



New England States Committee on Electricity

To: ISO-NE
From: NESCOE
Date: June 14, 2017
Subject: CASPR Objectives

NESCOE appreciates ISO-NE’s work to develop a near-term, “accommodate”-style proposal, Competitive Auctions with Subsidized Policy Resources or CASPR, for discussion. NESCOE looks forward to conversations about its details.

At the outset, NESCOE offers a few observations and recommendations about the CASPR design objectives ISO-NE provided in its April 2017 Discussion Paper (page 7) and presented at the May 17, 2017 Integrating Market and Public Policies (IMAPP) meeting. NESCOE sets forward ISO-NE’s objectives below, together with some recommended modifications.

None of the observations or recommendations in this memo should be interpreted to indicate NESCOE or any NESCOE Manager’s support or rejection of any individual CASPR design component discussed to date by ISO-NE.

The purpose of the recommended modifications is to help better align the states’ and ISO-NE’s objectives at the outset of the process to increase the likelihood that the final CASPR design will in practice accommodate resources required by state laws while preserving competitive pricing for other resources. Finally, NESCOE provides an additional factor to ISO-NE’s list of issues that needs to be balanced in the context of “new v. new” resources.

ISO-NE’s CASPR Design Objectives and Principles

- 1) “Competitive capacity pricing.** Maintain competitively-based capacity auction prices by minimizing the price-suppressive effect of out-of-market subsidies on competitive (i.e., unsubsidized) resources in the FCA.”

The title slide of ISO-NE’s May 17, 2017 CASPR presentation recognizes the inherent need for balance between competitive wholesale market pricing and the requirements of state laws, both of which are ultimately about and for consumers. In honoring that balance, NESCOE has supported competitive wholesale markets and measures to improve the price signals even when on some occasions such measures might have the

effect of increasing prices in the short-term. That said, states have not expressed support for competitive markets at any cost to consumers because competitive markets are not an objective in and of themselves.

Rather, states believe competitive markets offer the best means to secure long-term least cost electricity supply for consumers. Because the point both of competitive markets and state laws is to serve consumer interests, an additional objective is warranted:

***Consumer cost risks.** The design change shall provide a mechanism for states to achieve state laws without impairing the ability of competitive markets to ensure long-term least cost electricity supply for consumers and not add incremental consumer cost risk.*

(See also the recommendation below regarding ISO-NE's balancing of interests on Slide 24 of its May 17, 2017 IMAPP meeting presentation)

- 2) **“Accommodate the entry of subsidized new resources¹ into the FCM over time.** In doing so, the ISO's market rules should help to minimize the potential for New England to develop far more resources on the power system than the ISO requires to reliably operate it.”

This objective reflects a central point of IMAPP - to ensure that consumers do not overpay for the resources New England consumers require, once in furtherance of state laws and again through the wholesale market - with one foundational addition: certainty. Absent some level of certainty, CASPR is a proposal on which states cannot count: a theory that works but not for a decade is not a solution. That outcome would render CASPR unsuccessful.

NESCOE recommends that ISO-NE revise the objective as follows:

Accommodate a known minimum level entry of subsidized resources into the FCM over a reasonable period of time while balancing other design objectives. Minimize the potential for New England to develop far more resources on the power system than the ISO requires to reliably operate it.

- 3) **“Avoid cost shifts.** To the extent possible, minimize the potential for one state's consumers to bear the costs of other states' subsidies.”

NESCOE reiterates the States' cost allocation concerns as ISO-NE noted on page 8 of its Discussion Paper and appreciates ISO-NE's continued focus on this

¹ Subsidized new resources or subsidized resources refer to resources who's offer prices were adjusted with removal of out-of-market revenues described in Market Rule I, Appendix A, section III.A.21.2(b)(i)

important issue in any design proposal. The States will continue to analyze any proposal to ensure approaches to cost allocation meet their requirements.

4) **“A transparent, market-based approach. Seek a practical solution approach that extends, rather than upends, the region’s existing capacity market framework.**

In ISO-NE’s presentation at the May 17, 2017 IMAPP meeting, Objective No. 4 was phrased slightly differently, presumably for power point purposes. Some of the language in that version, however, created more questions and concerns. For convenience, it is as follows:

“4. A sustainable, market-based approach that minimizes administrative mechanisms and extends, rather than upends, the existing capacity market framework”

The meaning of this objective is not clear. For example, the meaning of “*extends, rather than upends*” is ambiguous and therefore requires interpretation and judgment. If that phrase has particular importance, ISO-NE should define what extends and upends mean in this context.

Also, the phrase “*minimize administrative mechanisms*” appears inaccurate in light of the CASPR proposal. The CASPR proposal does not minimize administrative mechanisms that define the capacity market. Rather, it *eliminates* the one narrow mechanism that accommodates certain resources required by state laws. Discussion on that will follow in the Markets Committee.

ISO-NE explains elsewhere more clearly what appears to be its objective in connection with administrative mechanisms. Specifically, ISO-NE seems to be guided by the market-based objective to accommodate:

- 1) new supply resources required by state laws in a **technology-neutral** way (e.g., storage, fuel cells, large-scale hydro, etc.) and,
- 2) an **amount** of resources required by state laws over time that is **not artificially capped**

See, ISO-NE May 17, 2017 CASPR presentation to IMAPP

Assuming the above accurately reflects the objective, NESCOE recommends the following modification:

A transparent and practical market-based approach that is technology-neutral and does not place artificial limits on the

amount of subsidized clean energy resources that can enter the market.

Finally, in ISO-NE's May 17, 2017 CASPR presentation at slide 24, ISO-NE identified the need to balance several interests in connection with coordinating 'new v. new' resources as follows:

Coordinating 'new v. new' requires balancing three issues:

1. Deterring new supply by "fictitious entrants" that only seek to substitute out for a payment, undermining the primary FCA price
2. Minimizing potential for an inefficient over-build of the system when new entry is *not* needed
3. Preserving entry incentives for competitive new entry *when needed*

ISO-NE correctly observes the risks associated with new entry in the CASPR proposal. NESCOE is concerned if ISO-NE places too much weight on issues no 1& 2 above, relative to other considerations, it could create unintended consequences for consumers.

To ensure consumer risks are considered in the balancing of issues, NESCOE recommends a fourth factor to be balanced with the three other factors above:

4. Not add incremental consumer cost risk.

NESCOE appreciates ISO-NE's consideration of these recommendations and looks forward to discussing details of the CASPR proposal.