



# Meeting the Region's Carbon Goals: IMAPP Presentation

August 11, 2016

**Any reforms to the ISO-NE markets and/or tariff to accommodate state public policy goals should meet three guiding principles**

### Three Guiding Principles

**(1) IMAPP Process must be outcome-driven to actually work**

- **Clear definition of state public policy goals is key**
- **Requires input of the finance and development communities to confirm workability**
- **Independent expert review of final proposals should be considered**

**(2) Competitive markets must be preserved with as minimal disruption as possible**

- **Preserve value of the existing investments in the market**
- **Create a smooth transition to a cleaner region**

**(3) Non-discriminatory**

**ISO-NE markets may provide a valuable platform for the region to meet its carbon goals, provided it is done correctly**

**NEER assumes that states will continue to contract, at least for the foreseeable future, for zero emission resources**

## **Overview of NEER's Draft Proposal**

- **New Forward Clean Energy Market (“FCEM”) distinct from the energy, capacity and ancillary markets**
  - Development of an ISO-NE market platform to help the region manage its state public policies
  - Will likely not replace contracts, at least at first, but over time could possibly incent merchant investment
- **Revisions to FCM MOPR mitigation to permit resources with public policy contracts to clear the FCM, while still preserving price signals for all other resources**
  - Two-tiered “APR” pricing mechanism
- **No changes to the existing energy markets at this time as revisions are not needed with under NEER's proposal**

**States will not give up contract rights, as new projects likely need contracts to be financeable in today's market**

**Eligibility for the FCEM is non-discriminatory and open to all qualifying resources, with and without bilateral contracts**

## **Forward Clean Energy Market**

- **Qualifying resources include zero emission resources**
- **Purchase quantities set forth in ISO-NE Tariff to achieve state carbon reduction goals**
- **Payment rate for MWh production set through an auction clearing process similar to FCM**
- **Monthly payments tied to MWh performance**
  - Open discussion on whether to include a fixed or floor component
- **Develop mechanisms to measure performance**
- **Initially, NEER intent is for a one-year term, with further discussions in the IMAPP process on the pros and cons of rate locks of varying amounts**

**Tying performance to payments in the FCEM helps ensure that what is being purchased will contribute to carbon reductions**

## **FCEM structured to fit within ISO-NE's existing markets without disruptive effects**

### **Forward Clean Energy Market**

- **Annual market**
  - Similar to FCM, can look at composite offers to appropriately value the seasonal attributes of renewable resources
- **Auction run each year prior to the FCM such that the FCEM clearing prices can be factored into the offering and mitigation of resource bids in the FCM**
- **IMM review of offers to determine reasonableness; offers should include costs of transmission**
- **No tariff obligation for a new FCEM-cleared resource to offer in the FCM (although likely expected in a contract)**
  - Could change this in later versions of this market upon improvements to FCM queue process that impact renewables

**The FCEM can build upon the knowledge gained in FCM**



# Adjustments in FCM Mitigation are required to enable a smooth transition to a Forward Clean Energy Market

## FCM Mitigation

- **Retention of the existing MOPR review process**
  - Renewable exemption would no longer be needed
- **Contracted resources with a FCEM must offer obligation that have cleared the FCEM and wish to offer in the FCM are defined in the FCM rules as “Clean Energy Agreement Resources” or “CEARs”**
- **CEAR contracts are not considered out-of-market subsidies under ISO-NE’s ORTP review**
  - Still mitigated otherwise, including offsetting FCEM revenues
- **FCA is run with two clearing prices, one with all the CEARs and one without the CEARs and non-CEARs are paid the price without**
  - “Two-tiered APR type mechanism” to adjust the pricing

**Existing resources remain protected in the capacity market**