Winter Energy Security:
Interim Compensation Treatment Amendment

NEPOOL Markets Committee
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ISO Comments for ICT Design

- Development program to address energy security as part of FERC's July 2nd Order
  - Slide #2, 2nd bullet, ISO Markets Committee presentation on November 8, 2018
- Develop program to address retaining a resource for fuel security reliability and to prevent uneconomic retirement bids from resource "critical to winter energy security"
  - Slide #2, 3nd bullet, ISO Markets Committee presentation on November 8, 2018
  - Similar supporting language page 4 ISO August 31,2018 Fuel Security Compliance filing
- ENE Positon
  - ISO proposal far exceeds the statements above. Resource eligibility is to broad and extends beyond target resources.

ICT Resource Eligibility

- **Modify ISO-NE's proposal to limit compensation to oil, natural gas, demand response and electric storage resources.**

- **Tariff language redline change to III.K.1(a)(i):**

(i) The following asset types may not be included in a Market Participant's list of assets: Settlement Only Resources; assets not located in the New England Control Area; assets listed with coal, nuclear, biomass or hydro as a fuel type; and assets that cannot operate on stored fuel (or natural gas subject to a contract as described in Section III.K.1(a)(iii)) at the ISO's direction.

ICT Resource Eligibility

- **Conforming change to III.K.1(d):**

(d) If electing to participate in both the forward and spot components of the program, the total MWh value for which the Market Participant elects to be compensated at the forward rate (the "Forward Energy Inventory Election"). This MWh value must be less than or equal to the combined MW output that the assets listed by the Market Participant (adjusted to account for ownership share) could provide over a period of 72 hours, as limited by the maximum amount of each fuel type that can be stored on site ~~(and in upstream ponds)~~ for each asset and as limited by the terms of any natural gas contracts submitted pursuant to Section III.K.1(a)(iii). If the Market Participant is submitting one or more contracts for natural gas, the Market Participant must indicate whether any of the suppliers listed in those contracts have the capability to deliver vaporized liquefied natural gas to New England, and if so, what portion of its Forward Energy Inventory Election, in MWh, should be attributed to liquefied natural gas (the "Forward LNG Inventory Election"). (For Market Participants electing to participate in only the spot component of the program, the Forward Energy Inventory Election and Forward LNG Inventory Election shall be zero.)

ICT Resource Eligibility

- **Conforming changes in III.K.1.1**

(c) In performing this review, the ISO shall only accept the portion of an existing Demand Response Resource's election that exceeds the Demand Response Resource's Capacity Supply Obligation for the 2022-2023 Capacity Commitment Period or the full amount of a Demand Response Resource with an in-service date on or after June 1, 2023.

(d) In performing this review, the ISO shall only accept the portion of an existing Electric Storage Resource's election that exceeds the Electric Storage Resource's Capacity Supply Obligation for the 2022-2023 Capacity Commitment Period or the full amount of an Electric Storage Resource with an in-service date on or after June 1, 2023.

Differing Objectives - ISO Proposal and ENE Amendment

- ENE: The fundamental objective is similar to past winter reliability programs - improve the region's overall energy security by targeting payments to resources like oil and LNG that provide incremental winter reliability benefits.

- The ISO's interim program includes these same targeted payments for oil and LNG resources, but also expands payments to other resources like nuclear, coal, biomass, and hydro that are not expected to provide any measureable increase in winter reliability benefits. The additional payments are justified on the ground that they help maintain energy security by deterring such resources from retiring during the interim period.

Program Objectives in Summary

- ISO Interim Program
  - Improve winter energy security by providing an incentive to resources that can maintain or increase available inventoried energy[1]

- ENE Amendment
  - Improve winter energy security by providing an incentive only to resources that can increase available inventoried energy

Supporting Rational For ENE Amendment

- The interim program is a stopgap, out-of-market solution designed to improve energy security until a long-term market solution can be implemented, just like past winter reliability programs. For this reason, and because additional compensation is unlikely to deter retirements, the FERC's 2015 decision on the last winter reliability program is relevant here.
- **Consistent with that decision, compensation should be limited to resources capable of improving winter energy security by providing incremental reliability benefits.**
  - "While ISO-NE expanded the types of resources eligible to participate in the [winter reliability] program, the record does not reflect that including the additional resource types under the same general program principles will incent any additional fuel procurement." ISO-NE and NEPOOL (152 FERC ¶ 61,190 (2015))
  - "Coal, nuclear, and hydro resources are not similarly situated to the resources included in the NEPOOL Proposal as the record reflects that including such resources in the Program would not provide any additional winter reliability benefit to the region." Reh'r Order (154 FERC ¶ 61,133)
- Further, no energy security needs assessment has been conducted to justify compensating *all* energy secure resources.
- Conclusion:- increasing consumer costs without any relationship to improved energy security or the region's need for additional reliability services would be unjust and unreasonable.

Retirement Considerations

- No evidence has been provided to support the claim that nuclear, coal, biomass or hydro resources are at significant risk of retirement during the interim period. Indeed, it seems doubtful such resources would retire prior to knowing the financial opportunities available them under a Chapter 3 market design.
- Regardless, the ISO has not shown that the proposed additional compensation would meaningfully reduce risk.
- Even if such other resources did retire, the ISO would be well positioned to maintain energy security – without recourse to RMRs- by utilizing the increase in energy inventory that results from payments to oil and LNG resources.

Chapter 2B
"Interim Compensation Treatment"

Technology Type	ISO Proposed Program Eligibility	ENE Amendment Proposed Program Eligibility
Batteries	Yes	Same as ISO-NE except only for new electric storage assets or those that have added capacity
Biomass	Yes	No – Unlikely to change current behavior
Coal	Yes	No – Unlikely to change current behavior
Demand response	If distributed generation with eligible technology type	Same as ISO-NE except only for new demand response assets or those that have added capacity
Hydro	If has reservoir/pondage controlled by participant	No – Unlikely to change current behavior
Natural gas	If has LNG contract (to NE)	Same as ISO-NE.
Nuclear	Yes	No – Unlikely to change current behavior
Oil	Yes	Same as ISO-NE.
Passive DR	No	Same as ISO-NE.
Solar	No	Same as ISO-NE.
Wind	No	Same as ISO-NE.

Consumer Cost Are Relevant

- New England consumers already pay some of the highest rates in the nation and even higher rates are projected when the above-market costs of the Mystic contract are collected.
- ISO estimates consumer cost for its interim program to be over one hundred million dollars more than the cost of last winter reliability program.
  - The interim program and the WRP are out-of-market, stopgap measures that share the same goal: To improve energy security while the region addresses long-term risks associated with (1) increased dependence on natural gas and (2) resource performance during periods of stressed system conditions
  - As a stopgap measure, the interim program should be focused on achieving its goal at least cost and not on rectifying a flaw in the current market design.
  - Not compensating resources for a service they currently provide is a problem best addressed in Ch. 3, after the product has been defined and its demand determined.
- A more targeted interim program—similar to past winter reliability programs—can achieve the same short-term energy security goal at substantially less cost.

Amendments Impact ICT Cost

- Amendment reduces total direct cost of interim program by **~$50.7M** annually
- Despite this change, oil/dual fuel units receive more than under last Winter Reliability Program
  - 2017/2018 WRP costs for oil/dual fuel **$24.5M**
  - Payments to oil/dual fuel units under amendment **$60.84M**
- Gas units also receive more than under last WRP
  - 2017/2018 WRP costs for LNG-backed gas **$0.0M**
  - Payments to LNG-backed gas units under amendment **$46.19M**

Tariff Language

Tariff language to support the amendment is provided in attachment for committee review

Questions