

Memorandum

To: NEPOOL Markets Committee; Mariah Winkler, ISO-NE.

From: LS Power Development LLC; Jericho Power LLC

Date: January 7, 2022

Subject: Putting the Scarcity Event Reduction Framework (SERF) Proposal on Hold

Since the beginning of the ISO New England MOPR elimination project, LS Power has not just raised essential questions about the future of New England's wholesale markets but also offered practical policy proposals that would at least partially mitigate harms imposed on merchant resources through MOPR elimination.

Starting with its July 7, 2021 presentation to the NEPOOL Markets Committee (MC), LS Power described how MOPR elimination would fundamentally upset the long-standing FCM paradigm and how many aspects of that market would need to be updated in order to holistically integrate state sponsored resources.¹ After all, MOPR is one element that works in concert with other FCM design elements to yield a just and reasonable rate. MOPR cannot be viewed in isolation.

We highlighted a range of possible FCM changes including modifications to the net CONE calculation to account for the likelihood that the market will not clear at equilibrium on average, methods to rationalize excess capacity, proper capacity accreditation of intermittent resources, and PfP reforms to differentiate resources based on their actual contribution to resource adequacy.

But, given the absence of ISO commitments to tackle the direct impacts of MOPR elimination and create a balanced market, we suggested that the ISO instead embrace near-term market reforms that would mitigate some of the impact of MOPR's elimination in time for FCA 17.² The SERF concept proposed by LS Power was one such market reform.

The SERF concept is a simple, directionally correct add-on to PfP.³ Under SERF, a second PfP-like settlement would be added to the existing PfP design when system conditions are very tight but before scarcity is reached. Commensurate with its pre-scarcity framing, the proposed settlement rate is a relatively low \$350/MWh. SERF would trigger more often, but at a lower

¹ Mark Spencer, 7-July-2021MC Presentation at 7-9 (Available at: https://www.iso-ne.com/static-assets/documents/2021/07/a2b_vii_jericho_presentation_core_principles_review_of_fcm_without_mopr.pdf); Mark Spencer, 12-August-2021 MC Presentation at 5 (Available at: https://www.iso-ne.com/static-assets/documents/2021/08/a4c_iii_jericho_presentation_core_principles_review_fcm.pdf).

² Mark Spencer, 7-Dec-2021 MC Presentation at 8 (Available at: https://www.iso-ne.com/static-assets/documents/2021/12/a02b_ii_2021_12_07_09_jericho_power_presentation_ccm_without_mopr.pdf).

³ See generally, Mark Spencer, 9-Nov-2021 MC Presentation; Mark Spencer, 7-Dec-2021 MC Presentation at 9-12.

settlement rate, than Pfp – allowing good performing resources to be fairly compensated for their ability to forestall scarcity conditions and improve system reliability.

Late in the design process, the ISO released a memo outlining various criticisms of the SERF design to justify its opposition to the design.⁴ The ISO expressed concern that SERF will encourage resources to offer below their true costs or deviate from dispatch instructions. As noted in our December presentation, these concerns are theoretical at best and unlikely to be observed in practice. Moreover, it is plainly apparent that Pfp itself suffers from many of the same flaws.⁵

Nevertheless, given the ISO's disinclination to support Pfp reforms (including SERF), we will not seek a vote at the January 2022 Markets Committee Meeting.

The evidence LS Power has brought forth over the past half year plainly indicate that the FCM is a market in distress and that substantive reform is necessary. The market design efforts that the ISO has on its work plan (i.e., ELCC and day-ahead reserves) are not likely to materially improve the situation, and the timeframe in which ISO proposes to implement them further demonstrates a lack of commitment to have a functional capacity market. Worryingly, the ISO has not even taken a position on whether it believes the market is in need of reform or whether there is reasonable balance between buyers and sellers in the FCM today or in the post-MOPR world. These fundamental market design issues need fulsome investigation and remedy.

We thank the Committee for its time and attention on the SERF proposal and on our broader critiques of the existing FCM construct.

⁴ ISO-NE Market Development 6-Dec-2021 Memo (Available at: https://www.iso-ne.com/static-assets/documents/2021/12/a02b_ii_iso_memo_lspower_mopr.pdf).

⁵ Mark Spencer, 7-Dec-2021 MC Presentation at 13-18.