

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

Docket No. ER16-1434-000

ISO New England Inc. and)
New England Power Pool)
Participants Committee)
)

**COMMENTS OF THE
NEW ENGLAND STATES COMMITTEE ON ELECTRICITY**

Pursuant to the Federal Energy Regulatory Commission’s (“Commission” or “FERC”) April 15, 2016 Combined Notice of Filings #2 and April 28, 2016 Notice of Extension of Time, the New England States Committee on Electricity (“NESCOE”) hereby files these comments in the above-captioned proceeding.¹ On April 15, 2016, ISO New England Inc. (“ISO-NE” or the “ISO”) and the New England Power Pool (“NEPOOL”) Participants Committee jointly filed with the Commission proposed revisions to the ISO-NE Transmission, Markets and Services Tariff (“Tariff”) to implement a new approach in the Forward Capacity Market (“FCM”) for the representation of demand in response to the Commission’s December 28, 2015 Order (the “Demand Curve Filing”).² The Demand Curve Filing refers to these proposed changes as the “Demand Curve Design Improvements.”³

¹ NESCOE filed a doc-less motion to intervene in this proceeding on April 18, 2016.

² *ISO New England Inc., et al. Order Instituting Section 206 Proceeding*, 153 FERC ¶ 61,338 (2015) (“December 28 Order”). Capitalized terms not defined in this filing are intended to have the meaning given to such terms in the Tariff.

³ Demand Curve Filing, Transmittal Letter (“Transmittal Letter”), at 1.

I. COMMENTS

The Demand Curve Filing is ISO-NE’s response to the Commission’s directive to address market power and price volatility at the zonal level.⁴ ISO-NE proposes to implement sloped demand curves for the zones, as well as for the rest of the system, under an approach based on marginal contribution to system reliability. The Demand Curve Design Improvements are intended to immediately address issues of price volatility and susceptibility to the exercise of market power in constrained import zones. Following a period of transition, the Demand Curve Design Improvements are designed to “set prices that more accurately reflect the locational marginal reliability impact of capacity,”⁵ increase competition between resources at the system- and zonal-level, and procure the amount of capacity that is necessary for resource adequacy at least cost. In sum, the Demand Curve Design Improvements reflect a new approach for representing the demand for capacity, informed by detailed reliability modeling analysis.⁶

NESCOE supports the Demand Curve Design Improvements. When compared to the current method of developing demand curves, the proposed approach is an improvement and reflects broad regional agreement.⁷ The resulting convex demand curves better represent demand for, and the value of, capacity compared with downward-sloping and vertical straight-lines. For import-constrained zones, the demand curves reflect the diminishing contribution to reliability associated with resources located in the system. Likewise, the demand curves resulting under the new approach reflect the diminishing contribution to system reliability from resources in export-constrained zones. Once fully implemented, the Demand Curve Design

⁴ December 28 Order, at P 11.

⁵ Transmittal Letter, at 2.

⁶ *See id.*, at 6.

⁷ *Id.*, at 20-21.

Improvements will provide a locational price signal for resource adequacy that is internally consistent and will likely promote greater competition among resources.⁸ ISO-NE is developing demand curves based on a novel approach to engineering analysis that incorporates principles of economic theory and appropriately reflects the transmission system limits, as discussed below.

Importantly, the Demand Curve Design Improvements are believed to be capable of accommodating future changes in the resource mix and transmission system configuration.

A phased-in implementation is prudent at this time. The Demand Curve Design Improvements include a tailored transition at the system-level to smooth the impact from these design changes on the wholesale markets. While an immediate implementation of the Demand Curve Design Improvements may result in short-term consumer cost savings, there are several reasons why a transition at the system-level is appropriate under the circumstances and in the long-term interest of the markets and consumers. First, while the ISO examined the performance of the new design under a host of simulated supply and demand conditions, the transition provides a measure of protection from unintended consequences that may not arise until after actual implementation. For example, the process by which the demand curve is established is changing from a periodic parameter update to an annual formulaic update, and that may require time for market participants to adapt. Second, as the Internal Market Monitor indicated, an abrupt change in demand could cause a shock to the market, with the potential for increased longer-term costs from premature resource retirements and increased risk premiums being passed through to wholesale electricity customers.⁹ NESCOE's also recognizes the broad level of

⁸ See Demand Curve Filing, *Prepared Testimony of Christopher Geissler and Matthew White on Behalf of ISO New England Inc.*, Section VII at 103-119.

⁹ March 31, 2016, Jeff McDonald, Vice President of Market Monitoring, Memorandum to NEPOOL Participants Committee, *Transition for Sloped System Demand Curve*, available with the April 8, 2016 Meeting Materials at http://www.nepool.com/uploads/NPC_20160408_Composite3.pdf.

support among NEPOOL Market Participants, including significant support in the Generation and Supplier sectors.¹⁰

Further, the Demand Curve Design Improvements appropriately reflect the transfer capability of the transmission system across zonal interfaces. Under the current vertical demand curves in the zones, the local resource adequacy requirement is based on a fixed amount. The new, convex zonal demand curve represents elastic demand for capacity, which varies based on price and quantity. This shift in the representation of demand requires a commensurate adjustment to representation of transfer capability across zonal interfaces that continues “to reflect certain underlying reliability assessments.”¹¹ A proposal raised in the stakeholder process would have arbitrarily increased the locational price signal for import-constrained zones.¹² In contrast, the Demand Curve Design Improvements utilize a method that reconciles resource adequacy and transmission security considerations *and* is believed to be robust to changes in the resource mix and transmission system.

Lastly, NESCOE shares similar concerns noted by the IMM in the January 11, 2016 memorandum on zonal demand curves and administrative pricing, particularly related to the removal of administrative pricing.¹³ NESCOE concurs with the IMM on the need for advanced notice of zone definition to ensure competitive supply in zones and that smaller import-constrained zones can become susceptible to market power and uncompetitive auction outcomes. NESCOE’s support for removing administrative pricing protections rests with the understanding that efforts will be made to ensure adequate notice and sufficient zone size.

¹⁰ See NEPOOL Participants Committee April 8, 2016 Minutes (“NEPOOL PC April 8 Minutes”), Attachment 2 Vote 3, available at http://www.nepool.com/uploads/Minutes_NPC_2016_0408.pdf.

¹¹ Transmittal Letter, at 11.

¹² NEPOOL PC April 8 Minutes, at 3631 and 3637.

¹³ Demand Curve Filing, Attachment 3.

II. CONCLUSION

For the reasons stated herein, NESCOE respectfully requests that the Commission consider the above comments in this proceeding.

Respectfully submitted,

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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 Portsmouth, New Hampshire this 13th day of May, 2016.

Respectfully submitted,

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