Gordon van Welie
President and Chief Executive Officer

November 21, 2019

The Honorable Sheldon Whitehouse
530 Hart Senate Office Building
Washington, DC 20510

The Honorable Richard Blumenthal
706 Hart Senate Office Building
Washington, DC 20510

The Honorable Bernard Sanders
332 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Jack Reed
728 Hart Senate Office Building
Washington, DC 20150

The Honorable Christopher Murphy
136 Hart Senate Office Building
Washington, DC 20510

The Honorable Edward Markey
255 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Elizabeth Warren
309 Hart Senate Office Building
Washington, DC 20510

The Honorable Angus King
133 Hart Senate Office Building
Washington, DC 20510

Dear Senators Whitehouse, Blumenthal, Sanders, Reed, Murphy, Markey, Warren, and King:

I am writing in response to your November 18 letter regarding the future of clean energy resources in New England. During my time with ISO New England, I have always appreciated the dialogue with the New England Congressional delegation regarding issues important to New England's bulk power system. In particular, I would like to emphasize that ISO New England understands and respects the policy objectives of the New England states with regard to the decarbonization of the bulk power system. In addition, the region also has another objective, which is to ensure that wholesale market prices reflect the cost of the required reliability services.

Your letter requests that the ISO work with the New England States Committee on Electricity (NESCOE) as well as members of the New England Power Pool (NEPOOL) on the most appropriate way to integrate greater levels of renewable energy. Over the past two decades, ISO New England has implemented market designs and operational and planning tools and procedures aimed at integrating renewable energy, demand resources and new technologies while ensuring reliability. New England's competitive wholesale markets have kept the lights on while simultaneously achieving dramatic reductions in emissions, resulting in one of the cleanest, most efficient fleet of resources in the country. It is worth noting that the region has received national and international recognition for the extent to which demand resources (energy efficiency and demand response) have been fully integrated into the wholesale markets – resulting in a platform for the integration of storage and other distributed resources.

ISO New England has been directed by our regulator, the Federal Energy Regulatory Commission (FERC), to file changes to the region's wholesale energy markets by April 15, 2020 to address New England's energy-security challenges. As has been the case regarding other wholesale market changes over the past 20 years, ISO New England is working closely with New England states and stakeholders as we prepare to file market improvements at FERC. We will continue to develop innovative ways to help the region achieve its goals while maintaining a reliable power system. As I explain in more detail below, our work on energy security is a critical component to maintaining reliable operations with a power system that is energy constrained at times and to support a future with greater levels of renewable energy. In addition, we have already committed to working with the states and stakeholders in 2020 to assess wholesale market improvements for the future.

Below, I address your concerns with regard to the Energy Security Improvement (ESI) market design project, Competitive Auctions with Sponsored Policy Resources (CASPR) and the Inventoried Energy Program (IEP).

ESI Provides Improved Reliability During Stressed System Conditions

You express concern that the ESI "further delays market reforms that recognize and facilitate state public policies to grow clean energy and address climate change."

Much of the discussion around ESI has focused on the belief that these changes should reward resources for stored energy. This has led to the observation (echoed in your letter) that ESI is about stored fossil fuel and the implied concern that it will consequently delay the transition to renewable resources. However, this is not the objective of the design – the product that the region needs is energy. During this process, we have identified actions taken in the past to preserve system reliability during stressed periods, and are proposing market changes to promote reliable energy output in a transparent and fuel and technology neutral manner.

The desired result of the ESI changes is to reward resources that take action to provide reliability during periods of system stress – a reliability service that can be done in different ways. For example, a solar facility with battery storage has the same opportunity to provide these reliability services as a natural gas plant with a contract for liquefied natural gas or an offshore wind farm that operates at a high capacity factor during winter. All may be rewarded under the ESI design.

ESI focuses on the desired output – system reliability – rather than on production inputs such as fuel. This allows for the avoidance of market distortions that would result from fuel-related subsidies. This is the reason why our regulator was critical of the prior stopgap measures and ordered the ISO to develop a market solution to the winter problem. Rather than delaying the transition to a renewable future, ESI may actually accelerate the transition to reliable zero carbon, renewable resources and storage technologies by recognizing and compensating these resources for the reliability attributes they provide.

In the meantime, as New England transitions to a power system that will be dominated by variable, renewable resources, ESI will help ensure that New England will continue to have a reliable supply of electricity during periods when supply and production is limited. On a standalone basis, renewable energy can exhibit highly variable operating characteristics. This leads to a need for other energy sources that can supplement the loss of production from renewable resources when the weather is not cooperative. This need can range from seconds to days and weeks, particularly given the potential for the New England region to be energy constrained during times of inclement weather. ESI's primary function is not to unnecessarily retain fossil-fired resources. The purpose of the ESI is to ensure that the power system has resources that can address the energy constraints that currently appear during severe cold, and looking forward, that may appear at other times of the year as the region transitions to a fleet of resources that no longer have stored fuel.

We expect that current and future energy storage resources will assist in meeting the region's energy security challenges and that the market changes stemming from the ESI discussion will support these resources. For example, we continue to enjoy the benefit of 1,800 megawatts (MW) of pumped storage hydropower and our markets are ready to incorporate greater levels of electricity storage (currently predominately in the form of short-duration lithium-ion batteries). Over time, we expect that state procurements, emission restrictions and carbon pricing will result in clean energy sources (including storage) displacing fossil fuels. However, this is unlikely to happen without the combination of appropriate market requirements for stored energy and the development of necessary infrastructure (including transmission).

CASPR Facilitates a Clean Energy Transition, but Carbon Pricing is Better

Regarding the Forward Capacity Market's (FCM) CASPR design, you indicate that it "forces state-sponsored renewable energy to wait for incumbent fossil fuel generators to retire before these clean resources can enter the capacity market." We agree – CASPR is a second-best solution and have long advocated that the region instead adopt a carbon price, which is a simple and easily-implemented mechanism for reducing (or eliminating) carbon and sparking a clean energy transition.

The New England states have been clear that they are not in favor of pricing carbon emissions within the ISO-administered, FERC-regulated wholesale electricity markets. Therefore, as an alternative, ISO New England worked with stakeholders to accommodate the entry of state-sponsored resources in the FCM while ensuring that capacity prices still incentivize investments needed to maintain reliability. To be clear, CASPR does not prevent potential capacity resources from clearing in the primary auction if they are economic. The CASPR design was developed to provide an opportunity for state-sponsored clean energy resources that are unable to clear in the primary auction to trade with a capacity resource that is seeking to retire, thereby avoiding the acquisition of more resources than is required for reliability.

CASPR was intended to work over time. And as in any market construct, the trades will depend on the timing and build-up of the economic incentives for buyers and sellers. We believe that the CASPR design, while a second-best alternative to carbon pricing, demonstrates both ISO New England's consideration of the region's environmental and climate goals as well as our adherence to our mission to ensure reliability through a wholesale market structure.

The IEP is a Temporary Program

Some clarification is also necessary regarding the IEP. The IEP is a short-term, stop-gap program applicable only for the winters of 2023-2024 and 2024-2025, until a market-based approach (ESI) is implemented.

The IEP does not take the place of, delay, or stand in opposition to long-term, market-based changes to help states meet their public policy goals while maintaining reliability.

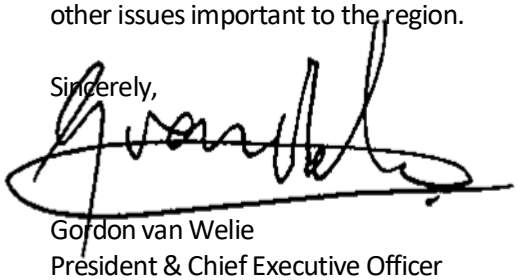
ISO New England is Actively Working with States and Stakeholders During the Transition to the Future Grid

ISO New England's support for carbon pricing and our efforts through the Energy Security Initiative (along with a number of other ISO-led initiatives over the last several years to integrate renewable and distributed resources) affirm our commitment to ensure that the wholesale markets accommodate a transition to clean energy economy. New England stakeholders and the ISO have created a state-of-the-art market design that, over a period of more than two decades, has successfully maintained reliable bulk power system operations, enabled a dramatic reduction in emissions and achieved the lowest wholesale energy prices in two decades.

It is challenging to achieve both the public policy goals that led to the creation of wholesale markets, which focus on selecting the lowest-priced resources to reliably meet consumer demand for electricity, and the more recent policy objectives of accelerating clean energy, decarbonizing the electric, transportation and heating sectors and creating local economic stimulus. However, we are committed to working with the states and our stakeholders to find workable solutions for New England.

Thank you again for your interest in this issue and I will continue to be in touch with your offices on this and other issues important to the region.

Sincerely,



Gordon van Welie
President & Chief Executive Officer

United States Senate
WASHINGTON, DC 20510

November 18, 2019

Gordon van Welie
President and CEO
ISO New England
One Sullivan Road
Holyoke, MA 01040

Dear Mr. van Welie:

We write concerning ISO New England (ISO-NE)'s ongoing fuel security initiative, where ISO-NE is pursuing measures to enhance the region's electricity reliability. However, we have concerns that ISO-NE is not considering the region's environmental and climate goals in this work.

New England states take the threat of climate change seriously and have adopted some of the most ambitious climate and clean energy laws in the country. ISO-NE has a responsibility to facilitate this clean energy transition and help achieve the region's climate goals in a cost-effective manner that ensures reliability and just and reasonable rates for consumers.

Unfortunately, ISO-NE appears to be pursuing a patchwork of market reforms aimed at preserving the status quo of a fossil fuel-centered resource mix. This includes recent market rule changes like Competitive Auctions with Sponsored Policy Resources (CASPR), which forces state-sponsored renewable energy to wait for incumbent fossil fuel generators to retire before these clean resources can enter the capacity market, and the Inventoried Energy Program, which will force consumers to pay millions of dollars to existing, polluting power plants with on-site fuel supplies, such as oil, coal, or liquefied natural gas.

In 2016, New England's electricity stakeholders engaged in a robust conversation on how to blend regional electricity markets with our state climate and clean energy policies. ISO-NE, the New England States Committee on Electricity (NESCOE), and the New England Power Pool (NEPOOL) established an integrating markets and public policy (IMAPP) process to discuss how to integrate climate change policies into the electricity markets established and overseen by ISO-NE. These conversations explored potential new market frameworks for clean energy, as well as possible ways to better value states' clean energy mandates in ISO-NE's markets.

Instead of continuing this engagement with stakeholders, in recent years ISO-NE has charted its own path forward and pursued unpopular initiatives like CASPR and the Inventoried Energy Program. Now, ISO-NE is pursuing as its top priority a new Energy Security Improvements fuel security proposal that again appears to ignore the reliability and other benefits of clean energy, and further delays market reforms that recognize and facilitate state public policies to grow clean energy and address climate change.

ISO-NE should return to the table with stakeholders to develop electricity market frameworks the region needs to tackle climate change, promote innovation, and facilitate clean energy. In July, NESCOE, which represents the perspective of the six New England Governors, wrote to ISO-NE urging relevant stakeholders discuss, "future market frameworks that contemplate and are compatible with the implementation of state energy and environmental a laws."[1] Following the NESCOE letter, the New England Power Generators Association, which represents that largest electric generating companies in NE, wrote supporting the NESCOE request.[2] We have also heard from consumer-owned entities that the current framework must be revisited on a fundamental level.

ISO-NE should heed the call of the states, electricity generators, and others to expand the dialogue beyond the current, too-narrow fuel security reforms to tackle the region's pressing need to achieve the states' ambitious climate goals. To achieve these goals, ISO-NE should dedicate significant planning and markets resources in the coming months to evaluate, help develop, and propose new electricity market structures that recognize, facilitate, and are compatible with state policies. Thus we request that ISO-NE work with NESCOE, NEPOOL, consumer owned entities, and other electricity stakeholders to engage in broader energy conversations about the future of energy in New England.

We look forward to your prompt response.

Sincerely,

Sheldon Whitehouse
United States Senator

Richard Blumenthal
United States Senator

Bernard Sanders
United States Senator

Jack Reed
United States Senator

Christopher S. Murphy
United States Senator

Edward J. Markey
United States Senator

[1] http://nescoe.com/resource-center/2020-workplan-jul2019/
[2] https://nepga.org/2019/08/letter-to-iso-ne-on-review-of-the-future-of-the-new-england-wholesale-markets/

Elizabeth Warren
United States Senator

Angus S. King, Jr.
United States Senator