

Foundations and Directions for IMAPP



NEPOOL IMAPP Stakeholder Process

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Outline

- Accommodate, then Achieve
- Markets – *more* than just a good idea
- Two-tier Pricing
- FCAM (“Attributes”)
- Path Forward



Accommodate, then Achieve

- States have existing obligations to procure clean energy resources
- Under current rules, these resources may enter through the RTR Exemption, impacting auction price formation, or may be excluded from the capacity market
 - The impact of the RTR Exemption falls on generators and Demand Resources providing capacity, and increases risk on the margin
- NRG's two-tier proposal meets key objectives:
 - Enable all state-sponsored resources to participate in the capacity market
 - Ensures no increase in quantity or cost procured in the FCM auction
 - Allocates the impact of state-sponsored entry equitably



Markets – *more* than just a good idea

- Most of the world's economies are based on competitive markets; private investors act with no assurance of gaining or keeping customers
 - While electricity may be 'different,' the current FCM structure exposes supply resources to competition every day, and every year (after the 7-year price lock)
- Cost-of-service economic regulation of utilities was invented *as a substitute* for competition
 - Long-lived asset decisions and stranded costs from restructuring in the 90's should confirm a continued commitment to markets as the basis for investment decisions
- Case in point: The Canal 3 *simple cycle* unit cleared in FCA10 has a heat rate that competes with or beats some of the early *combined cycle* plants in New England



Confidence Is Everything

- Today's FCM is designed to ensure resource adequacy – and is doing a fine job of it
- As *the* determinant of resource entry and exit decisions, FCM prices regulate the level of investment — With strong incentives for real-time performance, FCM supports operational as well as planning reliability
- Far from simply a means of compensation, FCM is the *foundation* of electric sector investment in New England
- If developers and investors believe current or future state interventions will undermine prices, they will look elsewhere



Achieving New Objectives

- A Forward Clean Attribute Market would secure commitments to deliver carbon-free energy, the bottom-line objective
 - Other, more specific, objectives would likely require direct procurement, but could be addressed by two-tier pricing
- A simultaneous auction clearing for FCAM and FCM, if feasible, would avoid questions of ‘in market’ vs ‘out of market’ by making trade-offs explicit in finding the lowest-cost solution
 - This approach is challenging: even if technically possible, very hard to visualize and establish intuitive (or formal) confidence that the solution is unique and optimal
 - Sequential clearing requires careful definition and treatment of the first auction’s results to avoid distorting the second



Path Forward

- Establish the common objective of ensuring FCM price formation integrity
 - Consumers benefit from auction-based investment decisions
 - Continued investor interest depends on confidence in market fundamentals
- Develop FCAM to address clean energy goals
 - Leverage existing ISO-NE infrastructure and expertise to manage qualifications, financial security, etc
 - Resolve questions on product definition, clearing mechanics¹
 - State demand bids, with sufficient magnitude and tenor, may be feasible
 - Phase-in of cost impacts may be desirable
- NRG remains open to exploring other approaches that accomplish the objectives of accommodating and then achieving state procurements while maintaining market price integrity and merchant investment opportunities, and shielding consumers from stranded costs



Questions?