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|  | NEPOOL Markets Committee (MC) |
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|  | NESCOE amendments to the ISO’s Dynamic De-List Bid Threshold (DDBT) proposal |

At the October 6-8 MC meeting, NESCOE is offering two amendments to the ISO’s proposed DDBT calculation methodology. This memorandum summarizes the ISO’s observations on the NESCOE amendments to add an upper bound to the DDBT and to limit the maximum annual increase of the DDBT.

The ISO constructed its proposed DDBT design to balance three objectives. The first is to review bids that *may* exercise market power, the second is to limit unnecessary interference in competitive markets, and the third is to use a transparent and robust calculation method. Broadly, the NESCOE amendments place more weight on the first design objective and less weight on the second. Specifically, the NESCOE amendments could increase the likelihood that Internal Market Monitor (IMM) review is required for de-list bids that are expected to be inframarginal (*i.e.*, below the auction’s competitive clearing price).

An important enhancement of the ISO’s proposed DDBT design is that the DDBT value can adjust to reflect current market conditions. The NESCOE amendments, however, would constrain the DDBT value relative to the ISO’s proposal under various conditions, which could undermine this key enhancement achieved with the new DDBT calculation method (relative to prior practice of triennial recalculations). By preventing the DDBT from adjusting to reflect projected market conditions for the next FCA, the amendments would cause the DDBT to remain a lagging, or ‘stale’, estimate of the appropriate de-list bid review threshold.

Furthermore, the ISO has concerns with the seemingly *ad hoc* parameters in NESCOE’s amendments. As an example, while NESCOE suggests a one-directional remedy within the DDBT for (potential) errors in Net CONE, their materials do not appear to provide a reasoned basis for the numerical value of the proposed cap at 85% of Net CONE. NESCOE’s other proposed DDBT cap, which is set at 125% of the last FCA clearing price has only a superficial symmetry with the floor present in the ISO’s design. The underlying assumption of this 125% cap is that the supply curve becomes flat at prices 25% higher than the last FCA clearing price. However, that outcome is not supported by theory and nor is it plausible in in practice. The supply curve generally is increasingly steep as quantity increases (up to the point where prices reach true Net CONE).

While the ISO appreciates NESCOE’s perspective, we are concerned the proposed amendments alter the ISO’s carefully-developed balance among the three design objectives, introduce *ad hoc* parameters that are not defended (or explained), and may produce DDBT values that are not economically-sensible.