

**UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION**

ISO New England Inc.

)
)
)
)
)
)
)
)
)
)

No. ER18-619-000

**MOTION TO INTERVENE, COMMENTS, AND LIMITED PROTEST OF THE
NEW ENGLAND POWER GENERATORS ASSOCIATION, INC.**

Pursuant to Rules 211, 212 and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“Commission”)¹ the New England Power Generators Association, Inc. (“NEPGA”)² hereby files this Motion to Intervene, Comments, and Limited Protest of ISO New England Inc.’s (“ISO-NE”) filing of changes to the Forward Capacity Market to accommodate clean and renewable energy policy resources, the so-called Competitive Auctions and Sponsored Policy Resources (“CASPR”) proposal.³ The CASPR design creates a second auction – the Substitution Auction – that commences immediately following the Forward Capacity Auction and provides the opportunity for certain renewable, clean and alternative energy resources to acquire Capacity Supply Obligations when they cannot clear economically in the Forward Capacity Auction.

¹ 18 C.F.R. §§ 385.211, 212, and 214 (2017). These Comments are timely filed in accordance with the Commission’s *Combined Notice of Filing No. 1*, Docket No. ER18-619-000 (January 8, 2018) (providing for a January 29, 2018, Comment Date).

² The comments expressed herein represent those of NEPGA as an organization, but not necessarily those of any particular member.

³ *ISO New England Inc. Filing Re: Revisions to ISO New England Transmission, Markets and Services Tariff Related to Competitive Auctions with Sponsored Policy Resources*, Docket No. ER18-619-000 (filed Jan. 8, 2018) (“CASPR Filing”).

NEPGA asks the Commission to approve the CASPR proposal as a reasonable compromise between maintaining competitive pricing in the Forward Capacity Auction and allowing otherwise uneconomic, subsidized renewable, clean and alternative resources to acquire Capacity Supply Obligations. NEPGA further asks that the Commission condition approval on a relatively minor addition to the CASPR design to allow an Existing Capacity Resource eligible to offer into the Substitution Auction to do so at a price indexed off of the Forward Capacity Auction clearing price. This additional offer flexibility will allow an Existing Capacity Resource to more accurately and efficiently reflect its willingness to retire, which in turn will further promote one of the primary goals of the CASPR design, to efficiently transfer Capacity Supply Obligations from retiring resources to subsidized new resources.

I. MOTION TO INTERVENE AND COMMUNICATIONS

NEPGA is the trade association representing competitive power generators in New England. NEPGA's member companies represent approximately 26,000 megawatts, or roughly 80% of the installed capacity in New England. NEPGA's mission is to support competitive wholesale electricity markets in New England. NEPGA believes that open markets guided by stable public policies are the best means to provide reliable and competitively-priced electricity for consumers. A sensible, market-based approach furthers economic development, jobs and balanced environmental policy for the region. NEPGA's member companies are responsible for generating and supplying electric power for sale within the New England bulk power system. As active participants in the ISO-NE wholesale electricity markets, NEPGA's member companies have substantial and direct interests in the outcome of these proceedings, and those interests cannot be adequately represented by any other party in the proceeding.

All correspondence and communications related to this proceeding should be addressed to the following individual:

Bruce Anderson
Vice President, Market and Regulatory Affairs
New England Power Generators Association, Inc.
33 Broad Street, 7th Floor
Boston, MA 02109
Tel: 617-902-2347
Email: banderson@nepga.org

II. COMMENTS

A. CASPR REPRESENTS A REASONABLE COMPROMISE OF COMPETITIVE MARKET PRINCIPLES IN ORDER TO MEET ITS DESIGN OBJECTIVES

Beginning in 2016, NEPOOL stakeholders convened several meetings⁴ with the New England States and ISO-NE to propose and consider potential energy and capacity market design changes that would satisfy the basic requirements of a competitive wholesale market and recognize the New England States' carbon-reduction policy goals.⁵ The CASPR proposal is the only of those proposals to come through the formal NEPOOL committee process to date, with ISO-NE stating its intent of "meeting the region's objectives of accommodating the entry of sponsored new resources into the FCM over time *and* maintaining competitive capacity pricing."⁶ The CASPR design as such is a compromise between the entry of subsidized resources and competitive pricing in the Forward Capacity Market. In the long-term, the entry of subsidized resources through the CASPR design will put downward pressure on the Forward Capacity Auction clearing price. Though NEPGA is disappointed that the "accommodation" of subsidized resources will compel this long-term price effect, it supports the CASPR proposal as a

⁴ This series of meetings is referred to as the "Integrating Markets and Public Policies" process or "IMAPP."

⁵ *Chairman's Opening Remarks, NEPOOL IMAPP Initiative* (Aug. 11, 2016), available at http://www.nepool.com/uploads/IMAPP_20160811_Chairman_Remarks.pdf.

⁶ CASPR Filing, Transmittal Letter at 1 (emphasis in original).

measure made necessary by the New England states' increasing interest in subsidizing certain resources to carry out clean, renewable and alternative energy laws and policies.⁷

CASPR allows an uneconomic Sponsored Policy Resource⁸ to acquire a Capacity Supply Obligation in a manner that mitigates its impact on the competitively-determined clearing price in the Forward Capacity Auction. Yet, by allowing the resource to enter the Forward Capacity Market, the CASPR design creates the opportunity for that resource to offer as an Existing Capacity Resource in all subsequent auctions. Today, a Sponsored Policy Resource could not offer as a price-taker but instead would be subject to the Minimum Offer Price Rule (until it cleared economically). The Existing Capacity Resources that retire - one of the conditions that allows the Sponsored Policy Resource to assume a Capacity Supply Obligation - are likely to be older resources with high going-forward costs, which in turn makes them more likely to make a price offer to exit the Forward Capacity Auction. Conversely, the new Sponsored Policy Resource will most certainly offer as a price-taker given the subsidies it enjoys through the state-mandated procurement. The Substitution Auction, therefore, creates in the following year's Forward Capacity Auction the substitution of a resource likely to make a priced offer with one that most certainly will not. Though there may be exceptions, the likelihood of future price suppression increases as more MWs of subsidized resources enter the market. With the New England states currently having the legal authority to contract for over 3,000 MWs (nameplate) of Sponsored Policy Resources,⁹ the likelihood of future price-suppression is all but guaranteed.

⁷ See, e.g., *id.* at 2 (noting that FCA 13 auction cycle will provide up to 1,200 MW of nameplate capacity procured pursuant to Massachusetts law its first opportunity to participate in the Forward Capacity Auction).

⁸ The CASPR proposal defines a Sponsored Policy Resource as a New Capacity Resource that receives out-of-market revenue from a government-regulated cost recovery mechanism and that meets the definition of a clean, renewable or alternative resource under New England state laws in effect as of January 1, 2018. See CASPR Filing, Transmittal Letter at 13, note 42.

⁹ See CASPR Filing, Transmittal Letter at 3 (noting the 460 MW of nameplate capacity that may be procured under Multi-State Clean Energy authorization, and up to 2,800 MW of nameplate capacity under the 2016 Massachusetts Energy Diversity Act).

ISO-NE has committed to address another aspect of the CASPR proposal that could create downward pressure on Forward Capacity Auction clearing prices. An Existing Capacity Resource must first acquire a Capacity Supply Obligation in the Forward Capacity Auction in order to participate as a demand resource in the Substitution Auction.¹⁰ An Existing Capacity Resource, therefore, potentially has an incentive to offer below its true going-forward costs in order to secure a Capacity Supply Obligation and satisfy one of the requirements of a demand resource in the Substitution Auction. If an Existing Capacity Resource that would otherwise set the clearing price in fact offers lower due to this incentive, the Forward Capacity Auction will clear at an uncompetitive price. During the NEPOOL stakeholder process, Calpine Corporation offered an amendment that would remedy this “bid-shading” incentive.¹¹ Though the measure did not receive NEPOOL support, ISO-NE and the Internal Market Monitor have recognized the potential for uncompetitive auction outcomes due to this incentive, and have committed to work with NEPOOL stakeholders to develop an appropriate remedy to take effect in FCA 14.¹² NEPGA supports ISO-NE’s efforts and commitment to develop an appropriate remedy for this “bid-shading” incentive inherent in the CASPR design.

¹⁰ See CASPR Filing, ISO-NE Transmission, Markets and Services Tariff Section III.13.2.8.3.1 (explaining that a demand bid must come from a resource that acquired a Capacity Supply Obligation in the Forward Capacity Auction).

¹¹ See CASPR Filing, Transmittal Letter at 9 (explaining that stakeholders raised this concern during the NEPOOL process, and that ISO-NE and the Internal Market Monitor will work with stakeholders to develop a mitigation-related proposal to address this issue).

¹² *Id.*

**B. THE DEFINITION OF SPONSORED RESOURCES ELIGIBLE TO PARTICIPATE AS
SUPPLY IN THE SUBSTITUTION AUCTION IS REASONABLE AND CONSISTENT
WITH THE IMAPP AND CASPR DESIGN OBJECTIVES**

The CASPR design provides that subsidized resources that meet the definition of a Sponsored Policy Resource may acquire a Capacity Supply Obligation by participating as supply in the Substitution Auction.¹³ During the several months of NEPOOL consideration of the CASPR proposal, various stakeholders proposed different criteria for Substitution Auction supply eligibility. Some proposals would have allowed fossil-fueled resources to participate as Substitution Auction supply, whereas others would have allowed for any future state policy to essentially define what resources could participate as supply in the Substitution Auction.¹⁴ Following extensive stakeholder discussion on this issue, ISO-NE prudently proposes to define an eligible Sponsored Policy Resource as a renewable, clean, or alternative energy resource, as those resources are defined pursuant to laws in effect as of January 1, 2018, that receives revenues outside of the wholesale markets pursuant to a government-regulated rate.¹⁵ This definition is consistent with the purpose of the IMAPP process and creates a reasonable limit on the volume of supply that may acquire a Capacity Supply Obligation outside of the Forward Capacity Auction and through the Substitution Auction. NEPGA therefore asks that the Commission accept the definition of Sponsored Policy Resource without modification.

NEPOOL stakeholders initiated the IMAPP process in order to explore market designs that recognize clean and renewable New England state energy policy resources. As stated by the IMAPP Chair at the initiation of the process, the intent is “to try to create an efficient competitive market design that incorporates the public policy objectives of the six New England

¹³ CASPR Filing, Transmittal Letter at 13.

¹⁴ *Id.* at 14-17.

¹⁵ *Id.*

states.”¹⁶ ISO-NE likewise explains that the CASPR design is intended to address the tension between New England state out-of-market actions to procure clean and renewable energy resources and competitive markets.¹⁷ Consistent with these design objectives, the Sponsored Policy Resource definition allows resources contemplated by the New England states to further their carbon-reduction policies to participate in the Substitution Auction, but not other resource types including most prominently fossil-fuel generating resources. Several new merchant gas and dual-fuel generation resources subject to the Minimum Offer Price Rule have competed and cleared in the Forward Capacity Auction over the past several auctions.¹⁸ Given that the CASPR design is an “accommodation” with potential long-term price formation effects, and that merchant gas and dual-fuel generation is competitive without state-mandated contracts, ISO-NE proposes a reasonable and appropriate limit on the resources that are accommodated through the CASPR design.

ISO-NE also prudently proposes to limit the clean, renewable and alternative energy policies pursuant to which a Sponsored Policy Resource receives out of market revenues to those in effect as of January 1, 2018. This provision creates a more transparent market, where Market Participants can gauge the potential volume of new capacity that may enter the Forward Capacity Market through the Substitution Auction. For example, at present the two largest authorities to procure renewable, clean and alternative resources come from the 460 MW nameplate Multi-

¹⁶ *Chairman’s Opening Remarks, NEPOOL IMAPP Initiative* (Aug. 11, 2016), at 2, 5 (explaining that “[o]ur goal is to achieve and maintain our high standards for reliability that our constituents demand, and to do so using the discipline of competition, while incorporating the states’ goals of decarbonizing our industry over time.”) *available at* http://www.nepool.com/uploads/IMAPP_20160811_Chairman_Remarks.pdf.

¹⁷ CASPR Filing, Transmittal Letter at 2-4 (defining the “Problem Statement” as allowing New England state renewable and clean energy policy resources to compete in the Forward Capacity Market while maintaining competitive market outcomes).

¹⁸ *See, e.g., ISO New England Inc. Forward Capacity Auction Results Filing, Attachment A*, Docket No. ER16-1041-000 (showing that the 484 MW Bridgeport Harbor 6 and 333 MW Canal 3 dual-fuel units cleared FCA 10 at \$7.03/kW-month).

State Clean Energy procurement and the up to 2,800 MW of nameplate capacity under the 2016 Massachusetts Energy Diversity Act.¹⁹ Market Participants can rely on this information as a measure of the potential volume of subsidized capacity entering the Forward Capacity Market, but only because of the January 1, 2018, condition. Otherwise, with no bookend to the policies that may give rise to a Sponsored Policy Resource, Market Participants would be left guessing as to the nature and volume of future New England state laws. If the New England states or municipal entities wish to broaden the CASPR design to include a future policy or law, they can bring a proposal through the NEPOOL stakeholder process and later for Commission acceptance, as they would for any other proposed Tariff change.

C. THE CASPR DESIGN STRIKES A COMPROMISE BY PHASING OUT THE RENEWABLE TECHNOLOGY RESOURCE EXEMPTION FROM MOPR

ISO-NE proposes to allow the Renewable Technology Resource Exemption (“RTR Exemption”) to the Minimum Offer Price Rule to stay in effect, subject to a cumulative 514 MW cap, through FCA 15.²⁰ In so doing, ISO-NE proposes to allow developers and states that have relied on the RTR Exemption in their planning to enter the market through the exemption by making it effective through FCA 15.²¹ At the same time, the eventual elimination of the RTR Exemption recognizes that the CASPR design will achieve the same goals as the RTR Exemption, but in a way that better protects price formation in the Forward Capacity Auction.

¹⁹ See Note 8, *supra*.

²⁰ The RTR Exemption has been subject to extensive and continuing litigation by three of NEPGA’s Members. See *ISO New England Inc.*, 147 FERC ¶61,173 at PP 83-84 (2014), *reh’g denied*, 150 FERC ¶61,065 at PP 17-27 (2015), *remanded sub nom. NextEra Energy Res., LLC v. FERC*, No. 15-1070 (D.C. Cir. Dec. 1, 2015), *order on remand, ISO New England Inc.*, 155 FERC ¶61,023 at PP 35-36 (2016), *rehearing denied*, 158 FERC ¶61,138 (2017), *NextEra Energy Res., LLC v. FERC*, D.C. Cir. No. 17-1110 (appeal pending). NEPGA’s comments in this proceeding do not constitute an admission nor do they bear on the pending appeal..

²¹ CASPR Filing, Transmittal Letter at 10-12.

The Commission approved the RTR Exemption beginning in FCA 9, based largely on the belief that a significant volume of Existing Capacity Resources would retire, creating the need for new entry, that peak load would grow by approximately 200 MW per year, essentially equal to the 200 MW per year RTR Exemption, and that the newly-approved sloped demand curve would mitigate the price-suppression caused by the RTR Exemption.²² The expected retirements and load growth, however, have not occurred, as ISO-NE explains in this proceeding.²³ Peak load has been flat and more recently has declined since FCA 9, and resource retirements have lagged well-below ISO-NE's predictions.²⁴ With these potential mitigating factors having not materialized, and the potential for a significant influx of RTR Exemption-eligible resources in the near future, the replacement of the RTR Exemption with the CASPR design is timely and necessary. Unlike the CASPR design, the RTR Exemption prices a subsidized resource as a price-taker in the Forward Capacity Auction in the auction pursuant to which the subsidized resource acquired the Capacity Supply Obligation, thus causing price-suppression in the year in which the subsidized resource enters the market. The CASPR design is superior to the RTR Exemption, in that it allows for subsidized clean, renewable and alternative energy resources to acquire Capacity Supply Obligations, but does so without effecting the Forward Capacity Auction clearing price in the year of entry.

During the NEPOOL process, some stakeholders argued that the RTR Exemption should remain in effect indefinitely. Alternatively, some proposed other design features that would essentially guarantee that a certain number of Sponsored Policy Resource MWs would clear the Substitution Auction and acquire a Capacity Supply Obligation in the first year in which the

²² *ISO New England Inc. and New England Power Pool Participants Committee*, 147 FERC ¶ 61,173 at P 83 (2014).

²³ CASPR Filing, Transmittal Letter at 11.

²⁴ *Id.*; see also *ISO New England Inc. Summary of Historical Installed Capacity Requirements and Related Values Tables*, available at: <https://www.iso-ne.com/markets-operations/markets/forward-capacity-market>.

resource attempts to enter the market. In both cases, certain stakeholders sought a guarantee that Sponsored Policy Resources may acquire a Capacity Supply Obligation regardless of whether offsetting retirements occur through the Substitution Auction. ISO-NE has prudently declined to create this guarantee, instead requiring that Sponsored Policy Resources enter the market through the Substitution Auction only in an amount equal to the retirement of Existing Capacity Resources.

This “substitution” of subsidized resources for retiring resources is one of the core elements of the CASPR design that keep the price-suppressing effects of subsidized entry in check in the short-term. Absent this design feature, subsidized resources could enter the market in excess of retirements, creating excess supply in the Forward Capacity Market above competitive levels, in turn causing downward pressure on auction clearing prices. All new resources seeking to enter the Forward Capacity Market are subject to market supply and demand conditions, and often require more than one attempt to clear the Forward Capacity Auction due to the supply and demand conditions then at play. This preserves economic price formation in the auction in which the resource enters the market, and provides an opportunity for existing or new competitive capacity resources to efficiently deploy capital in response to the economically driven price signals the CASPR design is intended to support.

Sponsored Policy Resources are already afforded favorable treatment relative to merchant resources under the CASPR design, and should not be afforded an additional guarantee that they acquire the Capacity Supply Obligation the first year in which they are eligible. To create an additional provision that ignores demand and supply volumes in the market would convert the Substitution Auction from a construct that maintains a balance between exit and subsidized entry to an intermediary step before guaranteed entry into the market. In the event any party to this

proceeding asks for modifications to grant such guarantees, the Commission should decline to accept them.

D. THE ADOPTION OF CASPR AND THE NEW ENGLAND STATES' ON-GOING CLEAN AND RENEWABLE ENERGY POLICIES REQUIRES A SIMULTANEOUS EXAMINATION OF COMPENSATION FOR THE SYSTEM AND RESOURCE ATTRIBUTES NECESSARY TO RELIABLY RUN THE NEW ENGLAND SYSTEM

The CASPR design promotes the transfer of a Capacity Supply Obligation from an Existing Capacity Resource willing to retire to a new Sponsored Policy Resource. The former resource type is most likely to be a fossil-fuel, dispatchable resource, that provides valuable ramping, voltage control and other reliability services, whereas the latter will include wind, solar, and other resources not counted on to the same extent by ISO-NE to provide these ancillary reliability services. Given that the CASPR design is intended to facilitate this exchange of one type of resource for another, contemporaneous with accepting the CASPR proposal, NEPGA asks that the Commission further direct ISO-NE to expeditiously consider to what extent the ISO-NE wholesale markets value and provide revenue opportunities for these services, and to the extent they do not to create markets or market designs that do so.

NEPGA recognizes that ISO-NE has taken several actions in recent years to improve upon the ability of the existing wholesale markets to price and compensate resources that provide reliability services not otherwise valued and priced in the wholesale markets. For example, ISO-NE has been at the forefront of changes that more properly provide compensation for the reliability services provided by fast-start resources, by allowing those resources to reflect their no-load costs in their energy market offers which in turn are now eligible to set price.²⁵ ISO-NE

²⁵ *ISO New England Inc. and New England Power Pool Participants Committee*, Docket No. ER15-2716-000 (Oct. 19, 2015) (delegated letter order).

has also held several seminars to discuss the potential development of a ramping product.²⁶ But more must be done and quickly in order to meet ISO-NE's reliability needs through competitive auctions in order to avoid the need to contract for reliability services, as has increasingly been the case in other parts of the United States, most notably in California.

The CASPR design will hasten the transition to a renewable and clean energy generation fleet, but should not be done so at the expense of competitive pricing for the reliability attributes necessary to reliably operate the system. As part of accepting a market design change that will encourage the replacement of resource types ISO-NE has relied on for voltage support, ramping, and other resource attributes, the Commission should direct ISO-NE to deliver on its on-going efforts to identify the resource attributes necessary to operate the system, and whether the existing wholesale markets provide compensation for those services. To the extent the wholesale markets do not properly value the necessary resource attributes, ISO-NE and NEPOOL stakeholders should design new markets or reform the existing markets to compensate resources for providing the generation-based reliability services. This effort may come in part in response to the Commission's recent directive for ISO-NE, along with other ISOs/RTOs, to file an assessment on the resilience of their markets and the market designs reflective of ensuring reliability and resilience.²⁷

²⁶ See *ISO New England Inc. Technical Seminar on Procurement and Pricing of Ramping Capability*, available at: <https://www.iso-ne.com/event-details?eventId=133585>.

²⁷ *Order Terminating Rulemaking Proceedings, Initiating New Proceeding, and Establishing Additional Procedures*, 162 FERC ¶ 61,012 (2018).

E. WHILE CASPR PROVIDES MITIGATION OF SUBSIDIZED RESOURCE IMPACTS, THE COMMISSION MUST REMAIN VIGILANT TO ASSURE COMPETITIVE MARKET PRICING

NEPGA acknowledges that the New England states have ambitious clean and renewable resource statutory requirements and goals, and recognizes ISO-NE's efforts to balance economic price formation and price signals with subsidized resources competing in the Forward Capacity Auction. The proposed CASPR design is a reasonable path forward to meet the challenges of the identified policy resources. As discussed earlier, while CASPR is a reasonable means to mitigate market price impacts, it will not entirely prevent against any impacts of "accommodating" subsidized resources.

NEPGA recognizes that the New England states will continue to work to meet their statutory mandates and energy policies. Likewise, NEPOOL stakeholders and ISO-NE should continue to work to ensure that the wholesale markets are designed in a manner that ensures long-term appropriate price formation. An underpinning of IMAPP was the observation that the States' out of market purchases of clean energy resources are driven by State policies around the reduction of carbon dioxide emissions. That is not the only policy driver, but it certainly appears to be the primary one. The Commission should encourage the region to continue its work to develop market designs that lessen – or even eliminate - the need for states to make out-of-market procurements to meet these policy goals. In light of the continued development of State policies that support specific resource types, the Commission must therefore support efforts to preserve competitive price formation for resources that rely on wholesale market revenues and it must continue to protect the markets from uncompetitive price effects of subsidized resources.

III. LIMITED PROTEST

A. EXISTING CAPACITY RESOURCES CAN MORE EFFICIENTLY PRICE THEIR RETIREMENT OFFERS IN THE SUBSTITUTION AUCTION IF THEY CAN INDEX THEIR OFFERS OFF OF THE FORWARD CAPACITY AUCTION CLEARING PRICE

The CASPR design allows an Existing Capacity Resource to submit a Static De-List Bid in the Forward Capacity Auction and a Demand Bid in the Substitution Auction, both on a \$/kW-month basis, by the October prior to the Forward Capacity Auction. That a Demand Bid must be in the form of a \$/kW-month offer, however, creates a dilemma for the Market Participant wishing to offer into the Substitution Auction. The “buy-out” payment created by the Substitution Auction is the difference between the Forward Capacity Auction clearing price and the Substitution Auction clearing price. The Demand Bid in a \$/kW-month form is intended to reflect the amount an Existing Capacity Resource is willing to forgo, or pay, from the capacity revenues it received by clearing in the Forward Capacity Auction, but to the Market Participant that is not the measure of its willingness to retire. The Market Participant must know how much it will receive, not how much it will forgo, in order to make an efficient decision to retire. This is particularly important when one considers that a CASPR offer is one to permanently exit our markets; doing so requires a look not just at foregone revenues from the instant FCA, but all future FCAs as well. A relatively small addition to the CASPR design, however, to allow an Existing Capacity Resource the option to make a Demand Bid indexed off of the Forward Capacity Auction clearing price, will remedy this dilemma.²⁸

²⁸ NEPGA submits that the Commission can order this change to a Section 205 filing under the U.S. Court of Appeals for the District of Columbia’s opinion in *NRG Power Marketing LLC, et al. v. FERC*, 862 F.3d 108 (D.C. Cir. 2017). The Court held that the Commission exceeded its authority in suggesting modifications to a Section 205 filing largely because the modification resulted in an “entirely different rate design.” 862 F.3d 108, 115-117. Here, NEPGA asks the Commission to direct a relatively minor addition to the CASPR proposal that is consistent with the CASPR design and purpose.

The Substitution Auction provides for the matching of Demand Bids from Existing Capacity Resources and Supply Offers from Sponsored Policy Resources. The Substitution Auction establishes a clearing price (roughly, the intersection of the supply and demand curves) at which the Sponsored Policy Resource acquires a CSO, which in turn establishes a “buy-out” amount paid to the retiring Existing Capacity Resource. For example, if the Primary FCA clears at \$10/kW-month, and the substitution auction clears at \$3/kW-month, the Sponsored Policy Resource would acquire the CSO at a price of \$3/kW-month and the retiring resource would receive the difference between the Primary FCA and SA clearing price, in this example \$7/kW-month. A Substitution Auction Demand Bid represents the highest price the resource is willing to pay to transfer its Capacity Supply Obligation, but it is the inverse, *i.e.*, how much of the capacity clearing price does the retiring resource retain, that is the relevant question to the Market Participant.

But at the time the resource is required to submit its Demand Bid, it does not know the Forward Capacity Auction clearing price, and therefore has no way to know how its Demand Bid will convert to a buy-out payment. Though the Demand Bid allows the Existing Capacity Resource to reflect how much of the Forward Capacity Auction clearing price it is willing to forgo, the lack of a Forward Capacity Auction clearing price renders it unable to precisely reflect what it is willing to accept to retire. For example, an Existing Capacity Resource may be willing to retire if it receives \$5/kW-month as a buy-out payment. If the Forward Capacity Auction clears at \$10/kW-month, it can reflect that willingness through a \$5/kW-month demand (*i.e.*, the resource will receive \$5/kW-month and pay out \$5/kW-month of the \$10/kW-month clearing price). But if the Forward Capacity Auction clears at \$6/kW-month, the Demand Bid must be \$1/kW-month to reflect the price at which the resource is willing to retire.

This conundrum creates an incentive for inefficient bidding in the Substitution Auction. In order to guarantee the necessary buy-out payment, and more importantly to not be forced to retire at a price below that which it is willing, an Existing Capacity Resource must bid lower than it would otherwise in a Substitution Auction with greater transparency. In other words, the resource must hedge against a relatively low Forward Capacity Auction clearing price by entering a relatively low Demand Bid, in order to maintain the necessary delta between the Forward Capacity Auction clearing price and the Substitution Auction clearing price that determines the buy-out payment. Critical to any retirement decision is whether it is preferable to accept a certain payment or forgo both the present year's revenues but also all future revenue opportunities. Without knowing the FCA clearing price an existing capacity resource cannot know which is preferable.

A relatively modest addition to the CASPR design, however, will eliminate this inefficient bidding incentive. If an Existing Capacity Resource can offer into the Substitution Auction in an amount indexed off of the Forward Capacity Auction clearing price, the resource can precisely reflect in the Substitution Auction the payment it is willing to accept to retire. For example, an Existing Capacity Resource could make a Demand Bid of "Forward Capacity Auction clearing price minus \$5/kW-month," reflecting that the resource is willing to take a \$5/kW-month payment to retire regardless of how much of the Forward Capacity Auction clearing price it must forgo to the Sponsored Policy Resource. This type of Demand Bid flexibility allows the resource to precisely offer what is relevant to the resource - how much is the resource willing to accept to retire rather than how much of the Forward Capacity Auction clearing price is the resource willing to forgo.

Accordingly, NEPGA asks that the Commission condition acceptance of the CASPR proposal on ISO-NE allowing an Existing Capacity Resource that has cleared the Forward Capacity Auction to offer into the Substitution Auction as a demand resource in an amount indexed off of the Forward Capacity Auction clearing price in the form of: Demand Bid = FCA Clearing Price - \$ X/kW-month.

IV. CONCLUSION

Wherefore, NEPGA respectfully requests that the Commission grant this Motion to Intervene and accept the CASPR proposal subject to the condition described above.

Respectfully Submitted,

/s/ Bruce Anderson

Bruce Anderson
Vice President, Market and Regulatory Affairs
New England Power Generators Association, Inc.
33 Broad Street, 7th Floor
Boston, MA 02109
Tel: 617-902-2347
Email: banderson@nepga.org

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the comments via email upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Boston, Massachusetts, this January 29, 2018.

/s/ Bruce Anderson

Bruce Anderson
Vice President, Market and Regulatory Affairs
New England Power Generators Association, Inc.
33 Broad St, 7th Floor
Boston, MA 02109
Tel: 617-902-2347
Email: banderson@nepga.org