

Concerns with Prompt Capacity Market

NEPOOL MARKETS COMMITTEE

SEPTEMBER 2023

Background

- ISO-NE is undertaking reforms in the capacity market
 - Capacity accreditation process (RCA)
 - Potentially introducing seasonality to the capacity market
 - Potentially going to a prompt capacity market

- Due to the difference in fuel availability in winter and summer, and the RCA paradigms of looking into summer and winter unserved energy hours, it has become obvious that going to a seasonal market is needed. This seems intuitive.

- However, changing FCM to a prompt market is a sizable undertaking and needs to be fully evaluated whether the cost outweighs the benefits
 - What is the problem(s) we are trying to solve?
 - What are the potential alternative solutions?
 - What are the tradeoffs with each solution?

- Implementing RCA, Seasonal and Prompt capacity market will be significant stakeholder process and resource constrain at the ISO-NE
 - Does the ISO have estimate on duration of the stakeholder work
 - Does the ISO have a full scope of what these projects will encompass?
 - Will there be time for other market enhancements initiatives?
 - Can we get a sense on workload if only RCA and Seasonal market are implemented

Potential problems with the forward aspect of FCM

- Some of the issues that have been outlined in a forward capacity market
- “Phantom” MW in FCM
 - There has been several instances of projects clearing the auction, but never becoming commercial (Killingly, Clear River)
 - Prompt market can fix this, but so can Financial Assurance (FA) modifications and increasing non-commercial penalties
 - Stakeholders already passed a proposal on FA changes
- RCA qualification and demonstration of fuel arrangements
 - It seems difficult to demonstrate fuel arrangements 3-4 years into the future
 - Can we introduce a true up between qualified MW and demonstrated fuel arrangements closer to the delivery period (ARA 3)?
- What are other issues with the current forward capacity market that need fixing?

Benefits of Forward Capacity Markets – Orderly Entry and Exit

- Forward markets are designed to create orderly entry and exit of resources
 - When there were sizable retirements in FCA 8 (~3,000MW), there were sizable new entrants in FCA 9 (1,060MW), FCA10 (1,450MW) , FCA 11 (264MW)
- FCM was further refined such that retirements are announced before the Show of Interest (SOI) window, which enables the market to respond with new capacity in the same auction window if retirements are announced
 - Retirements are due in March, SOI occurs in April which is 38 months before the delivery period
- If reliability issues are identified such as energy security or transmission issues there is an opportunity for the market to respond in the same auction, or in the following auction (if de-lists in the auction create reliability issues)
- The exposure to the consumer of potential out of market actions is limited due to the ability for the market to respond in time due to the advanced notification

Concern with Prompt Capacity Market – Orderly Entry and Exit

- In prompt market, when does a resource submit retirement notifications to ISO/market?
 - If a unit announces binding decision one year prior to the auction, and the unit is deemed needed for reliability then what happens during the timeframe (2-3 years) it will take for a new unit/transmission to be built?
 - If a unit announces non-binding retirement decision 24 months before the delivery period, how does this *non-binding signal* affect participants that want to build replacement projects?
 - When does TO/participant start building new projects to address the need?
- If a unit announces binding decision 24-36 months before the auction, this could be premature, since subsequent auctions could have resulted in higher capacity price, sufficient to avoid retirement
- For example, today, if a unit contemplates retirement, it can submit a priced retirement bid that reflects its going forward cost
 - If the market clears below that price, then the unit can retire
 - If the auction clears above the retirement bid, the resource can remain in the market

Examples of RMRs in a prompt capacity market

We should seriously look at the examples of RMRs in neighboring NYISO market that has a prompt capacity market

- 1) Dunkirk (NYISO) – [Jun 1 2013 – Dec 31 2015](#) (30 months)
 - Needed due to transmission system in western NY
 - \$2M monthly payment + \$16.44M tax cost payment

- 2) Cayuga (NYISO) – [Jan 16 2013 – Jun 2017](#) (54 months)
 - Mothball was announced on Jul 20 2012 to begin on Jan 16 2013.
 - RMR was awarded due to transmission system issues. Due to not enough time to build the transmission solution, second RMR was awarded (called RSSA in NYISO)
 - RSSA 1 up to \$6.7M monthly Jan 2013 – Jan 2014
 - RSSA 2 was \$112M + \$42M (Jan 2014 – Jun 2017), but there were also some offset payments due to capacity and energy revenues

- 3) Ginna (NYISO) [Apr 1 2015 - Mar 31 2017](#) (24 months)
 - Was shortened from 42 to 24 months
 - Needed for transmission reliability due to retirement
 - Reliability payment + \$15.42M monthly + \$11.458M one time payment (approx. total \$166.7M)

*Unsure on the final RMR costs for these three RMRs since there were true up provisions for energy and capacity revenue

Summary of issues discussed today and additional items for consideration

- How will the orderly entry and exit work in a prompt capacity market?
- What is the exposure to RMRs in a prompt capacity market?
- Will priced retirement be eliminated?
- How does the region plan on attracting new generation due to the expect load growth? How will new generation enter the market?
- If all the generation is existing in the prompt capacity market, how does the capacity market clear at CONE?
- When does a transmission operator start working on transmission upgrades in relations to generators retiring?
- How congested will the stakeholder process with a major redesign of the capacity market? Will there be room for other market initiatives?



Thank you for your consideration and feedback!
