ELIMINATION OF THE MINIMUM OFFER PRICE RULE AND COMPETITIVE MARKET OUTCOMES

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THE PROPOSAL LEAVES A MARKET DESIGN NOT SHOWN TO BE JUST AND REASONABLE

- ISO-NE's proposal leaves unanswered far too many questions regarding the justness and reasonableness of the resulting design.
- The proposal attempts to satisfy a mandate and deadline that does not exist rather than satisfy guiding economic or competitive wholesale market design principles.
- The conditions under which the FCA would need to clear to produce just and reasonable rates (the IMM explains in its December 7 MC Presentation) appear to create significantly increased risks to either reliability, market efficiency (reliability must-run agreements), or perhaps to both. Alternatively, those risks do not materially increase but the market produces unjust and unreasonable rates.
- If ISO-NE makes a filing proposing to eliminate MOPR, it should propose it taking effect in concert with the adoption of capacity accreditation improvements and wholesale market designs that compensate resources for reliability services ISO-NE "has enjoyed for free" for decades. These necessary market reforms would provide some measure of balance in a proposal that at present fails to balance consumer and investor interests.

NEPGA HAS RAISED SEVERAL UNRESOLVED ISSUES

- For several months NEPGA has raised concerns with ISO-NE's proposal to eliminate the Minimum Offer Price Rule and put into effect a substitute New Capacity Resource offer mitigation design, including:
  - Allows a Project Sponsor to offer a New Capacity Resource at an uncompetitive offer price.
  - *Prima facie* in violation of the Forward Capacity Market Settlement Agreement.
  - Fails to remedy the potentially significant reliability and inefficient/disorderly retirement risks it creates.
  - Comes into effect prior to two major design improvements ISO-NE has explained are necessary to maintain reliability and send accurate price signals for energy, reserves and capacity – capacity accreditation and forward reserves.
  - Eliminates the relationship (price signal) between clearing price and the quantity of capacity newly entering the market.
  - The resulting design would require that Existing Capacity Resources, but not New Capacity Resources, offer capacity at a competitive price.
  - Eliminates the distinction between wholesale and non-wholesale market revenues.

THE INTERNAL MARKET MONITOR SUBSTANTIALLY SHARES NEPGA'S CONCERNS

- The IMM first expressed its concerns in its memorandum to the NEPOOL Markets Committee ("MC") for discussion at the October 13, 2021, MC meeting.
- Among the IMM's concerns with the ISO-NE proposal are that it:
  - Appears to "depart from" the Settlement Agreement, where parties agreed that the IMM would review both de-list bids and New Capacity Resource offers "to ensure competitive FCA outcomes."
  - Cannot see a scenario where "any resource will be subject to meaningful buyer-side mitigation."
  - Questions whether it satisfies the "threshold requirement" of mitigating uncompetitive New Capacity Resource offers that can impact price.
  - Questions whether it adequately protects against the exercise of market power and "any related distortion" of the FCA clearing price.
  - Questions whether it adequately preserves the balance between mitigating Existing versus New Capacity Resource offers.
  - Creates legal and practical challenges.

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- In its presentation for this December 7, 2021, MC meeting, the IMM questions whether the Forward Capacity Market, as amended by ISO-NE's proposal, has the "ability to produce just and reasonable rates."
- The IMM makes several important observations and findings, including:
  - New Capacity Resource offer mitigation in ISO-NE has never asked whether a Project Sponsor (and affiliates) can profit from offering below cost – instead New Capacity Resource Offer mitigation looks to eliminate the "adverse( ) influence" of below cost offers (regardless of reason) on price signals.
    - It is upon this and other bases the FCA is designed to send competitive price signals.
  - Elimination of the MOPR and clearing of (under current rules) uncompetitive resource offers will with virtual certainty cause price suppression ("walking down the curve") – the only question is magnitude.
  - Magnitude is a function of the slope on the demand curve "walked down," the quantity of entry that but for the ISO-NE proposal would not clear through the primary FCA and the constitution of the supply curve.

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- The IMM makes several important observations and findings (cont.):
  - The FCA must clear at "high prices" with some frequency over time "to compensate for years with suppressed prices."
    - For the FCM to function as an efficient market for the entry and exit of capacity – as is its primary purpose – it is designed to clear at the Net Cost of New Entry on average and over time.
- NEPGA Comments
  - The FCA may need to price capacity at historically high clearing prices (system-wide) in these merchant pricing years to compensate for the cumulative price suppression over several years.
  - The IMM appears to suggest that a system returned to equilibrium could cause the FCA to clear at the necessary "compensatory" clearing price.
  - The IMM estimates that a return to equilibrium by 2030 requires the retirement of 9 GW of Existing Capacity Resources.
    - Which resources and what are the consequences for reliability?
    - Will it increase the chance of transmission reliability must-run-agreement offers? Will it drive a proposal to return to some form of fuel security reliability must run agreement?
    - Will these retirements frustrate rather than further state policies (environmental and reliability)?

Questions?

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