UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

ISO New England Inc. New England Power Pool Participants Committee	)))	Docket No. ER24-275-000

COMMENTS OF THE NEW ENGLAND STATES COMMITTEE ON ELECTRICITY

Pursuant to the Federal Energy Regulatory Commission's (the "Commission") November 1, 2023 Combined Notice of Filings #1, the New England States Committee on Electricity ("NESCOE") hereby submits these comments in the above-captioned proceeding.[1] On October 31, 2023, ISO-NE, joined by the NEPOOL Participants Committee, jointly filed with the Commission proposed revisions to the Tariff.[2] The proposed revisions, referred to as the Day-Ahead Ancillary Services Initiative ("DASI"), would create a jointly optimized Day-Ahead market for energy and ancillary services. NESCOE supports the filing and respectfully requests that the Commission adopt the petitioners' proposed revisions to the Tariff.

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[1] On November 2, 2023, NESCOE filed a doc-less motion to intervene in this proceeding. NESCOE is the Regional State Committee for New England, representing the collective positions of the six New England states in regional electricity matters.

Capitalized terms not defined in this filing are intended to have the meaning given to such in the ISO New England Inc. ("ISO-NE") Transmission, Markets and Services Tariff ("Tariff"), the Second Restated New England Power Pool ("NEPOOL") Agreement, the Participants Agreement, and, as applicable, the Glossary of Terms Used in NERC Reliability Standards.

[2] ISO New England, Inc., Revisions to ISO New England Transmission, Markets and Services Tariff to Establish a Jointly Optimized Day-Ahead Market for Energy and Ancillary Services, Docket No. ER24-275-000 (filed Oct. 31, 2023) (the "Filing" or "DASI Filing").

I. DASI Seeks to Address a Regional Need to Adequately Compensate Ancillary Services Providers

DASI seeks to address—through market incentives—New England's need to adequately compensate Ancillary Services providers. As described in the Filing, ISO-NE is responsible for identifying resources that are able to provide the energy and reserves necessary to meet the region's load forecast and reserve needs for the Operating Day.[3] This process includes the development of a next-day Operating Plan, whereby ISO-NE identifies Day-Ahead the resources that can provide these services during the Operating Day (*i.e.*, in Real-Time).[4] Presently, ISO-NE relies on non-market processes to identify resources that will be available next-day to provide reserves in real-time and to identify the resources available to satisfy the load forecast whenever the load forecast exceeds the amount of physical energy cleared in the Day-Ahead market.[5]

The DASI proposal will create a Day-Ahead Ancillary Services Market, which will run jointly with the current Day-Ahead Energy Market.[6] The new Day-Ahead Ancillary Services Market will rely on priced offers from ancillary services suppliers, priced energy bids, and the projected load and reserve requirements for the Operating Day.[7]

There are presently no ancillary services obligations associated with the resources that ISO-NE relies upon to meet the forecast energy gap and the Operating Reserve requirements of

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3 DASI Filing at 4.

4 *Id.*, citing NERC Standard TOP-002-4 – Operations Planning, R.4, *available at* https://www.nerc.com/pa/Stand/Reliability%20Standards/TOP-002-4.pdf.

5 *Id.*

6 *Id.*

7 *Id.*

the next-day operating plan.[8] Consequently, there is inadequate compensation for the costs that resource owners may incur to ensure that these resources are able to perform the next day, and these resources face no consequence for non-performance.[9] Yet, ISO-NE relies upon these resources to fill the Day-Ahead energy gap and to respond to unanticipated system conditions in real-time when reliable performance is of utmost importance.[10] Without adequate compensation, obligations, and consequences for non-performance, it is not reasonable to expect resource owners to continue to maintain the resources or to take actions that may be necessary to ensure that the resources can perform on short notice when needed (*e.g.*, resource owners may not undertake actions that could potentially improve the resource's performance but may be costly).[11]

As ISO-NE notes in its Filing, adequately compensating these resources should be a priority given that the resources that it relies upon to formulate the next-day Operating Plan are those with the reliability attributes that the region will depend upon in the future as the region's power system and resource mix evolve.[12] Ancillary Services will likely become increasingly important for reliability as intermittent renewable generation increases, and thus it will also become increasingly important for the region to compensate them adequately to ensure adequate participation and performance.[13] A move toward more weather-dependent resources and

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8 DASI Filing, Testimony of Matthew White ("White Testimony") at 15.

9 *Id.* at 15–16.

10 *Id.* at 16.

11 *Id.* at 16–17.

12 DASI Filing at 5.

13 *See* White Testimony, at 33–34, *quoting* Potomac Economics, 2021 Assessment of the ISO New England Electricity Markets, at 28–29 (June 2022), *available at* https://www.iso-ne.com/static-assets/documents/2022/06/iso-ne-2021-som-report-full-report-final.pdf.

increasing electrification will require enhancing the system's ability to respond to operational uncertainties during the Operating Day.[14]

Ultimately, as ISO-NE notes, appropriate compensation for ancillary services obligations in advance of the Operating Day should be balanced with a transparent, replacement-cost-based consequence for non-performance.[15] NESCOE agrees with ISO-NE that the DASI proposal will achieve this important balance.

II. NESCOE Is Particularly Supportive of DASI's "Base Strike Adder."

As described in the Filing, DASI has a two-settlement structure.[16] A resource with a day-ahead ancillary services award (1) receives the award received by the day-ahead ancillary service product's clearing price and (2) pays a "close-out charge."[17] The close-out charge equals the quantity of the award multiplied by the greater of zero and the difference between the Real-Time Hub Price and an ISO-determined "strike price."[18] ISO-NE will set the "strike price" based on advanced modelling that projects Real-Time energy prices.[19] ISO-NE further proposes to add a "base strike adder" of $10/MWh to the expected Real-Time Hub Price to derive the final strike price.[20]

NESCOE previously recommended that ISO-NE include an adder to the strike price and is therefore especially pleased that the petitioners included the base strike adder in their

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[14] *Id.*

[15] *Id.* at 27.

[16] DASI Filing at 14.

[17] *Id.*

[18] *Id*.

[19] *Id.* at 15, 22.

[20] *Id.* at 20.

proposal.[21] NESCOE proposed a strike price adder to balance consumer costs with intended benefits, not simply to reduce costs to consumers. As described below, a strike price adder lowers costs by reducing the amount and frequency of close out charges, which are paid by customers.

Although an overly high base strike adder could result in an overly high strike price, which could reduce incentives for Ancillary Service sellers to perform,[22] ISO-NE has conducted an extensive analysis that shows that the proposed $10 per MWh base strike adder would not negatively impact Ancillary Service providers' incentives.[23] Specifically, ISO-NE conducted market simulations and Gaussian Mixture Model[24] forecasts for the period from January 2019 through December 2021 to estimate resource-level, hourly simulated Day-Ahead Ancillary Service Market outcomes for different adders (including the proposed $10 per MWh adder) and looked at the proportion of incentives retained with and without the adder under different system conditions.[25] This assessment showed that "at the systems' most crucial hours—those where prices are high and conditions are tight—the $10 per MWh base strike adder has no meaningful

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[21] *See* Protest of the New England States Committee on Electricity, Docket Nos. EL18-182-000 and ER20-1567-000 (filed May 15, 2020), at 58–62. The addition of an adder to the strike price was originally offered in an amendment by NESCOE to ISO-NE's prior Electric Security Improvements ("ESI") proposal. *See* Docket Nos. EL18-182-000 and ER20-1567-000, (filed April 24, 2020) at 11 n.38. NEPOOL supported a strike price adder in the prior ESI proceeding, as it does in the one presently before the Commission. *See id.*

[22] A higher strike price will decrease sellers' incentives to perform because the expected close-out charge decreases, resulting in a lower liability if the seller fails to perform. *See* White Testimony at 82.

[23] *Id.*

[24] A Gaussian Mixture Model is a "sophisticated statistical model useful for forecasting asymmetric probability distributions and the attributes of those distributions. Alivand Testimony, at 6.

[25] *Id.* at 20.

impact on the performance of the call option incentive structure."[26] Rather, ISO-NE's assessment showed that including the base strike adder reduced the amount of close-out charges from 51.4% of hours to 16.5% of hours, which is completely appropriate because close-outs are paid by consumers and are only necessary when system conditions are tight.[27]

ISO-NE's analysis also showed that the base strike adder indeed would save consumers money and help mitigate the overall cost of DASI.[28] Specifically, in ISO-NE's analysis, consumers saved an average of $19.5 million annually during the three-year period of 2019–2021.[29] These results are expected because the base strike adder generally reduces both the magnitude and (as noted above) the frequency of energy option strikes. Lowering the magnitude and frequency of energy option strikes should in turn lower the risk premiums that suppliers will include in their offers. The reduced supplier risk will also likely increase program participation, which will also reduce consumer costs. Indeed, reducing supplier risk is particularly important in the early years of any new market, where participants (here, suppliers) lack historical data and have uncertain risks and costs due to the newness of the program.

In sum, the base strike adder reduces unnecessary risk to suppliers and unjustified costs to consumers while not harming DASI's goal of incentivizing and accurately compensating Ancillary Service providers. The base strike adder will result in significant savings to consumers over time.

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[26] *Id.* at 24.

[27] *See id.* at 27.

[28] DASI Filing, Testimony of Benjamin Ewing at 96–97.

[29] *Id.*

III. ISO-NE Has Proposed Tariff Revisions That Will Allow for Changes If DASI Does Not Function as Intended

NESCOE recognizes that with any new design there is risk of unanticipated and unintended outcomes. Because the DASI design is novel and untested in several respects, including potential market power and design functionally during stressed system hours, NESCOE appreciates that ISO-NE has included a mechanism that will allow ISO-NE and stakeholders to monitor the performance of DASI over time. Specifically, the proposal includes a reporting requirement for the internal market monitor "regarding the competitiveness and performance of the New England markets, including market designs."[30] Consistent with this requirement, ISO-NE represents in its filing that "[i]f it appears that the market is not working as intended or requires adjustments, the ISO would investigate the necessity of any design changes, propose such design changes to stakeholders, and seek Commission approval for any such adjustment."[31] Accordingly, the proposal includes appropriate safeguards that will allow ISO-NE and stakeholders to develop and propose changes to DASI if it does not function as intended or could be improved.

[30] DASI Filing at 63; Proposed Section III.A.17.2.5.

[31] DASI Filing at 62.

IV. Conclusion

Therefore, for the reasons stated herein, NESCOE respectfully requests that the Commission approve the proposed Tariff revisions.

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 Arlington, Massachusetts this 21st day of November, 2023.

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