Potential Resource Retirement Process Changes

NEPOOL Markets Committee

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Principal Concern

Existing retirement rules are unnecessarily impeding natural and efficient exit from the market.

- **Despite high levels of surplus capacity, New England has the most onerous and difficult retirement rules in the country**
  - High levels of surplus are interfering with and frustrating proper function of markets
- **With the potential elimination/reform of MOPR and the resulting influx of new state-sponsored resources, it is critical that retirement rules enable efficient exit**
- **If MOPR is eliminated, and existing retirement barriers remain, the region could face much greater capacity surplus**

Proposed Solution

In this presentation, we review a series of possible reforms, and the problems they address.

- **Most are stand-alone concepts; adopting any individual change will help. While adopting all would be ideal, that is not necessary to achieve much of the benefit.**
- **We are seeking comments/suggestions on each idea, and hope to revise the solution set based on feedback from ISO, IMM, States and the Committee.**

Reform #1 – Retirement Track

Issue: Once you submit a Retirement bid, if you don’t clear in that FCA, you must continue to submit Retirement bids until you do clear.

- **This rule severely diminishes the underlying premise of a priced Retirement – which is: if the market clears below a certain level, I wish to retire; but if it clears above that level, I wish to stay.**
- **A high clear in this FCA (I receive a CSO) means the unit is economic; why force that unit to submit a retirement bid next year? [1]**

1. There is a limited ability to petition IMM to exit retirement track; discretionary to IMM, and (likely) never has been used.

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Reform #1 – Retirement Track (pg 2)

Original rationale:

- **"To help prevent the use of retirement bids for resources that are not near the end of their economic life, the Retirement Reforms require a resource that submits a priced retirement bid to remain on the the "retirement track…" (ISO filing 12/17/15)**
- **Risk that a retirement bid may clear in the instant auction already prevents rational submission of retirement bids when the unit is not at end of economic life – *at least at the price that is requested*.**
- **In a large surplus, the ability to exercise market power through uneconomic retirement offers is *de minimis*.**
- **The IMM has other tools to protect against Market Power – workbooks, mitigation, referrals, etc.**

- **Rule is an unnecessarily disincentive to submit Priced Retirement Bids.**
- **Solution: Eliminate the Retirement Track rule**

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Reform #2 – Inability to Update/Withdraw

Issue: Retirement bids are due 11 months before the auction, and cannot be updated for changes that occur between then and the FCA.

- **Much can happen in 11 months**
  - Physical changes to the unit, new owners, equipment/site sale opportunities, market changes, political elections, legislative changes, Commission orders, pandemics, etc.
- **Inability to update offers adds unnecessary risk to the retirement decision**
  - Static delists, by contrast, can reduce or withdraw as late as 3.5 months before the auction, and dynamics make their decisions within the auction itself.

Reform #2 – Inability to update/withdraw (pg 2)

Original rationale:

- **The early submission date was proposed so that there would be a signal to new entrants (ISO posts retirement quantities prior to SOI deadline).**
  - In times of large surplus, this "signal" seems irrelevant. In addition, it is essentially impossible to conceive of a project and develop it to the point of a valid SOI, in the 2-3 week interval now afforded.
- **Inability to update was proposed to reduce incentive for "fishing" – submitting bids just to see what the IMM would approve.**
  - The difficulty/risk this imposes on Market Participants considering retirement should be balanced against increased work load at the IMM.
  - In any case, the IMM has other tools if they believe a participant is abusing the process.

- **Solution - Either:**
  - **Delay the retirement schedule for later submission, or**
  - **Allow bids to be updated or withdrawn prior to auction (within constraints set by IMM review of workbooks)**

Reform #3 – Mothball Option

Issue: Unlike most other RTOs, the ability to mothball is limited, unnecessarily risky and difficult.

- **Many studies (Brattle, E3/EFI, MA 2050 Roadmap) show a strong and increasing need for flexible/reliable units as the economy decarbonizes. But there is a large surplus of those units today.**
  - It would be beneficial to allow units to mothball for a number of years – reducing unneeded surplus today, but providing flexibility to re-energize if the need materializes
- **Existing rules only allow return from retirement following major investment (repowering)**
  - Otherwise only mechanism is consecutive sequences of static or dynamic delist, making it difficult to truly mothball for multiple years

Reform #3 – Mothball Option (pg 2)

Solutions could include:

- Creation of a “multi-year delist” – similar to Retirement but with an ability to return.
- Relaxation of the requirement to repower/spend money, if, say the unit remains out of the market for, say, > x years.
  - One of the original reasons for the investment requirement was to manage eligibility for the multi-year rate lock … which no longer exists.
- Consider limited modification of rule under which interconnection rights are forfeited if a unit does not generate for three years.
- Allow interconnection studies to be completed outside of the normal process for changes in technology that use the same POI.

Reform #4 – Relax IMM Review during Surplus

Issue: When the Pool is very long, the ability to exercise market power through uneconomic retirement is minimal. In these situations, we should allow resource owners more flexibility

- Retirement bid prices are tightly constrained by workbooks and IMM regs, which in many cases do not reflect how resource owners think about actual retirement decisions.
  - The recent referral and Enforcement action against NRG highlight the risk of attempting to depart from IMM's expected pricing rules, even where the delist is ultimately withdrawn (IN20-4 January 9, 2021)

Solution: Consider eliminating the need to submit workbooks entirely, or relax IMM review process, when the Pool is, say, > xxx MW surplus

- Could also be keyed to a pivotal supplier test that is accomplished early in the process.

Miscellaneous

Issue: If a resource is physically damaged and/or unsafe to operate, the 4.5-year retirement process does not work

- In situations where a catastrophic failure of a generator renders it inoperable or unsafe, we should allow that unit to retire immediately. There are no such provisions.
- Solution: Create a Mechanical or Safety Retirement that avoids the need for workbooks or advance submissions.

Others?