

Potential Resource Retirement Process Changes

NEPOOL Markets Committee
December 7-9, 2021

Proposed Change Summary

Four originally-proposed reforms:

- Remove retirement track obligation – *deferred.*
- Allow offer updates – *updated.*
- Relax IMM review in certain situation – *deferred; more training for FCA-17.*
- Create a meaningful mothball option – *updated.*

Need for changes and rationale for each was discussed in prior meetings

Schedule/voting: Propose to split from MOPR removal into stand-alone votes on each reform

Voting – Interaction with MOPR Removal

- Vote retirement bid flexibility immediately after MOPR reform votes
 - File the bid flexibility rules as contingent on FERC elimination of Test Price in either the MOPR elimination or transition package
 - If Test Price stays, then defer filing/implementation of bid flexibility
- FCA-17 Implication - Still make new retirement flexibility rules effective for FCA-17
 - Will be filed prior to March bid submission deadline, and hopefully approved well before the June dates for various elections.
 - We could provide special rules for FCA-17 retirement bids, like FCA-16, to cover possible FERC action after bids are due
- Vote Return from Retirement rules at the same meeting

Offer Updates

Issue Recap

- Retirement bids are due 11 months prior to the auction and cannot be updated for changes that occur between then and the FCA
 - This adds significant, unnecessary risk to the process

Proposed Solution:

- Allow bids to be updated prior to the auction – similar to Statics

Details:

- Limit updates to a bandwidth, 25% below the initial (March) submission (**Change: no upward adjustment**)
- Updates on same schedule as Static Bid Finalization – mid-October
- Modify June elections to address reliability review of bids greater than Auction Starting Price, and move IMM FERC filing from June to November (**New**)

Offer Updates – Bid Increases

Test Price Interaction

- Without the Test Price, an IMM price $>$ resource's offer is not provided to the resource. Without that visibility, no practical ability to increase offers without risking “fishing.”
 - Eliminate the proposed ability to increase offers.
- Ability to reduce offers is unchanged.
- Simplifies tariff changes – no longer necessary to create new terms for “Initial” and “Modified” IMM-Accepted Bids.
 - Previously-proposed modified language in 13.1.2.3.2.1.1.2 reverts back to current tariff – we simply have an IMM-accepted de-list bid.
 - This IMM number is used to constrain bid reductions.

Offer Updates – Reliability Reviews

Conditional Election - unchanged

- ISO Planning does early reliability reviews of bids > Auction Starting Price, unconditional and conditional (13.1.2.3.1.5.1)
 - Discussion last month considered moving Conditional Election from June to October to match with bid reduction. Has proven too complicated with impacts to Planning.
- **No change to current dates**

New election for bids > ASP

- Bids > ASP now need to be segregated into those that may reduce bids later, or stay with bid > ASP
 - Create a new election in June, same time as unconditional election. Electing to stay > ASP means early reliability review, like today. Not electing means reliability review is in auction like all other delists and allows later bid reduction.
 - Election prevents situation where resource checks to see if needed for reliability at a higher price before later reducing.

Bid Reductions - Examples

Examples of how bid modification would work:

Original Bid	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00
Less 25%	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00
IMM Initial Number	\$ 5.00	\$ 6.00	\$ 7.00	\$ 7.50	\$ 8.00	\$ 8.50	\$ 9.00	\$ 9.50	\$ 10.00
IMM Revised (*)	\$ 5.00	\$ 6.00	\$ 7.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00
Auction high offer	\$ 5.00	\$ 6.00	\$ 7.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00
Auction low	\$ 5.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00
	These IMM numbers are revealed at QDN (June)								
	These IMM numbers are not revealed to the Resource								
(*)	IMM adopts proponents bid if IMM number is \geq 90% of proponent's original bid								

Offer Updates – Reliability Review Tariff

Modify tariff to continue reliability reviews for bids > ASP electing not to modify those bids later:

III.13.1.2.3.1.5.1. Reliability Review of Permanent De-List Bids and Retirement De-List Bids During the Qualification Process.

During the qualification process, the ISO will review the following de-list bids to determine if the resource is needed for reliability: (1) Internal Market Monitor-accepted Permanent De-List Bids and Internal Market Monitor-accepted Retirement De-List Bids that are at or above the Forward Capacity Auction Starting Price and have elected not to modify those bids pursuant Section III.13.1.2.4.1(c); and (2) Permanent De-List Bids and Retirement De-List Bids for which the LeadMarket Participant has opted to have the resource reviewed for reliability as described in Section

III.13.1.2.4.1(a) or Section III.13.1.2.4.1(b). The reliability review will be conducted according to Section III.13.2.5.2.5, except as follows:

Offer Updates – Bid Mechanics Tariff

Changes to 13.1.2.4.1: sets up bid modification (simplified from prior meetings):

III.13.1.2.4.1. Participant-Elected Retirement or Conditional Treatment and Allowable Bid Modification.

No later than five Business Days after the issuance by the ISO of the retirement determination notification described in Section III.13.1.2.4(a), a Lead Market Participant that submitted a Permanent De-List Bid or Retirement De-List Bid may make an election pursuant to Section III.13.1.2.4.1(a) or Section III.13.1.2.4.1(b) or Section III.13.1.2.4.1(c). If the Lead Market Participant does not make an election pursuant to Section III.13.1.2.4.1(a), or Section III.13.1.2.4.1(b) or Section III.13.1.2.4.1(c), the prices provided by the Internal Market Monitor in the retirement determination notifications, subject to updates specified in Section III.13.1.2.4.1(d), shall be the finalized prices used in the Forward Capacity Auction as described in Section III.13.2.3.2(b) (unless otherwise directed by the Commission).

Offer Updates – Bid Mechanics Tariff

Add new 13.1.2.4.1(c): for bids > ASP, provide election to *not* reduce bid later, to facilitate early reliability review:

(c) Resources with an Internal Market-Monitor-accepted Permanent De-List Bid or Internal Market Monitor-accepted Retirement De-List Bid that is at or above the Forward Capacity Auction Starting Price may elect not to submit bid reductions under Section III.13.1.2.4.1(d). These resources will be subject to reliability reviews described in Section III.13.1.2.3.1.5.1.

Offer Updates – Bid Mechanics Tariff

New 13.1.2.4.1(c): explains bid reductions

(d) A Lead Market Participant that has submitted a Permanent De-list Bid or Retirement Delist Bid, but not elected the unconditional treatment pursuant to Section III.13.1.2.4.1(a), nor elected conditional treatment pursuant to Section III.13.1.2.4.1(b), nor declined the ability to reduce its bid price(s) pursuant to Section III.13.1.2.4.1(c), may update its bid price(s) within the following range:

(i) The bid price(s) originally submitted pursuant to Section III.13.1.2.3.1.5(c) may be decreased by up to 25% below their original bid price(s), but in no case may they be higher than the Market Monitor-accepted Permanent De-List Bid or Internal Market Monitor-accepted Retirement De-List Bid as established pursuant to Section III.13.1.2.3.2.1.1.2.

The Lead Market Participant electing to update its bid(s) pursuant to this Section III.13.1.2.4.1(d) must do so no later than 120 days before the Forward Capacity Auction. If the Lead Market Participant fails to so update its offer pursuant to Section III.13.1.2.4.1(d), then the Internal Market Monitor-accepted Permanent De-List Bid(s) or Modified Internal Market Monitor-accepted Retirement De-List Bid(s) described in Section III.12.1.2.3.2.1.1.2 shall be the finalized prices used in the Forward Capacity Auction as described in Section III.13.2.3.2(b) (unless otherwise directed by the Commission).

IMM FERC Filing

Existing process

- IMM makes 205 filing in June with finalized prices and elections

Proposed change

- Move the filing to early November, following bid reduction election
 - No apparent need to file so early (June)
 - Avoids need to make 2 filings with retirement prices – one in June and another in November
 - Filing would be no later than 30 days following bid finalization
 - Keep separate from IMM info filing, also due same date
 - One is 205, one is Informational, so need to stay distinct.

IMM FERC Filing - Tariff

Modify filing date of retirement offers:

III.13.8.1. Filing of Certain Determinations Made By the ISO Prior to the Forward Capacity Auction and Challenges Thereto.

(a) For each Forward Capacity Auction, no later than ~~20 Business Days after the issuance of retirement determination notifications described in Section III.13.1.2.4(a)~~90 days prior to the first day of the auction, the ISO shall make a filing with the Commission pursuant to Section 205 of the Federal Power Act describing the Permanent De-List Bids and Retirement De-List Bids established pursuant to Section III.13.1.2.3.2, and the substitution auction test prices established pursuant to Section III.13.2.8.3.1A. The ISO will file the following information confidentially: the determinations made by the Internal Market Monitor with respect to each Permanent De-List Bid, Retirement De-List Bid, and substitution auction test price, and supporting documentation for each such determination. The confidential filing shall indicate those resources that will permanently de-list or retire prior to the Forward Capacity Auction and those Permanent De-List Bids and Retirement De-List Bids for which a Lead Market Participant has made an election pursuant to Section III.13.1.2.4.1.

Return to Service

Issue Recap

- **We have no meaningful ability to mothball units**
 - The best we have is ability to string together a series of one-year delists; but that has many limitations. Also, once retirement is accepted, no meaningful way to return to service if there are major regional changes,

Proposed Solution

- Remove requirement to invest minimum \$\$ to re-enter markets (the so-called “Repowering rule”)
 - No change to true repowering rules; focus is on resources with an accepted Retirement Bid.
 - Resource loses interconnection rights with retirement under existing rules – do not change
 - To return to market, resource would still need a new IR and presumably new IA.
 - Resource would need to follow all other rules for “New”

Return to Service

Outstanding issues

- **Add clarity around waiting period**
 - Intent is that resource must sit out the commitment period for which it requested retirement, plus 2 consecutive years after that before participating in another FCA.
- **Add clarity around early ARA and bilateral participation**
 - Intent is that resource, once qualified for an FCA following the waiting period, is free to sell CSO into earlier commitment periods under the same rules as we have for any “New” resource.
- New language to accomplish this is highlighted in the following slide.

Return to Service – Tariff Language

III.13.1.1.1. Definition of New Generating Capacity Resource.

A resource or a portion of a resource that is not a New Import Capacity Resource or Existing Import Capacity Resource (as defined in Section III.13.1.3), or a New Demand Capacity Resource or Existing Demand Capacity Resource (as discussed in Section III.13.1.4) shall be considered a New Generating Capacity Resource for participation in a Forward Capacity Auction if either one of the following apply:

(i) the resource has never previously been counted as a capacity resource as described in Section III.13.1.1.1.1; or (ii) the resource, or a portion thereof, meets one of the criteria in Section III.13.1.1.1.2; or (iii) the resource, or a portion thereof, was previously counted as a capacity resource but was retired from the capacity markets pursuant to Section III.13.2.5.2.5.3, and has not acquired a Capacity Supply Obligation in at least two consecutive Forward Capacity Auctions following and in addition to the one in which it retired. Following this prescribed waiting period, a Resource that qualifies to re-enter the capacity market pursuant to this Section III.13.1.1.1(iii) is free to sell capacity bilaterally or in Annual Reconfiguration Auctions for earlier Capacity Commitment Periods (that is, those within the waiting period) pursuant to the same rules as other New Resources. A Resource whose retirement request has been rejected for reliability reasons pursuant to Section III.13.2.5.2.5 or III.13.2.5.2.5A, and has elected cost-of-service compensation pursuant to Section III.13.2.5.2.5.1(b)(ii) is not eligible to return to the capacity market under the provisions of this Section III.13.1.1.1(iii).

Shorter vs. Longer Waiting Periods

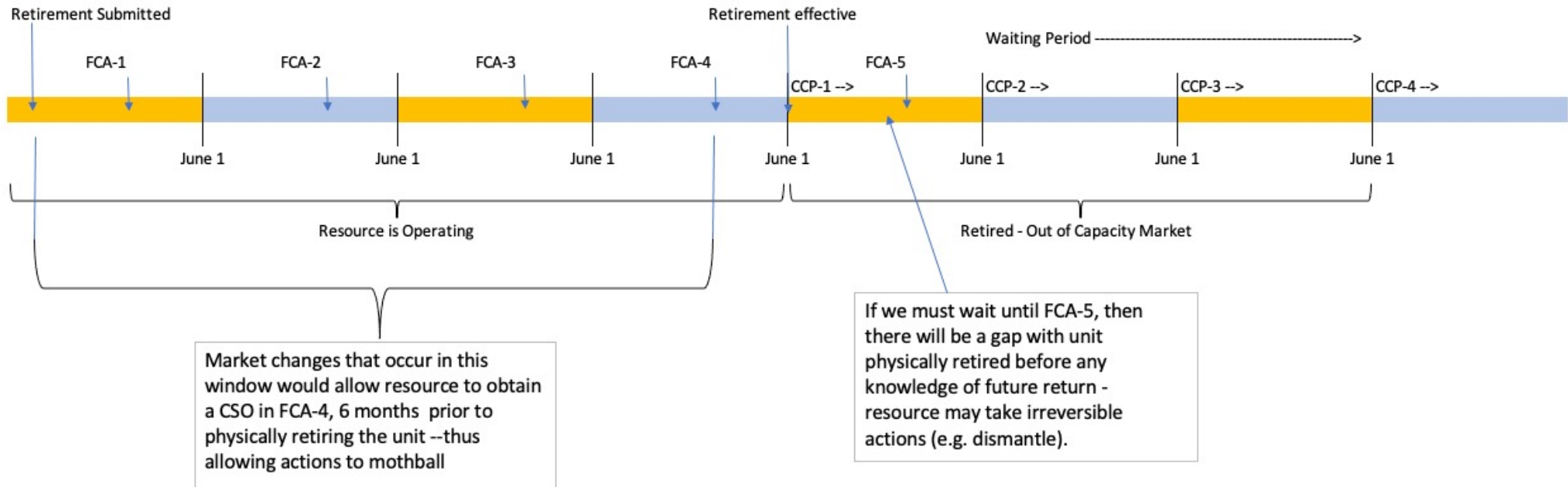
- Balancing two competing needs
 - Dis-incenting toggling implies some waiting period
 - Consumers and resource owners both benefit from flexibility of allowing resources to return whenever they are economic.
- Waiting period too short:
 - Risks retirement offers that are not serious, or fishing for reliability hold
 - Allows toggling if a unit is held for reliability
- Waiting period too long:
 - Eliminates consumer and possibly reliability benefit of allowing more resources into the market when they are economic
 - May become unattractive for resource owner to spend money to keep unit in a mothball state if that period becomes too long
 - Decisions may be made that are impossible to economically unwind
 - Diminishes ability to react to major changes in markets (e.g., decarbonization, FutureGrid, etc.)

Shorter vs. Longer Waiting Times

- Proposal provides mechanism to mothball if expectation is 3 or more years OOS
 - Can use static/dynamic to string together 1-year delists, but those are not designed for many consecutive years of mothballing
 - Costs included in 1-yr offers cannot reflect multiple-year savings
 - Need to go through entire process every year
 - More than 3 consecutive years of statics seems unrealistic
- 3 years is longest waiting period that can allow for changed circumstances before risking permanent actions that may frustrate return – see next slide.
- Shorter (<3 years total) waiting periods increase risk of toggling, fishing for RMR.
- **3-years (retirement year + 2 years of wait) strikes a reasonable balance between competing concerns**

Proposed Timeline

Example timeline, showing effect of waiting period



Why COS Restriction vs. Other Reliability Holds?

- **COS allows CapEx and reimbursements that give advantage**
 - Resource receiving COS could invest ratepayer funds in project, giving that resource an advantage vs. rest of market if it returns.
- **Other reliability holds receive their bid**
 - That bid is reviewed by the IMM and FERC, and is based on GFCs (not ROE or ratebase)
 - While there may be some opportunity for limited CapEx to be included in a retirement offer, we would expect payments > true GFC to be very limited.
- **Striking a balance**
 - If circumstances change, allowing a retired unit to return (whether ever needed for reliability or not), if and when economic, benefits consumers and potentially reliability.
 - 3-year net waiting period, plus loss of interconnection rights, is a powerful disincentive against toggling.
 - Allowing return for units that have received their (IMM and FERC-approved) delist bid, but not COS, strikes this reasonable balance.

Questions?