

CASPR Proposal:
NESCOE CASPR Amendment #1 (Package)

New England States Committee on Electricity

NEPOOL Markets Committee

November 8, 2017

Standard mid-process note: any views expressed should not necessarily be construed as representing the views of NESCOE, any NESCOE manager, or any individual state.

Overview

- **NESCOE's amendment #1** includes a set of amendments to be voted on as **a package** with the intent *to build a broader level of support*
 - The first amendment modifies supply eligibility
 - The second incorporates FirstLight's proposal to limit inter-zonal transfers
 - The third incorporates the Calpine #1 amendment
 - The fourth incorporates the concept of a backstop in the Substitution Auction ("SA")
- Under this package, NESCOE adopts ISO-NE's proposal related to the Renewable Technology Resource ("RTR") Exemption

Overview, cont'd

- **Package of Amendments is a good faith effort on behalf of the states to build broader support for CASPR**
- **Backstop Provision is critically important to states and protects price formation**
 - The package of amendments accepts provisions (FirstLight/Calpine 1) that limit demand and the ability for CASPR to meet various state objectives, but provides price formation protection
 - The narrowly tailored Backstop is a reasonable construct if CASPR fails
 - Consistent with FERC order on RTR recognizing that price distortion occurs if false signal sent that new capacity is needed
 - The Backstop has provisions to protect price in future auctions
- **States simply cannot take a wait and see approach (with no Backstop) over several years**
 - Execution of state laws are certain. The mechanism to accommodate them must provide certainty, too
 - CASPR has to provide more than an *opportunity* to accommodate

Changes from Last Month

- Concerns were raised that the backstop along with the RTR exemption transition would result in “double counting”
 - **Change to be responsive: Delayed the effective date until the RTR exemption terminates (FCA16), based on the outcome of the FCA15 SA**
- Concern noted on how the threshold price was determined and dollar level
 - **Change to be responsive: Fixed the threshold price to \$2.00/kw-mth with a review every three years**
- To address implementation concerns, substitution auction backstop resources will be a New Capacity Resource that can bid below its offer floor price

No other changes to the core components from last month

Eligibility

CASPR Eligibility

- NESCOE's amendment accepts the ISO-NE definition
- Adds a MW restriction for certain resources to address concerns noted by some stakeholders while meeting the needs of other stakeholders
- No material changes from last month

Eligibility Definition

I.2.2. Definitions:

Sponsored Policy Resource is a New Capacity Resource that is either: (i) developed pursuant to a requirement of a New England state's law, or at the direction of a New England state's electric utility regulatory authority or energy department, or, alternatively; (ii) designated as a Self-Supplied FCA Resource by a municipal utility (acting individually or through a joint action agency) or by a cooperatively owned electric utility.

A Sponsored Policy Resource shall not be a combustion or steam turbine generator or a combined cycle generator that has total capacity that exceeds 75 MW (on an individual unit or aggregation of generating units basis) in any single location, provided that the forgoing shall not disqualify or exclude as a Sponsored Policy Resource any resource that qualifies as a renewable, clean, or alternative energy resource under any New England state's mandated (either by statute or regulation) renewable energy portfolio standards, clean energy standards, or alternative energy portfolio standards in effect on January 1, 2018.

FirstLight and Calpine

FirstLight/Calpine Amendment

- The FirstLight and Calpine 1 amendments are incorporated into the package of amendments
- Both of these amendments address price formation concerns
- Both of these changes limit demand in the substitution auction raising uncertainty regarding CASPR meeting its objectives, thereby adding importance to having a backstop provision

SA Backstop

A Backstop Is About Certainty

- NESCOE appreciates the effort to accommodate public policies into markets
- NESCOE has been consistent about the need for certainty in any “accommodation” market design: at the outset of this process, and at every point along the way, states identified certainty as a threshold need
- **CASPR is new, innovative and untested. There is no certainty with respect to its functionality or the extent to which it will achieve its objectives**
 - CASPR can’t be just an *opportunity* to accommodate – uncounted capacity risks distorting market prices and overcharging consumers

What is the Backstop?

- Enhancement to the CASPR proposal
- The **primary purpose** is to **ensure there is a mechanism through which a limited number of sponsored policy resources that made a genuine attempt to clear under CASPR can obtain a capacity supply obligation**
- Said differently, this mechanism provides a way to accommodate public policy resources if the untested CASPR fails – one could really think of it as an insurance policy if CASPR fails
- In addition to ensuring a limited number of sponsored policy resources obtain a CSO, the Backstop further facilitates the trading of CSOs between retiring and new in future years through the proxy supply offer

The Backstop is Different from the RTR Exemption

- Backstop *only* used *if* certain triggering provisions are met
- There is a one-year delay in obtaining a CSO for resources using the Backstop
 - Allows the market to adjust to the new entry
- Due to the priority rule, the “market” determines what resource gets the award
- There is *no* carryforward year to year
- The sponsored proxy supply offer concept continues to reinforce the pairing of retirements and new resources in future auctions

Can't We Wait to See if CASPR Fails and Then Figure Something Out?

- No. Bidders in state solicitations will rely on market rules in place at the time
 - Costs to consumers will be based on those rules, not on undefined rules that may come into existence down the road
- If a better solution arises we could back the change before the effective date in FCA16

A Question of Balance

- Consumer interests are the point of the markets and public policies. Consumers are served by maintaining price formation + by providing certainty, through the backstop insurance policy, in the market's accommodation of public policies
- Does CASPR + RTR Transition + a permanent Backstop sequenced in after the RTR is eliminated tip the balance away from price formation? No.
 - The Backstop and the RTR are sequential not simultaneous - the Backstop takes affect after the RTR transitions out
 - The Backstop allows CASPR to work *first to protect price, then and only then* does it have a possible price effect but it *then* enables the market to see that coming and adjust, and *then* CASPR gets to *work again* to restore the supply-demand balance as if CASPR worked the first time

Balance, cont'd

- CASPR, even with a Backstop, provides better price formation protection than does the status quo
- CASPR, with this package of amendments, provides better price formation protection and limits other market concerns than CASPR does without the package
 - Adds in the FirstLight and Calpine amendments
 - Limit on eligibility

Thank You We Look Forward to
Your Questions

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Appendix – Backstop Examples

Backstop Example - A

A 250 MW sponsored policy resource that offers below the SA backstop threshold price (e.g. \$1) clears 50 MWs in Substitution Auction #1. Since less than 200 MWs cleared in the SA, 150 MWs would be eligible to be an existing capacity resource in forward capacity auction #2 (200 MW cap – 50 MW cleared supply).

Under this example 50 MWs would get a CSO in FCA#1, 150 MWs would be price takers in FCA#2, and the remaining 50 MWs would enter FCA#2 as new, subject to all minimum offer price rules.

SA#2 would reflect the 150 MW as a sponsored proxy supply offer at a price of \$1 for the earlier of (a) five years or (b) the sponsored proxy supply offer clears in a future SA.

Priority Rule Example

- Assume there was no demand in the SA and three 200 MW supply resources all offered below the SA backstop threshold price.
- All 600 MWs would qualify but would need to be limited to the 200 MW cap per the backstop rules.
- Assume Resource A price was \$1.00, Resource B price was \$0.00 and Resource C price was -\$1.50.
- Under the priority rule, Resource C would be a price taker in the next FCA since it offered the lowest price.
- A and B would continue to be considered new capacity. In the following SA (no.2), a proxy bid for Resource C would be entered at 200MWs @ \$0.00 for the earlier of five years or the sponsored proxy supply offer clears in a future SA (since its original SA price was less than \$0.00).

Backstop Example - B

- There is one Demand bid of 75 MWs @ \$5 in the prompt SA
- The following resources offer into the SA:
 - Resource A 70 MWs @ \$6.00
 - Resource B 30 MWs @ \$0.75
 - Resource C 50 MWs @ \$-1.00
 - Resource D 50 MWs @ \$-1.50
- Since the SA did not clear 200MWs and supply remains the backstop would be limited to 125MWs.
 - Resource D would get a 50MW CSO and Resource C would get a 25MW CSO in the prompt auction.
 - Resource B and the remaining amount of Resource C would get the backstop amount.
 - Resource A would not get the backstop treatment because it bid over the threshold price.