

December 7, 2018

*VIA E-MAIL ATTACHMENT*

ISO New England Board of Directors  
c/o ISO New England  
1 Sullivan Road  
Holyoke, Massachusetts 01040

ISO-New England Board of Directors:

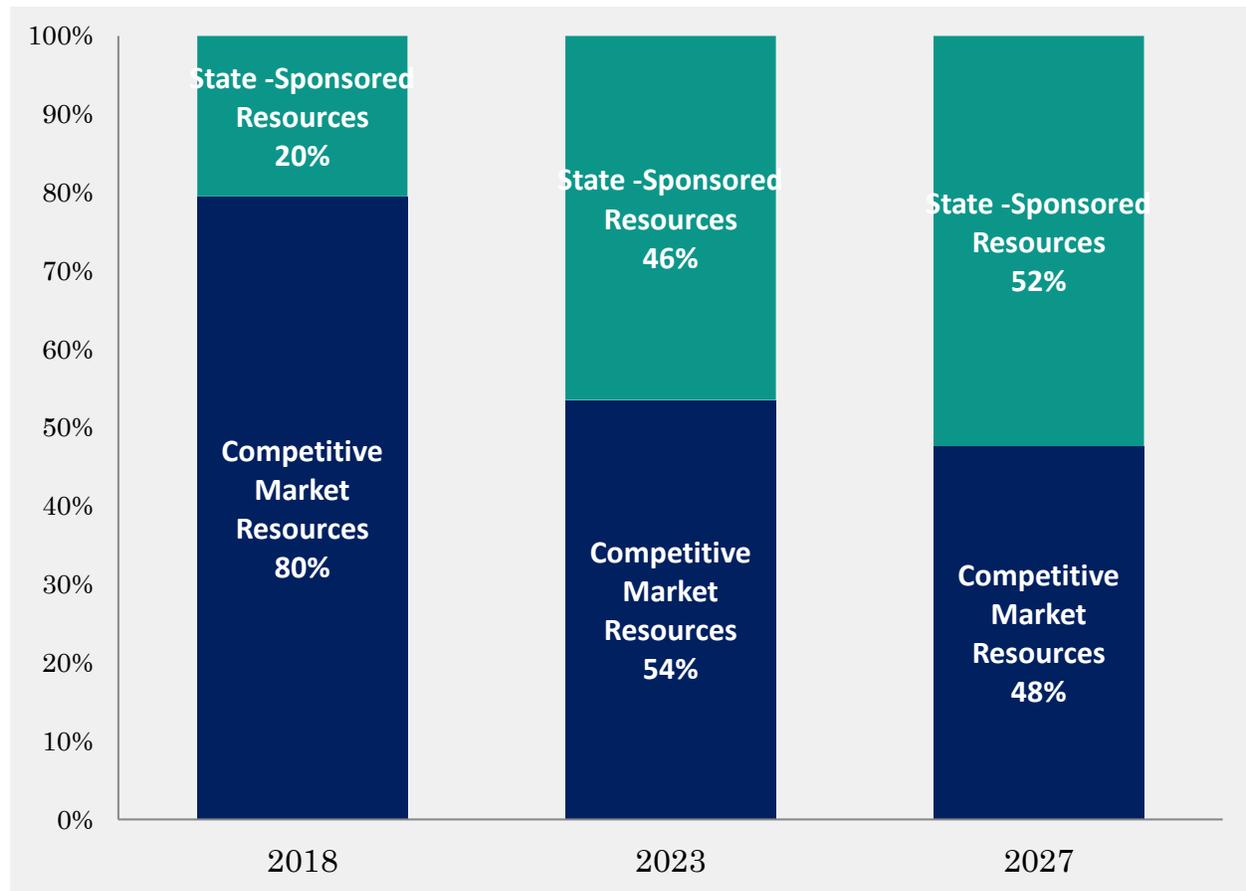
The New England Power Generators Association, Inc. (“NEPGA”) and its Members greatly appreciate our discussion with members of the ISO New England Inc. Board of Directors (“Board”) at the November 2, 2018, meeting between the Board and NEPOOL Generation Sector (“Generation Sector”). NEPGA found the meeting to be an honest, productive exchange of viewpoints on the several issues discussed and greatly values your perspective on the challenges facing ISO-NE, Market Participants, and other stakeholders alike. We seek to follow up on one specific topic of conversation, the impact new resources under contract pursuant to New England state policies will have on the wholesale markets in the coming years, and our frustration with a seeming lack of urgency by the management of ISO-NE to seriously address this issue. NEPGA asks the Board to acknowledge the urgency of this issue which requires attention in the near-term. NEPGA further urges the Board to direct ISO-NE management to initiate a discussion with stakeholders on changes to the wholesale markets acknowledging the changing resource mix and to commit to continue using market-based approaches to support resources that provide the operational requirements of the electric grid moving forward, including fuel security.

New England’s wholesale markets are fast approaching a tipping point as increasing levels of state policy resources come into service and participate in the wholesale markets. With the unprecedented growth in resources contracted outside of the wholesale markets, competitive power generation resources are increasingly unable to recover the costs necessary to deliver the electricity services required to reliably serve consumers and may seek premature retirements as a direct result of state actions.

NEPGA members realize that some extent of unit retirements will necessarily be a result of this change in mix; however, the market signals directing that market response will be important. On the current trajectory, the state of New England’s wholesale markets will rapidly worsen, risking the need for further out-of-market actions to adequately compensate generators needed to preserve grid reliability. NEPGA recently released an analysis performed by Joe Cavicchi, Executive Vice President at COMPASS LEXECON, attached below, showing the likely impact on wholesale market revenue opportunities and retirements given the quantity of

resources that are authorized to be contracted under existing New England state laws. The analysis shows that the wholesale markets as currently designed do not provide sufficient revenue opportunities to maintain investments in merchant power generation necessary to maintain reliability in New England.

We see these challenges coming and must work expeditiously to shift course. This excerpt from Dr. Cavicchi’s analysis, for example, shows the reduction in merchant energy production that will occur pursuant to the existing New England state laws authorizing long-term contracts for certain generation and other resource types:



From the beginning of discussions to an effective date, the development of wholesale market changes take several years to develop. It is for that reason that NEPGA has been so vocal in recent months about the need for urgency and immediate changes in how ISO-NE is planning for the markets and the wholesale market design. Our focus is to ensure that the market is developed proactively, without the need for interim or emergency measures, as we are currently experiencing. In recent public comments, ISO Management has recognized the current and future pressures of seeking to integrate state-sponsored resources into New England’s wholesale market designs, but while a welcome move in the right direction, such a step is not sufficient to address the warning signals for the viability of the market that are currently flashing red. ISO-NE

must take this recognition a step further and immediately begin to engage in a broad-based discussion with NEPOOL stakeholders and the New England states – starting now. Otherwise, New England will find itself losing its ability to maintain a competitive wholesale market and in another cycle of hastily developing short-term, interim, and non-competitive measures, rather than through a more deliberate and thoughtful design change process.

As was highlighted in a recent NEPGA op-ed,<sup>1</sup> we look at the experience with the Mystic Station as a troubling harbinger of what is to come if the ISO stays on its current course. This comes at a time when ISO-NE and NEPOOL stakeholders are questioning whether the Pay for Performance design will compel investment soon enough to meet New England’s fuel security needs, which itself followed several years of “interim” out-of-market programs (the Winter Reliability Programs). We now again find New England about to embark on additional “interim” measures, known as “Chapter 2B;” tariff changes intended to provide revenue opportunities through an administrative rate for the FCA 14 and 15 Capacity Commitment Periods.

The New England states are embarking on a course of resource procurements that will dramatically shift the New England wholesale electricity market. This is coupled with the on-going fuel security issues that the ISO has raised for several years. It is now incumbent on ISO-NE, generators, states and other stakeholders to take the challenge of shaping the market to meet the approaching needs. New England is well-positioned to take on these challenges and lead the rest of the country.

NEPGA is concerned that such a forward look has not begun in earnest and fear the risk of further “interim” out-of-market steps. NEPGA therefore asks the Board to respond to this letter by indicating whether it agrees with NEPGA that ISO-NE, the New England states and other NEPOOL stakeholders must begin a process to discuss and identify the challenges New England’s wholesale markets face in light of the rapidly approaching shift in New England’s resource mix while preserving the fuel security and electric reliability of the system through competitive market principles. Our hope is that as a follow-on to the November 2 meeting that we can start this process now and work together to drive solutions for the region.

Sincerely,



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Dan Dolan,  
President

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<sup>1</sup> Available at <https://www.utilitydive.com/news/a-dangerous-tipping-point-for-new-englands-wholesale-electricity-market/531564/>, Sept. 5, 2018.