

To: NECPUC, NESCOE, NEPOOL
From: Vamsi Chadalavada
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Subject: Elimination of MOPR and Maintaining Competitive Pricing

Following the ISO's presentation on its work plan at the May 6 NEPOOL Participants Committee, we received requests for additional information regarding planned work related to elimination of the Minimum Offer Price Rule (MOPR). A brief summary of the ISO's view and planned work is provided below.

The ISO has stated that it will work with the New England states and NEPOOL stakeholders to make a filing with the FERC to eliminate the MOPR in time for Forward Capacity Auction (FCA) 17. While the elimination of the MOPR will remove the barrier to entry for sponsored policy resources, a direct consequence is that unsponsored merchant resources (both existing and new) will face greater uncertainty with regard to future capacity market prices. This is because of the uncertainty in the volume and timing of entry of sponsored policy resources, and the subsequent impact on prices. This uncertainty translates into greater financial risk and if left unaddressed, could have two unintended consequences.

The first unintended consequence is the potential failure of the wholesale market to clear new entry when required. That is because in order to accommodate this greater financial risk, new entry offers will be higher than the cost we have estimated to date for new, unsponsored merchant resource entry. If the sloped capacity market demand curve does not adjust accordingly, in effect, the market would procure fewer new resources - and possibly at a higher price - while falling short of the 1-in-10 resource adequacy requirement. This problem is unlikely to self-correct in the capacity market and would require further interventions. The second unintended consequence is the potential for inefficient retirements if capacity prices from markets that are structured to be competitive are subject to persistent downward price pressure due to sponsored resource entry. The implications of such an outcome are magnified if the resources choosing to permanently shut down are necessary to maintain reliability through an extended clean energy transition. Accordingly, we believe it is important to work towards a dual objective of eliminating MOPR and maintaining competitive capacity market pricing.

To achieve this objective, we recently asked our External Market Monitor, David Patton, to help provide a framework to assess and quantify the uncertainty and accompanying risk that capital markets may impose on new or existing resources in a market without a MOPR when merchant resource investment is necessary. Ideally, such a framework will help protect against the two unintended consequences noted above. The

framework needed to assess the issue of increased financial risk is still very much a concept and no substantive work has been performed to date. Dr. Patton has indicated that he will have his preliminary recommendations ready in mid to late July.

The ISO is committed to working closely with the New England states and NEPOOL stakeholders to make a filing with the FERC to eliminate the MOPR in time for FCA 17. Therefore, the ISO plans to kick off the process at the next Markets Committee meeting (June 8-9) with a discussion on the objectives and a preliminary schedule. A problem statement and discussions on additional stakeholder proposed concepts will follow. The solution space for this filing will be constrained by the time needed to finalize the necessary design details and the implementability of the changes for FCA 17. Stakeholder meetings will take place through the remainder of the year in anticipation of a FERC filing by February 2022.

As also acknowledged at the last NEPOOL Participants Committee meeting, in addition to this work, the ISO believes further changes will be needed in the FCM and the other markets to reliably operate the future grid. In particular, a key FCM enhancement is related to accurately reflecting the contribution of all resource technologies to resource adequacy. Discussions related to these changes will also begin in June; however, given the relatively early stage of this effort and the scope of work, these changes will not be included in the MOPR package for FCA 17. The ISO will work with stakeholders on the earliest feasible FERC filing date on that effort as it progresses.

We look forward to working with the states and stakeholders on these important matters.