

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

**ISO-New England Inc.**

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**Docket No. ER17-795-000**

**MOTION FOR LEAVE TO ANSWER AND ANSWER OF  
THE NEW ENGLAND POWER GENERATORS ASSOCIATION, INC.**

Pursuant to Rules 212 and 213 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“Commission”),<sup>1</sup> the New England Power Generators Association, Inc. (“NEPGA”)<sup>2</sup> hereby files this Motion to Answer and Answer. NEPGA seeks to respond to the answer filed by ISO New England, Inc. (“ISO-NE”) on February 14, 2017 (“ISO-NE Answer”). ISO-NE mischaracterizes NEPGA’s primary argument, asks the Commission to ignore recent clearing prices as irrelevant, incorrectly claims a collateral attack on a prior Commission order, and lobs various allegations about the accuracy of NEPGA’s Protest.<sup>3</sup> What ISO-NE continues to fail to do, however, is adequately address the factors the Commission has deemed relevant to whether a Net CONE reference technology is just and reasonable.

NEPGA based its Protest largely on the principles the Commission discussed in its 2014 order on the Combined-Cycle Net CONE reference technology upon which the FCA 9 – FCA 11

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<sup>1</sup> 18 C.F.R. §§ 385.212, 385.213 (2014).

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

<sup>3</sup> *Motion to Intervene and Protest of the New England Power Generators Association, Inc.*, Docket No. ER17-795-000 (filed February 3, 2017).

Net CONE values were based (“2014 Order”).<sup>4</sup> As NEPGA explained, based on those principles the ISO-NE Net CONE reference technology proposal is unjust and unreasonable, and a Net CONE value based on the Combined-Cycle reference technology is a just and reasonable choice. Nothing in ISO-NE’s Answer calls into question those conclusions.

In further support of its Protest and in response to ISO-NE’s Answer, NEPGA submits as Attachment A to this Answer the Prepared Surrebuttal Testimony of Ms. Tanya Bodell, Executive Director of Energyzt Advisors, LLC (“Bodell Surrebuttal”). Ms. Bodell, who provided direct testimony in support of NEPGA’s Protest,<sup>5</sup> here responds to ISO-NE’s arguments about the relevancy of the energy modelling build-out of Combined-Cycle resources, and the speculative nature of Concentric Energy Advisors’ (“Concentric”) reserve revenue projections.

## **I. Motion for Leave to Answer**

Although the Commission’s rules generally do not permit answers to protests or answers to answers, the Commission permits such answers for good cause shown, such as when the response aids in the explanation of issues or facilitates the development of the record.<sup>6</sup> NEPGA’s Answer provides important information that will assist the Commission in its decision-making process. ISO-NE makes several new arguments and assertions in its Answer not present in its original filing, and NEPGA’s responses to those issues newly raised in ISO-

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<sup>4</sup> *ISO New England Inc. and New England Power Pool Participants Committee*, 147 FERC ¶ 61,173, at PP 32-34 (2014) (this order addressed several other proposed Tariff changes, included those defining a system-wide sloped demand curve).

<sup>5</sup> NEPGA Protest, Attachment A, Exhibit No. NPG-1, Prepared Direct Testimony of Tanya L. Bodell, Docket No. ER17-795-000 (filed February 3, 2017) (“Bodell Direct Testimony”).

<sup>6</sup> *See, e.g., Morgan Stanley Capital Grp., Inc. v. New York Indep. Sys. Operator, Inc.*, 93 FERC ¶ 61,017, at 61,036 (2000).

NE's Answer will assist the Commission in its decision-making. NEPGA therefore respectfully requests that the Commission accept this Answer.

## **II. Answer**

### **A. ISO-NE Incorrectly Attributes Several Arguments to NEPGA**

ISO-NE asserts that NEPGA's "central contention" is that the CONE and Net CONE values developed by ISO-NE and its consultants "are simply too low."<sup>7</sup> This is patently false. NEPGA does not challenge the cost estimates developed by ISO-NE and its consultant, and therefore does not argue that the \$8.04/kW-month Net CONE value for the Combustion Turbine is "simply too low." Rather, NEPGA explains that the Combustion Turbine technology is not a just and reasonable choice for the reference technology, based on the several factors discussed by the Commission in its 2014 Order, including that the Combustion Turbine Net CONE value proposed by ISO-NE increases resource adequacy and market efficiency risks.

ISO-NE likewise mischaracterizes NEPGA's argument that the Starting Price under ISO-NE's proposal is unjust and unreasonable, imputing on NEPGA "concerns about the starting price *formula*."<sup>8</sup> This is not correct, as NEPGA does not challenge the Starting Price formula. ISO-NE goes on to speculate that the unjustness and unreasonableness of its proposal can be remedied by a change in the Starting Price formula, and to imply that NEPGA failed to meet some burden to "substantiate that the existing Forward Capacity Auction Starting Price formula is unreasonable."<sup>9</sup> These are red herrings, in that ISO-NE has not filed a change to the Starting Price formula and NEPGA has neither addressed the Starting Price formula nor is it seeking a change to it at this time.

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<sup>7</sup> ISO-NE Answer at p. 5.

<sup>8</sup> *Id.* at p. 11 (emphasis added).

<sup>9</sup> *Id.*

In any event, a change in the Strike Price formula would not remedy the risks ISO-NE's Net CONE proposal creates. NEPGA challenges the justness and reasonableness of the ISO-NE proposal due to several factors, including its ability to attract new investment when and where needed, the risk of underestimating actual new entry costs, and market efficiency. ISO-NE's tangent serves to avoid the very real problem with setting a Starting Price so low that it risks prohibiting competition in the market, and does nothing to refute a finding that its proposal is unjust and unreasonable.

**B. The FCA 7 – FCA 9 Clearing Prices Are a Relevant Comparison to ISO-NE's Proposed Auction Starting Price**

In its Protest, NEPGA explains that the Net CONE value and Starting Price proposed by ISO-NE will cause resource adequacy risks, particularly in import-constrained capacity zones, because the Starting Price under the ISO-NE proposal is well below the actual new entry costs for several new resources that cleared in FCA 7 – FCA 9.<sup>10</sup> As NEPGA showed, in each of those auctions new resources cleared at prices much higher than the Starting Price proposed by ISO-NE in this proceeding.<sup>11</sup>

ISO-NE asks the Commission to ignore those clearing prices, arguing that there is “no economic rationale for equating” the FCA 7 – FCA 9 clearing prices with actual new entry costs.<sup>12</sup> According to ISO-NE, because administrative pricing provisions then in effect (and since abolished) set the price for some resources in those auctions, NEPGA cannot claim that a Starting Price set well below the clearing prices in those auctions will run the risk of limiting competition.<sup>13</sup> What ISO-NE fails to acknowledge however, is that: (1) in most cases the

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<sup>10</sup> NEPGA Protest at pp. 16-19.

<sup>11</sup> *Id.*

<sup>12</sup> ISO-NE Answer at pp. 9-10.

<sup>13</sup> *Id.* at p. 10.

administrative prices applied only to existing resources, whereas new resources cleared at the auction-based Capacity Clearing Price; and (2) the administrative prices were set at the levels necessary to attract new capacity resources when and where needed. NEPGA's comparison of the clearing prices in those auctions and the much lower Starting Price proposed by ISO-NE is therefore relevant to the Commission's decision-making and indeed strongly supports a finding that ISO-NE's proposal is unjust and unreasonable.

Prior to the adoption of sloped system-wide and zonal curves in the Forward Capacity Market, the Tariff provided for separate clearing prices for new and existing resources under certain conditions, generally when the sum of all existing and new capacity resource offers fell below certain thresholds relative to the Net Installed Capacity Requirement system-wide, and Local Sourcing Requirement for import-constrained Capacity Zones. These so-called administrative pricing rules included the Insufficient Competition rule, which provided that new resources would receive the Capacity Clearing Price and existing resources would receive an administrative price defined in the Tariff.<sup>14</sup> Under the Inadequate Supply rule, new resources received 1.1 times the auction Starting Price and existing resources received a lower, Tariff-defined administrative price.<sup>15</sup>

This disparate pricing of new and existing resources under tight supply conditions was intended, in part, to ensure that "necessary new resources are brought into the market while limiting the payment to existing suppliers."<sup>16</sup> The prices defined under the Inadequate Supply and Insufficient Competition rules were "chosen so as to encourage the development of new

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<sup>14</sup> ISO New England Inc. Transmission, Markets and Services Tariff, Market Rule 1, Section III.13.2.8.2 (now abolished).

<sup>15</sup> *Id.*, Section III.13.2.8.1.1 (now abolished).

<sup>16</sup> *Explanatory Statement of the Settling Parties in Support of Settlement Agreement and Request for Expedited Consideration, Devon Power LLC et. al.*, at p. 10, Docket Nos. ER03-563-000, ER03-563-030, and ER03-563-055 (filed March 6, 2006).

projects, since it is the absence of new projects that has created the auction failure.”<sup>17</sup> The administrative pricing rules set “just and reasonable prices adequate to incent new entry and retain existing resources – both of which help insure reliability.”<sup>18</sup> It is therefore both actual new entry costs and the price signals sent by the administrative pricing rules that are relevant to compare to the \$12.84/kW-month Starting Price proposed by ISO-NE.

Just prior to FCA 8, the Commission granted in part a complaint filed by NEPGA, ordering a change to the price for existing resources under the administrative pricing rules then in-effect because they did not price according to actual supply and demand conditions in the auction.<sup>19</sup> Prior to FCA 8, the administrative price for existing resources under the Insufficient Competition Rule was the lower of the Capacity Clearing Price and 1.1 times the Capacity Clearing Price for the most recent Forward Capacity Auction in which the Insufficient Competition rule did not trigger.<sup>20</sup> Under the Inadequate Supply rule, existing resources received 1.1 times the Capacity Clearing Price in the most recent auction in which the Inadequate Supply rule did not trigger.<sup>21</sup> The Commission found the administrative pricing provisions for existing resources to be unjust and unreasonable because they were not “reflective of supply conditions.”<sup>22</sup> The Commission elaborated, explaining that the administrative prices should “reflect supply conditions in an FCA where new capacity is needed ... and competitive prices would generally be higher to reflect the higher costs associated with new entry.”<sup>23</sup> As the Commission concluded, “the very purpose of those [administrative pricing] rules ... is to

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<sup>17</sup> *Id.*, Affidavit of Peter Crampton, Ph.D., on behalf of ISO-NE England, at P 12 (March 5, 2006).

<sup>18</sup> *ISO New England Inc.*, 146 FERC ¶ 61,038, at P 26 (2014) (FERC approving changes to the administrative prices for existing resources under the Inadequate Supply and Insufficient Competition rules).

<sup>19</sup> *New England Power Generators Association, Inc. v. ISO New England Inc.*, 146 FERC ¶ 61,039, at P 47 (2014).

<sup>20</sup> *ISO New England Inc. Transmission, Markets and Services Tariff*, Market Rule 1, Section III.13.2.8.2 (now abolished).

<sup>21</sup> *Id.*, Section III.13.2.8.1.1 (now abolished).

<sup>22</sup> *New England Power Generators Association, Inc. v. ISO New England Inc.*, 146 FERC ¶ 61,039, at P 47.

<sup>23</sup> *Id.* at P 49.

establish prices adequate to incent new entry and retain existing resources and thereby help ensure reliability.”<sup>24</sup>

The Insufficient Competition rule triggered in FCA 7 and FCA 8 and the Inadequate Supply rule triggered in FCA 9.<sup>25</sup> In FCA 7, Footprint Power, LLC, a new resource in the NEMA/Boston Capacity Zone, submitted an offer to leave the auction at \$14.999/kW-month, its actual cost of new entry.<sup>26</sup> Existing Capacity Resources in NEMA/Boston received \$6.661/kW-month under the Insufficient Competition rule.<sup>27</sup> The \$14.99/kW-month clearing price that attracted Footprint (and 47 MW of other new resources that cleared), was therefore not the product of administrative pricing, but instead the actual new entry cost for a new entrant. Likewise, in FCA 8, new resources were paid the auction-based Capacity Clearing Price, set by a resource that withdrew from the auction at \$14.999/kW-month.<sup>28</sup>

In FCA 9, the Inadequate Supply Rule triggered in one import-constrained Capacity Zone, the Southeastern Massachusetts/Rhode Island Capacity Zone (“SEMA/RI”) causing new resources to receive the auction Starting Price of \$17.728/kW-month.<sup>29</sup> The Inadequate Supply rule triggers when new resource offers in the Capacity Zone are less than the demand for new capacity, defined as the difference between the Local Sourcing Requirement and the total existing resources in the Capacity Zone. Thus, in FCA 9, the clearing price for new resources in the SEMA/RI Capacity Zone was based on actual supply conditions and was necessary to attract

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<sup>24</sup> *Id.* at P 50.

<sup>25</sup> A third administrative pricing rule, the Capacity Carry-Forward rule, also triggered in FCA 8, in part setting price for resources in the NEMA/Boston Capacity Zone. See *ISO New England Inc. Forward Capacity Auction Results Filing*, Docket No. ER14-1409-000, at pp. 4-5 (filed February 28, 2014).

<sup>26</sup> *ISO New England Inc. Forward Capacity Auction Results Filing*, Docket No. ER13-992-000, at p. 5 (filed February 26, 2013)

<sup>27</sup> *Id.*

<sup>28</sup> *ISO New England Inc. Forward Capacity Auction Results Filing*, Docket No. ER14-1409-000, at p. 2 (filed February 28, 2014).

<sup>29</sup> *ISO New England Inc. Forward Capacity Auction Results Filing*, Docket No. ER15-1137-000, at p. 2 (filed February 27, 2015).

new resources when sorely needed within the import-constrained Capacity Zone to meet resource adequacy and reliability needs.<sup>30</sup> In other words, it sent the appropriate price signal for new entry.

ISO-NE attempts to obscure the fact that in several recent auctions new resources have cleared the auction at prices well above the \$12.84/kW-month Starting Price it proposes. The clearing prices necessary to attract those new capacity resources have been based on either actual new entry costs or supply conditions indicating the need for a relatively strong price signal to attract investment in an import-constrained Capacity Zone. Even assuming, *arguendo*, that the prices set by the Inadequate Supply rule are not relevant to compare to the Starting Price proposed by ISO-NE, ISO-NE cannot explain away FCA 7 where a Combined-Cycle, new resource cleared at its offer price reflecting its actual cost of new entry.

ISO-NE has repeatedly reported pending large-scale, baseload generating retirements, identifying 6,000 MW as “at risk” of retirement in the coming years, and identified the Forward Capacity Market as the mechanism to deliver on New England’s resource adequacy needs.<sup>31</sup> Now is not the time to potentially prohibit the market from sending the price signals necessary to attract new investment, especially when relatively strong price signals are necessary to attract investment in import-constrained Capacity Zones. ISO-NE’s assertions to the contrary should be rejected.

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<sup>30</sup> See *New England Power Generators Association, Inc. v. ISO New England Inc.*, 146 FERC ¶ 61,039, at P 47 (2014) (explaining that the administrative prices should “reflect supply conditions in an FCA where new capacity is needed ... and competitive prices would generally be higher to reflect the higher costs associated with new entry.”).

<sup>31</sup> See NEPGA Protest at p. 14, *citing* ISO-NE State of Grid: 2017, at pp. 13-14 (January 30, 2017) (explaining that 6,000 MW of coal and oil plants are “at risk for retirement”), available at [https://www.iso-ne.com/static-assets/documents/2017/01/20170130\\_stateofgrid2017\\_remarks\\_pr.pdf](https://www.iso-ne.com/static-assets/documents/2017/01/20170130_stateofgrid2017_remarks_pr.pdf).



### **C. NEPGA Cites to Prior Commission Findings on the Risk of Underestimating Net CONE for Support Rather Than To Collaterally Attack Them as ISO-NE Claims**

In its Protest, NEPGA explains that ISO-NE's reference technology proposal carries a higher risk of underestimating the actual cost of new entry than other reference technologies developed in New England, including the Combined-Cycle reference technology.<sup>32</sup> NEPGA further explained, based on Commission precedent and ISO-NE's testimony in support of the Combined-Cycle as the reference technology beginning in FCA 9, that the potential adverse consequences of underestimating Net CONE are far greater than the potential consequences of overestimating it.<sup>33</sup> NEPGA noted that though the convex demand curves (which took effect in FCA 11) may reduce the amount of underprocurement due to underestimating Net CONE, they by no means eliminate it. ISO-NE takes this all to be a "collateral attack" on the Commission's order approving the Marginal Reliability Impact Demand Curve ("MRI Curve Order").<sup>34</sup> Lost in this line of argument, however, is that the Commission itself discussed at great length the still-present risk of underestimating Net CONE in that very order. NEPGA therefore is not collaterally attacking the Commission's findings, but instead citing to them for support.

In the MRI Curve Order, the Commission explained that under both the pre-existing straight-line demand curve and the Marginal Reliability Impact curve "ISO-NE will procure less

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<sup>32</sup> See NEPGA Protest at pp. 19-24.

<sup>33</sup> *Id.* at pp. 21-22.

<sup>34</sup> ISO-NE also claims "substantive errors" in NEPGA's argument. For example, ISO-NE takes issue with NEPGA's statement that "[w]hen ISO-NE sought approval of the MRI Curves, it explained at great length that the harm of setting Net CONE lower than the actual cost of new entry is far greater than the harm of setting it higher." See ISO-NE Answer at pp. 13-14. NEPGA's reference to ISO-NE's MRI Curves filing was in error, and instead should have referred to ISO-NE's filing in support of the FCA 9 Net CONE reference technology. The error was, by any reasonable reading, inadvertent, as NEPGA cites to ISO-NE's testimony in support of the FCA 9 reference technology several times in the same paragraph and throughout its Protest. NEPGA's citations to ISO-NE's FCA 9 Net CONE testimony clearly indicate that NEPGA inadvertently referred to the testimony as in support of the MRI Curves – it was therefore not a "substantive" error.

capacity if net CONE is underestimated than if net CONE were accurately estimated.”<sup>35</sup>

Because the amount of underprocurement would be greater under the straight-line demand curve than under the Marginal Reliability Impact curve (all else held equal), the Commission found it just and reasonable to position the straight-line curve to intersect with the Net Installed Capacity Requirement quantity at 1.2 x Net CONE. In approving the Marginal Reliability Impact Demand Curve, the Commission denied requests to similarly position the demand curve, finding that the new convex curve would reduce, though not eliminate, the amount of underprocurement should Net CONE underestimate actual new entry costs.<sup>36</sup> The Commission explained that a “design” change, such as shifting the demand curve to intersect at 1.2 x Net CONE, should not be the means to “compensate for potentially incorrect estimates of net CONE.”<sup>37</sup> Instead, notwithstanding the reduction in risk under the Marginal Reliability Impact Demand Curve, the Commission pointed parties to the periodic evaluation of the Net CONE reference technology as a remaining protection against underestimating Net CONE.<sup>38</sup>

NEPGA’s discussion of these issues is not a collateral attack on the Commission’s findings. In the MRI Curve Order proceeding, NEPGA and other parties asked the Commission order ISO-NE to position the demand curve to intersect the Net Installed Capacity Requirement at 1.2 x Net CONE, which the Commission denied.<sup>39</sup> Here, NEPGA cites to the Commission’s explanation that though the Marginal Reliability Impact Demand Curve may reduce the amount

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<sup>35</sup> *ISO New England Inc. and New England Power Pool Participants Committee*, 155 FERC ¶ 61,319, at P 38 (2016).

<sup>36</sup> *Id.* (“The *smaller* purchase reductions under the proposed curve would result in a *smaller* incremental reliability harm if Net CONE were to be underestimated.”) (emphasis added).

<sup>37</sup> *Id.* at P 39.

<sup>38</sup> *Id.* (“Turning to Indicated Suppliers’ related arguments that the demand curve design should compensate for potentially incorrect estimates of net CONE, we disagree. Net CONE is one of the inputs used to estimate the demand curve. To the extent that net CONE should be revised, it is reasonable to allow parties to seek such revisions separately from the efforts to design the FCM’s demand curves. As ISO-NE notes, an existing Tariff provision requires the review and, if appropriate, revision of net CONE.”).

<sup>39</sup> *Id.*

of underprocurement, it does not eliminate the risk of underprocurement due to underestimating Net CONE which, as “ISO-NE explains that this is the case under the existing [straight-line] and the proposed [MRI Curve] designs.”<sup>40</sup> NEPGA does not collaterally attack the Commission’s order, but instead cites to it for support. ISO-NE’s attempt to sidestep the Commission’s findings on this matter should be rejected.

#### **D. The AURORA Modeling Results Support a Finding That the Combustion Turbine Reference Technology is Unjust and Unreasonable**

ISO-NE attempts to downplay the complete disconnect between its belief that the Combustion Turbine is a just and reasonable choice for the reference technology and the results of the modeling it uses to project energy revenues, the AURORA model.<sup>41</sup> As NEPGA explained in its Protest, Concentric used the AURORA model to develop projected energy prices, and part of the AURORA model exercise is to build out new generation when needed to meet ISO-NE’s resource adequacy needs. Over the course of the model forecast period, AURORA added eleven Combined-Cycle units, four wind resources, and zero Combustion Turbines.<sup>42</sup> Though ISO-NE attempts to explain this away as the AURORA model serving a different purpose than the remainder of its analysis, Ms. Tanya Bodell explains in her surrebuttal testimony that the AURORA’s Combined-Cycle build-out establishes the generation technologies the New England market will demand under the AURORA model assumptions and should not be ignored.<sup>43</sup>

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<sup>40</sup> *Id.* at P 38 (“While ISO-NE concedes that consistent underestimations of net CONE will lead it to procure less capacity than reliability objectives would require, ISO-NE explains that this is the case under both the existing and the proposed designs – in other words, the proposed design does not increase the underestimation of net CONE.”).

<sup>41</sup> ISO-NE Answer at pp. 15-18.

<sup>42</sup> See NEPGA Protest at pp. 29-31.

<sup>43</sup> Bodell Surrebuttal at pp. 3-5.

In adding new resources to the system when needed, the AURORA model chose the most economic technology that meets projected system needs in each case.<sup>44</sup> AURORA identified the need to add a new, large, combined-cycle baseload unit almost every other year, indicating that large baseload combined-cycles, not the higher heat rate, peaking Combustion Turbine reference technology upon which ISO-NE bases its proposed Net CONE value, will be in demand and economic.<sup>45</sup> The AURORA new resource addition results are consistent with the planned retirement of large baseload generation in New England, including among others the Pilgrim Nuclear Station and the Brayton Point Station.<sup>46</sup> The lack of Combustion Turbine buildout is equally significant, and consistent with other Concentric assumptions. Concentric finds that the Combustion Turbine reference technology will operate on average only 113 hours per year at a relatively high heat rate of 9,220 Btu/kWh,<sup>47</sup> meaning that it will earn little in energy revenues, with only the significant and questionable reserves revenues making the Combustion Turbine technology appear to be the “most economically efficient.”<sup>48</sup>

ISO-NE asks the Commission to rely on the AURORA modeling results in one respect but not in the other. ISO-NE asks the Commission to accept the energy revenue projections but ignore the new resource additions that come from the same AURORA modeling and underlying assumptions. It is entirely apparent from the AURORA model results that new, baseload generation will be needed in New England, and equally apparent is that this demand will be met through the addition of Combined-Cycle generation.<sup>49</sup> The AURORA modeling results therefore

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<sup>44</sup> *Id.* at p. 3.

<sup>45</sup> *Id.*

<sup>46</sup> *Id.* at p. 5.

<sup>47</sup> *Id.* at p. 3.

<sup>48</sup> ISO-NE Filing, Transmittal Letter at p. 10, Docket No. ER17-795-000 (filed Jan. 13, 2017).

<sup>49</sup> Bodell Surrebuttal at pp. 4-5.

support a finding that the Combustion Turbine is an unjust and unreasonable choice for the reference technology, and likewise that the Combined-Cycle is a just and reasonable choice.

#### **E. ISO-NE's Reserve Revenue Projections Are Unreasonable**

ISO-NE claims that its assumption that Locational Marginal Prices will increase over time provides support for its projection that reserve revenues also should increase.<sup>50</sup> Locational Marginal Prices, however, are only one factor that contributes to reserve revenues, a reality ISO-NE acknowledges but does not take into account. In projecting reserve prices, Concentric simply applies a 2% inflationary adjustment to a fixed, three-year historical average. This overly simplistic reserve revenue projection ignores all other material factors, including supply and demand, fuel prices, and declining spark spreads, rendering its reserve revenue projections materially flawed.<sup>51</sup>

ISO-NE believes that its projected increase in Locational Marginal Prices supports its belief that reserve revenues will also increase over time, arguing that one would necessarily follow the other, yet offers no explanation or support for why this would be the case. In addition, ISO-NE's reserve revenue projections have no relationship to the growth in Locational Marginal Prices it asserts. ISO-NE projects an increase in Locational Marginal Prices consistent with its projected natural gas price increases, but makes no such accounting for the reserve revenues.<sup>52</sup> Indeed, Concentric projects flat reserve pricing in real dollars, adjusted upward only by a constant 2% inflation factor. As show here, Concentric's flat reserve revenue prices are

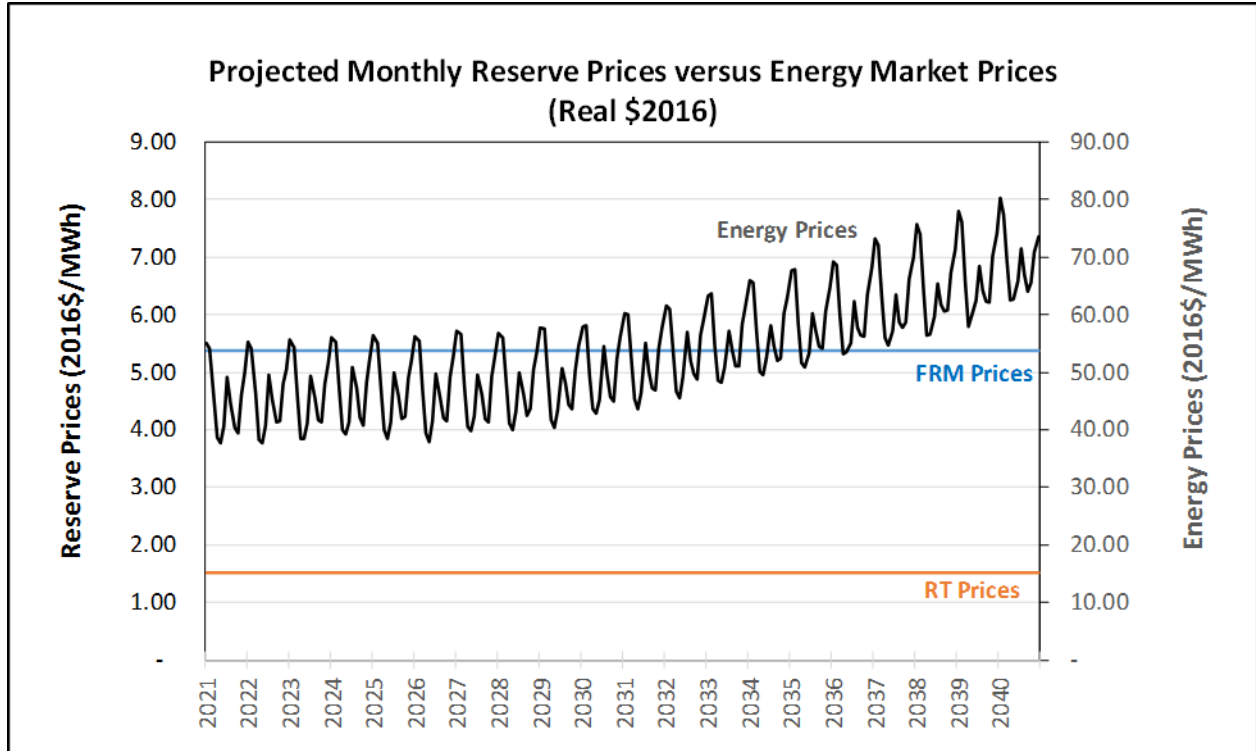
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<sup>50</sup> ISO-NE Answer at pp. 19-20.

<sup>51</sup> Bodell Surrebuttal at pp. 7-8.

<sup>52</sup> *Id.*

completely divorced from its Locational Marginal Price projections:<sup>53</sup>



ISO-NE likewise dismisses the impact declining spark spreads may have on reserve revenues. According to ISO-NE, a declining spark spread for a combustion turbine does not lead to the conclusion that its reserve revenues will likewise decline.<sup>54</sup> Though this may be true with respect to a single unit looked at in isolation that may find it more efficient to provide reserves than energy, it ignores the impact of declining spark spreads for combustion turbines and other generation market-wide. What is true for one similarly situated resource would be true for any other – a declining spark spread leading to it being a more efficient reserve, rather than energy resource. Together, these resources will increase the supply of reserves, decreasing the price for

<sup>53</sup> *Id.* at pp. 9-10.

<sup>54</sup> ISO-NE Answer at p. 19.

reserves and in turn reducing reserve revenues.<sup>55</sup> So though ISO-NE acknowledges the potential for declining spark spreads, it fails to take the next step to account for the effect changing spark spreads will have on its projected reserve revenues. Instead it uses a constant reserve price constantly increasing by inflation, “creating a disconnect between market fundamentals associated with declining combustion turbine spark spreads and reserve markets.”<sup>56</sup> This same criticism applies to the real time reserve revenue offset and the Pay-for-Performance revenue offset, challenging the reliability of nearly all the revenue offsets applied to the gross CONE of the Combustion Turbine, making the Net CONE analysis for proposed Reference Unit speculative and unreasonable for the very reasons identified by ISO-NE in its Answer.<sup>57</sup>

**F. ISO-NE Fails to Address How Including the Production Tax Credit in the Offer Review Trigger Prices is Allowable Under the Tariff**

ISO-NE fails to address that the inclusion of the 2018-based production tax credit (“PTC”) in the Offer Review Trigger Price (“ORTP”) for on-shore wind resources contravenes the Tariff. The PTC is currently being phased out. Wind resources that begin construction in 2018 will receive 60 percent of the full PTC, those that begin construction in 2019 will receive 40 percent of the full PTC, and thereafter zero. In assuming that all wind resources entering service in June 2021 would meet the 2018 construction commencement date, ISO-NE explains that “Concentric assumed that wind resource developers would be motivated to begin construction by the December 2018 deadline in order to capture the PTC benefit.”<sup>58</sup>

Given the phase-out, the Tariff supports treating PTC revenues as out-of-market. As NEPGA noted in its Protest, if all on-shore wind resources entering service in June 2021 cannot

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<sup>55</sup> Bodell Surrebutal at pp. 11-12.

<sup>56</sup> *Id.* at p. 12; *see also* Bodell Direct Testimony, Exhibit No. NPG-1, Fig. 7.

<sup>57</sup> *Id.* at pp. 12-13.

<sup>58</sup> ISO-NE Answer at p. 25 (emphasis added).

meet the requirements of the 2018 PTC phase-down value, the Tariff prohibits the inclusion of such revenues in the ORTP calculation. Section III.A.21.2(b) of the Tariff provides that:

“The Internal Market Monitor will exclude any out-of-market revenues from the cash flows used to evaluate the requested offer price. Out-of-market revenues are any revenues that are . . . (b) not available to all resources of the same physical type within the New England Control Area, regardless of resource owner.”<sup>59</sup>

Motivation to commence construction does not equate to an actual PTC value that is in fact available to all onshore wind resources. Rather, some resources may meet the 2018 deadline, others may meet the 2019 deadline, and still others may not be eligible for a PTC at all – the latter may be particularly true for wind resources entering service in June 2022 and 2023, respectively. It is how the Tariff – the filed rate – must reflect the phase-out of the PTC, not whether the underlying law has or has not expired, as ISO-NE now argues. If a proposed wind resource believes that its offer price is lower than the ORTP, it is free to demonstrate to the Internal Market Monitor that its qualification for the 2018 or 2019 PTC value (or even the 2017 PTC value) accounts for lower costs.

#### **G. NEPGA Reasonably Interpreted Prior Commission Orders and Accurately Described the Commission’s Findings**

ISO-NE makes several allegations concerning NEPGA’s description of the Commission’s 2014 Order, together intended by ISO-NE to attack NEPGA’s credibility and help avoid “hampering the Commission’s reasoned decision-making” and an “incorrect result.”<sup>60</sup> As an initial matter, that ISO-NE believes it necessary to assist the Commission in interpreting its own orders is surprising, given that the Commission is well-positioned to opine on whether it

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<sup>59</sup> See NEPGA Protest at note 107 and accompanying text. ISO-NE does not address this Tariff provision.

<sup>60</sup> ISO-NE Answer at pp. 3-5.



disagrees with NEPGA's or any other parties' interpretation of 2014 Order. Substantively, ISO-NE's allegations lack merit.

For example, ISO-NE alleges that NEPGA "selectively combin[es] disparate quotes from altogether different parts of the [2014 Order]"<sup>61</sup> when in fact NEPGA cites exclusively to the three adjacent paragraphs in the Commission's 2014 Order in which the Commission discusses the relevant factors in evaluating a Net CONE reference technology proposal. In that order, the Commission spoke directly to the issues relevant to the justness and reasonableness of ISO-NE's proposed Net CONE reference technology, and NEPGA reasonably interpreted the Commission's 2014 Order and other relevant precedent. NEPGA submits that it has accurately described the Commission's 2014 Order in explaining why the ISO-NE proposal is unjust and unreasonable and why the Combined-Cycle is a just and reasonable reference technology for purposes of calculating Net CONE. ISO-NE's assertions otherwise are baseless, unnecessary, and distract from a discussion of the factors the Commission has deemed relevant pursuant to its 2014 Order.

ISO-NE ends its allegations with a conclusion that the "CONE and ORTP Updates are fully consistent with the factors considered and discussed by the Commission in the [2014 Order]." <sup>62</sup> Yet, between its initial filing and its Answer, ISO-NE has failed to adequately address those factors. The primary rationale offered by ISO-NE for choosing the Combustion Turbine as the reference technology is that it is the "most economically efficient,"<sup>63</sup> a factor not once

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<sup>61</sup> *Id.* at p. 4.

<sup>62</sup> *Id.* at p. 5.

<sup>63</sup> ISO-NE Filing, Transmittal Letter at p. 10, Docket No. ER17-795-000 (filed Jan. 13, 2017) ("Based on the results of the cost estimates for the four commercially-available candidate reference technologies, as discussed in Section 3.G of the CEA Report, the most economically efficient resource type is the CT with a Net CONE value of \$8.04/kW-month. The next most efficient resource type is the CC, but its Net CONE value is over 24% higher at \$10.00/kWmonth. Accordingly, the CEA Report recommends, and the ISO proposes, to use the CT value to set the new, updated CONE and Net CONE values. From a market design perspective, the selection of the CT reference technology to establish the updated CONE and Net CONE values is straightforward. As noted earlier, in order for

mentioned by the Commission in its 2014 Order.<sup>64</sup> As described by NEPGA in its Protest, the Commission discussed certain criteria that will eliminate certain reference technologies as just and reasonable, with only reference technologies that are “likely to be developed in New England” and for which ISO-NE can develop cost and revenue estimates “with confidence.”<sup>65</sup> Next, and as described by the Commission as “more important” is how the reference technology Net CONE value affects the position of the demand curve.<sup>66</sup> These are the criteria NEPGA applied in its discussion of why the Combustion Turbine is an unjust and unreasonable choice and why the Combined-Cycle is a just and reasonable choice for the Net CONE reference technology.

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the demand curves that are used in the auction to function efficiently, the CONE and Net CONE values generally should be based on the most efficient resource type that is commercially available.”).

<sup>64</sup> See 2014 Order at PP 32-34.

<sup>65</sup> *Id.* at PP 32-33.

<sup>66</sup> *Id.* at P 33.

### **III. Conclusion**

Wherefore, NEPGA respectfully asks that the Commission grant its Motion for Leave to Answer, find that ISO-NE's proposed Net CONE reference technology is unjust and unreasonable, and order ISO-NE to apply a \$10.00/kW-month Net CONE value, based on a Combined-Cycle reference technology, for effect beginning in the twelfth Forward Capacity Auction.

Respectfully Submitted,

/s/ Bruce Anderson

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### **CERTIFICATE OF SERVICE**

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

Dated at Boston, Massachusetts, March 6, 2017.

/s/ Bruce Anderson

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