

Winter Program:
Restructuring Roundtable

New England States Committee on Electricity

September 2015



NESCOE is New England's Regional State Committee, governed by a Board of Managers appointed by each of the New England Governors to represent the collective views of the six New England states on regional electricity matters

- ✧ **Focus:** Resource Adequacy, System Planning & Expansion
- ✧ **Resources:** 6 full-time staff with diverse disciplines & experience. Consultants used, primarily for transmission, engineering & independent studies
- ✧ ***NESCOE is not a NEPOOL Member***
- ✧ **More information:** including filings & comments at
 - www.nescoe.com
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The NEPOOL Proposal

- The origin of the NEPOOL proposal was the New England States' preferred approach to the winter reliability solution
- Many NEPOOL participants shared similar views on the best *interim* solution
 - The states' preferred approach was co-sponsored by a NEPOOL participant in each NEPOOL sector
 - Approved by 87% vote of NEPOOL, ISO-NE only received 13%
- Once approved, NEPOOL worked with ISO-NE, the states and its participants to prepare the jump ball filing
- NEPOOL is THE stakeholder voting advisory organization on all wholesale market matters in New England.

Proposal Co-Sponsors

- Conservation Services Group – *AR Sector*
- TransCanada Power Marketing Ltd – *Generation Sector*
- CT Office of Consumer Counsel- *End Users Sector*
- The United Illuminating Company – *Transmission Sector*
- Massachusetts Municipal Wholesale Electric Company (MMWEC) – *Publicly Owned Sector*
- Energy America, LLC. (Direct Energy) – *Supplier Sector*

What was the Objective?

- To procure, *as a stop-gap measure*, an additional measure of reliability for the next three winters
- To pay only for *necessary* and *incremental* benefits
- To *limit* the incremental reliability costs to consumers
- The NEPOOL Proposal is designed specifically to procure an additional level of fuel assurance from certain resources
 - Resource types that can and have proven to provide *measurable, verifiable, and truly incremental* power system reliability
 - Effectively extends core provisions of targeted, proven, and cost-effective program.

NEPOOL Proposal

- Maintains majority of ISO-NE New Program Language
 - Winter seasons 2015-16, 2016-17 and 2017-18, with Appendix K expiring on March 15, 2018
 - Updated payment rates and other participation requirements to be consistent with the current ISO-NE expanded program proposal
 - Other conforming changes
- Replaces ISO-NE eligible resource-type participation with-only those eligible in the 2014/2015 programs:
 - Fuel oil (barrels)
 - Liquefied Natural Gas (Bcf)
 - Demand Response (MW)
- Like the ISO-NE proposal, reduced the number of days from 15 to 10 days

Advantages of the 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
- It is targeted at what the ISO-NE expressed as its immediate need leading up to the implementation of the Pay-for-Performance design
- Maintains a known and reasonably priced interim solution to consumers in return for their investment

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

Other Considerations

- ISO-NE's expansion of a program does not result in increased efficiency and more competition driving costs lower
 - The expected costs of the ISO-NE program is *three times* higher
- It is *difficult to identify* additional fuel requirements for the ISO-NE expanded resource types
 - Typically already have low-cost fuels or extended fuel supplies to meet their expected operation
- ISO-NE's proposal is unlikely to deliver incremental reliability benefits associated with expanded program eligibility and removal of demand response resources
- The ISO-NE Proposal is *no more market-based* than the NEPOOL Proposal
- As an interim solution, the *optimal course of action* is to continue with the existing proven core program
- *Simply, if it's not broken don't fix it.....*

The FERC Directive

- FERC granted ISO-NE rehearing request to permit additional out-of-market winter reliability programs. (*ISO New England, Inc.*, Order Granting Rehearing, 151 FERC ¶ 61,052 (2015))
- FERC expected “ISO-NE to abide by its commitment to work with stakeholders to expand any future out-of-market winter reliability program to include ‘all resources that can supply the region with fuel assurance,’ such as nuclear, coal, and hydro resources.”
- However, “if any future out-of-market program is not fuel neutral, we expect that ISO-NE would provide a detailed description of the options it considered to make the program fuel neutral and why those options were ultimately not included.”

ISO-NE could have observed intervening events (significant/unnecessary program costs and *overwhelming* support for NEPOOL proposal) and made use of the flexibility FERC provided in the Rehearing Order to file the solution that satisfied ISO-NE reliability needs in prior years.

Specific to the States' View

- A “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 for consumers' benefit*, not inefficiencies that drive costs up
- Costs to consumers must always be a strong consideration
 - Especially true when the short-term need is driven because of a market design failure
 - ISO-NE proposal potentially could cost New England consumers an *additional \$100 million or more* over the life of the three-year program, without providing any need for an “expanded” program or identifying any incremental reliability benefit
- An out of market, non-fuel neutral program is admittedly imperfect; however, in this circumstance where New England consumers are forced to plug 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

Comments on the FERC Decision

- Accepted the NEPOOL proposal as "just and reasonable and preferable"
- Continued general preference for market-based solutions *but* "recognized that out-of-market solutions might be *appropriate in* certain circumstances"
 - Pointed to difficulties with creating and implementing a temporary and effective market-based solution
- The program is "essentially identical to last year's program" which *provided reliability* benefits and *achieved* substantial stakeholder support
- ISO-NE proposal was an attempt to comply with FERC *but found* the record does not reflect that the ISO-NE proposal will incent any additional fuel procurement
- Disagreed with arguments that the NEPOOL proposal is unduly discriminatory
 - FERC effectively adopted NEPOOL's proposal on this issue
 - Clarified that ISO-NE was not obligated to expand the program
 - Intended that ISO-NE and stakeholders would design a program that would *adequately address* the region's needs
- NEPOOL had "sufficiently explained *how* the region considered ISO-NE's fuel neutral proposal and *why* NEPOOL ultimately decided not to support or propose a fuel neutral option." Also, disagreed with ISO-NE's exclusion of demand response from its program
- The record reflects a 10-day inventory compensation cap is sufficient to incent participation

Thank You and Look Forward to the Panel Discussion

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