

To: NEPOOL Participants, Markets, and Reliability Committees

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Subject: Resource Capacity Accreditation (RCA) Update and Options

The ISO and its stakeholders have dedicated significant time and effort to designing and refining the ISO's RCA proposal in order to file it before the end of the year for implementation starting with Forward Capacity Auction (FCA) 19. As recently discussed at the June NEPOOL Markets Committee meeting, the ISO identified a GE software error that significantly understated the amount of liquefied natural gas (LNG) allocated to gas generators in the winter risk model.¹ This error affects several months of work on the ISO's proposed gas resource accreditation approach and also invalidates the initial results of the impact analysis shared with stakeholders in April. Based on this error and the need for a comprehensive modeling review, the RCA project schedule is delayed and FCA 19 implementation is impacted.

While FCA 19 for Capacity Commitment Period (CCP) 2028-29 runs in February 2025, pre-auction processes such as resource qualification begin in Q1 2024. Any effort to develop administrative or heuristic constructs in the RCA design as a 'quick fix' in the model in order to proceed with the expected FCA 19 timeframes introduces additional uncertainties to the model and creates significant regulatory risks. Therefore, the ISO is assessing its options for proceeding and is seeking stakeholder feedback on four approaches set forth below.

Some options contemplate the integration of RCA with a prompt and seasonal capacity market structure, a request we have heard from numerous stakeholders as well as the External Market Monitor. One of the key details associated with a prompt capacity market is the timing of conducting the auction relative to the start of the CCP. For example, a prompt capacity auction could theoretically be held in Q1 of the calendar year, 3-4 months ahead of the start of the CCP. In transitioning from a three-year forward to a prompt capacity market construct, there will be up to a three-year period between conducting the final forward capacity auction and conducting the first prompt capacity auction. Once an option is chosen, the ISO plans to engage with stakeholders to further define the scope of work.

¹ Tongxin Zheng, "Resource Capacity Accreditation (RCA) – Status Update," presentation to the NEPOOL Markets Committee, Westborough, MA (June 6, 2023), 2, https://www.iso-ne.com/static-assets/documents/2023/06/a02_mc_2023_06_06_rca_in_the_forward_capacity_market_iso_status_update.pdf.

There are four broad objectives that the ISO is seeking to balance:

- (1) Seek additional time to make the necessary improvements to the winter risk model, rerun the impact analysis, and seek feedback from stakeholders;
- (2) Recognize the importance of simultaneously implementing a revised capacity accreditation framework that coincides with the elimination of the minimum offer price rule (MOPR) for FCA 19 as previously noted by the ISO;²
- (3) Recognize the increasing importance of seasonality in the region, both from a supply resource portfolio perspective and the expected transition to a winter peaking system, and a stated interest in exploring a change from a forward to a prompt capacity market construct; and
- (4) Minimize regulatory and implementation risks.

The options listed below are not listed in an order of preference, nor do they reflect the totality of trade-offs. From an ISO perspective, these appear to be the best options available.

Option A: Implement RCA for FCA 19, but with a shorter forward auction cycle, and move to a prompt and seasonal market for the 20th capacity auction

This scenario would implement RCA for FCA 19, with the auction held in 2026 instead of February 2025. FCA 19 would still acquire capacity for CCP 2028-29. It effectively turns the Forward Capacity Market into a shortened forward auction until the twentieth capacity auction, which could become a prompt auction run in 2029, versus 2026, for CCP 2029-30.

This option gives the region more time to complete the FCA 19 RCA project for implementation in CCP 2028-29, while also progressing toward a prompt and seasonal market. The benefit of this approach is that it largely addresses the objectives noted above. However, it will result in substantial additional work in that the design and associated implementation will have to accommodate interim measures for one forward auction with RCA, before switching to a prompt and seasonal market. At the same time, this option may serve as a transition from the current forward cycle to a prompt cycle.

Option B: Delay RCA filing by a year and target implementation for FCA 20, CCP 2029-30, and move to a prompt and seasonal market for the 21st capacity auction

With this scenario, FCA 19 would proceed as scheduled under currently-approved market rules, without the RCA design. The ISO would file a proposal for RCA for implementation starting in FCA 20. FCA 20 would be the last forward capacity auction and the 21st capacity auction, for CCP 2030-31, would be a prompt auction running in early 2030 versus early 2027.

This option would allow the ISO time to improve the simulation software and resource models. The extra time allowed for RCA development, until FCA 20 pre-auction processes start in Q1 2025, will reduce

² As filed and approved by the FERC, the MOPR will be removed for CCP 2028-29 and will not be extended under any of the proposed options.

implementation risks. However, this option will delay implementation of a prompt and seasonal market to FCA 21 for CCP 2030-31 or beyond. This approach will address the first and fourth objective, but not the second objective. It also will not address the third objective on a timely basis.

Option C: Establish a later auction date for CCP 2028-29 by implementing RCA with a prompt and seasonal market for the 19th capacity auction

In this scenario, FCA 18 would be the last forward capacity auction and the 19th capacity auction, for CCP 2028-29, would be a prompt auction running in early 2028 versus early 2025.

This option provides more time to complete the RCA design for the 19th capacity auction while simultaneously addressing requests from stakeholders and the External Market Monitor to move toward a prompt and seasonal capacity market. The administration of the capacity markets could be simplified with a prompt auction design. Time spent developing and discussing the prompt and seasonal market design in parallel with completing the RCA design will require sharp and sustained focus on the scope and objectives by the ISO and stakeholders. This option has three notable design initiatives for one CCP, possibly in a combined development and regulatory cycle. Having a full design and associated rule certainty, once approved, should help improve market certainty and confidence. This option addresses the first three objectives. However, if the new, prompt design is not timely developed, filed, and approved, there is risk to the region. It is not clear that the region could resume forward auctions under compressed timelines.

Option D: Implement RCA with a prompt and seasonal market for the 20th capacity auction with a later auction date, for CCP 2029-30

This scenario is the same as option C, but it targets RCA and a prompt and seasonal market implementation for CCP 2029-30 instead of CCP 2028-29. Under this approach, FCA 19 would be the last forward auction, conducted in 2025 without RCA, and the 20th capacity auction for CCP 2029-30 would be the first prompt auction running in early 2029.

This option provides extra time to help ensure regulatory approvals and certainty, which will mitigate some of the risk associated with option C. This option addresses the first, third, and fourth objectives, but similar to option B, will not address the second.

Next Steps

The ISO is seeking stakeholder feedback on these four options, and welcomes stakeholders' views at the June Participants Committee and breakout meetings. The ISO will take all of the feedback under advisement while it continues to assess the options, and will provide a further update to stakeholders on its considerations of these options, ahead of making its final recommendation to stakeholders.