



Potential Tradeoffs with Alternate FCM Commitment Horizons

Discussion on trade-offs associated with alternate FCM commitment horizons (prompt and/or seasonal)

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Continuing the discussion of alternative FCM commitment horizons

- Today's discussion is a continuation from July and August regarding key considerations as the region assesses a move to a prompt and/or seasonal capacity market
- The focus of today's discussion is on expanding the 'key takeaways' associated with a move to a prompt and/or seasonal design, which were identified on slides 5 through 7 of the [August presentation](#)
 - Each 'key takeaway' is now its own slide where we provide additional observations based on further assessment and comments raised by stakeholders

Prompt and/or Seasonal Assessment: Work Ahead

- The ISO plans to continue evaluating prompt and/or seasonal auction considerations over the next few months, and in early 2024, will determine whether to start proposing a prompt (and seasonal) for CCP 19 (in 2028) or if it will propose running FCA 19 in 2026 after a one year delay
 - In other words, ISO recommends pursuing Option 2A (see [ISO presentation](#))
- To support this assessment, ISO is contracting with the Analysis Group to evaluate such capacity market changes

Analysis Group Report

- Analysis Group's report will draw on their expertise with New England's wholesale electricity markets, and related work in other RTOs
- Report will include both qualitative and quantitative analysis
- Targeting a completion date of December 2023 to help inform region of potential impacts associated with a move to prompt and/or seasonal in a timely manner

KEY CONSIDERATIONS: PROMPT CAPACITY MARKET

Prompt Market: Up-to-Date Information

Summary: Allows the auction to include more up-to-date parameters relating to supply (expected resource mix, capacity accreditation) and demand

- Up-to-date information will improve the ISO's ability to estimate Net ICR, leading capacity prices to more accurately reflect its marginal reliability impact
- Having a clearer sense of the resource mix will allow for more accurate estimates of capacity accreditation values
 - When the auction is run forward, ISO has to forecast the resource mix and if this forecast differs from the actual resource mix, resources may receive accreditation values that are less aligned with their reliability contribution
 - This may lead to less efficient outcomes

Prompt Market: Retirement Process

Summary: Changes may be needed so that these are completed in advance of auction

- With a prompt framework, the retirement process may need to be moved out of the capacity market
 - Other RTOs already have retirement processes that occur outside of the capacity market
 - How such a design would work has not been fully assessed
 - May allow less time for region to react to retirement decisions
 - Moving deadline closer to delivery period may decrease risk to generators considering retirement because they have more time to make such decisions

Prompt Market: Interconnection Process

Summary: Changes may be needed so that these are completed in advance of auction

- To address FERC Order 2023, the ISO will be required to migrate to a single annual cluster process, with equal queue positions and shared upgrade cost allocation within the cluster, for studying new interconnections
 - Such a change may necessitate moving the capacity interconnection process outside the capacity market qualification framework, regardless of a change to a prompt market design
 - This re-alignment would be supportive of a move to a prompt construct



Prompt Market: Changes Market's Role in Entry Decisions

Summary: Capacity price not known before go/no go decision

- This change may affect some developers, but this concern does not seem as material as when the FCM was developed
 - Introduction of sloped demand curves reduces price volatility
 - Elimination of the price lock means new resource only receives the Capacity Clearing Price associated with the auction when it first sells capacity for one year, rather than for seven years
 - For many new projects, the current three-year forward may not align with their development time horizon

Prompt Market: Changes Market's Role in Entry Decisions (con't)

Summary: Reduces concerns about uncertain commercial date

- For projects that face uncertain development timelines, a three year forward may create risks because their auction participation is based on their expectations of when they will become commercial
- Under the current forward construct, resources may account for the risks associated with this uncertain commercial date in their offer price
 - Concern is noted in [Potomac Economics' 2022 Assessment of the New England Electricity Markets](#) (p. 66-67)

Prompt Market: Phantom Entry

Summary: Can help address concerns about phantom resource entry because all participating capacity is (potentially) existing

- Resources participating in the auction have already demonstrated an ability to provide energy during the CCP
- Helps address concerns about new resources selling capacity and then not being commercial when the delivery period comes
- Therefore, improves capacity market signals because they are based on actual capacity supply
- As stakeholders noted, further assessment may be necessary to develop rules governing auction participation in a prompt setting

Prompt Market: Pricing Outcomes

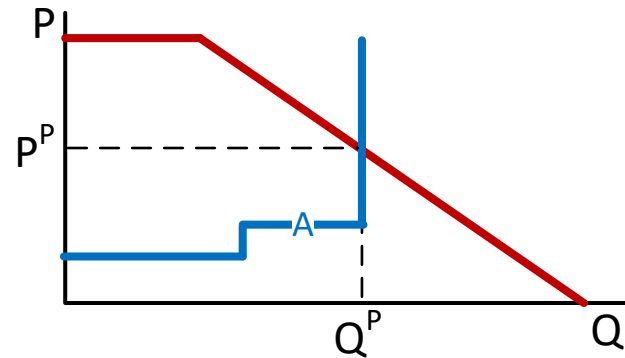
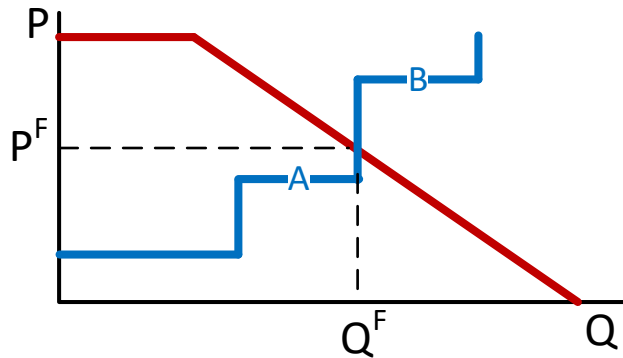
Summary: Under many cases, do not expect a move to prompt would materially impact expected clearing prices

- Logic: Under a prompt framework, developers build resources when they expect the Capacity Clearing Price to exceed the capacity payment they would have required to enter if the auction had been forward
- When developers have accurate expectations, results in similar capacity prices
- *Next:* Figure illustrating this equivalency



Prompt Market: Pricing Outcomes (con't)

- Consider two potential entrants, low cost A and high(er) cost B
 - A expects to recover its costs under a prompt setting (and therefore is developed), whereas B does not
 - Supply curve changes between forward (left) and prompt (right)
 - But clearing quantity and price are not changed ($P^F = P^P$)



KEY CONSIDERATIONS: SEASONAL CAPACITY MARKET

Seasonal Market: Accounts for Seasonal Differences

Summary: Allows procurement to better reflect capabilities and needs for each season

- Demand for each season would be consistent with region's resource adequacy needs
- Suppliers offer quantities correspond with their capabilities during that season
 - May no longer need to have annual obligations that do not align with seasonal capabilities or decompose annual awards into seasonal obligations
 - Addresses concerns regarding resources, such as certain active demand resources, that may only (primarily) perform in one season
- Helps position region for future where risk is spread across summer and winter seasons

Seasonal Market: Accounts for Seasonal Differences (con't)

Summary: Allows sellers to account for costs and risks (PFP) at seasonal level

- Sellers can reflect resource-specific costs associated with providing capacity in each season in their offers
- Relative costs/prices across seasons determined by market, as informed by stakeholder offer quantities and prices by season
- Will help to produce more efficient clearing outcomes as auctions award Capacity Supply Obligations to the lowest cost set of resources

KEY CONSIDERATIONS: PROMPT AND SEASONAL CAPACITY MARKET

Prompt and Seasonal Market: Significant Effort

Summary: If the region pursues a prompt and/or seasonal market, the timing of the workload may impact the ISO's ability to work on other priority items for a period of time

- Each of these three potential changes (RCA, prompt, seasonal) is a significant effort on its own, and pursuing all three simultaneously would be a major undertaking
- That being said, pursuing these changes in parallel may also require significantly less total work than pursuing them in a sequential manner (that is, over a series of Capacity Commitment Periods)

NEXT STEPS

Projected Stakeholder Schedule

Stakeholder Committee and Date	Scheduled Project Milestone
Markets Committee, July 11, 2023	ISO reviews alternative FCM commitment period horizon key considerations
Markets Committee, Aug 8-10, 2023	
Markets Committee, Sept 12-13, 2023	
Markets Committee, Oct 11-12, 2023	ISO overview of scope of Analysis Group's work
Markets Committee, Nov 7-8, 2023	Analysis Group outlines methodology, gathers stakeholder feedback, and presents any preliminary findings
Markets Committee, Dec 12-13, 2023	Analysis Group publishes final report and presents key findings