

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

**ISO New England Inc.                    )   Docket No. ER21-782-000**

**COMMENTS OF THE INTERNAL MARKET MONITOR  
ON THE RECALCULATION OF THE DYNAMIC DE-LIST BID THRESHOLD**

The Internal Market Monitor (“IMM”) of ISO New England Inc. (“ISO” or “ISO-NE”) submits these comments setting forth its review of the ISO’s recalculation of the Dynamic De-List Bid Threshold (“DDBT”) for the Capacity Commitment Period beginning on June 1, 2025 with the sixteenth Forward Capacity Auction (“FCA” or, specifically, “FCA 16”).<sup>1</sup>

The IMM generally supports the ISO’s DDBT recalculation, which will be limited to 75 percent of the net cost of new entry (“Net CONE”). While the IMM does not believe the inclusion of a “margin value” adder is necessary or desirable, the ISO’s DDBT recalculation is consistent with the principles espoused by the IMM to help ensure a competitive market.<sup>2</sup>

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<sup>1</sup> See Appendix A, Section III.A.21.1.2 of the ISO New England Inc. Transmission, Markets and Services Tariff (“Tariff”) (“Where any Offer Review Trigger Price is recalculated, the Internal Market Monitor will review the results of the recalculation with stakeholders and the new Offer Review Trigger Price shall be filed with the Commission prior to the Forward Capacity Auction in which the Offer Review Trigger Price is to apply.”); *see also* Tariff Section 13.1.2.3.1.A (“When the Dynamic De-List Bid Threshold is recalculated, the Internal Market Monitor will review the results of the recalculation with stakeholders.”). Capitalized terms used but not defined herein are intended to have the meaning given to such terms in the Tariff.

<sup>2</sup> See Memorandum from Jeff McDonald to NEPOOL Markets Committee re: Role of the Dynamic De-List Bid Threshold, dated August 10, 2020 (“August 10 IMM Memorandum”), available at [https://www.iso-ne.com/static/assets/documents/2020/08/a4\\_c\\_imm\\_memo\\_dynamic\\_delist\\_bid\\_threshold.pdf](https://www.iso-ne.com/static/assets/documents/2020/08/a4_c_imm_memo_dynamic_delist_bid_threshold.pdf).

## DISCUSSION

### **The IMM Supports the ISO's DDBT Recalculation Notwithstanding Inclusion of a Margin Value That Is Neither Necessary Nor Desirable**

The DDBT is a threshold for allowing unmitigated dynamic bidding. Dynamic De-List Bids are not reviewed by the IMM to ensure the bid is consistent with the resource's net going forward costs.<sup>3</sup> The IMM generally agrees with the ISO's recalculation of the DDBT, although as noted below the concession to stakeholders to include a "margin value" (*i.e.*, "plus factor" or "adder") is neither necessary nor desirable but does not render the result unacceptable.<sup>4</sup>

As stated during the IMM's review with stakeholders, the DDBT should be set in such a way that it is below the expected FCA clearing price.<sup>5</sup> That way, all existing resources that could directly affect price formation through the exercise of market power (economic withholding) have been reviewed and potentially mitigated if they are found to be pivotal. This also balances the three underlying design objectives of: (i) reviewing bids that may exercise market power, (ii) limiting unnecessary interference in competitive markets, and (iii) using a transparent and robust calculation method.

The ISO's proposal achieves this balance by calculating the DDBT as the *average* of (i) the prior year's FCA clearing price (Pt-1) and (ii) an estimate of the current clearing price based on clearing the same quantity of supply as in the prior auction on the estimated demand curve for the current auction (Pt).<sup>6</sup> The DDBT in turn is capped at 75 percent of Net CONE, as separately

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<sup>3</sup> See Tariff III.13.1.2.3.2.1.2.A.

<sup>4</sup> See Memorandum of the IMM to NEPOOL Markets Committee re: IMM position on DDBT amendments, dated September 2020, available at [https://www.iso-ne.com/static-assets/documents/2020/09/a00\\_imm\\_memo\\_re\\_ddbt\\_amendments.pdf](https://www.iso-ne.com/static-assets/documents/2020/09/a00_imm_memo_re_ddbt_amendments.pdf).

<sup>5</sup> See August 10 IMM Memorandum.

<sup>6</sup> See ISO's Filing Letter at 15.

calculated by the ISO. While meeting the threefold objectives above requires an accurate FCA clearing price projection, the ISO's proposed methodology seems reasonably calculated to result in a reasonable DDBT under normal circumstances.

By virtue of the calculation (average of two values), the DDBT will lag the current expected clearing price in either an upward or downward market,<sup>7</sup> because the average includes (and therefore is weighted up or down) by the prior year's value.<sup>8</sup> This will not be an issue if capacity prices remain in a close range or trend upward, as the average will lag and the DDBT calculated thereupon will remain below the expected coming FCA clearing price. However, should the expected clearing price trend downward over the years, or sharply increase and sharply decline in a two-year averaged period,<sup>9</sup> it is possible that the calculated DDBT could be higher than the expected spot auction clearing price — *i.e.*, the DDBT will be structurally higher than the expected auction clearing price. While it is important to be mindful of this possibility, there is no need to reject the proposed methodology unless a more just and reasonable methodology is identified and proposed.

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<sup>7</sup> The Commission discussed the development of averages and lagging aspect in a different context in its *Order on Initial Decision and Rehearing*, 156 FERC ¶61,031 at P 40 and nn. 76-79, 96-98 & 100 (2016).

<sup>8</sup> We recognize that the ISO's method does not attempt to truly calculate the "expected value" of the next capacity auction, but rather takes a price from the expected demand curve for the next action at the cleared quantity from the last auction. There are other factors required to accurately project the coming capacity auction price. However, the ISO's approach appears to be intended to represent an estimate of the upcoming auction price, so we refer to it here as the expected clearing price. It is worth noting that if a more accurate range of likely auction prices could be accomplished, it would be straight forward to set the DDBT at a point below the lower bound of this range and that approach would satisfy both the IMM's concerns and meet all three objectives set forth by the ISO. Without leveraging a truer estimate of forecast price, it is difficult to consistently set the DDBT in a way that ensures all bid prices that could influence price formation are evaluated for market power.

<sup>9</sup> For example, this could occur if there is significant movement in the demand curve, such that the clearing price closed high in the prior year (FCAt-1) and the expected price is much lower in the current year (FCAt).

By comparison, the inclusion of a “margin value” above the calculated preliminary DDBT is of more immediate concern. Under the DDBT formula, the margin value ranges from an upper limit of \$1/kW-month to a lower limit of \$0, and scales down as the DDBT approaches its upper limit. For example, if the preliminary value of the DDBT is zero, then the margin value at its upper limit of \$1/kW-month would be added to the final DDBT calculation.<sup>10</sup>

During the stakeholder process this was described as a way to reduce the risk for resources with going forward costs just above the calculated DDBT, by allowing those generators to not submit a Static De-List Bid for IMM review prior to the auction (and undergo the related expense) without also risking clearing the auction when it is uneconomic for them to do so. Such resources with going forward costs on the cusp of the DDBT would be able to participate at the price they wish to leave the auction within the “dynamic range,” which would begin at a higher price (the “margin value” sometimes referred to as an “addor” or “plus factor”) under the proposal.

However, increasing the DDBT by a plus factor does not solve the problem described. Instead, it would shift the problem from one set of resources to another higher priced set of resources. If the DDBT were increased as proposed, one set of resources would no longer need to submit Static De-List Bids within the increased threshold (“margin”) range, but another set of resources would then be at the cusp of the increased DDBT (*i.e.*, the preliminary DDBT with a margin value added) and face the same purported dilemma.

Other undesirable consequences of this adder include the following:

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<sup>10</sup> See ISO’s Filing Letter at 54 (redline of Tariff Section III.13.1.2.3.1.A with formula).

- Increasing the DDBT with a “margin value” may allow resources to bid at a price above their going forward costs, without IMM review and mitigation, and above the “missing money” actually needed from the Forward Capacity Market. In contrast, when a resource submits a Static De-List Bid, the resource must demonstrate to the IMM the true cost at which the resource wishes to exit the auction.
- The adder would effectively re-weight the balance of underlying design objectives to put more emphasis toward limiting the administrative burden of submitting Static De-List Bids, with less emphasis on reviewing bids that may be attempting to exercise market power.
- Adding a “margin value” above the calculated preliminary DDBT in turn could provide resources the opportunity to economically withhold from the FCA in an attempt to limit the descending clearing price to benefit their portfolio (*i.e.*, sell less for more) which increases the risk that the FCA clears at an uncompetitive level.<sup>11</sup>

Although the “margin value” adder does provide some “option value” to resources, this seems more theoretical than actual, as capacity prices have typically not cleared so closely to the DDBT. For example, last year’s FCA 14 cleared at \$2.00 kW-month, which was \$2.30 kW-month lower than the DDBT of \$4.30 kW-month.<sup>12</sup> On the other hand, market power is a greater concern at higher prices (less elastic demand), which is where the proposed adder would be smallest, and therefore tempers the IMM’s concerns.<sup>13</sup> Nonetheless, it is difficult to attribute

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<sup>11</sup> The IMM review of Static De-List Bids for consistency with a resource’s actual going forward costs is supposed to guard against such withholding strategies. *See Devon Power LLC*, 115 FERC ¶61,340 at PP 28, 147 (2006) (The IMM “will review and decide whether to accept into the auction a capacity resource that submits any type of de-list bid (*i.e.*, enabling it to exit the market temporarily or shut down permanently)” . . . “to guard against the potential exercise of market power when a [de-list] bid is coupled with a bid in the capacity market.”).

<sup>12</sup> See [https://www.iso-ne.com/static-assets/documents/2020/09/a5a\\_i\\_and\\_ii\\_calpine\\_dynegy\\_presentation\\_ddbt\\_amendments.pdf](https://www.iso-ne.com/static-assets/documents/2020/09/a5a_i_and_ii_calpine_dynegy_presentation_ddbt_amendments.pdf)

<sup>13</sup> As structured, we understand the proposed adder would range from a theoretical low of \$0 kW-month to a high of \$1.00 kW-month.

increased integrity of price formation or competition to adding an arbitrary margin value to a threshold (without sound principle).

In short, while having some concerns, the IMM believes that the proposed methodology is reasonably calculated to result in a DDBT that balances the three underlying objectives for a just and reasonable design, especially insofar as it is limited to 75 percent of Net CONE.

### CONCLUSION

For the foregoing reasons, the IMM respectfully requests that the Commission approve the ISO's recalculation of the Dynamic De-List Bid Threshold.

January 21, 2021

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Holyoke, Massachusetts this 21<sup>st</sup> day of January, 2021.

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