

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

**Modernizing Electricity
Market Design**

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Docket No. AD21-10-000

**POST-TECHNICAL CONFERENCE COMMENTS AND MOTION TO INTERVENE OF
THE NEW ENGLAND POWER GENERATORS ASSOCIATION**

Pursuant to the April 5, 2021 Notice Inviting Post-Technical Conference Comments from the Federal Energy Regulatory Commission (“Commission”), the New England Power Generators Association, Inc. (“NEPGA”)¹ files this Motion to Intervene and Comments. On March 23, 2021, the Commission held a Technical Conference to consider the role of capacity markets in several Independent System Operator (“ISO”) and Regional Transmission Organization (“RTO”) areas, including ISO New England (“ISO-NE”). The discussion focused on the role of capacity markets to support and meet resource adequacy requirements, honing more directly on the evolution of the applicability of the Minimum Offer Price Rule (“MOPR”). NEPGA appreciates the Notice issued on April 22, 2021, scheduling a Technical Conference focused on the ISO-NE wholesale electricity markets.² And so, while the March 23 Technical Conference spent the bulk of its attention on the PJM Interconnection, NEPGA offers these Comments on the ISO-NE market to provide context for the New England region and set the stage for the discussion on May 25.

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

² Notice of Technical Conference on Resource Adequacy in the Evolving Electricity Sector: ISO New England Inc., Docket No. AD21-10-000 (Apr. 22, 2021).

I. Motion to Intervene and Communications

NEPGA is the trade association representing competitive power generators in New England, with mission is to support competitive wholesale electricity markets. 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. NEPGA's member companies represent over 90% of the installed capacity in the region. As active participants in the ISO-NE wholesale electricity markets, NEPGA's members 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.

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II. INTRODUCTION

New England stakeholders and states, with ISO-NE, and under FERC's ultimate jurisdiction, have worked through a collaborative process to develop the region's wholesale electricity markets as they stand today. It is an intensive process that can at times be combative, where compromise is often called for. The broad stakeholder engagement allows for New

England’s unique topography, consumer base, state policies, and overall market structure to be reflected in the features that make the ISO-NE market distinct from those of its neighbors.

That process, with FERC’s approval and direction, has led to the creation and refinement of the Forward Capacity Market (“FCM”) to serve as the region’s resource adequacy market. The FCM functions as a key and necessary element to preserve reliability through a competitive structure, supporting investments to sustain operations at existing resources, and financing for new ones, when necessary. This is critical in sustaining investments and upkeep at existing facilities, as well as facilitating new capacity development. Nearly 10,000 megawatts (“MW”) of additional, new generation resources have been selected in the FCM over fifteen auctions.³ In recent years, those auctions to provide adequate resources three years into the future have selected over 30,000 MW of capacity at the lowest prices in the market’s history. This has been matched with the lowest prices ever seen in the ISO-NE-administered wholesale energy markets.⁴

The New England markets of course have their challenges. Winter fuel constraints and energy security have been perennial issues drawing attention from the Commission. Development of more robust reserve markets, energy market improvements, and reasonable mitigation methodologies have been frustrated or slow in coming. NEPGA has been disappointed by administrative changes to the FCM key design structures that have contributed to persistently lower clearing values.⁵ There have also been concerns raised by some regarding the pace of clean energy development, lack of integration of state policies into the wholesale markets, and the

³ <https://www.iso-ne.com/about/key-stats/markets#fcaresults>

⁴ <https://www.iso-ne.com/about/key-stats/markets>

⁵ See, e.g., ISO-NE Summary of Historical Installed Capacity Requirement and Related Values Tables, *available at*: https://www.iso-ne.com/static-assets/documents/2016/12/summary_of_historical_icr_values.xlsx (showing decrease in Net CONE from \$11.64/kWm to \$8.04/kWm in only one auction cycle, FCA 11 to FCA 12). ISO-NE and NEPOOL Filing of Improvements to the Methodology of Passive Demand Resources in the Gross Load Forecast, Docket No. ER20-2869 (filed Sept. 11, 2020) (basing quantity of passive demand resource reconstitution into the gross peak load forecast on Capacity Supply Obligation MWs rather than program administrator reported quantity).

application of MOPR to subsidized resources. Individual concerns like these exist across the array of stakeholders and policymakers in New England.

Nevertheless, New England's wholesale electricity markets, including the FCM, have delivered value, reliability, and driven billions of dollars in direct local infrastructure investments supporting jobs, tax contributions, and community benefits. This should not be taken for granted or ignored as an assessment is done of the market structure.

The New England grid is today undergoing a generational change with massive increases in clean energy resources, primarily driven by state-mandated contracts, coming over the next several years. Under decades-long contracts, those new resources will have a price suppressive effect, in particular in the energy markets. The MOPR exists today to prevent a similar impact in the FCM, and to continue to allow non-subsidized resources to have a competitive opportunity to secure *revenue* adequacy to preserve *resource* adequacy.

The region has, however, long recognized that subsidized resources do have capacity value, which is in part what led to the development of the Competitive Auction for State Policy Resources ("CASPR") design. CASPR is intended to provide an entry into the FCM for resources with a MOPR-derived price. Existing resources that have chosen through the FCM delist process to go down a market exit path, can be matched with subsidized resources seeking to obtain a Capacity Supply Obligation ("CSO"). However, under CASPR, an existing resource must have its delist offer price selected in the primary FCM auction to then be entered into a substitution auction where a MOPR'd resource may bid to take on that same CSO. It is this "paired retirement" concept that is meant to allow for state-supported resource entry matched with the market exit of existing capacity resources, while also preserving an appropriate level of economic price formation for all other competitive resources.

Despite these intentions, NEPGA recognizes that CASPR has not been successful insofar as there have been limited existing resources exiting the market to provide opportunities for subsidized resource entry. NEPGA believes that a contributing factor to this situation has been the burdensome and binding retirement process in New England, as well as inadequate retirement price signals. A further examination in these areas is warranted to improve the functioning of the FCM, a key feature of which should be the transparent ability for resources to enter and exit the market.

It is important to recognize that even with MOPR and CASPR to address subsidized resource impacts on and entry into the capacity market, these mechanisms do not prohibit subsidized or other clean energy participation. MOPR acts as a checkpoint for economic viability, absent outside payments. The vast majority of the new generation resources over the history of FCM have offered and have been selected at prices below the technology-specific Offer Review Trigger Prices (“ORTPs”) that serve as the threshold for MOPR review. In fact, in the most recent Forward Capacity Auction (“FCA”), nearly 600 MW of new energy storage resources were selected, despite energy storage having an ORTP of above the auction starting price. Those that can demonstrate to the Internal Market Monitor that their resource’s economic costs are below the ORTP have offered – and were selected – at those lower prices.

NEPGA sees the frustration from some that MOPR may slow the integration of subsidized resources. But MOPR exists for a very good reason. Economic price formation is critical to preserving competitive revenue opportunities for non-subsidized resources that must rely on FCM for economic viability. MOPR also does not act as a draconian bar on market participation. The application of the ORTPs in New England clearly demonstrate how numerous resources can and

do demonstrate justification for lower FCA offers. NEPGA encourages the Commission to take into account these issues as it considers MOPR moving forward.

NEPGA also recognizes that the markets as they are designed today, are not sufficient for what will be needed moving forward. In 2018, NEPGA pointed to a “crisis point” in the New England market because of a failure to adequately integrate state policies while major out-of-market actions were being taken in the name of reliability.⁶ In 2020, NEPGA again stressed the need to bring state decarbonization policies into the market, such as through a meaningful price on carbon emissions, and to identify the reliability products that would be necessary in a changing electric grid.⁷ While these discussions have not occurred at the pace NEPGA would like, 2021 has marked a real and notable shift in attention. This docket and broader FERC examinations provide a real opportunity. That opportunity is matched by New England-specific forums led by the New England States Committee on Electricity (“NESCOE”), NEPOOL, and ISO-NE. NEPGA is particularly mindful of the focus provided by a number of New England Governors to “proactively develop market-based mechanisms, in concert with state policymakers,” to drive clean energy investments, integrate contracted resources, and maintain grid resiliency and reliability at least cost.⁸ With guidance from the Commission, NEPGA is hopeful that this year is a turning point at which a regional solution can be developed to drive the next evolution of the New England electricity market.

New England’s electricity grid and state policy priorities are unique. It requires a unique and tailored approach to provide for the next evolution of the wholesale electricity markets. The

⁶ <https://www.utilitydive.com/news/a-dangerous-tipping-point-for-new-englands-wholesale-electricity-market/531564/>

⁷ <https://www.utilitydive.com/news/a-path-forward-for-new-england-to-a-low-carbon-future-why-a-capacity-marke/570791/>

⁸ <http://nescoe.com/resource-center/govstmt-reforms-oct2020/>

timelines associated with the FCM are also different than those for other markets, and any major market changes should align with auction timelines. NEPGA asks that the Commission provide the opportunity for these regional dialogues to continue. A regional approach will provide the opportunity for an orderly transition and a thoughtful, durable design for the future in New England. NEPGA commits to engaging meaningfully and constructively to support these efforts as we look forward to helping to power a future driven by competitive market principles for a reliable electricity supply network and decarbonized economy.

III. THE EVOLVING ELECTRICITY GRID

The New England states are mandating major changes to the power generation mix. At the current pace, resources supported by existing state policies are expected to account for more than 50% of the total electricity supply in New England by 2027.⁹ Through a combination of long-term contracts for clean electric generation, Renewable Portfolio Standard (“RPS”) carveouts, and other clean energy supports, the New England market will see a wave of resource entry with a substantial suppression of energy market values. These resources, however, are generally intermittent in nature and require supplemental electricity services for a reliable and resilient electric grid. The New England states have no existing policies, and in NEPGA’s belief are extraordinarily unlikely, to provide comparable contracting or revenue support for existing conventional technology resources that provide reliability services. These reliability resources will likely see their run-times go down, with depressed energy market values insufficient to support operations. Yet, a substantial portion of these resources will remain critical for reliability needed for backstop, balancing, and reserve services.

⁹ <https://nepga.org/2018/11/report-on-new-england-electricity-market-out-to-2027/> (“Cavicchi Report”)

Numerous recent studies highlight this need for firm or dispatchable electricity. As stated in the recent Massachusetts Decarbonization Roadmap 2050 report: “Because of the need for firm capacity on a handful of days, thermal generating capacity without carbon capture is the other essential component of low-cost electricity balancing. There was no significant change in the size of the gas turbine fleet in the region by 2030 in most pathways. Thermal power plants are difficult to replace economically because of the occurrence of lengthy periods with low wind output (72+ hours).”¹⁰ A separate report informed by a broad cross-section of stakeholders similarly found that to meet the deep decarbonization requirements across the New England economy will require “the addition of large amounts of wind, solar, and battery storage resources, complemented by firm capacity to provide generation during extended periods of low wind and solar availability. Firm capacity includes natural gas power plants, nuclear, hydrogen generation, or other yet-to-be commercialized options such as long-duration storage.”¹¹ These services are further supplemented by hydropower, pumped storage, and other existing technologies.

In such an environment, a market like FCM may become even more important to ensure adequate supplies and critical reliability support. Without FCM, these resources counted on for firming or dispatchable services would require a contracting regime, such as a cost-of-service model, or the capability for very high energy/ancillary services prices, with extraordinary volatility. Notably, prices in New England’s existing ancillary services markets are based largely on lost opportunity costs in the energy market, and therefore look to be poorly suited to this type of role. NEPGA believes that preserving the value of FCM is the best path for New England.

¹⁰ “Energy Pathways to Deep Decarbonization: A Technical Report of the Massachusetts 2050 Decarbonization Roadmap Study,” December 2020, Massachusetts Executive Office of Energy and Environmental Affairs, Page 6

¹¹ “Net-Zero New England: Ensuring Electric Reliability in a Low-Carbon Future,” November 2020, Energy+Environmental Economics/Energy Futures Initiative, Page 1

Should this indeed be the path forward, allowing for competitive revenue opportunities for non-subsidized resources remain important and likely even more critical moving forward. That situation would be exacerbated if MOPR is eliminated or rendered ineffective. NEPGA agrees with comments from ISO-NE President & CEO Gordon van Welie at the Technical Conference that, in such a scenario, other market changes will be necessary – eliminating MOPR with no other matching reforms must not occur.

The risk of unilaterally eliminating MOPR without further reforms is significant. As was shown in a NEPGA-sponsored report on the effects of subsidized resources, those resources that currently provide – and are largely expected to provide – critical reliability services, are those that would be most adversely affected. For example, “assuming that existing natural gas-fired resources are the dispatchable resources most likely to see their production reduced to accommodate new additions, as would be expected to occur under the current wholesale market design, the aggregate production from these resources is expected to fall by almost 50% between now and 2027 (declining from 40% to 22%). Absent higher revenue opportunities, this foreshadows increased resource retirements.”¹²

The combination of an abrupt removal of MOPR and a sizable entry of subsidized resources in the FCM would likely create a drastic reduction in capacity prices. That in turn may prompt many resources to retire. If any of those resources are needed for reliability, New England may reenter the realm of providing cost-of-service contracts for individual resources. That is an outcome that should be avoided to the maximum extent possible. With that in mind, NEPGA believes that further analysis of the impacts of a move away from MOPR should be developed on a market-specific basis with solutions to address these issues developed regionally. Exactly what

¹² Cavicchi Report, Page 9

the complementary changes need to be should MOPR be eliminated, should be the subject of the ongoing New England regional forums.

NEPGA recognizes statements from individual Commissioners raising the question of the future viability of MOPR. NEPGA must also note that MOPR is not a wall beyond which no triggering resource may pass. It is rather a screen that serves as a checkpoint in which a significant number of resources in New England have been permitted to make competitive offers in FCM, with many of those offers ultimately selected in the auctions. As noted at the Technical Conference, offshore wind is differently situated than most other resources. In the short-term, it is difficult to foresee that technology offering economically below a reasonable FCM clearing price. It therefore justifies the higher ORTP value that ISO-NE has proposed and is currently under consideration in a separate docket.¹³ The impact of unmitigated offshore wind entry in FCM is substantial and would have a comparable effect of simply doing away with MOPR with no concurrent market changes. It is in fact for resources like offshore wind that a mechanism like CASPR could be most beneficial, matching with resource exit.

Offshore wind and other subsidized resources undoubtedly do have some capacity value and contribution. It is in part based on this recognition that CASPR was developed and why NEPGA has supported it. CASPR, however, has not met one of its primary objectives of allowing subsidized resource entry, largely stymied by a lack of resource exit through the primary auction. NEPGA highlights two areas that have delayed expected retirements: 1) lack of sufficient retirement price signals in, among other areas, Pay for Performance; and 2) an unnecessarily burdensome delist process and binding retirement track. These issues essentially can be boiled down to better valuation of reliability contributions and needed market mitigation reform. At that

¹³ Joint Filing of ISO New England Inc. and New England Power Pool Regarding Offer Review Trigger Prices, Docket No. ER21-1637-000 (filed April 7, 2021).

high level, they are complementary with the broader market reviews that the Commission has engaged in this docket. NEPGA has also raised these issues directly with ISO-NE and discussions are ongoing on improvements that may be appropriate.

Even as the market is iteratively refined and improved, the New England wholesale electricity market finds itself on the cusp of a massive change. The Technical Conference and the Notice for Comments point to an interest to further integrate state policy resource choices into the wholesale market. The need to continue to evolve the markets is real.

IV. THE NEXT GENERATION NEW ENGLAND WHOLESALE ELECTRICITY MARKET

New England has relied on competitive market principles to preserve reliability, finance needed investments, and supply cost-competitive electricity for consumers for over 20 years. NEPGA believes that the future of the New England grid will be based on that same foundation with reliability and resource adequacy maintained through competitive markets. While the currently mandated contracted resources are integrated into the markets, NEPGA hopes that there will also be further efforts to integrate state clean energy policies into the markets in a competitive manner. There are many ways to harmonize and embed state policies in the markets. NEPGA has long supported a meaningful multi-sector price on carbon emissions, but remains open and interested in other options. NEPOOL stakeholder reviews of a Forward Clean Energy Market and Integrated Clean Capacity Market are also occurring, led by ISO-NE.

As those efforts continue, attention must be paid to driving reliability through the markets in a changed landscape with new resources bringing both the services they can supply, as well as operational challenges that must be recognized. NEPOOL and ISO-NE have spent the last several months outlining a “gap analysis” of what further reliability products, or enhancements to existing

market structures, may be necessary in this grid of the future. NEPGA supports that initiative and urges the Commission to encourage its timely conclusion.

Concurrently, NEPGA supports an accelerated consideration of the reliability contributions provided by resources. A framework based on the Effective Load Carrying Capability (“ELCC”) for capacity resources is a promising next step for FCM. It offers a more transparent view of the operational characteristics and contributions of individual resource types – applied equally to all technologies and fuels, both for new and existing resources. There are important details that need to be developed for full implementation of ELCC and integration into FCM. Those should be considered jointly by ISO-NE and NEPOOL, but must not be allowed to languish. NEPGA encourages implementation in time for FCA 17 (February 2023) or no later than FCA 18 (February 2024). Applying an ELCC framework to resource qualification for FCM is increasingly important as New England sees a growing portion of capacity coming from short-duration battery storage. Such resources offer an important service for the system, but whether that equates to full capacity credit, as currently occurs, is questionable.¹⁴ As ELCC is developed and eventually implemented, further refinement should be made on qualification concerns of this nature.

Finally, the Technical Conference also highlighted that while the capacity markets receive a substantial amount of attention in the regulatory arena, important improvements must also occur in the other FERC-jurisdictional markets. For example, widespread integration of variable and intermittent resources creates greater planning uncertainty. As Mr. van Welie said in the Technical Conference, the concept of “energy security” is critical to address. Improvements such as a more

¹⁴ To that point, the existing FCM qualification criteria of allowing full capacity credit for storage resources capable of only 2-hours was not the result of a deliberate stakeholder discussion about how to qualify battery storage, but instead an unforeseen secondary use of the 2-hour duration discussed for purposes of seasonal audit tests. Its secondary use for battery qualification in FCM is not documented in the ISO-NE tariff or manuals and not approved by the Commission – and to our understanding exists only in ISO-NE training materials on FCM qualification.

robust reserve market, better pricing of operator dispatch actions and uplift, and accounting of net load contributions all require additional action. Most immediately, NEPGA is mindful of the Commission rejection of the Energy Security Improvements (“ESI”) package. A number of elements included under ESI should be revisited, such as a day-ahead operating reserve product NEPGA has sought since as far back as 2006.

V. CONCLUSION

NEPGA appreciates the commitment to regional collaboration expressed at the Technical Conference, particularly from New Hampshire Public Utility Commissioner Kathryn Bailey and Connecticut Department of Energy and Environmental Protection Commissioner Katie Dykes. There is an opportunity to now further that work toward meeting reliability and resource adequacy through a New England-wide market. The Commission’s current assessment serves as an opportunity to accelerate these considerations and break through many of the policy battles in which NEPGA has played a part.

NEPGA is striving to work toward forward-looking market solutions to address the changing resource mix and better align the wholesale markets with state policies. This has taken the shape of adopting a policy five years ago in support of a meaningful carbon price determined by the states, and lobbying aggressively in support of it. NEPGA has also worked to use its platform through op-eds and filings at the Commission to highlight the need to better price reliability services and focus ISO-NE’s and the stakeholder community’s attention to the future needs of the market. NEPGA hopes that its public comments and positions on these have helped drive towards constructive changes, but recognizes that there is still a long way to go.

This docket is not designed to solve all the challenges that exist in the wholesale markets, nor can it. But the opportunity for guidance and direction from the Commission is meaningful. From there, it is incumbent that the market stakeholder process and regional forums craft the approaches best suited for their stakeholders and areas they serve. New England has begun to make progress there and NEPGA remains hopeful that this is the year in which solutions can be identified and brought closer to implementation.

Those solutions should align with the FCM auction timelines, to provide certainty and a smooth transition to a durable market structure. The changing electricity grid and further reliance on electricity pursuant to state decarbonization efforts also requires sharper accounting for reliability contributions of individual resources and resource types. That should not, however, relieve the burden of urgent attention. That urgency is clear across the views expressed by participants in the March 23 Technical Conference. NEPGA shares it.

NEPGA also recognizes that March 23 was only the first Technical Conference, primarily focused on PJM. The comments expressed here will hopefully serve as a framework for the New England-specific Technical Conference on May 25 as well as help support the ongoing regional discussions. NEPGA is committed to engagement across those forums and would appreciate the opportunity to further participate at the May 25 Technical Conference.

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 on April 26, 2021.

/s/ Dan Dolan

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