



# *Transition Approach for Eliminating Minimum Offer Price Rule*

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# Disclaimer

- *This proposal remains a high-level conceptual approach to addressing transition of the electric resource mix and elimination of the Minimum Offer Price Rule (MOPR). The concepts presented in this presentation reflect a possible path forward consistent with the FCA #17 timeline for MOPR elimination established by ISO-NE. Ultimate support will depend on details to be developed.*



# Overview

- Background on Public Power Utilities
- MOPR Elimination Proposal
- External Market Monitor Proposal
- Major Market Enhancements in ISO Workplan
- Rationale for a Transition Mechanism
- Potential Transition Mechanisms



# Background on Public Power Systems

- Public Power systems are generally smaller utilities that have retained the “obligation to serve” consumers within defined service territories.
- Public Power systems depend on viable and durable wholesale electricity markets to serve customer load at the lowest reasonable cost.



# ISO-NE MOPR Elimination Proposal

- The Minimum Offer Price Rule (MOPR) has become an impediment to achieving State clean energy and other policy objectives.
- In response to these concerns, and policy direction coming from FERC, ISO has announced plans to eliminate the MOPR for FCA #17, while at the same time implementing further reforms to preserve competitive market outcomes, including retention of Balancing Resources to needed to meet operating reliability and resource adequacy standards.



# External Market Monitor (EMM) Proposal

- ISO-NE has asked the EMM to evaluate the incremental risk for long-term retirement and investment decisions due to the increased volatility and risk associated with future revenues attributable to eliminating the MOPR.
- The EMM is developing an “adder” that could be applied to Net CONE to reflect these incremental risks from eliminating the MOPR.



# External Market Monitor (EMM) Proposal (cont.)

- In general, we agree that changes in the “weighted average cost of capital” (WACC) may be necessary to reflect the changing future risk profile, including risks associated with eliminating the MOPR.
- A number of major market enhancements are in the ISO-NE Workplan which will have at least comparable impacts on the risk profile and should be reflected in the EMM analysis.
- At this point these additional enhancements are not defined well enough to be incorporated into an FCA #17 analysis.



# Major Market Enhancements in ISO-NE Workplan

- Modifying current audit-based methodology for accrediting capacity resources.
- Enhancements to resource adequacy models for modeling intermittent resources and resource operating parameters.
- Other potential capacity market enhancements to support Balancing Resources.
- Enhancements to operating reserve markets (e.g. ESI).
- Co-optimizing and pricing operating reserves in DA energy market settlement.





# Rationale for Transition Mechanism

- It is becoming increasingly obvious that the FCA #17 timeline for eliminating the MOPR makes it difficult to identify solutions that will not distort long-term price signals and or could be implemented in that timeframe.
- In the past, the region has used transition mechanisms to allow development of needed enhancements and the market to adjust to changing circumstances.
- Goal of the transition should be to allow relaxing or eliminating the MOPR while assuring that FCA clearing prices don't collapse below the level of recent capacity auctions.



# Rationale for Transition Mechanism (cont.)

- A transition mechanism that provides greater certainty in the near-term (one or two years) to allow further development of details of the major market enhancements can result in a more durable long-term outcome while responding to “political pressures” to pursue wholesale market changes that better support State policy objectives.



# Potential Transition Mechanisms

- The most straightforward approach would be the following:
  - Suspend application of the MOPR Tariff provisions starting with FCA #17.
  - Implement a temporary “price floor” to be effective with suspension of the MOPR.
  - If a more durable solution is not in place after 2 years, implement a Net CONE adder as proposed by EMM that reflects permanent MOPR elimination and the effects of major market enhancements.



# Potential Transition Mechanisms (cont.)

- Would also be willing to consider the Vistra proposal.
  - Would want to explore potential impact on Balancing Resources.
  - May need a “fall back” option to be implemented at the end of the transition period if a more durable solution is not ready to be implemented.



# Questions?

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