

# Winter Program: New England States' Preferred Approach

## New England States Committee on Electricity

NEPOOL Markets Committee

May 2015

# Outline of Presentation

1. NESCOE's proposed winter program description
2. Alternative proposal advantages
3. Cost Considerations
4. Next Steps

# Proposal: Similar to 2014/15 Winter Program with some Adjustments

## Same as Prior Year

- Maintains same type of participation, including the eligible categories of:
  - Fuel oil (barrels)
  - Liquefied Natural Gas (Bcf)
  - Demand Response (MW)
- Fuel survey participation
- End of season inventory compensation mechanism

## Change From Prior Year

- Winter seasons 2015-16, 2016-17 and 2017-18, with Appendix K expiring on March 15, 2018
- Update payment rates and other participation requirements to be consistent with the current ISO-NE program proposal
- Replenishment: Change in section III.K.2 to exclude inventory added after February 1 instead of March 1

*Other changes could develop as a result of continued stakeholder feedback both on this proposal and the ISO-NE expanded proposal*

# Advantages of an Alternative Proposal

Compared to the other proposals, the NESCOE proposal:

- Continues a proven, effective and efficient program touted by ISO-NE as successfully providing the necessary level of incremental reliability to New England
  - Found by FERC to be a just and reasonable and not unduly discriminatory means of providing *additional* reliability services until a long-term market-based solution is implemented
- Maintains a known and reasonable program cost estimate for the benefits provided to consumers in return for their investment
- The other proposals to date are non-starters
  - An expected cost of two, three or four times more that provides *at best* the same level of verifiable fuel assurance is unjust and unreasonable
  - The “Markets-No-Matter-The-Cost” approach puts the objective of sustainable competitive markets to serve New England consumers at risk
    - The point of markets is to drive efficiency, not inefficiencies that drive costs up
  - Neither of the other proposals provide incremental fuel assurance reliability benefits beyond the existing program

*A proven interim program at a proven cost provides the optimal course of action as a stop-gap measure in advance of long-term market design changes*

# Cost Comparison

At Prior Year \$18 Rate				<i>In millions</i> Max Cost Exposure			2014/2015
	Total MW*	Equiv BBL*	Payment rate	ISO-NE	NESCOE	EE&N	Actual
Nuclear	4041	1.62	\$18	\$29.16	\$0.00	\$0.00	\$0.00
Coal	2002	0.8	\$18	\$14.40	\$0.00	\$0.00	\$0.00
BioMass	577	0.23	\$18	\$4.14	\$0.00	\$0.00	\$0.00
Hydro	2941	0.05	\$18	\$0.90	\$0.00	\$0.00	\$0.00
Other	1500	0.6	\$18	\$10.80	\$0.00	\$0.00	\$0.00
Oil	10778	4.1	\$18	\$73.80	\$73.80	\$0.00	\$45.90
LNG	6 (BCF)	1	\$18	\$18.00	\$18.00	\$0.00	\$1.50
DR**	-	-	-	\$0.00	\$0.11	\$0.00	\$0.08
EE&N Proposal	24000	-	\$3	\$0.00	\$0.00	\$216.00	\$0.00
<b>Max Cost Exposure</b>				<b>\$151.20</b>	<b>\$91.91</b>	<b>\$216.00</b>	<b>\$47.48</b>

At Estimated \$14 Rate				<i>In millions</i> Max Cost Exposure			2014/15
	Total MW*	Equiv BBL*	Payment rate	ISO-NE	NESCOE	EE&N	Actual
Nuclear	4041	1.62	\$14	\$22.68	\$0.00	\$0.00	\$0.00
Coal	2002	0.8	\$14	\$11.20	\$0.00	\$0.00	\$0.00
BioMass	577	0.23	\$14	\$3.22	\$0.00	\$0.00	\$0.00
Hydro	2941	0.05	\$14	\$0.70	\$0.00	\$0.00	\$0.00
Other	1500	0.6	\$14	\$8.40	\$0.00	\$0.00	\$0.00
Oil	10778	4.1	\$14	\$57.40	\$57.40	\$0.00	\$45.90
LNG	6 (BCF)	1	\$14	\$14.00	\$14.00	\$0.00	\$1.50
DR**	-	-	-	\$0.00	\$0.11	\$0.00	\$0.08
EE&N Proposal	24,000MW	-	\$3	\$0.00	\$0.00	\$216.00	\$0.00
<b>Max Cost Exposure</b>				<b>\$117.60</b>	<b>\$71.51</b>	<b>\$216.00</b>	<b>\$47.48</b>

\* Values per ISO-NE April MC slide presentation slide 14

\*\* DR price exposure based on highest cost to date.

# Conclusion

- ISO-NE's expansion of a program should result in increased efficiency and more competition driving costs lower not higher
- NESCOE's proposal benefits consumers by providing a reasonably priced interim solution
- It is targeted at what the ISO-NE expressed as its immediate need leading up to the implementation of the Pay-for-Performance design
- Costs to consumers must always be a strong consideration
  - Especially true when the short-term need is driven because of a market design failure
- An out of market, non-fuel neutral program is admittedly imperfect; however, in this circumstance where New England consumers are forced to fill a hole to ensure power system reliability during a transition to a market-based program, a non-fuel neutral stop-gap program that is the most economically efficient option is the only reasonable way forward
- Proposals that result in increased cost with no incremental reliability benefit are unjust and unreasonable. As an interim solution, the optimal course of action is to continue with the existing proven program

# Next Steps

- Continue to evaluate ISO-NE and other proposals
- Solicit feedback from stakeholders on NESCOE proposal
- Identify sponsors for the NESCOE proposal
- Move forward with a vote next month on the proposal

# Thank You

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