



New England States Committee on Electricity

Power Generation in the Northeast: Fuel Security

Natural Gas Conference

October 2018

Fast-tracking Fuel Security

Chapter 1. Now. Exceptionally accelerated litigation over what to pay Exelon's Mystic units and LNG terminal to prevent 2022 retirement

- *Decision expected by end of 2018*

Chapter 2. Short-Term. FERC considering ISO-NE fast-tracked proposal seeking authority to offer cost-of-service agreements to resources that ISO-NE deems necessary for fuel security

- *Decision expected by end of 2018*
- *Legal basis to approve a contract between ISO-NE and Exelon (ch. 1)*

Chapter 3. Long-Term. ISO-NE in stakeholder process to develop market-based fuel security solution(s) - incremental to Pay for Performance

- *ISO-NE FERC filing by summer 2019*

“Chapter 1”: Exelon’s Mystic 8 & 9 and Everett (2022-2024)

- If FERC concludes that ISO-NE may offer a cost-of-service agreement under the banner of fuel security to a resource that wants to retire, critical to protect consumers’ economic interests and impacts on electricity markets in the process
- Actively litigating ISO-NE and Exelon’s negotiated agreement including, for example, capital expenses, rates of return, management costs of LNG supply business, a true-up mechanism and “clawback”
 - No consumer cost impact analysis to inform consideration of filed agreement and changes to pro forma
 - NESCOE sought reconsideration on the schedule, which accelerated pace benefits Exelon

“Chapter 2”: Cost-of-Service Agreement Authority

- ISO-NE proposal for contracting authority under the banner of fuel security is new and proposed to be temporary (2022-2025)
 - ISO-NE has such authority in connection with transmission security (until ISO-NE develops a transmission solution)
- ISO-NE’s Fuel Security Analysis will determine whether a resource is needed for fuel security
 - Fuel security need arises when ISO-NE’s model indicates there is likely to be insufficient energy to operate the system through cold weather in winter

“Chapter 2”: Fuel Security Cost-of-Service Agreement Tariff

- NESCOE would prefer a course that avoids clearing a runway around competitive markets for more cost-of-service agreements. If FERC deems continuing cost-of-service agreement authority to be necessary, it should be effective for the shortest period and subject to an exceptionally high bar*
 - Fuel security analysis trigger is more conservative than resource adequacy planning
 - ISO analysis should assume states generally satisfy state renewable and clean energy laws
 - Authority should expire in 2024, not 2025
- Cost-of-service agreement costs should be allocated in the manner that is most cost-effective for consumers
 - Based on transmission charge recovery rather than on real-time load obligation
- Going forward, ISO-NE should provide consumer cost analysis of changes it proposes or accepts to the pro forma cost-of-service agreement
- Resources retained for fuel security should be capacity price-takers**
 - If ISO-NE’s market design reflected the system’s fuel security reliability needs, the resources retained for fuel security would receive adequate revenue and be considered economic
 - Revenues earned under a cost-of-service agreement should be reflected in a resource’s capacity offer

**Connecticut does not join these positions*

***New Hampshire does not join the position on price-taking treatment*

Some Principles to Help Identify Risks and Evaluate Solutions

as provided by NESCOE to ISO-NE in April 2018 and filed with FERC in May 2018

- The problem needs to be fully and fairly analyzed and precisely defined
- A broad range of potential solutions need to be considered
- Consumer interests must be the guiding factor in evaluating potential solutions
- All potential solutions must be illuminated by a cost-effectiveness analysis to enable assessment of whether the costs of proposed solutions have a reasonable relationship to asserted risks

“Chapter 3” Just Beginning So More Unknowns than Knowns

- What is the specific fuel security problem to be solved?
 - NESCOE asked ISO-NE for greater specificity about the problem to be solved in April 2018
 - ISO-NE released a problem statement on October 10, 2018: “There may be insufficient energy available to the New England power system during extended cold winter weather conditions to satisfy electricity demand, given the system’s evolving resource mix and fuel delivery infrastructure”
- What does ISO-NE mean by “energy-secure infrastructure”?
- In what year is there a resource need in order to avoid a fuel security risk?
- What is the quantity of resources needed to achieve fuel security?
- What is the duration of the need?

Questions?

For more information see Resource Center at
www.nescoe.com

