

Integrating Public Policy & Markets in New England

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Presented on Behalf of:

New England's Publicly Owned Entity Sector

Overview

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Disclaimer

- The region's public power systems believe that the New England region is rapidly approaching a turning point.
- Consumers and policymakers have lost confidence that as an industry we can achieve the objectives they believe are critical.
- We have put this presentation together with the goal of identifying the widest possible range of potential alternatives.
- ***Inclusion of a potential solution in this presentation should not be interpreted to mean that any individual public power system, or public power collectively, will necessarily support any or all of these alternatives once the final details are developed.***

Process Improvement Considerations

- The current wholesale electricity market structure is not achieving outcomes desired by policymakers and electric consumers in general:
 - Increasing dependence on natural gas, combined with a limited natural gas transport capability
 - Retail rates remain significantly higher than the national average (and the gap is getting wider)
 - Lack of trust in markets is driving customers to seek control over costs by installing “behind the meter” resources whether or not they make economic sense.
 - Retirement of existing resources, including nuclear unit retirements
 - Ability to meet environmental stewardship objectives
 - Challenges getting low/no carbon energy resources qualified and cleared in Forward Capacity Market

Process Improvement Considerations

- The starting point for process improvement needs to be defining the set of objectives we are looking to achieve (i.e. agree on “What constitutes success...”)
 - Objectives and goals define structures and design approaches
 - Structures and design approaches drive outcomes
- The process also needs to focus on achieving a balance between the range of potentially conflicting policy objectives that many consider to be important.

Overarching Objective

- Public Power believes that the overarching objective for the New England region is:
 - ***Maintain reliability at the lowest reasonable cost to consumers, taking into account the broad range of policy goals defined and agreed upon by policymakers within the New England States.***
- Public power believes that competitive market solutions can and should be used in achieving these overarching objectives, but only when they actually deliver value to electric consumers.

Current ISO Objectives

- Based on the Participants Agreement, the current ISO Mission is much more narrowly defined:
 - Assuring the New England bulk power system conforms to proper standards of reliability; and
 - Creating and sustaining economically efficient markets for energy, capacity, and ancillary services.

Additional Objectives Not Included in ISO Mission

- Public Power believes that there are at least three additional objectives that need to be incorporated into the ISO Mission:
 - Maintaining a diverse supply of fuels for producing and pricing electricity to mitigate risk and exposure to extreme events.
 - Reduce consumer costs by narrowing the gap between retail electric prices in New England and retail electric prices in other parts of the country.
 - Meeting environmental stewardship requirements, including preserving existing low/no carbon resources.

Market Structure Considerations

- The current centralized procurement structure puts ISO in the role of being the single wholesale buyer and the single wholesale seller in the region.
 - All generation gets delivered to the ISO markets at a price defined by the ISO Market Rules.
 - All load gets served through the ISO markets at a price defined by the ISO Market Rules
- **If, as a region, we want to preserve this “single buyer-single seller” structure, the additional objectives identified above need to be explicitly included as part of the ISO-NE Mission.**

Alternative Solutions under Centralized Market Structure

- Revisit the concept of multiple pricing “tranches” or “tiers” in the Forward Capacity Market, with quantities for non-dispatchable and/or low-no carbon resources modeled as constraints in the auction clearing process.
- Consider replacing the Forward Capacity Market with a “Texas-style” energy-only market with an Operating Reserve Demand Curve (ORDC), that allows prices to get very high, but only when the system gets short of reserves.
- Impose a substantially higher price for carbon (possibly for all uses) within the region.
- Consider market rule changes to permit greater deployment of distributed energy resources consistent with state policies while providing transparency to ISO-NE but preserving customer control over procurement and operating decisions.

Voluntary/Residual Market Alternative

- If we cannot agree on modifying the ISO Mission, a much different structure is needed.
 - In the first instance, consumers, States and other consumer interests should be enabled to procure and pay for resources to meet their overarching objectives.
 - ISO would remain responsible for procuring any additional resources needed to meet its ongoing reliability and economic efficiency objectives through a residual market structure.
 - ISO would remain responsible for short term operations and coordinated market settlements for the region much like it does today.

Voluntary-Residual Market Structure

- ISO, State representatives, and regional stakeholders develop a set of incremental design changes and resource requirements (the “Coordinated Plan”) to meet reliability, market efficiency, environmental policy and other design goals.
- Responsibility for advancing design changes and procuring resources on behalf of load also established as part of this process.
- Responsible parties have a period of time (in advance of delivery date) to certify changes and/or procure resources. (Note, must be compatible with *Hughes v. Talen* decision.)
- After this date certain, ISO responsible for addressing any “residual” needs not otherwise met through the Coordinated Plan. (Based on existing short-term reliability and market efficiency objectives.)

Final Thoughts

- Public Power believes that New England is at a crossroad, similar to what we faced almost 20 years ago when we embarked on the path of electric restructuring.
- Consumers are increasingly frustrated, distrustful, and have options and opportunities that few would have believed existed 20 years ago.
- The region's public power systems stand ready to work on recapturing this trust and continue contributing to this process.