

From: Horner, Trina
Sent: 3/4/2010 3:51:36 PM
To: 'edd@cpuc.ca.gov' (edd@cpuc.ca.gov)
Cc:
Bcc:
Subject: FW: Capacity Markets in New England

Elizabeth,

I thought I would forward to you this article we saw on Tuesday about FERC's recent decision on capacity market results in New England. I'm sure you're aware of the decision but this article is a good summary. I thought it was a good example of a situation where, regardless of the outcome of an auction (and I have no opinion about the reasonableness of this particular auction at issue here), the FERC is demonstrating that they are not going to intervene or allow others to intervene if the ISO meets its own (FERC-approved) rules. Here's the article:

Noting that the proceeding is solely an administrative safeguard designed to ensure that the ISO New England Inc. followed its own market rules in conducting its forward capacity auction, FERC on Feb. 26 accepted the results of the auction (ER10-186) for the 2012-2013 capability year, held Oct. 5-6, 2009.

In doing so, the commission refused to rule on market participants' challenges to the auction based on their contention that serious flaws exist in both the design and implementation of the forward capacity market, or FCM. The grid operator already is addressing many of the protesters' concerns through its stakeholder process, which is the appropriate venue for suggesting any changes to the market rules, the agency said.

Moreover, FERC explained that it previously accepted and subsequently upheld the market rules the ISO-NE followed in conducting its auction, and therefore the protesters' challenges represent collateral attacks on past agency orders.

In an Oct. 30, 2009, filing, the grid operator reported that the starting price for the auction was set at \$9.836 per kW/month, and that 36,995 MW of total capacity, or 5,030 MW in excess of the installed capacity requirement of 31,965 for the relevant year, remained in the auction at the floor price of \$2.951 per kW/month by the seventh and final round. The auction resulted in two capacity zones: Maine and the so-called "rest-of-pool."

Because its tariff provides that load will pay only the installed capacity requirement times the applicable floor price, the grid operator explained that resources in the rest-of-pool would have to choose between being paid for their full cleared capacity at a price of \$2.535 per kW/month or receiving the floor price of \$2.951 per kW/month and prorating their capacity supply obligation accordingly. Resources in Maine opting to be paid for their full cleared capacity will receive a price of \$2.465 per kW/month.

Of the approximately 1,752 MW of resources that submitted delist bids as the auction price fell, two units — Dominion Resources Inc.'s Salem Harbor units 3 and 4, which together have a total capacity of about 581 MW — were determined to be needed for reliability and will not be allowed to prorate their capacity supply obligation, the ISO-NE reported. The grid operator also noted that some generators within the Northeast Massachusetts/Boston, or NEMA/Boston, zone, an area with limited capacity resources, may not be allowed to prorate their capacity obligations, depending upon the prorating requests made by other FCM participants.

Various parties, including a group of subsidiaries of Public Service Enterprise Group Inc., weighed in on the ISO-NE's filing, acknowledging that the auction was conducted in accordance with the FCM market rules. However,

they also argued that those rules "have failed to deliver the intended design outcome of the marketplace" approved by FERC.

One concern shared by many was that because NEMA/Boston was not modeled as a separate capacity zone, no price signals were sent to indicate the locational value of capacity in that area. Another problem, according to the market participants, is that generators within the NEMA/Boston zone will be treated unfairly relative to other resources whose capacity cleared in the auction if they are not given the choice of prorating either their capacity or the price they are paid. Still others protested the grid operator's rejection of the Salem Harbor delist bids, noting that the ISO-NE had repeatedly maintained in its quarterly reports that the units would no longer be needed to meet reliability criteria.

While FERC stressed in the instant order that the ISO-NE has not yet even decided whether resources in the NEMA/Boston subarea will be prohibited from prorating capacity, the agency recalled that it already ruled on the issue when a similar situation arose previously in Connecticut, and said commenters here have presented no new rationale for finding differently. In the earlier case, PSEG had asked to pay the clearing price to those resources that the ISO-NE determined were unable to prorate capacity after the first forward capacity auction, but the commission found that doing so would violate the grid operator's tariff and the settlement underlying the FCM.

While one group of commenters asserted that the issue previously was "wrongly decided," FERC disagreed, explaining that if the ISO-NE ultimately prorates the price in NEMA/Boston for the 2012-2013 commitment period due to reliability concerns, "such a decision would be consistent with its current tariff."

The proration issue is one of several related to the FCM currently being considered by the ISO-NE and the New England Power Pool, and the commission said that ongoing stakeholder process is the appropriate forum for resolving the issue. FERC explained that commenters' specific concerns are being addressed in that process, and that it will rule on the issue only in response to a proposal filed by the ISO-NE on Feb. 22 in a proceeding (ER10-787) aimed at revising the FCM.

As for concerns about the ISO-NE's rejection of the Salem Harbor delist bids, FERC accepted the grid operator's explanation that the statements made in its quarterly report were based upon a less thorough reliability study than the process used in reviewing the delist bids. The Salem Harbor units are needed to address secondary contingencies that were not considered in the quarterly report, and therefore the ISO-NE made "a reasonable assessment" that the units must be retained to ensure reliability in the Boston subarea, the commission explained.

More generally, however, FERC said it was accepting the auction results filing because the ISO-NE had shown that it conducted the auction in accordance with its market rules, and any allegations regarding flaws in the rules or in the FCM design or implementation, such as those related to the lack of price signals, "are outside the scope of this proceeding."