

To: NEPOOL Markets Committee and NEPOOL Budget and Finance Subcommittee

From: Henry Yoshimura, Director, Demand Resource Strategy, ISO New England

Date: August 17, 2020

Subject: **LS Power's Proposal Concerning Energy Efficiency and Capacity Performance Payments**

At the July 14, 2020 Markets Committee meeting, several participants asked the ISO to provide its perspective on the LS Power proposal regarding performance of energy efficiency resources in response to Capacity Scarcity Conditions and resulting Capacity Performance Payments. In considering the proposal and related discussion at the Markets Committee, we believe that implementing this proposal would improve the design of the Forward Capacity Market. Accordingly, ISO New England plans to sponsor this proposal in the stakeholder and regulatory processes going forward and to file the related Tariff changes under Section 205 of the Federal Power Act.

Our perspective is consistent with that expressed by the External Market Monitor at the July 14, 2020 Markets Committee meeting, as explained below. The proposal recognizes the characteristics of energy efficiency resources and proposes to treat them in a manner that is consistent with their system benefits. Like other resource types, energy efficiency resources help the region meet resource adequacy requirements. However, in contrast to other resource types, energy efficiency resources permanently reduce energy consumption. They deliver a comparable or improved level of end-use service immediately upon the installation of the energy efficiency measures, and they create a reduction of demand across all conditions and prices.

In order to serve the remaining load that appears in real-time, other resources, such as generation, imports, and demand response, are needed and also are acquired through the Forward Capacity Market. There is some amount of risk associated with the real-time performance of these other installed resources. For example:

- A generator or import may experience a forced outage.
- An operating reserve deficiency may occur when variable renewable resources are not available to produce energy.
- A battery's state of charge may be insufficient when needed in real-time for energy or reserves.
- A demand response asset may be unable to reduce energy consumption at a given moment.

Capacity Performance Payments are intended to provide resources with a strong incentive to perform by providing energy or reserves in real-time, which decreases the severity of Capacity Scarcity Conditions or avoids them altogether. Limiting Capacity Performance Payments to those resources whose performance could be at risk, unlike energy efficiency resources, accomplishes this design objective.¹

¹ Pursuant to the Commission's Order on Tariff Filing and Instituting Section 206 Proceeding, 147 FERC ¶ 61,172 at P 89 (issued May 30, 2014) (at <https://www.iso-ne.com/static-assets/documents/regulatory/ferc/orders/2014/>)

We recognize that the ISO and stakeholders worked many months in an extended stakeholder process to address an issue resulting from the ISO's implementation of the Commission-directed treatment of energy efficiency resources during off-peak hours. In an effort to implement the Commission's directive while avoiding "guaranteed negative Capacity Performance Payments during any Capacity Scarcity Condition during off-peak hours,"² many solutions were considered, including estimating energy efficiency performance during off-peak hours using "Shaping Option A."³ This was a worthwhile endeavor, and the resulting solution addressed the settlement imbalances and related mutual insurance pool charges attributable to the ISO's implementation of the Commission's directive. The proposal discussed herein, however, treats energy efficiency resources in a manner that is consistent with their system benefits and contribution to resource adequacy. The ISO agrees with the removal of energy efficiency from Capacity Performance Payments for the reasons stated above.

The Tariff changes the ISO is planning to sponsor have been posted on the ISO website for your review and consideration. The proposed Tariff changes are identical to those proposed by LS Power at the July 14, 2020 Markets Committee meeting with just a few exceptions.

First, the ISO made some non-substantive, clarifying changes to Section III.13.7.2.4 (Capacity Performance Score). The incremental changes, which are relative to the version proposed at the July 14, 2020 Markets Committee meeting, are highlighted in yellow. Second, LS Power proposed that energy efficiency be removed "from the PFP settlement including the 'insurance pool'" – [see second from last bullet, slide 4 of the July 14, 2020 LS Power presentation](#). Tariff redlines incorporating this component into Section III.13.7.4 (Allocation of Deficient or Excess Capacity Performance Payments) have been included in the ISO's package of Tariff changes and also are highlighted in yellow. While the Budget and Finance Subcommittee will not be discussing the proposed changes to the Section III.13 of the Tariff, the ISO has posted these changes with the Budget and Finance Subcommittee meeting materials for your reference.

Additionally, LS Power proposed that energy efficiency not be required "to provide credit support for the FCM Delivery Financial Assurance" – [id., last bullet, slide 4 of the July 14, 2020 LS Power presentation](#). Section VII.A of the ISO New England Financial Assurance Policy, which concerns FCM Delivery Financial Assurance, will be modified to reflect this design change. The NEPOOL Budget and Finance Subcommittee is reviewing these proposed changes at its August 21, 2020 meeting.⁴ While the Markets Committee will not be voting on changes to the ISO New England Financial Assurance Policy, the ISO has posted these changes with the Markets Committee meeting materials for your reference.

Please contact me if you have any questions regarding this memo or the proposed Tariff changes. We look forward to the discussion of these changes at the August and September Budget and Finance

[may/er14_1050_000_5_30_14_pay_for_performance_order.pdf](#)), energy efficiency resources are exempt from Capacity Performance Payments in non-measure hours, which comprise about 96% of the hours in a year.

² *Id.* at P 89.

³ See https://www.iso-ne.com/static-assets/documents/2019/07/reportofthedrwgonassessingeerperformanceinallhours_final2.pdf.

⁴ The Budget and Finance Subcommittee may hold an additional meeting in September 2020 to discuss further the proposed changes to the ISO New England Financial Assurance Policy.

Subcommittee meetings and during the September 2020 Markets Committee meeting where the technical committee vote will be requested.