

To: NEPOOL Markets Committee

From: Market Development

Date: March 18, 2020

Subject: Energy Security Improvements (WMPP ID: 125)

The ISO is requesting a vote on its Energy Security Improvements (ESI) proposal, which comprises the ISO's long-term, market enhancements that are necessary to better address the region's fuel security concerns, in compliance with the Federal Energy Regulatory Commission's (FERC) directive in its July 2, 2018 Order.¹

As the NERC-registered Balancing Authority, Reliability Coordinator, and Transmission Planner for New England, the ISO must develop reliable next-day operating plans that ensure sufficient resources are available to meet energy demand and reserve requirements. Those operating plans must ensure the power system has sufficient flexible supply each day to be able to manage uncertainties. Given the region's increasingly constrained fuel infrastructure and evolving resource mix, the ISO has become increasingly concerned that there may be insufficient energy available to maintain reliable power system operation during stressed system condition, including extended cold winter conditions, and industry trends may increase this risk over time. An in-depth examination of the existing ISO-administered wholesale electricity market identified the current market does not fully compensate resources for the entire suite of operational capabilities the ISO depends upon to ensure a reliable operating plan each day. There is a misaligned incentives problem; the resources supplying those capabilities are not currently provided with efficient incentives to make supplemental input energy supply arrangements, so they can operate reliably when and if needed.²

The ISO's ESI proposal addresses these fuel security challenges by procuring, and compensating, for new option-based energy and reserve services in the Day-Ahead Market that more completely reflect the operational capabilities the ISO presently relies on, but does not compensate in the day-ahead timeframe, in developing reliable next-day operating plans.³ Procuring these capabilities will help signal, through transparent market prices, the cost of operating a reliable power system. It will also provide resources providing these operational

¹ *Order Denying Waiver Request, Instituting Section 206, and Extending Deadlines, ISO New England Inc.*, 164 FERC ¶ 61,003 (2018).

² ISO New England Inc., Energy Security Improvements: How Market Improvements Address Fuel Security, Memorandum to NEPOOL Markets Committee from Market Development and System Operations, December 4, 2019; available at: https://www.iso-ne.com/static-assets/documents/2019/12/a6_c_i_memo_re_how_market_improvements_address_fuel_security.pdf

³ *See id.*

capabilities, regardless of technology-type, strong financial incentives to firm-up their energy sources and deliver electricity reliably when unforeseen grid operating challenges arise.

The ISO anticipates implementing the ESI proposal by the start of the 2024 -2025 Capacity Commitment Period (CCP). In light of this planned implementation, the ISO is also proposing revisions to Market Rule 1 to sunset the fuel-security reliability review provisions⁴ and the Inventoried Energy Program following the 2023-2024 CCP, conditional upon FERC's acceptance of ESI. Ending these interim measures, coincident with the implementation of ESI, is necessary so not to undermine the efficacy of the long-term market solution.

The ESI proposal is the product of extensive discussion with stakeholders to improve regional fuel-security concerns through market-based approaches. The proposal for the committee's consideration at its March 24, 2020 meeting has been presented in the meeting dates outlined below.

- June 20, 2018; agenda item 2: <https://www.iso-ne.com/event-details?eventId=136297>
- September 12-13, 2018; agenda item 9: <https://www.iso-ne.com/event-details?eventId=134561>
- October 9-10, 2018; agenda item 9: <https://www.iso-ne.com/event-details?eventId=134564>
- November 7-8, 2018 ; agenda item 2: <https://www.iso-ne.com/event-details?eventId=134567>
- December 11-12, 2018; agenda item 2: <https://www.iso-ne.com/event-details?eventId=134569>
- January 8-9, 2019; agenda item 5: <https://www.iso-ne.com/event-details?eventId=137567>
- February 5-6, 2019; agenda item 7: <https://www.iso-ne.com/event-details?eventId=137569>
- March 5-6, 2019; agenda item 7: <https://www.iso-ne.com/event-details?eventId=137571>
- April 9-10, 2019; agenda item 7: <https://www.iso-ne.com/event-details?eventId=137573>
- April 23, 2019; agenda item 3: <https://www.iso-ne.com/event-details?eventId=138824>
- May 7-8, 2019; agenda item 2: <https://www.iso-ne.com/event-details?eventId=137575>
- June 10-12, 2019; agenda item 2: <https://www.iso-ne.com/event-details?eventId=139121>
- July 8-10, 2019; agenda item 4: <https://www.iso-ne.com/event-details?eventId=139116>
- July 30, 2019; agenda item 2: <https://www.iso-ne.com/event-details?eventId=139456>
- August 13-15, 2019; agenda item 2: <https://www.iso-ne.com/event-details?eventId=137589>
- September 3-4, 2019; agenda item 2: <https://www.iso-ne.com/event-details?eventId=139152>
- September 18, 2019; agenda item 6: <https://www.iso-ne.com/event-details?eventId=137581>
- October 16, 2019; agenda item 4: <https://www.iso-ne.com/event-details?eventId=137587>
- November 12-13, 2019; agenda item 4: <https://www.iso-ne.com/event-details?eventId=137583>
- December 10-11, 2019; agenda item 6: <https://www.iso-ne.com/event-details?eventId=137585>
- January 14-15, 2020; agenda item 5: <https://www.iso-ne.com/event-details?eventId=140254>
- January 28, 2020; agenda item 3: <https://www.iso-ne.com/event-details?eventId=140694>
- February 11-13, 2020; agenda item 4: <https://www.iso-ne.com/event-details?eventId=140256>
- March 10-11, 2020; agenda item 5: <https://www.iso-ne.com/event-details?eventId=140257>

⁴ On December 19, 2019, the ISO, supported by NEPOOL, filed the Fuel Security Retention Sunset revision with the Commission. On February 14, 2020, the Commission rejected the filing, without prejudice, finding that it was unjust and unreasonable to prematurely terminate the fuel security reliability retention mechanism prior to the ISO submitting its long-term market based solution that addresses the region's energy security challenges. As such, the ISO plans to refile the Fuel Security Retention Sunset tariff revision, which was supported by NEPOOL, when it files its ESI proposal.