# Framework Document – Two-Tier FCM Pricing

Except as specifically defined within this Two-Tier FCM Pricing Framework Document (the "Framework Document"), the capitalized terms are from the ISO New England Inc. Transmission, Markets and Services Tariff (the "Tariff") or other operative documents, and are subject to change from time to time pursuant to those documents.

## I. General Understandings

A. It is the intention of the parties supporting this Framework Document that the understandings herein will take effect as stated beginning for Forward Capacity Auction ("FCA") 12.

B. The purpose of the Two-Tier FCM Pricing mechanism is to:

   a. Enable states to pursue public policy objectives;

   b. Protect price formation / competitive signals in the Forward Capacity Market; and

   c. Avoid or manage the over-procurement of capacity resources.

C. In addition to this Two-Tier FCM Pricing mechanism, New England stakeholders are evaluating additional market design changes to address the Integration of Markets and Public Policy, including a Carbon Pricing Mechanism for the energy markets and a Forward Clean Energy Market. Two-Tier FCM Pricing is understood to be complementary to these other design changes, and not an alternative to, or substitute for, them.

## II. Two-Tier FCM Pricing

A. To achieve the objectives of Two-Tier FCM Pricing, the FCA would be modified to occur in two stages. All resources would be subject to offer price mitigation in the 1$^{st}$ stage, as described in Market Rule 1 Appendix A.21.

   a. Eliminate the 'Renewable Technology Resource' provisions in Sections III.13.1.1.1.7, III.13.1.1.2.9, III.13.1.1.2.10, III.13.1.2.3.1.3, III.13.1.2.3.1.4, III.13.1.5, and III.13.2.3.2(iv) of the ISO-NE Tariff.

   b. Expand the applicability of Appendix A.21 to include Existing Resources.

   c. Under Appendix A.21, "Out-of-market revenues are any revenues that are: (a) not tradable throughout the New England Control Area or that are restricted to resources within a particular state or other geographic sub-region; or (b) not available to all resources of the same physical type within the New England Control Area, regardless of the resource owner," or



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"supported by a regulated rate, charge, or other regulated cost recovery mechanism"

B. The 1st stage of the auction would clear based on a supply curve using minimum offer prices established through the application of Appendix A.21. The result of clearing the 1st stage would be a quantity Q1 at price P1.

   a. The product of P1 x Q1 would establish a reference value, C1, the total cost of the FCM base payments in the absence of 'out of market' revenues.

C. In the 2nd stage, the mitigated supply offer prices of resources receiving out-of-market revenues would be entered into the auction as price-takers. There would be no changes to other resources' offers. The 2nd stage would establish a payment rate P2, defined as the Second-Tier Payment Rate. The MW quantity of resources that did not clear in the 1st stage but clears in the 2nd stage as price-takers is defined as Q2.

D. All resources that cleared in the 1st stage (Q1) would be paid P1, the FCA Capacity Clearing Price. Resources that did not clear in the 1st stage but cleared in the 2nd stage as price-takers (Q2) would be paid P2, the Second-Tier Payment Rate.

E. All cleared resources from either stage of the FCA would have a Capacity Supply Obligation for the associated Capacity Commitment Period, with all attendant rights and obligations as defined in the ISO-NE Tariff.

F. Offer floor mitigation pursuant to Appendix A.21 would apply in subsequent years to resources receiving out-of-market revenues until the resource clears in the 1st stage of an FCA. Once a resource clears in the 1st stage of an FCA, it would become an Existing Resource under the ISO-NE Tariff.

## III. Market Cost and Quantity Management

A. Generally, Two-Tier FCM Pricing will result in a quantity of CSO, and a cost, higher than would otherwise occur in clearing the FCA. Pro-rating the FCA results as described in this section is intended to:

   a. reduce risk for potential 'in-between' resources and maintain incentives for marginal cost offer behavior;

   b. Allocate equally to all resources the cost of participation in the market by resources receiving 'out of market' revenues; and

   c. Ensure that the total cost of FCM base payments is equal to the reference cost of the auction in the absence of resources receiving out-of-market revenues as defined above, C1 = P1 x Q1.

B. The MW quantity of the Capacity Supply Obligations of resources cleared in both stages of the FCA shall be pro-rated by applying the following ratio to each resource's CSO.

C. Two-Tier Pro-Rating Ratio = $\frac{C1}{(P1 \text{ x } Q1)+(P2 \text{ x } Q2)}$

D. The Qualified Capacity of resources that does not receive a CSO due to the pro-rating described in this section would be eligible for reconfiguration auctions and CSO bilaterals, including resources receiving out-of-market revenues that have not yet cleared in the 1st stage of an FCA.

## IV. Further Understandings

A. All FCM qualification schedules and processes will remain unchanged, except as may be necessary to ensure sufficient offer information to complete both stages of FCA clearing.

B. All zonal constraints will be enforced. Zones will be cleared as a variable quantity constraint using the same Zonal and Regional demand curves (based on Marginal Reliability Impact or otherwise) as in place in the ISO Tariff for the applicable FCA.