UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

ISO New England Inc.	)	Docket No. ER17-795-000

COMMENTS OF THE
NEW ENGLAND STATES COMMITTEE ON ELECTRICITY

Pursuant to the Federal Energy Regulatory Commission's ("Commission" or "FERC") January 17, 2017 Combined Notice of Filings #1, the New England States Committee on Electricity ("NESCOE") hereby files these comments in the above-captioned proceeding.[1] On January 13, 2017, ISO New England Inc. ("ISO-NE" or the "ISO") filed with the Commission proposed changes to the values reflected in the Forward Capacity Market ("FCM") for (i) Cost of New Entry ("CONE"), (ii) Net CONE, and (iii) the Offer Review Trigger Price ("ORTP") for various resources (the "ISO-NE Filing").[2] For the reasons discussed below, NESCOE supports the proposed adjustments to the CONE/Net CONE values as overall reasonable updates reflecting changed market outcomes and market designs.[3]

I. BRIEF DESCRIPTION OF ISO-NE FILING ON CONE/NET CONE VALUES

Under the Tariff, ISO-NE is required to recalculate the CONE/Net CONE values, at minimum, every three years.[4] Stated simply, these calculations seek to estimate "the true value

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1 On January 17, 2017, NESCOE filed a motion to intervene in this proceeding. NESCOE is the Regional State Committee for New England, representing the collective position of the six states in regional electricity matters.

2 Capitalized terms not defined in this filing are intended to have the meaning given to such terms in the ISO-NE Transmission, Markets and Services Tariff (the "Tariff"). Market Rule 1 is Section III of the Tariff.

3 These comments are limited to the proposed CONE/Net CONE values. Depending on the substance of any pleadings made in connection with the ORTP values, NESCOE may seek to supplement these comments to address that aspect of the ISO-NE Filing.

4 ISO-NE Filing, Transmittal Letter ("Transmittal Letter"), at 6 (citing Market Rule 1, Section III.13.2.4).

that new entrants would need to enter the market[.]"[5] The value for Net CONE is intended to reflect "the levelized capacity revenue that a new resource would need in its first year of operating to be economic, given reasonable assumptions about net revenues."[6] This requires the identification of a so-called "reference technology," which is "a hypothetical unit of a particular technology type in a particular location in New England[.]"[7] To be eligible for selection as the reference technology, a resource type must: (1) likely be "economic for merchant entry under long-term conditions" and (2) "have reliable cost information" to enable the ISO to calculate new entry costs.[8]

The currently effective values were set in 2014 using this screening criteria and were ultimately based on a combined-cycle ("CC") resource reference technology.[9] ISO-NE proposes to apply the new values, based on a gas-fired simple cycle combustion-turbine ("CT") resource, beginning with the twelfth Forward Capacity Auction ("FCA").[10]

The CEA Report, which evaluated different resource types, informed the selection of the CT reference technology. According to CEA, "[t]he simple cycle frame combustion turbine is substantially less expensive than" other resource types including the CC "and is an established technology in New England."[11] CEA concluded that because "the market has revealed that the simple cycle technology is a cost-effective technology that has gained commercial acceptance

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5 ISO-NE Filing, Attachment 1, Concentric Energy Advisors ("CEA"), *ISO-NE CONE and ORTP Analysis: An evaluation of the entry cost parameters to be used in the Forward Capacity Auction to be held in February 2018 ("FCA-12") and forward*, Jan. 13, 2017 (the "CEA Report"), at 8. *See also id.* at 5.

6 *Id.* at 8.

7 *Id.* at 5.

8 Transmittal Letter at 6.

9 *Id.* at 2, 5.

10 *See id.* at 6.

11 CEA Report at 5.

and is economically viable in New England, we believe that the simple cycle frame combustion turbine appropriately balances relevant considerations – it is the most economic and proven technology that was evaluated, and is actively being developed in the region."[12]

The ISO-NE Filing also discusses material developments in the ISO-NE markets, and changes to its rules, since 2014 that are relevant to this proceeding and that justify the selection of a CT resource as the appropriate reference technology. These include:

- The clearing of CT resources in the FCM since 2014. No new CT resource had cleared the FCM when CONE/Net CONE values were established three years ago.[13]

- The reform of FCM rules, including the elimination of administrative pricing rules that presented a purported risk of capacity being under procured depending on the value set for CONE/Net CONE. These reforms also included the implementation of convex shaped demand curves reflecting the reliability value of incremental capacity, which is designed to ensure that the system procures the level of capacity needed for reliability even if FCM clearing prices do not reach Net CONE every year.[14]

- Changes to the ISO-NE markets, including implementation of Pay for Performance, which may support "the development of more flexible resources such as those represented by the CT reference technology."[15]

ISO-NE concluded that, when considered together, "these market changes make CT resources considerably more attractive financially to potential project developers now than at the time of the 2014 Net CONE study, as the recent entry and clearing of CT technologies in the [FCM] attests."[16]

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[12] *Id.* at 6.

[13] Transmittal Letter at 10-11.

[14] *Id.*

[15] *Id.* at 11.

[16] *Id.* at 12.

II. COMMENTS

NESCOE supports ISO-NE's proposed switch in reference technology to a CT resource as an overall reasonable approach to updating CONE/Net CONE values. The CEA Report analyzed a number of commercially-available reference technologies, including the CT and the CC, and found that the CT was substantially more economically efficient than the other resources types.[17] The Net Cone value for the CC, at $10.00/kW-month, was almost 25% higher than the value for the CT at $8.04/kW-month.[18] As discussed above, ISO-NE also justified the selection of a CT in light of changed market rules and the participation of new CT resources in the FCM, and using the most efficient resource to set Net CONE is consistent with the proper functioning of the demand curves. Based on these combined factors, while NESCOE may not agree with every assumption used to calculate the CONE/Net CONE values, ISO-NE's choice of a CT as the reference technology is warranted and it achieves the market function of meeting the region's reliability needs at the lowest possible cost.[19]

Furthermore, to the extent future changes in the market suggest that the CONE/Net CONE values should be reconsidered, ISO-NE has the ability under the Tariff to consider the appropriateness of the values before waiting another three years. ISO-NE has already committed to reviewing those numbers if circumstances merit a new analysis, and NESCOE supports that approach.[20]

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17 *See id.* at 10.

18 *Id. See* CER Report at 7 (Table 2).

19 *See, e.g.,* Order No. 2000, Regional Transmission Organizations, FERC Stats. & Regs. ¶ 31,089 (2000), at p. 3 ("Competition in wholesale electricity markets is the best way to . . . ensure that electricity consumers pay the lowest price possible for reliable service."), *order on reh'g*, Order No. 2000-A, FERC Stats. & Regs. ¶ 31,092 (2000).

20 *See* February 3, 2017 NEPOOL Participants Committee Meeting, Agenda Item #1, Minutes of the January 6, 2017 NEPOOL Participants Committee Meeting (Marked to Show Changes from Jan. 24, 2017 draft), at 3750, *available at* http://nepool.com/uploads/NPC_20170203_Composite_NoRules3.pdf.

By contrast, one generating entity proposed an amendment during the stakeholder process that would set Net CONE to $10.00kW-month, maintaining the CC as the reference technology.[21] NESCOE opposed this amendment, which would increase Net CONE by more than 40% over the clearing price for FCA 10 without justification.[22] Claims that the transition to the CT reference technology would be "dramatic" and cause "substantial market uncertainty"[23] are unfounded. Indeed, the Tariff specifically requires that ISO-NE update the values at least once every three years and allows for changes in reference technology.[24] Moreover, the use of the convex demand curve in FCAs 12-14 does not restrict prices from rising above Net CONE and would do so quickly if required to incentivize the participation of capacity resources needed to meet reliability objectives.[25] And as the Commission has found, to the extent Net CONE is too low, the shape of the convex demand curve mitigates any reliability impact of underestimating the Net CONE price.[26] In any event, if the Net CONE value is in need of further adjustment after FCA 12, ISO-NE can, and has committed to, revisiting the calculation.

NESCOE would oppose any effort to revive this amendment, which failed to receive sufficient stakeholder support, through this proceeding. ISO-NE's use of a CT resource as the

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21 *Id.* at 3748-3750.

22 *Id.* at 3749.

23 *See* January 6, 2017 NEPOOL Participants Committee Meeting, Agenda Item #5, Attachment E, Calpine, Amendment to Net CONE: Comments to ISO New England Markets Committee, Dec. 6, 2017, at Slide 2, *available at* http://nepool.com/uploads/NPC_20170106_Composite4.pdf.

24 *See* Market Rule 1, Section III.13.2.4; *see also ISO New England Inc. and New England Power Pool Participants Committee*, 147 FERC ¶ 61,173, at P 32 (2016) (agreeing that the appropriate reference technology is one "that appears likely to be developed in New England and [that] ISO-NE can develop cost and revenue estimates for this technology with confidence.").

25 *See* ISO New England Inc. and New England Power Pool Participants Committee, Demand Curve Design Improvements, Docket No. ER16-1434-000 (filed April 15, 2016), Prepared Testimony of Christopher Geissler and Matthew White on Behalf of ISO New England Inc., at 21-22 ("[I]f the system has insufficient capacity to satisfy the resource adequacy objective, then the demand curves should enable the market price to rise *above* Net CONE, in order to induce the entry of additional capacity resources.") (emphasis in original)

26 *ISO New England Inc. and New England Power Pool Participants Committee,* 155 FERC ¶ 61,319, at P 38 (2016).

reference technology is supported, consistent with and in furtherance of material market changes, and is designed to advance reliability at the lowest possible cost.

III. CONCLUSION

For the reasons stated herein, NESCOE respectfully requests that the Commission consider the above comments in this proceeding.

Respectfully submitted,

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CERTIFICATE OF SERVICE

In accordance with Rule 2010 of the Commission's Rules of Practice and Procedure, I hereby certify that I have this day served by electronic mail a copy of the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Boston, Massachusetts this 3rd day of February, 2017.

Respectfully submitted,

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