

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

New England Power Generators Association, Inc.	)	
	)	
	)	Docket Nos. EL16-120-000
v.	)	ER17-2153-000
	)	
ISO New England Inc.	)	

**REQUEST FOR CLARIFICATION OF THE  
NEW ENGLAND STATES COMMITTEE ON ELECTRICITY**

Pursuant to Rule 212 of the Federal Energy Regulatory Commission’s (“Commission” or “FERC”) Rules of Practice and Procedure, 18 C.F.R. § 385.212 (2017), the New England States Committee on Electricity (“NESCOE”) hereby moves for clarification of the Commission’s February 20, 2018 order in the above-captioned proceedings (the “February 2018 Order”).<sup>1</sup>

In the February 2018 Order, the Commission approved an Offer of Settlement (“Settlement”)<sup>2</sup> concerning ISO New England Inc.’s (“ISO-NE”) Peak Energy Rent (“PER”) adjustment.<sup>3</sup> The Settlement included an “Adjusted PER Strike Price.”<sup>4</sup> The February 2018 Order recognized that “the applicability of the [Adjusted PER Strike Price] to any events that occur during Capacity Commitment Period 9 is beyond the scope of this proceeding.”<sup>5</sup>

NESCOE respectfully requests clarification that the Adjusted PER Strike Price likewise does not apply to capacity payments in Capacity Commitment Period 9 (June 1, 2018 - May 31, 2019),

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<sup>1</sup> *New Eng. Power Generators Ass’n, Inc. v. ISO New England Inc.*, 162 FERC ¶ 61,144 (2018).  
<sup>2</sup> NESCOE joined the New England Power Generators Association, Inc. (“NEPGA”) and other parties in filing the Settlement.  
<sup>3</sup> 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”).  
<sup>4</sup> February 2018 Order at P 1.  
<sup>5</sup> *Id.* at P 3.

and that the Adjusted PER Strike Price will, therefore, have no effect on Forward Capacity Market (“FCM”) settlements beginning June 1, 2018, including as part of the operation of the PER twelve-month rolling average.

## I. BACKGROUND

The PER mechanism “removes a rolling average of ‘peak energy rents’ from suppliers’ monthly capacity payments and rebates this revenue back to load.”<sup>6</sup> As the administrator of this mechanism, ISO-NE “calculates a ‘strike price,’ a price just above the marginal cost of running the most expensive power generator in New England.”<sup>7</sup> ISO-NE then “calculates hourly peak energy rents—roughly the excess of the real-time electricity price over the strike price—for any hour” where that real-time price is greater than the strike price.<sup>8</sup> In settling FCM payments, ISO-NE “derives a monthly value of peak energy rents, averages it over the past twelve months, and subtracts this quantity from suppliers’ monthly capacity payments as the total [PER adjustment].”<sup>9</sup> The PER mechanism will be eliminated effective June 1, 2019, at the start of Capacity Commitment Period 10.<sup>10</sup>

On September 30, 2016, NEPGA filed a complaint with the Commission asserting that the PER mechanism had become unjust and unreasonable because of higher Reserve Constraint Penalty Factors (“RCPFs”).<sup>11</sup> NEPGA’s complaint sought relief only for a portion of Capacity

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<sup>6</sup> *New Eng. Power Generators Assoc. Inc. v. FERC*, 879 F.3d 1192, 1196 (D.C. Cir. 2018) (“*NEPGA*”). In *NEPGA*, the Court denied challenges to a series of Commission orders, including the Commission’s rejection of NEPGA’s 2014 complaint regarding the PER mechanism. NESCOE filed a brief in *NEPGA* supporting the Commission’s determination.

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> *ISO New England Inc.*, 151 FERC ¶ 61,096 (2015).

<sup>11</sup> *New Eng. Power Generators Assoc., Inc. v. ISO New England Inc.*, 158 FERC ¶ 61,034 at PP 1, 13 (2017) (“*Complaint Order*”), *reh’g denied*, *New Eng. Power Generators Assoc., Inc. v. ISO New England Inc.*, 161 FERC ¶ 61,193 (2017) (“*Rehearing Order*”).

Commitment Period 7 and for all of Capacity Commitment Period 8.<sup>12</sup> The Commission granted the complaint, in part, finding “that ISO-NE should revise its method for calculating the PER strike price for the September 30, 2016 – May 31, 2018 period to remedy this situation.”<sup>13</sup> The Commission set for hearing and settlement judge procedures the issue of how to revise the PER strike price for this period.<sup>14</sup>

The Settlement, filed in July 2017, proposed increasing “the PER Strike Price for each hour by the amounts that actual five-minute reserve shadow prices exceed the pre-December 2014 [RCPF] values for thirty-minute operating reserves and ten-minute non-spinning reserves (\$500/MWh and \$850/MWh, respectively)[.]”<sup>15</sup> As the February 2018 Order recounts, the Settlement also provided that parties did not agree “regarding the application of the Strike Price methodology agreed to in this Settlement to Capacity Commitment Period 9.”<sup>16</sup>

In comments on the Settlement, NESCOE asked the Commission to “provide the clarity needed on this issue to facilitate ISO-NE’s ability to efficiently proceed with the required Tariff changes.”<sup>17</sup> NESCOE stated that:

The methodology and any effect of the change should not be continued into the Capacity Commitment Period corresponding with [Forward Capacity Auction (“FCA”)] 9. In other words, the application of the [Adjusted PER Strike Price] should sunset at the commencement of the FCA 9 Capacity Commitment Period (June 1, 2018) and have no effect on capacity payments in FCA 9. To expand the application of the [Adjusted PER Strike Price] into the FCA 9 Capacity Commitment Period would create the potential for unjust and unreasonable capacity prices and, illogically, would

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<sup>12</sup> Complaint Order at P 13.

<sup>13</sup> Rehearing Order at P 3, citing Complaint Order at P 51.

<sup>14</sup> Complaint Order at P 57.

<sup>15</sup> February 2018 Order at P 1.

<sup>16</sup> *Id.* at P 3.

<sup>17</sup> Comments of the New Eng. States Comm. on Elec., Docket Nos. EL16-120-000, *et al.* (filed Aug. 17, 2017) (“NESCOE Comments”), at 7.

settle “the expectations of the parties at the time of FCAs 7 and 8” by *unsettling* the expectations of parties to FCA 9.

The [Complaint Order] was wholly, and intentionally, unrelated to FCA 9. Its scope was appropriately limited to FCAs 7 and 8 because “*for the time period in question*, capacity resources were unable to anticipate a future increase in [RCPFs], and accordingly, were unable to reflect a corresponding increase in their capacity offers.” By contrast, the RCPFs were increased prior to FCA 9 and resources accepting a Capacity Supply Obligation for that period were able to reflect this change. Resources participating in FCA 9 were thus able to include in their capacity supply offers an adjustment for the monthly application of the PER mechanism based on the existing Strike Price and its interaction with the higher RCPFs. To the extent there are PER Events during the FCA 8 period, continuing to apply the [Adjusted PER Strike Price] to capacity payments in the FCA 9 period would constitute excessive payments to suppliers and produce a resulting unjust and unreasonable rate. The Commission could not have intended such a result in seeking to remedy unjust and unreasonable rates for FCAs 7 and 8.<sup>[18]</sup>

NESCOE concluded by stating that “if the Commission approves the Settlement, it should direct ISO-NE to submit a compliance filing . . . that appropriately limits the application of the [Adjusted PER Strike Price] to the relevant period of FCA 7 and FCA 8 (*i.e.*, September 30, 2016 to May 31, 2018)” and that FCM payments beginning with Capacity Commitment Period 9 would use the PER methodology “that was in effect prior to the Settlement.”<sup>19</sup>

ISO-NE noted in its comments that parties to the Settlement disagreed “about how the Average Monthly Peak Energy Rent will be calculated on and after June 1, 2018.”<sup>20</sup> ISO-NE asked the Commission to “resolve that issue.”<sup>21</sup>

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<sup>18</sup> *Id.* at 8 (emphasis in original; citations omitted).

<sup>19</sup> *Id.* at 10.

<sup>20</sup> ISO New England Inc., Comments on Peak Energy Rent Settlements., Docket No. ER17-2153-000 (filed Aug. 16, 2017), at 2.

<sup>21</sup> *Id.*

The February 2018 Order acknowledged the issue involving Capacity Commitment Period 9. Citing to the Complaint Order, the Commission stated that “the PER Strike Price was shown to be unjust and unreasonable for the period at issue in NEPGA’s complaint, i.e., September 30, 2016 – May 31, 2018.”<sup>22</sup> The Commission found that “[a]ccordingly, the applicability of the [Adjusted PER Strike Price] to any events that occur during Capacity Commitment Period 9 is beyond the scope of this proceeding.”<sup>23</sup> The February 2018 Order did not specifically address the issue that NESCOE and ISO-NE raised: how FCM payments will be calculated beginning on June 1, 2018.

## **II. REQUEST FOR CLARIFICATION**

NESCOE requests clarification of how FCM payments are to be calculated in Capacity Commitment Period 9 given the Tariff’s operation of a twelve-month rolling average for PER adjustments. As discussed above, ISO-NE “derives a monthly value of peak energy rents, averages it over the past twelve months, and subtracts this quantity from suppliers’ monthly capacity payments as the total [PER adjustment].”<sup>24</sup> The February 2018 Order clearly reiterated that NEPGA’s complaint concerned a period of time ending on May 31, 2018—prior to Capacity Commitment Period 9—and that the “applicability of the [Adjusted PER Strike Price] to any *events* that occur during Capacity Commitment Period 9 is beyond the scope of this proceeding.”<sup>25</sup> The February 2018 Order does not, however, specifically address the circumstance where a PER event occurs in Capacity Commitment Period 8 but the twelve-month rolling average for PER adjustments implicates FCM settlements in Capacity Commitment

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<sup>22</sup> February 2018 Order at P 3, citing to Complaint Order at P 48.

<sup>23</sup> February 2018 Order at P 3.

<sup>24</sup> *NEPGA* at 1196.

<sup>25</sup> February 2018 Order at P 3 (emphasis added).

Period 9. While NESCOE believes that the February 2018 Order confirms that payments in Capacity Commitment Period 9 should *not* reflect the Adjusted PER Strike Price, it respectfully requests clarification of this issue.

This clarification is critical to how ISO-NE will develop Tariff language to comply with the February 2018 Order.<sup>26</sup> Based on NESCOE’s understanding of the Commission’s directives in this proceeding, the Tariff language should specify that beginning on June 1, 2018, FCM payments would apply the PER adjustment using the PER methodology that was in effect prior to the Settlement, even with respect to PER events that occurred in Capacity Commitment Period 8 and are captured in the twelve-month rolling average.<sup>27</sup>

As NESCOE previously explained, such Tariff language would protect consumers from paying excessive rates, a central purpose of the Federal Power Act. *See, e.g., Xcel Energy Servs. Inc. v. FERC*, 815 F.3d 947, 952 (D.C. Cir. 2016). The Commission found that for the period in question (part of FCA 7 and all of FCA 8), “capacity resources were unable to anticipate a future increase in [RCPFs], and accordingly, were unable to reflect a corresponding increase in their capacity offers.”<sup>28</sup> But, as NESCOE discussed, resources participating in FCA 9 were aware of the RCPF increases and “had the opportunity to reflect in their supply offers an increase for the monthly application of the PER mechanism based on the *existing* Strike Price and its interaction with the higher [RCPFs].”<sup>29</sup> There is no reasonable justification for providing Capacity

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<sup>26</sup> ISO-NE has announced plans to discuss draft market rule changes with stakeholders on March 6, 2018, with its compliance filing with the Commission due by March 22, 2018. *See* ISO New England, Mar. 6, 2018 NEPOOL Markets Committee Meeting Materials – 1st Set, available at <https://www.iso-ne.com/event-details?eventId=134539>.

<sup>27</sup> As NESCOE explained in prior comments, the PER adjustment on June 1, 2018 would, for example, be based on the Hourly PER values produced by the Daily PER Strike Price from June 2017 to May 2018.

<sup>28</sup> Complaint Order at P 51.

<sup>29</sup> Reply Comments of the New Eng. States Comm. on Elec., Docket Nos. ER17-2153-000, *et al.* (filed Aug. 28, 2017), at 4 (emphasis added).

Commitment Period 9 resources with a more advantageous PER adjustment—effectively a bonus at consumers’ expense. The Commission, which has been consistently clear in its orders in this proceeding that NEPGA’s complaint does not apply to Capacity Commitment Period 9, could not have intended for the Adjusted PER Strike Price to roll into FCM settlements beginning on June 1, 2018. NESCOE asks the Commission to clarify that the Adjusted PER Strike Price should have no effect on FCM settlements beginning June 1, 2018.

### **III. CONCLUSION**

For the reasons stated herein, NESCOE respectfully requests clarification that the February 2018 Order requires ISO-NE to submit Tariff language that limits the Adjusted PER Strike Price to capacity payments through May 31, 2018, and that will have no effect on such payments thereafter.

Respectfully submitted,

/s/ Jason Marshall  
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Date: March 1, 2018

## 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 Cambridge, Massachusetts this 1st day of March, 2018.

Respectfully submitted,

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