FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

OFFICE OF ENERGY MARKET REGULATION

In Reply Refer To
ISO New England Inc.
Docket No. ER19-1428-000

Issued: 5/8/19

ISO New England Inc.
One Sullivan Road
Holyoke, MA 01040-2841

Attention: Maria Gulluni, Attorney for ISO New England Inc.

Reference: Inventoried Energy Program

Dear Ms. Gulluni:

On March 25, 2019, in Docket No. ER19-1428-000, ISO New England Inc. (ISO-NE) filed, pursuant to section 205 of the Federal Power Act (FPA),[1] proposed revisions to ISO-NE's Transmission, Markets and Services Tariff (Tariff) to implement an interim program (Inventoried Energy Program). The Inventoried Energy Program proposes to compensate resources for inventoried energy during the winter months of the Capacity Commitment Periods for the upcoming fourteenth and fifteenth Forward Capacity Auctions (FCA 14 and FCA 15, respectively), pending development of long-term, market improvements for fuel security purposes.[2] ISO-NE states that the Inventoried Energy Program fulfills a commitment it made in an August 31, 2018 Filing to work with stakeholders to identify an interim solution that could complement efforts currently underway to develop a long-term, market-based solution to the region's energy security challenges.[3]

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[1] 16 U.S.C. § 824d (2012).

[2] *See ISO New England Inc.*, 164 ¶ 61,003 (issued July 2, 2018).

[3] Transmittal at 4 stating "[n]onetheless, [ISO-NE] made a commitment in the August 31, 2018 Filing to work with stakeholders to identify an alternative that can be applied for FCA 14 and 15 in conjunction with its efforts to continue to develop longer-term market solutions to the region's fuel security challenges. Among the ideas the ISO

Please be advised that your submittal is deficient and that additional information is required in order to process the filing. Please provide the information requested below. To the extent that some of the required information may contain confidential material, please submit a non-public version in addition to a public version for Commission review.

1. ISO-NE states that an objective of the Inventoried Energy Program is to "compensate resources that provide winter energy security, and thereby improve the region's reliability during stressed winter conditions."[4] Did ISO-NE conduct an analysis that demonstrates a potential energy security issue associated with the winters of 2023-2024 and 2024-2025 in support of the proposed Tariff revisions? If so, please provide a copy of this analysis. If not, please state why ISO-NE believes such analysis was not necessary. To the extent this analysis identified potential negative energy security impacts specific to that timeframe to address, prior to implementation of the long-term solution, please explain how these concerns are not adequately addressed by the existing Tariff.[5]

2. In addition, has ISO-NE performed other quantitative analyses or assessments that provide evidence to support the proposal? Please provide any and all analysis performed.

3. ISO-NE states that the Inventoried Energy Program's forward rate was based on the fair market value of a natural gas contract between a natural gas-only generator and a storage terminal that holds liquefied natural gas (LNG).[6] ISO-NE asserts that this rate represents the "break even" payment associated with signing such a natural gas contract.[7] What is ISO-NE's basis for concluding that the proposed forward rate will incent natural gas-fired generators to sign contracts for LNG inventories?

4. What is the duration of the forward LNG contract that ISO-NE used to support its calculation of the forward rate? Are forward LNG contracts similar to the

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plans to assess is an incremental payment for resources that can help the region meet its fuel security objectives." Citation to ISO-NE's August 31, 2018 filing (Docket Nos. EL18-182-000 and ER18-2364-000) at 18.

[4] Transmittal at 5.

[5] Tariff sections III.13.2, III.13.2 Annual Forward Capacity Auction, 50.0.0, Appendix L, Appendix L ISO-NE Fuel Security Reliability Review Standard, 0.0.0.

[6] Transmittal at 11.

[7] *Id.* at 11.

hypothetical contract that ISO-NE used to calculate the forward rate commercially available to generators for the Capacity Commitment Periods covered by the Inventoried Energy Program? Is ISO-NE aware of any generators in its footprint that have signed a forward LNG contract that is similar to ISO-NE's hypothetical contract?

5. Under the Inventoried Energy Program, ISO-NE maintains that an eligible natural gas contract "may be with one of the LNG facilities that serves the region, or it could instead be with a counterparty that does not source the gas at an LNG facility."[8] Because the forward rate is based on a break-even analysis of the former contract type, does ISO-NE anticipate that the proposed rate would incent natural gas generators to sign contracts for firm transportation on natural gas pipelines that are not sourced from LNG?

6. ISO-NE states that participants in the Inventoried Energy Program "may include an opportunity cost in their energy market offers."[9] Please provide an estimate of the change in total system costs resulting from the inclusion of opportunity costs from the Inventoried Energy Program in energy market offers. In addition, please provide any and all analysis performed regarding the effects of the Inventoried Energy Program on energy and ancillary services market prices, quantities, and revenues.

7. Under the Inventoried Energy Program, the opportunity cost of burning fuel below a 72 hour inventory is effectively set at the fixed rate of $8.25/MWh. Did ISO-NE perform an analysis to determine how much additional fuel would have been available during previous cold weather events if this program were in place? If so, please provide the analysis. If an opportunity cost is included in energy market offers, what is the approximate effect this adder will have on economic dispatch and commitment during a prolonged period of cold weather?

8. Please explain how net revenues received under the Inventoried Energy Program are reflected in the mitigation of bids for the Forward Capacity Market (FCM) for all resources that appear to have positive net revenue opportunities attributable to participation in the program, including mitigation achieved through a change to the dynamic de-list bid threshold, if applicable. Please indicate the Tariff section that specifies how these net revenues are treated for the purposes of FCM mitigation. If net revenues are not reflected, please specify the rationale as to why such revenues should not be reflected.

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[8] *Id.* at 16.

[9] *Id.* at 21.

9. What impact or interactions, if any, will the Inventoried Energy Program have on Pay-for-Performance and Competitive Auctions with Sponsored Resources (CASPR), and vice versa? For example, will additional revenues from the Inventoried Energy Program (i) deter less reliable resources from retiring despite potentially incurring penalties under Pay-for-Performance and/or (ii) result in these resources commanding a larger payment from new resources in the substitution auction under CASPR?

10. ISO-NE states that the Inventoried Energy Program requires that contracts for natural gas "must allow for firm delivery of the gas and must include no limitations on when natural gas can be called during a day in proposed Tariff section III.K.1(a)(iii)."[10] How would the proposed Tariff language impact generators relying on LNG contracts that would require pipeline transportation from the regasification terminal to the electric generation facility? Are there commercial offerings for firm delivery of natural gas available to generators in ISO-NE that would meet the requirements of the proposed Tariff? If yes, please provide details on these offerings.

11. ISO-NE states that the revenue from the Inventoried Energy Program should decrease the likelihood that certain resources pursue retirement.[11] Please provide your estimate of total capacity at risk for retirement for FCA 14 and FCA 15 with and without the Inventoried Energy Program. In doing so, please estimate unit retirements by primary and then secondary fuel type (e.g., coal, nuclear, oil only, dual fuel natural gas/oil, natural gas only, etc). Please provide any analysis performed in support of this estimate, including relevant assumptions.

12. Please provide your expectation of how the Inventoried Energy Program will impact the onsite fuel storage practices and management of the resources that will most likely participate. Please group your response by primary and then secondary fuel type (e.g., coal, nuclear, oil only, dual fuel natural gas/oil, natural gas only, etc.). Please indicate total winter capacity eligible and expected to participate for each group.

This letter is issued pursuant to 18 C.F.R. § 375.307 and is interlocutory. This letter is not subject to rehearing under 18 C.F.R. § 385.713. A response to this letter must be filed with the Secretary of the Commission within 30 days of the date of this letter by making a deficiency filing in accordance with the Commission's electronic tariff requirements. For your response, use Type of Filing Code 170 if your company is

[10] *Id.* at 16.

[11] *Id.* at 7.

registered under program code "M" (Electric Market Based Rate Public Utilities) or Type of Filing Code 180 if your company is registered under program code "E" (Electric Traditional Cost of Service and Market Based Rates Public Utilities).[12] In addition, submit an electronic version of your response to Nicole Businelli at nicole.businelli@ferc.gov. The information requested in this letter order will constitute an amendment to your filing and a new filing date will be established.[13] A notice will be issued upon receipt of your filing.

Pending receipt of the above information, a filing date will not be assigned to your filing. Failure to respond to this letter order within the time period specified may result in a further order rejecting your filing.

Issued by: Kurt M. Longo, Director, Division of Electric Power Regulation – East

[12] The filing must include at least one tariff record to restart the statutory timeframe for Commission action even though a tariff revision might not otherwise be needed. *See generally Electronic Tariff Filings*, 130 FERC ¶ 61,047, at PP 3-8 (2010) (explaining that the Commission uses the data elements resulting from the tariff filing process to establish statutory filing and other procedural dates).

[13] *See Duke Power Co.*, 57 FERC ¶ 61,215, at 61,713 (1991) ("the Commission will consider any amendment or supplemental filing filed after a utility's initial filing . . . to establish a new filing date for the filing in question").

Document Content(s)