

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

*ISO New England Inc.*

)

Docket No. ER18-2364-000

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

The New England Power Generators Association, Inc. (“NEPGA”)<sup>1</sup> hereby moves for leave to submit this answer to the answer of ISO New England Inc. (“ISO-NE”) in the above-captioned proceeding concerning ISO-NE’s proposal to reprice resources needed to meet fuel security needs at zero in the Forward Capacity Auction (“FCA”).<sup>2</sup> Good cause exists to permit this answer because it clarifies the record and law in this proceeding.

*ANSWER*

*I. ISO-NE FAILS TO RESPOND TO EVIDENCE*

ISO-NE never denies that its proposal to treat resources retained for fuel security as price-takers in the FCA will depress capacity prices by up to \$642 million in FCA 13 alone—as detailed in NEPGA’s protest in this proceeding.<sup>3</sup> Instead, ISO-NE reasserts that these lower prices are “efficient” because the expensive resource that was prevented from retiring for fuel security reasons—Mystic, in this case—will remain in-service.

This outcome can only be called “efficient” if you ignore extensive record evidence to the contrary—as ISO-NE does. ISO-NE never responds to the evidence NEPGA filed by Dr. Paul M. Sotkiewicz, former Chief Economist of PJM Interconnection, L.L.C. *Id.*, Exhibit 1. Dr.

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<sup>1</sup> The comments expressed herein represent those of NEPGA as an organization, but not necessarily those of any particular member.

<sup>2</sup> Motion for Leave to Answer and Answer of ISO New England Inc., Docket No. ER18-2364-000 (filed Oct. 9, 2018) (“ISO-NE Answer”).

<sup>3</sup> Motion to Intervene and Protest of the New England Power Generators Association, Inc., Docket No. ER18-2364-000 at 7-14 (Sept. 21, 2018) (“NEPGA Protest”).

Sotkiewicz provided testimony detailing the significant price suppression and market distortions that would result from ISO-NE's proposal. *Id.* at 22-41. He explained how this is dynamically inefficient and will immediately exacerbate fuel security concerns. *Id.* at 38-39. He refuted ISO-NE's proposal and the testimony of Dr. Christopher Geissler point-by-point. ISO-NE never mentions Dr. Sotkiewicz or this record evidence.

ISO-NE is a litigant and is free to ignore record evidence. FERC cannot do so. No party has challenged NEPGA's evidence showing the likely amount of price suppression. If the Commission adopts ISO-NE's proposal, it must explain how it is just and reasonable and not unduly discriminatory to allow up to \$642 million in lower capacity prices in the next capacity auction alone, especially as those reduced capacity prices will be borne in part by other fuel secure resources that will not receive any offsetting fuel security revenues.

The Commission would also have to distinguish all of its own precedent recognizing that the submission of below cost offers by resources receiving out-of-market payments artificially suppresses market prices, deters efficient market entry and exit, and broadly impairs market development and performance. *Calpine Corp., et al. v. PJM Interconnection, L.L.C.*, 163 FERC ¶ 61,236 at P 2 (2018); *Devon Power LLC*, 103 FERC ¶ 61,082 at P 29 (2003); *Bridgeport Energy, LLC*, 118 FERC ¶ 61,243 at P 41 (2007); *see also Calpine Corp. v. PJM Interconnection, L.L.C.*, 163 FERC ¶ 61,236 at P 150 (finding PJM tariff unjust and unreasonable on the basis that it "fails to protect the integrity of competition in the wholesale capacity market against unreasonable price distortions and cost shifts caused by out-of-market support to keep existing uneconomic resources in operation").

Like other proposals that have been rejected by the Commission, ISO-NE's proposal "appears to start from the premise that the resources receiving out-of-market support

should obtain a capacity commitment at the expense of other resources.” *Calpine Corp., et al. v. PJM Interconnection, L.L.C.*, 163 FERC ¶ 61,236. ISO-NE pretends that its proposal inflicts no expense on other resources, but this is demonstrably incorrect. ISO-NE has not provided any basis to conclude otherwise.

## II. ISO-NE CONFLATES RESOURCE ADEQUACY AND FUEL SECURITY

ISO-NE attempts to sidestep the evidence provided by NEPGA and other protesters by wrongly assuming that a resource that is retained for fuel security automatically is necessary for, or materially contributing to, meeting resource adequacy needs. No such assumption is warranted. Resource adequacy is focused on meeting summer peak demand. Fuel security, by contrast, is a “three-month winter firm energy need” that, by ISO-NE’s own admission, is “not a capacity problem.” NEPGA Protest at 4-5; *see also ISO New England Inc., Petition for Waiver of Tariff Provisions*, Docket No. ER18-1509-000, Testimony of Peter Brandien at 10:15-16 (May 2, 2018). By definition, a resource that ISO-NE retains for fuel security has costs higher than the market clearing price for capacity and, as a result, is not part of the “least-cost set of resources” necessary to maintain resource adequacy. That is, not unless you ignore its actual (high) costs and force it to offer at zero.

ISO-NE further repeats that its proposal is “efficient” because it prevents the over-procurement of capacity. To the contrary, we can assume that we are far afield from anything remotely “efficient” if we are considering artificially repricing an expensive product for sale to zero. But even assuming that the Mystic Units will contribute to meeting resource adequacy needs, ISO-NE only prevents the over-procurement of capacity by massively suppressing capacity prices paid to every existing resource. This is like preventing traffic jams by banning cars—perhaps “efficient” but also completely contrary to what should be

the actual objective. ISO-NE and the Commission will never solve the fuel security problem in New England by suppressing capacity prices.

ISO-NE also attempts to portray treating fuel security resources as price-takers as an administrative substitute for modeling a fuel security constraint. ISO-NE has not actually done any such analysis, either in its original filing or now in its answer. ISO-NE is merely speculating. There is no basis for asserting that the price suppression that would result from treating the Mystic Units as price takers is identical to the prices that could be expected if “markets in New England were complete and included products that reflected the ISO’s fuel security needs.” ISO-NE Answer at 17 (quoting Comments of ISO New England’s External Market Monitoring Unit, Docket No. ER18-2364-000 at 17 (filed Sept. 21, 2018) (“Potomac Economics Comments”)). Importantly, the External Market Monitor’s support is conditional—it finds ISO-NE’s pricing proposal efficient “*if* the Mystic retention is an efficient means to satisfy ISO-NE’s fuel security needs....” Potomac Economics Comments at 2 (emphasis added). ISO-NE presents no evidence that the Mystic retention is in fact an efficient means to satisfy ISO-NE’s fuel security needs and cannot do so in the absence of a defined fuel security product. None of ISO-NE’s speculation—nor that of the External Market Monitor—can overcome the contrary evidence provided by NEPGA and other protesters. *See, e.g.,* NEPGA Protest at 7-15.

### *III. FUEL SECURITY IS DISTINCT FROM LOCAL RELIABILITY*

ISO-NE also attempts to erase the distinction between local reliability needs and fuel security for the purpose of determining the appropriate treatment of retained resources in the FCA. The Commission recognized in the July 2 Order that there “appear to be material differences between retaining resources ... for local transmission needs and retaining

resources ... for regional fuel security concerns [such that] it may be reasonable for resources retained for fuel security purposes to be offered into the FCM at an offer price that is above zero, but still subject to mitigation by the IMM.” *ISO New England Inc.*, 164 FERC ¶ 61,003 at P 57 (2018). ISO-NE’s attempt is unavailing. Local transmission issues are typically met by a single resource while necessary transmission upgrades are constructed; fuel security needs are necessarily met by various resources throughout the transmission network. Consequently, ISO-NE’s attempt to guarantee that the Mystic Units clear the FCA by dumping their capacity into the market at \$0 will necessarily reduce the compensation received by other, non-subsidized resources that contribute to meeting fuel security needs, thereby increasing the likelihood of additional premature retirements and exacerbating fuel security concerns. NEPGA Protest, Exhibit 1 at 38-41.

#### *IV. THE COMMISSION SHOULD REJECT ISO-NE’S PROPOSAL*

As NEPGA and other protesters have demonstrated, there are numerous alternatives that could be implemented in advance of FCA 13 to ensure that the retention of the Mystic Units does not artificially suppress capacity prices and exacerbate fuel security concerns. Each of these options—including the alternatives identified by the Commission in the July 2 Order or implementation of a price floor as a transitional mechanism—would be less likely to result in the premature retirement of additional fuel security resources than ISO-NE’s proposal.

*CONCLUSION*

For the foregoing reasons, NEPGA requests that the Commission accept this answer and issue an order consistent with NEPGA's protest and answer in this proceeding.

Respectfully submitted,

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