


NEPOOL Supports Alternate Market design - Rejects ISO Proposal

By David Cavanaugh 

On the April 2, 2020 NEPOOL Participants Committee (NPC) meeting conference call members were asked to consider and act on ISO New England's (ISO-NE) Energy Security Improvements (ESI) market design proposal. On that call NPC members supported a NEPOOL amended ESI design with 61.70% in favor and rejected ISO's unamended ESI proposal with only 39.59% of members in favor.

The proposed ESI design is ISO's response to a FERC compliance Order related to the Mystic 8 & 9 proceedings on retaining existing capacity resources in the Forward Capacity Market (FCM) for fuel security needs, i.e. system reliability. ESI is a novel design not utilized in any other organized wholesale energy market. The proposed design is intended to increase the market incentives for generating resources to procure or have in place fuel arrangements to support an ISO dispatch particularly when such generating resources did not receive a Day Ahead Energy Market obligation.

As the New England system becomes more reliant on "just-in-time" fuel delivery for generating resources, through clearing increasing amounts of intermittent renewable resources and natural gas fired resources, the current energy market design is insufficient to assure reliable operations during certain operating conditions. ISO's ESI design is intended to solve the current market energy design deficiency's resulting in increased fuel security and system reliability. The ESI design introduces energy reserve products into the Day Ahead Market, which can be converted into energy in real-time, through Option Offers. The ESI market products are:

- Generation Contingency Reserves (GCR) – Ten Minute Spinning, Ten Minute Non-Spinning and Thirty Minute operating reserve. Reserves require for NERC contingency response.
- Energy Imbalance Reserves (EIR) – Reserves to cover the difference between Day Ahead Market bid in physical demand (load) and ISO forecasted load.
- Replacement Energy Reserve (RER) – Reserves to maintain reliability and allowed GRC resources to return to a contingency ready state in the event of real-time loss of a significant supply resource(s).

It is the elements of the design, revenues, and the cost impacts that NPC members disagree on as expressed in the April 2nd NPC vote.

On April 2nd NPC members consider the ISO ESI design and three amendments brought forth by the New England States Committee On Electricity (NESCOE). Members voted and approved each of the three amendments highlighted below.

- NESCOE RER – Amendment allows the RER component of ESI to apply in only the three winter months of Dec- Feb., targeting the intended areas of reliability concern.

- NESCOE RER Load Forecast Error- Amendment removes the additional load forecast error component ISO added to RER design.
- NESCOE \$10 Strike Price Adder- Amendment lowers the risk of close-out cost for resources with cleared Option Offers. The lower risk translates into lower risk premiums in Options Offer and therefore lower cost to consumers.

Public Power strongly supported, and gathered additional support among the NEPOOL sectors, for the NESCOE amendments as they provided cost relief to the consumer without undermining the incentive for generating resource to have or secure fuel arrangements in line with DAM cleared Option Offers. Estimate of cost savings range between \$18 Million to \$100 Million a year. With savings as a function of system conditions, i.e. hot summer and/or cold winter periods.

While Public Power, and other NPC members, held concerns over the sunset of the Forward Reserve Market with the implementation of ESI and lack of details on the to be developed Seasonal Forward Procurement component and Market Mitigation Plans NEPOOL, supported all three amendments and the amended ISO ESI proposal (67.70%) but rejected the ISO unamended proposal with only with 39.59% supporting. Public Power overwhelmingly supported the NEPOOL alternative, for these reasons, as to assure FERC had an alternative design to consider in its decision making.

ISO is obligated to file its unamended ESI proposal by April 15, 2020, however ISO has agreed to include in its filing the NEPOOL alternative with associated red-line tariff revisions. The ISO filing will request that FERC consider both proposals in its decision making but will note that they are not in support of the NEPOOL alternative. Lastly the ISO filing will request an Order date for ESI of November 1, 2020 with an implementation date of June 1, 2024.