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NEPGA
NEW ENGLAND POWER GENERATORS ASSOCIATION, INC.

Fact Sheet No. 8

The Forward Capacity Auction

How will the Forward Capacity Auction work?

Early each year, ISO New England will project the amount of capacity that the region will need to meet demand reliably, a figure called the Installed Capacity Requirement.

The ISO will then run the auction to find enough resources to meet its Installed Capacity Requirement for the period three years in the future. For example, ISO will obtain the resources it needs in the summer of 2013 in the spring of 2010. By having this "planning period" of over three years, new projects that are still in their planning phase can compete in the auction alongside existing capacity.

The FCA is a "descending clock" auction, a common auction format. The ISO names a price, and suppliers indicate the quantity of capacity they are willing to offer at that price. If there is more supply than needed, price is decreased; some suppliers may choose, at this lower price, not to offer some of their capacity. This process continues until ISO has winnowed out the high-cost offers and is purchasing just enough capacity to meet the Installed Capacity Requirement from the most economical sources. The resulting price is then the auction clearing price, which all selected suppliers are paid.

How will the Forward Capacity Auction ensure competitive outcomes?

Before the FCA, existing and proposed capacity suppliers must file information with ISO New England, including bid prices and quantities.

- The market monitor will review offers by existing capacity suppliers to prevent the exercise of market power. These offer prices will also be made public prior to the time when new projects provide their information, to give developers the information they need to estimate how much new capacity will be needed and propose new projects to compete with existing capacity resources.
- A developer that intends to offer capacity for a new project must document to the ISO that the project can be built during the three-year planning period. A state, utility, or other market participant that wants to build regardless of the auction outcome can ensure selection of its capacity by effectively offering it into the auction at an offer price of zero, so that it will be selected but will not set the clearing price.

Although existing capacity suppliers will be required to offer their capacity into the auction, they will have limited opportunities to set the auction clearing price; when new capacity is needed, the price will be set by bids from new projects, thus ensuring that capacity prices will be set competitively.

Will the FCA recognize different requirements in different parts of the region?

Transmission constraints within New England may require the ISO to buy extra resources in a particular region (an "import-constrained zone"), or may limit how many resources ISO can buy from a region (an "export-constrained zone"). The auction design allows for these requirements, potentially stopping the clock at a higher price in an import-constrained zone or a lower price in an export-constrained zone. Although the market is designed to allow location-specific pricing, the transmission upgrades and generation additions currently planned or under construction in New England are expected to result in a uniform regional price, at least initially.

How will the region respond to changes in capacity requirements?

Each year shortly after the FCA, the ISO will conduct "reconfiguration auctions" that allow suppliers who had previously been selected in an FCA to exchange that obligation with other suppliers. If the forecasted need for capacity has changed, the ISO can use these reconfiguration auctions to buy additional capacity resources or sell back resources it may no longer need.

When will the first FCA be held?

The first auction will be held late in 2007 or early in 2008, to purchase capacity for the twelve months starting June 1, 2010.