

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

ISO New England Inc.) Docket No. ER21-943-000

**COMMENTS OF THE INTERNAL MARKET MONITOR
ON THE REMOVAL OF ENERGY EFFICIENCY RESOURCES FROM
PAY FOR PERFORMANCE OBLIGATIONS AND SETTLEMENT**

The Internal Market Monitor (“IMM”) for ISO New England, Inc. (“ISO” or “ISO-NE”) submits these comments in support of the ISO’s proposed Tariff¹ revisions to remove energy efficiency resources (“EE resources”)² from Pay for Performance (“PFP”) obligations and settlement during Capacity Scarcity Conditions occurring in hours when EE resources report their performance to the ISO. Together with the prior Commission-approved exemption of EE resources from PFP obligations and settlement during non-reporting hours, these revisions will result in EE resources being excluded from PFP obligations and settlement in *all* hours, while their capacity base payments will be unaffected.³

As discussed below, the ISO’s proposal is consistent with the fact that EE resources do not produce energy or reserves in the Real-Time Energy Market (“Real-Time”) where Capacity Scarcity Conditions triggering PFP may occur. The revisions effectively limit the PFP rules —

¹ Capitalized terms used but not defined herein are intended to have the meaning given to such terms in the ISO New England Inc. Transmission, Markets and Services Tariff (“Tariff”). Market Rule 1 is Section III of the Tariff.

² Energy Efficiency is defined in Market Rule 1, General Terms and Conditions, as “installed measures (*e.g.*, products, equipment, systems, services, practices and/or strategies) on end-use customer facilities that reduce the total amount of electrical energy needed, while delivering a comparable or improved level of end-use service. Such measures include, but are not limited to, the installation of more energy efficient lighting, motors, refrigeration, HVAC equipment and control systems, envelope measures, operations and maintenance procedures, and industrial process equipment.”

³ See ISO’s Filing Letter at 1, 6.

and the marginal performance incentives underlying those rules — to those supply resources that actually contribute to meeting wholesale demand and reserve requirements in Real-Time. EE resources will continue to receive base capacity payments commensurate with their Capacity Supply Obligation (“CSO”) obtained through a Forward Capacity Auction and/or subsequent secondary reconfiguration capacity auction.

The ISO’s revisions will properly align the treatment of EE resources under PFP with their role in the Real-Time and Day-Ahead Energy Markets. The PFP design provides strong marginal incentives to capacity supply resources to contribute to meeting the system’s wholesale energy and reserve requirements during Capacity Scarcity Conditions, when capacity supply is most needed. However, because the capacity provided by EE resources is not directly measured during a scarcity event but is set in advance of the delivery month based on measurement and verification studies, these marginal performance incentives are not applicable to EE resources in such circumstances.

Put simply, EE resources do not face the same financial consequences of non-performance in Real-Time as their “performance” is pre-determined prior to the delivery month. In contrast to EE resources, other capacity resources face additional financial consequences for non-performance once the delivery month begins. Because the characteristics of EE resources fundamentally differ from those of other capacity resources, which have the incentive and ability (albeit at varying levels) to increase performance, or conversely to limit non-performance, it is reasonable and correct to exclude EE resources from Real-Time performance-based incentives. For example, a gas-fired generator is incented to buy and schedule natural gas to meet its share of the system load and reserve requirement during times of system stress. Renewable-type capacity resources, which tend to have less control over their fuel availability are still incented

to take some actions to maximize Real-Time performance, such as efficient outage scheduling or taking advantage of technology improvements (*e.g.*, installing electric storage or making adjustments to turbine blades). EE resources lack both the ability and incentive to maximize performance during the Real-Time operating day.

Since the implementation of the PFP rules in the Real-Time Energy Market in mid-2018, Capacity Scarcity Conditions, as well as periods of tight system capacity more generally, have been limited and transitory in nature, and driven by unanticipated supply and demand conditions (*e.g.* forced generator outages and load running above the forecast). Yet EE resources cannot respond to such short-term system issues; they not have the ability to produce energy and, thereby, actively alleviate Capacity Scarcity Conditions in Real-Time.⁴ In the Commission’s own words: “Energy efficiency resources are not similarly situated to other capacity resources because they do not actively perform in real-time — they represent a pre-determined level of load reduction that is constant as a percentage of that resource’s load — and therefore are not able to respond to the ISO-NE proposal’s performance incentive.”⁵

This misalignment of PFP design incentives and resource ability demonstrates that EE resources are not similarly situated to other supply resources and justifies disparate treatment

⁴ In the Forward Capacity Market, EE resource capacity is accounted for on the supply side of the market and clears, along with other supply-side resources, against a demand curve and Net Installed Capacity Requirement (“NICR”) based on a reconstituted (grossed up) load forecast that adds back EE supply capacity. In contrast, the accounting logic for EE resources flips solely to the demand side in the Real-Time and Day-Ahead Energy Markets. In Real-Time, the benefits of EE resources are reflected in lower wholesale load, to which the ISO operates the system and economically clears the market.

⁵ *Order on Tariff Filing and Instituting Section 206 Proceeding*, 147 FERC ¶ 61,172 at P 35 (2014), available at https://www.iso-ne.com/regulatory/ferc/orders/2014/may/er14-1050-000_5-30-14_pay_for_performance_order.pdf.

under the Real-Time PFP rules, not only in non-reporting hours, as the Commission has already recognized, but in all hours.

In short, the ISO's revisions to the PFP rules to remove EE resources from the PFP obligations and settlement calculations represent an improvement to the Forward Capacity Market design: this better aligns the treatment of EE resources with their role in the energy markets and with the marginal performance incentives intended by the PFP settlement rules.

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Respectfully submitted,

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