

To: NEPOOL Markets Committee

From: Ryan McCarthy, Lead Analyst, ISO New England

Date: November 3, 2020

Subject: Modifications to the Qualification of Energy-Efficiency in the Forward Capacity Market (WMPP: 148)

The ISO is requesting a vote on its proposed Market Rule 1 revisions that:

- Modify the Forward Capacity Market (FCM) existing capacity qualification rules for Demand Capacity Resources composed of Energy Efficiency measures (Energy Efficiency Resources),
- Remove the FCM Commercial Operation requirement for Energy Efficiency Resources to participate in monthly Reconfiguration Auctions (RAs) and Capacity Supply Obligation (CSO) Bilaterals, and
- Incorporate a number of clean-up and clarifying changes.

The ISO is proposing modifications to the FCM qualification rules for Energy Efficiency Resources to better account for expiring measures. By way of background, an Energy Efficiency Resource is comprised of Energy Efficiency measures, with each measure having a discrete life (*i.e.*, measure life). Accordingly, in each Forward Capacity Auction (FCA) qualification cycle, the ISO reduces an Energy Efficiency Resource's Qualified Capacity to account for the measures that will expire before the start of the relevant Capacity Commitment Period. However, the current methodology used by the ISO to make this adjustment does not properly account for expiring measures because it accounts for all expiring measures, but does not account for the remaining performance component¹ of those same measures. To correct this issue, the ISO proposes to modify the basis by which Energy Efficiency Resource qualification values are determined, both for participation as Existing Energy Efficiency Resources in the FCA and for participation in the annual RAs. The proposed methodology will more appropriately balance the performance and expiration of Energy Efficiency measures and will produce qualification results that are more reflective of energy-efficiency resource capabilities.

In addition, the rules associated with the qualification process for New Energy Efficiency Resource participation in the FCA are being modified such that the submission of a New Demand Capacity Resource Show of Interest form must represent a resource with a new and unique resource identification number. The ISO is also modifying the FCM rules so that a Demand Capacity Resource that consists of Energy

¹ The performance component of an Energy Efficiency measure is the net amount of savings remaining with an installed measure after expired measures have been deducted.

Efficiency measures may not contain other measure types and Energy Efficiency measures may not be added to a Demand Capacity Resource after two years from the start of the Capacity Commitment Period for which the resource first received a Capacity Supply Obligation.

In addition, the ISO is also proposing improvements to the qualification of resources for monthly RAs and CSO Bilaterals. Currently, the basis for monthly RA qualification and monthly CSO Bilateral qualification is the qualification value assigned for the third Annual Reconfiguration Auction. Recent Tariff changes, such as the modifications to the non-commercial capacity Financial Assurance rules and the introduction of failure to cover charges, have alleviated the need for resources to become commercial before participating in monthly RAs and CSO Bilaterals. As such, the ISO is proposing to assign monthly Qualified Capacity to resources that have become commercial after the third Annual Reconfiguration Auction, which will better account for delayed commercial resources and will allow non-commercial capacity that expects to be commercial prior to the end of the obligation month to participate in monthly RAs and CSO Bilaterals.

The specific proposal for the committee's consideration at its November 9-10, 2020 meeting has been presented previously to the Markets Committee at the meeting dates outlined below.

- September 8-10, 2020, agenda item 7: <https://www.iso-ne.com/event-details?eventId=142578>
- October 6-8, 2020, agenda item 6: <https://www.iso-ne.com/event-details?eventId=140267>