies, with the majority of EE resources located in Massachusetts and Connecticut and paid for through charges to local distribution company customers in those states.
- ❑ Penalties otherwise incurred by the EE resources could therefore be allocated to the Capacity Load Obligation of New England states *pro rata* based on the amount of EE capacity MWs in each state.

Measure EE Performance During Off-Peak Hours

6

- ❑ **Require EE resources to produce off-peak hour load reduction values, either through actual measurements or through some other methodology**
 - ❑ **The Commission concluded that EE resources, if subject to the performance penalties in off-peak hours, would be left with either incurring “significant costs to measure and verify their load reductions around-the-clock ... or face guaranteed negative Capacity Performance Payments” during any off-peak hour Capacity Scarcity Condition.” P 89.**
 - ❑ **The “significant costs” were not well-developed in the record, which in any event is now several years past.**
- ❑ **NEPGA seeks input from NEPOOL stakeholders and ISO-NE on how such a measurement protocol would be implemented and the timeline for its implementation.**

NEPOOL Timeline

- **NEPGA intends to present its proposal at three NEPOOL Markets Committee meetings, including a vote at the third of those meetings, and a vote at the NEPOOL Participants Committee meeting, according to the following schedule:**
 - **November 6-7 MC Meeting**
 - **December 11-12 MC Meeting**
 - **January 8-9 MC Meeting**
 - **February 1 PC Meeting**

Questions?

Bruce Anderson

banderson@nepga.org

617-902-2347