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Finalized Auction Results Confirm Slight Power System Resource Shortfall in 2017–2018

Holyoke, MA—February 28, 2014—Finalized results filed today at the Federal Energy Regulatory Commission (FERC) confirm that the eighth Forward Capacity Market (FCM) auction concluded with a small deficit in the power system resources needed to meet consumer demand in New England in 2017–2018.

The filing by ISO New England Inc., the operator of the region’s bulk power system and wholesale electricity markets, describes the February 3, 2014, auction results. The auction concluded short of the capacity required, resulting in higher prices for capacity in 2017–2018. The filing outlines the closing prices for differing categories of resources and a list of the resources that cleared the auction: the generators with obligations to provide power when dispatched in 2017–2018, and the demand-side resources with an obligation to reduce consumption.

Capacity acquired

Finalized auction results show that the region acquired 33,712 megawatts (MW) to be available in 2017–2018, 143 MW short of the 33,855 MW requirement. While the seven previous auctions concluded at the floor price with excess capacity (with the exception of one zone in the prior auction), this auction was the first without a floor price. Before the auction was conducted, resources totaling about 3,135 MW announced plans to retire, resulting in an insufficient level of resources in the auction to ensure a competitive outcome. This triggered administrative pricing rules designed to protect consumers from the potential exercise of market power that could inappropriately raise prices, while still providing incentives to attract and retain resources.

Pricing

The descending-clock auction commenced at a starting price of \$15.82/kilowatt-month (kW-month) and concluded with a capacity clearing price of \$15.00/kW-month when a resource sought to withdraw if the price fell lower. The capacity clearing price of \$15.00/kW-month will be paid in 2017–2018 to about 1,380 MW of new capacity resources outside of the Northeast Massachusetts/Boston (NEMA/Boston) zone. About 24,885 MW of existing resources will be paid \$7.025/kW-month. Self-supply resources totaling 3,330 MW will not be paid through the FCM.

Another 357 MW of existing resources with multi-year supply obligations will be paid at rates set in previous auctions, ranging from \$2.52/kW-month to \$3.43/kW-month. In NEMA/Boston, 3,085 MW of both new and existing resources will be paid \$15.00/kW-month based on administrative pricing rules,

while 674 MW of existing capacity that opted for a multi-year price commitment in a previous auction will be paid \$14.99/kW-month.

A preliminary estimate of the total cost of the capacity market in New England in 2017–2018 is about \$3.05 billion; by comparison, through the first seven auctions, the total cost to the region ranged from a low of about \$1.06 billion in 2013 to a high of about \$1.77 billion in 2009.

While the auction closed with slightly less capacity than will be needed in 2017–2018, the FCM design provides a mechanism for such gaps to be closed through annual and monthly reconfiguration auctions held over the three years preceding the capacity commitment period.

Forward Capacity Market Auction Basics

The annual FCM auction is held three years in advance to provide time for new resources to be developed. Capacity resources can include traditional power generation or demand-side resources such as load management and energy-efficiency measures. Resources that clear in the auction are committed to provide power or curtail demand when called upon by the ISO.

The administrative pricing formula applied in this auction arose out of the 2006 FCM settlement approved by FERC. The current market design balances the interests of consumers paying for capacity by building in price protection under conditions of scarcity and the interests of resources providing capacity by paying a price that reflects the need to attract new resources and retain existing capacity.

FERC concluded in a [January 24 order](#) that the \$7.025/kW-month administrative price for existing resources helps to “ensure reliability while protecting consumers and the market from sudden, significant price increases.” The Commission also concluded that a lower price would “result in prices that are likely inadequate to incent new entry and retain existing resources.”

In its January 24 order, the Commission also required ISO New England to speed up its plan to develop a sloped demand curve that would address several concerns about the structure of the Forward Capacity Market, including reducing price volatility, and would eliminate the need for administrative pricing rules such as those implemented in this auction. The ISO is committed to filing a sloped demand curve proposal with the Commission by its April 1 deadline.

The [FCA #8 informational filing](#) is posted on the ISO New England website.

A table showing the systemwide results of the eight Forward Capacity Market auctions held to date is on page 3 of this release.

Results of the Eight Annual Forward Capacity Auctions (Systemwide)¹

AUCTION	Cleared Generation (MW)	Imports (MW)	Cleared DR ² (MW)	Total Capacity Acquired (MW)	Capacity Required (MW)	Closing Price ³ (kW-month)	Excess Supply or Shortfall (MW)	Prorated Price (kW-month)
FCA #1 (2010/11)	30,865	933	2,279	34,077	32,305	\$4.50	1,772	\$4.25
FCA #2 (2011/12)	32,207	2,298	2,778	37,283	32,528	\$3.60	4,755	\$3.12
FCA #3 (2012/13)	32,228	1,900	2,867	36,996	31,965	\$2.95	5,031	\$2.54 ⁴
FCA #4 (2013/14)	32,247	1,993	3,261	37,501	32,127	\$2.95	5,374	\$2.53 ⁵
FCA #5 (2014/15)	31,439	2,011	3,468	36,918	33,200	\$3.21	3,718	\$2.86 ⁶
FCA #6 (2015/16)	30,757	1,924	3,628	36,309	33,456	\$3.43	2,853	\$3.13 ⁷
FCA #7 ⁸ (2016/17)	31,641	1,830	2,748	36,220	32,968	\$3.15 ⁹	3,252	\$2.74 ¹⁰
FCA #8 ¹¹ (2017/18)	29,435	1,237	3,040	33,702	33,855	\$7.02 / \$15 ¹²	(143) ¹³	n/a

¹ Initial results from each annual auction; amounts will change with monthly and annual reconfiguration auctions.

² Demand resources include energy efficiency, demand-response resources, and real-time emergency generation (RTEG). RTEG resources are capped at 600 MW.

³ For FCAs #1-6 and for FCA #7 in the CT, ME, and Rest-of-Pool (ROP) zones, the closing price was also the auction floor price. For FCA #8, the closing price was administratively set.

⁴ Prorated price in Maine for 2012/2013 was \$2.47/kW-month.

⁵ Prorated price in Maine for 2013/2014 is \$2.34/kW-month.

⁶ No price separation occurred in FCA #5 so the prorated price will be the same across all six states.

⁷ No price separation occurred in FCA #6 so the prorated price will be the same across all six states.

⁸ FCA #7 was conducted using four zones for the New England region: CT, ME, ROP, and NEMA/Boston.

⁹ FCA #7 concluded at the floor price of \$3.15/kW-month in three zones—CT, ME, and ROP—with excess supply. In the NEMA/Boston zone, the auction concluded at \$14.99/kW-month. All new resources in NEMA/Boston will receive the \$14.99/kW-month clearing price; existing resources in the zone will receive \$6.66/kW-month.

¹⁰ Because FCA #7 concluded in each zone with excess supply, the clearing price will be prorated to \$2.744/kW-month in ME and ROP, and \$2.883/kW-month in CT. The clearing prices in NEMA/Boston will not be prorated.

¹¹ FCA #8 was conducted using four zones for the New England region: CT, ME, ROP, and NEMA/Boston.

¹² Administrative pricing rules were triggered in FCA #8. Most existing resources will receive \$7.02/kW-month and all new resources will receive \$15/kW-month in all zones except NEMA/Boston. In NEMA/Boston, the administrative pricing rules require all resources to receive \$15/kW-month except one resource, which in the previous auction (FCA #7) opted for a five-year price commitment of \$14.99/kW-month.

¹³ FCA #8 concluded with a slight shortfall of 143 MW below the required capacity of 33,855 MW. The gap can be closed through annual and monthly reconfiguration auctions held before 2017/2018.