

**STATE POLICIES AND WHOLESALE MARKETS
OPERATED BY ISO NEW ENGLAND INC.,
NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.,
AND PJM INTERCONNECTION, L.L.C.**

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New England States Committee on Electricity**

April 25, 2017

Thank you for the opportunity to participate in this technical conference. I serve as the Director of Analysis for the New England States Committee on Electricity (NESCOE), and I am speaking today on behalf of the six New England states.¹

Earlier this month, NESCOE provided feedback to the New England Power Pool (NEPOOL) in connection with its Integrating Markets and Public Policies (IMAPP) initiative, and specifically proposals designed for the long-term.² My statement below is drawn from this communication,³ which represents the most recent collective New England states perspective on IMAPP and may address some of the questions that FERC staff included in its April 13, 2017 Supplemental Notice of Technical Conference. NESCOE appreciates the opportunity to discuss these issues further at the technical conference. NESCOE looks forward to sharing its view, informed by the IMAPP process and FERC proceedings over the last several years, and to hearing the

¹ This statement, as well as any views expressed during the technical conference, seek to convey the collective perspective of the six New England states. They do not necessarily reflect the specific view of any one New England state on any particular issue.

² Over the last nine months, stakeholders have developed proposals designed to integrate markets and the requirements of state laws over the *long-term*. ISO New England (ISO-NE) has also advanced a proposal for the *near-term*. NESCOE's feedback to NEPOOL is limited to stakeholders' long-term proposals.

³ The communication can be accessed in its entirety at http://nescoe.com/wp-content/uploads/2017/04/NESCOE_Memo_NEPOOL_4-7-17f.pdf. Additional NESCOE communications regarding IMAPP are available at <http://nepool.com/IMAPP.php>.

perspectives of FERC staff and others on these important issues. NESCOE is also undertaking analysis that will further inform its views on potential long-term mechanisms and will make that analysis available for discussion later this year.

I. NEW ENGLAND'S ACTIVE ENGAGEMENT ON EXPLORING MECHANISMS TO INTEGRATE STATE CLEAN ENERGY REQUIREMENTS AND WHOLESALE MARKETS

Beginning in the summer of 2016, market participants have worked diligently in the IMAPP process to develop potential mechanisms that might better integrate the requirements of state laws and wholesale competitive market design.⁴ NESCOE considers IMAPP a success in that it has identified mechanisms that have the potential to advance state-level mandates through regional competitive wholesale markets. The states appreciate NEPOOL's time and effort and the work of market participants that have contributed to this important dialogue.

As noted at the outset of the IMAPP process, the New England states have a variety of mechanisms available to them through which to execute the requirements of state laws. The states have not, however, had a viable option in the form of a pricing mechanism directly connected to the wholesale competitive markets and appreciate the opportunity to explore that potential mechanism.

Given the very small level of procurements completed to date pursuant to state laws and the lengthy processes required before any such further procurements are concluded,⁵ New England has the benefit of time to sort through market and/or other changes that may be required over the long-term in a way that is thorough and holistic. This includes, but is not limited to, policies

⁴ In this communication and in the IMAPP process generally, the states refer to the requirements of states' laws. This is distinguishable from non-binding, non-mandated expressions about policy options, preferences, or goals.

⁵ See <https://macleanenergy.com/83d/83d-timeline/> for an example of procurement timelines.

and/or programs related to carbon reduction, storage, and distributed generation. NESCOE looks forward to discussion about the design of the future grid and associated market rules. That discussion can explore, for example, the relative size and proper form of the ancillary service markets, ISO-NE's examination of ramp pricing in the context of a wholesale market with a higher level of variable resources, and understanding the effect of the recently implemented fast start pricing and sub-hourly real-time settlement market rules that the states supported.

NESCOE will continue to collaborate with NEPOOL and ISO-NE on these important matters.

Concurrently, as noted at the outset of the IMAPP process, NESCOE has been conducting a *Renewable and Clean Energy Mechanisms 2.0 Study*.⁶ The purpose of the study is to:

1) examine energy and capacity markets under various hypothetical future market conditions (Phase I), and 2) assess various mechanisms, such as renewable portfolio and clean energy standards, power purchase agreements, strategic transmission investments, and centralized auction-based procurement (Phase II). NESCOE has completed Phase I, the scenario analysis, and is working on Phase II, the mechanisms analysis.

Reactions to "Achieve"-Style IMAPP Proposals

Over the course of 2016 up to the present date, states have dedicated time to assess and discuss long-term "achieve"-type proposals that market participant have developed through the IMAPP process. NESCOE also looks forward to reviewing ISO-NE's proposed short-term

⁶ See <http://nescoe.com/resource-center/mechanisms-study-jun2016/>. This study followed a related NESCOE mechanisms whitepaper published in December 2015, *Mechanisms to Support Public Policy Resources in the New England States*, at <http://nescoe.com/resource-center/mechanisms-dec2015/4/>. That paper identified a range of mechanisms available to states to support resources required by state laws, such as clean energy standards, contracting, and cap and trade programs. It described each mechanism's mechanics, as well their interaction with the competitive wholesale markets and some legal and regulatory issues. Of course, producing information about a variety of mechanisms is not intended to, and should not be interpreted to, suggest a preference for any mechanism.

“accommodation”-type proposal that we understand will be presented at the technical conference.⁷

At this stage of the IMAPP process, the long-term “achieve”-style proposals that market participants have proposed generally fall into two categories: a Forward Market Design (FMD) and a form of carbon pricing. With respect to an FMD, states with forward-looking needs to satisfy the requirements of their respective state laws are interested in further analysis of these potential mechanisms. The states understand the potential benefits of a longer-term centralized auction platform design. Most of these benefits align with the benefits of the transition to competitive wholesale markets. In particular, the states see value in seeking to design a competitive market mechanism that can achieve state policy objectives while appropriately allocating resource investment risk to investors. States continue to assess FMDs and the circumstances in which an FMD would make sense in the context of state laws and for consumers. States that foresee further clean and renewable energy needs remain interested in continuing to explore the advantages and disadvantages to an FMD, and should the former outweigh the latter, to explore work-arounds to any impediments. There are a number of open threshold questions regarding an FMD, including the level of expected procurement activity going forward, that the states continue to consider in assessing the value of an FMD.

NESCOE does not support an additional carbon pricing-style mechanism in furtherance of state laws, which would be administered by ISO-NE and regulated by FERC. The New England states have for a decade collectively supported carbon pricing in the form of the Regional

⁷ See, e.g., ISO New England, *Competitive Auctions with Subsidized Policy Resources: Highlights*, April 2017, available at http://nepool.com/uploads/IMAPP_20170517_ISO-NE_Substitution_Auction_Exec_Summary_20170417.pdf.

Greenhouse Gas Initiative (RGGI), a cooperative multi-state effort to reduce greenhouse gas emissions.⁸ The states at this time do not support an additional, separate carbon pricing-style mechanism that would be administered by ISO-NE and subject to FERC jurisdiction to execute the requirements of various states' laws.

In NESCOE's April 7, 2017 memo to NEPOOL, available at the link provided above, the states identified a list of continuing concerns about a FERC-jurisdictional tariff reflecting carbon pricing to execute the requirements of some states' laws. These concerns include risks to states' ability to make their own determination regarding the implementation of their carbon-reduction laws. For example, as illustrated in recent years, a few market participants with an appetite and budget to litigate matters could seek to disrupt a design over which ISO-NE, NESCOE and NEPOOL find agreement. FERC could also seek to direct changes on its own initiative. A separate concern includes the consumer cost risk associated with creating an increased revenue stream, whether needed or not, applicable to all non-carbon emitting resources without identifying the conditions under which such need would be determined.

II. CONCLUSION

NESCOE believes that continuing to work together with ISO-NE and NEPOOL on potential near- and longer-term approaches is the best way to sort through the complex challenge of preserving the benefits of competitive wholesale markets while the states execute the requirements of state laws. Thank you again for the opportunity to participate in this technical conference. NESCOE looks forward to the discussion today and in the months ahead.

⁸ The RGGI states' Memorandum of Understanding was signed by all states in 2007. States have participated in RGGI pursuant to the authority of each state's laws since 2009, which was the also first compliance period.