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**REPORT ON ISO NEW ENGLAND INTERNAL MARKET
MONITORING UNIT REVIEW OF THE FORWARD CAPACITY
MARKET AUCTION RESULTS AND DESIGN ELEMENTS
Based on a Report by Robert Stoddard of CRA International
Dated June 26, 2009**

Executive Summary:

CRA International agrees that the four major areas identified by the ISO-NE Internal Market Monitoring Unit require change, however, additional change is needed:

- **Modeling of capacity zones**
 - The reliability criteria used to review de-list bids and transfers of capacity supply obligations should be the same criteria used to establish zones and requirements.
 - All categories of de-list bids, not just permanent de-list bids, should be used to determine the zones to be modeled and price separation in the primary auction.
- **Price setting when “out of market” (“OOM”) resources affect the market**
 - The Alternate Price Rule (“APR”) needs to ensure all resources (not separate prices for new and existing resources) receive compensation consistent with competitive outcomes even where the bids of OOM resources or new resources offered below the “cost of new entry” (“CONE”) impede competitive auction clearing outcomes in current and future years.
 - All de-list bid megawatts rejected for reliability reasons and all capacity that is supplied into the auction below its true long-run costs should be flagged as OOM and included in the APR.
 - APR triggers must be corrected so that the rule is implemented when it is economically efficient to do so. For example, the existence of a surplus based upon past OOM entry should not be cause to prohibit activation of the APR.
- **Pricing mechanics, including price collars and the use and level of CONE**
 - The auction starting price could be de-coupled from any definition of CONE; however, the mechanism for establishing CONE should also be corrected to ensure:
 - MMU reviews of bids are not too restrictive
 - Collateral requirements reasonably match the cost of new entry
 - Appropriate prices are set under the APR, insufficient competition, inadequate supply, and the Quantity Rule provisions of the tariff
 - Given these flaws and their impacts on the market, the collar should be extended.
- **Role and obligations of demand response (“DR”) resources**
 - Common obligations, incentives and penalties should apply to all resources including DR.
 - If significant differences in obligations must persist, then a second tier service should be defined such that DR resources and other resources willing to assume those lesser obligations are compensated at lower price reflecting the relative value of that class of service.

Other potential changes that have been identified by stakeholders include:

- adding an option to delist resources on a multi-year basis,
- allowing replacement of import capacity with other comparable external resources,
- relaxing the mitigation applicable to delisted capacity that voluntarily offers into the real-time energy market,
- explicitly ensuring that permanently delisted resources can retire immediately once all capacity obligations have been satisfied,
- exempting resources that clear at the Rest-of-Pool clearing price from obligations of local resources, and
- review and adjust the PER calculation to ensure that it satisfies its intended purpose.

CRAI concludes that in order to make FCM viable and avoid the recurrence of Reliability Must Run contracts, it is essential to develop and implement rule changes for FCA #4.