



November 25, 2013

**VIA ETARIFF FILING**

The Honorable Kimberly D. Bose, Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

**Re: ISO New England Inc., Docket No. ER14-\_\_\_\_-000;  
Exigent Circumstances Filing of Revisions to Forward Capacity Market  
Rules**

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act (“FPA”),<sup>1</sup> ISO New England Inc. (“ISO-NE” or the “ISO”) hereby electronically submits this transmittal letter and related materials regarding revisions to certain rules governing the Forward Capacity Market (“FCM”).<sup>2</sup>

The ISO proposes that these revisions (the “Rule Revisions”) become effective on January 24, 2014. The ISO is submitting the Rule Revisions as an “Exigent Circumstances” filing under Section 11.2 of the Participants Agreement, for the reasons set forth in Section IV below.

**I. INTRODUCTION AND SUMMARY**

When the FCM Settlement Agreement was negotiated,<sup>3</sup> there were significant concerns about pricing where sufficient competition was lacking or where seller market power could inappropriately raise prices. Three provisions were included in the

---

<sup>1</sup> 16 U.S.C. § 824d (2006).

<sup>2</sup> The FCM rules are included in Market Rule 1, which is Section III of the ISO New England Inc. Transmission, Markets and Services Tariff (the “ISO-NE Tariff”). Capitalized terms used but not defined in this filing are intended to have the meaning given to such terms in the ISO-NE Tariff.

<sup>3</sup> The FCM Settlement Agreement was approved in *Devon Power LLC*, 115 FERC ¶ 61,340 (2006), *order on reh’g*, 117 FERC ¶ 61,133 (2006). The initial rules implementing the FCM Settlement Agreement were accepted conditionally in *ISO New England Inc.*, 119 FERC ¶ 61,045 (2007), *order on reh’g*, 120 FERC ¶ 61,087 (2007).

agreement to address these concerns. The first provision, which became the Inadequate Supply rule (the “IS Rule”),<sup>4</sup> was intended to address the situation where the total of existing and all new resources was less than the Installed Capacity Requirement (“ICR”). The second provision, which became the Insufficient Competition rule (the “IC Rule”),<sup>5</sup> was intended to address the situation where there were less existing resources than ICR and not enough eligible new resources to assure competition in the auction (although when combined, the eligible existing and new resources exceeded ICR). The third provision became the Capacity Carry Forward Rule (the “Carry Forward Rule”),<sup>6</sup> and was intended to address the situation where a large resource met a zonal need, but eliminated any need for new resources in the subsequent auction. Each of these rules was supported by stakeholders and accepted by the Federal Energy Regulatory Commission (“FERC” or “Commission”).<sup>7</sup> Each of these three rules, when triggered, specify administrative prices that will apply in place of prices derived from the Forward Capacity Auction (“FCA”). **In general and in simplest terms, these rules sought to tie those administrative prices to the Cost of New Entry (“CONE”).**

In its April 13, 2011 paper hearing order,<sup>8</sup> the Commission concluded that under the offer floor mitigation structure, the determination of CONE was moot and required its replacement in the administrative pricing rules. In this regard, the Commission stated: “[w]e reject NEPGA’s suggestion that the price paid to existing resources in the event of inadequate supply or insufficient competition should be slightly above the benchmark cost of a peaker. In the context of the revised mitigation regimes proposed by ISO-NE and accepted by the Commission, we find this suggested modification unnecessary.”<sup>9</sup> In its December 3, 2012 filing, the ISO complied with the Paper Hearing Order and eliminated the use of CONE in the administrative pricing rules. In the Carry Forward Rule, CONE was replaced with the Offer Review Trigger Price of a combustion turbine. In the IS Rule and IC Rule, the ISO believed that CONE should also be replaced with the Offer Review Trigger Price of a combustion turbine, but such a change was beyond the scope of compliance, and so for the IS Rule and the IC Rule, CONE was replaced with the clearing price from the last competitive auction. However, in this regard the ISO stated that: “...the ISO believes that the Inadequate Supply and Insufficient Competition pricing provisions for existing resources should instead refer to 1.1 times the Offer Review Trigger Price for a combustion turbine. The ISO intends to initiate a stakeholder

---

<sup>4</sup> Market Rule 1 § III.13.2.8.1.

<sup>5</sup> Market Rule 1 § III.13.2.8.2.

<sup>6</sup> Market Rule 1 § III.13.2.7.9.

<sup>7</sup> See *ISO New England Inc.*, 119 FERC ¶ 61,045 (2007), *order on reh’g*, 120 FERC ¶ 61,087 (2007).

<sup>8</sup> See *ISO New England Inc. and New England Power Pool Participants Committee*, 135 FERC ¶ 61,029 (2011) (the “Paper Hearing Order”).

<sup>9</sup> *Id.* at P 342.

process to make this change in the near future, preferably in time to be effective for the eighth FCA.”<sup>10</sup>

For three reasons, the ISO did not undertake that stakeholder process in a timely manner: (1) because of the pressures of other important projects (Hourly Reoffers, Day-Ahead Market timing, FCM Pay for Performance, the Winter 2013/14 program, Reserve Market enhancements and Regulation market changes), (2) because of the general perception that the region would be long on resources and that the triggering in the eighth FCA (“FCA 8”) of the IS Rule or the IC Rule would therefore be unlikely, and (3) because the ISO anticipated developing a sloped demand curve that would allow the elimination of these administrative pricing mechanisms.

The ISO has conducted seven capacity auctions since 2008. In each of these auctions, with one limited exception,<sup>11</sup> the market cleared at the price floor and the region has procured significant excess capacity. And as recently as the early fall of 2013, it appeared very likely that a surplus of capacity resources (new and existing) would be participating in FCA 8.

Well after the deadlines for qualifying new resources to participate in FCA 8, however, the New England capacity supply situation changed dramatically. In August, after prevailing in its litigation with the State of Vermont, Entergy announced the retirement of the 604 MW Vermont Yankee nuclear plant and submitted a non-price retirement request (“NPRR”).<sup>12</sup> In October, an additional 2,500 MWs left the FCM by submitting NPRRs. These events changed the supply-demand balance from a surplus of existing resources of over 2,000 MWs to a deficiency of existing resources of over 1,000 MWs, compared with the ICR. The abrupt change in the supply-demand balance, coupled with the general decline in the amount of new resources seeking to participate in the auction (likely because of low prices set by the current vertical demand curve structure, which signaled that new resources were not needed), means that it is possible that the IC Rule will be invoked in FCA 8. Given that possibility, in hindsight the ISO should have undertaken the stakeholder process discussed in the December 2012 Compliance Filing. In addition, and as fully explained in the answer to the complaint filed on October 31, 2013 by the New England Power Generators Association (“NEPGA”) in Docket No. EL14-7-000 (the “NEPGA Complaint”), the ISO did not support the proposed modifications to the Carry Forward Rule and, therefore, did not support Exelon’s proposal to change that rule.

---

<sup>10</sup> See ISO New England Inc., Forward Capacity Market Redesign Compliance Filing and Request for Waiver of Compliance Obligation, or, In The Alternative, Limited Filing Pursuant to Section 205 of the Federal Power Act, Docket No. ER12-953-001 (filed December 3, 2012) at 44 (the “December 2012 Compliance Filing”).

<sup>11</sup> In FCA 7, the NEMA/Boston Capacity Zone began the auction needing new capacity. Footprint Power cleared the auction at a price of \$14.99/kW-month and, because there was Insufficient Competition in that zone, all existing resources received Capacity Supply Obligations and will be paid \$6.66/kW/month.

<sup>12</sup> NPRRs are addressed in Section III.13.2.5.2.5 of the ISO-NE Tariff.

In light of these circumstances, the ISO undertook analyses of the potential application of the IS Rule and the IC Rule. In addition to the pricing issue discussed above, this analysis exposed a logical flaw in the triggering of the IC Rule (hereinafter referred to as the “IC Gap”). Recognizing this flaw and that the existing administrative pricing formula contained in the rules could result in unjust and unreasonable prices in FCA 8, the ISO submits the following two rule changes.

First, the Rule Revisions address the range of circumstances in which the Insufficient Competition rule<sup>13</sup> is triggered, to remedy the IC Gap. **See Section V.A of this transmittal letter.**

Second, the Rule Revisions modify the administrative pricing established by the IS and IC Rules, when those rules are triggered. This topic is the subject of the NEPGA Complaint. **See Section V.B of this transmittal letter. In short and for the reasons explained below, the ISO is proposing a rate of \$7.025/kW-month to be applied in FCA 8. The ISO, beginning in the New England Power Pool (“NEPOOL”) stakeholder process in January, will propose a downward sloping demand curve that will solve significant flaws in the FCM and should alleviate the need for these administrative pricing rules; the ISO plans to file a demand curve with the Commission in the summer of 2014.**

The Rule Revisions are narrowly targeted to address these two crucial issues in advance of the conduct of FCA 8, which will start on February 3, 2014. In discussing those two issues with stakeholders, stakeholders raised several other rule provisions that warrant clarification, and so this filing also proposes three additional rule clarifications. First, the Rule Revisions address subsection III.13.2.8.1.1 of the IS Rule, to remove the definition of “New Capacity Required” for the Rest-of-Pool Capacity Zone and replace it with a definition of “New Capacity Required” for the system-wide context. **See Section V.C of this transmittal letter.** Second, the Rule Revisions modify Section III.13.2.8.2(a) of the IC Rule to clarify the treatment of permanently de-listed resources (and capacity otherwise obligated) in the calculation of any amount by which the Installed Capacity Requirement (“ICR”) or Local Sourcing Requirement (“LSR”), as applicable, exceeds capacity offered from existing capacity resources. **See Section V.D of this transmittal letter.** Finally, the Rule Revisions clarify the treatment of de-list and export bids when the Capacity Clearing Price is set administratively due to the operation of the Carry Forward Rule.<sup>14</sup> **See Section V.E of this transmittal letter.**

## **II. DESCRIPTION OF ISO-NE; COMMUNICATIONS**

ISO-NE is the private, non-profit entity that serves as the regional transmission organization (“RTO”) for New England. ISO-NE operates the New England bulk power

---

<sup>13</sup> See ISO-NE Tariff § III.13.2.8.2.

<sup>14</sup> See ISO-NE Tariff § III.13.2.7.9.

system and administers New England's organized wholesale electricity market pursuant to the ISO-NE Tariff and the Transmission Operating Agreement with the New England Participating Transmission Owners. In its capacity as an RTO, ISO-NE has the responsibility to protect the short-term reliability of the New England Control Area and to operate the system according to reliability standards established by the Northeast Power Coordinating Council ("NPCC") and the North American Electric Reliability Corporation ("NERC").

Correspondence and communications in this proceeding should be addressed to:

Raymond W. Hepper  
Vice President, General Counsel, and  
Corporate Secretary  
ISO New England Inc.  
One Sullivan Road  
Holyoke, MA 01040-2841  
Tel: (413) 540-4592  
Fax: (413) 535-4379  
E-mail: [rhepper@iso-ne.com](mailto: rhepper@iso-ne.com)

Howard H. Shafferman  
Ballard Spahr LLP  
1909 K Street, NW  
12<sup>th</sup> Floor  
Washington, DC 20006  
Tel: (202) 661-2200  
Fax: (202) 661-2299  
E-mail: [hhs@ballardspahr.com](mailto: hhs@ballardspahr.com)

### III. STANDARD OF REVIEW

This filing is made pursuant to Section 205 of the FPA, which "gives a utility the right to file rates and terms for services rendered with its assets."<sup>15</sup> Under Section 205, the Commission "plays 'an essentially passive and reactive' role"<sup>16</sup> whereby it "can reject [a filing] only if it finds that the changes proposed by the public utility are not 'just and reasonable.'"<sup>17</sup> The Commission limits this inquiry "into whether the rates proposed by a utility are reasonable -- and [this inquiry does not] extend to determining whether a proposed rate schedule is more or less reasonable than alternative rate designs."<sup>18</sup> The Tariff modifications herein "need not be the only reasonable methodology, or even the most accurate."<sup>19</sup> As a result, even if an intervenor or the Commission develops an alternative proposal, the Commission must accept ISO-NE's Section 205 filing if it is just and reasonable.<sup>20</sup>

---

<sup>15</sup> *Atlantic City Elec. Co. v. FERC*, 295 F.3d 1, 9 (D.C. Cir. 2002).

<sup>16</sup> *Id.* at 10 (quoting *City of Winnfield v. FERC*, 744 F.2d 871, 876 (D.C. Cir. 1984)).

<sup>17</sup> *Id.* at 9.

<sup>18</sup> *Cities of Bethany, et al. v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984).

<sup>19</sup> *Oxy USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995).

<sup>20</sup> *Cf. Southern California Edison Co., et al.*, 73 FERC ¶ 61,219 at p. 61,608 n.73 (1995) ("Having found the plan to be just and reasonable, there is no need to consider in any detail the alternative plans proposed by the Joint Protesters." (citing *Cities of Bethany*, 727 F.2d at 1136)).

#### **IV. DESCRIPTION OF EXIGENT CIRCUMSTANCES**

As already noted, the ISO is submitting the Rule Revisions as an “Exigent Circumstances” filing under Section 11.2 of the Participants Agreement. Section 11.2 states:

Exigent Circumstances. In Exigent Circumstances, ISO may unilaterally, upon written notice to the Participants Committee and Individual Participants, file with the Commission pursuant to Section 205, if necessary, and implement a new or amended Market Rule, Operating Procedure, Manual, Reliability Standard, provision of the Information Policy (subject to 11.3), General Tariff Provision, or Non-TO OATT Provision.

“Exigent Circumstances” are defined in the Participants Agreement as circumstances such that the ISO determines in good faith that failure to immediately implement a change would substantially and adversely affect either system reliability or security or the competitiveness or efficiency of the New England Markets, and that invoking the normal stakeholder review procedures set forth in Section 11.1, 11.3 or 11.4 of the Participants Agreement would not allow for timely redress of the ISO’s concerns.

Exigent Circumstances are presented here, and the ISO has made the good faith determinations required in Section 11.2 of the Participants Agreement. Prompt implementation of the Rule Revisions is necessary to address the flaws in FCM rules prior to the conduct of FCA 8 during the first week of February 2014. If the flaws go unaddressed, the auction could produce anomalous results.

Unfortunately, the full NEPOOL stakeholder process, which would provide the benefit of more deliberative discussions between the ISO and stakeholders while allowing the Commission sufficient time to issue an order, cannot be accomplished in time for the Rule Revisions to be in place prior to the conduct of FCA 8. Consistent with the nature of an Exigent Circumstances filing, the ISO has drafted the Rule Revisions to make small but important changes that require expedited acceptance; this expedited schedule is necessary in order to assure that just and reasonable rules are in place to conduct FCA 8. To accomplish this goal, a Commission order is needed no later than January 24, 2014, when the necessary auction input files and software must be finalized for the auction. To allow the Commission 60 days within which to rule upon this filing, the rules needed to be submitted no later than November 25. This schedule simply did not allow sufficient time for the ISO to draft rules, present them to the NEPOOL Markets Committee with appropriate notice, time for discussion and a vote, and then provide notice and a voting opportunity at the Participants Committee. The ISO is pursuing a narrow set of changes because there is a very limited window of time to implement changes for FCA 8, which will start on February 3, 2014. While broader design changes might accomplish similar or additional objectives, the short implementation timeframe precluded consideration of such changes.

Although the full Participant Processes cannot be conducted under these pressing circumstances, the ISO discussed the substance of the Rule Revisions over two meetings of the NEPOOL Markets Committee, on November 13 and 18, 2013. Because of the timing, NEPOOL elected not to have a Participants Committee discussion on the matter.

The ISO has provided written notice of this filing to the Secretary of the NEPOOL Participants Committee, as required by Sections 11.2 and 17.11(e) of the Participants Agreement.

## **V. DESCRIPTION OF, AND JUSTIFICATION FOR, THE RULE REVISIONS**

### **A. Revisions Addressing the IC Gap**

The IC Gap identified by the ISO exists when there are more than 300 MW of new generation and new demand resources (new import resources are excluded from this calculation), but less than the amount of New Capacity Required, defined as the shortfall in existing capacity (*i.e.*, the difference between ICR and existing capacity). Insufficient competition is *not triggered* when the sum of New Generation and New Demand Response falls into the gap between 300 MW and the amount of New Capacity Required. However, Insufficient Competition *would* be triggered if the sum of new generation and new demand is higher than the amount of New Capacity Required. To trigger Insufficient Competition below 300 MW and above New Capacity Required, but not in between, is counter-intuitive and cannot be supported from a market design perspective.

#### **1. Hypothetical Example**

To explain the IC Gap, assume the hypothetical megawatt values for an FCA shown in two different cases in the table below.

	<b>Case 1 (MW)</b>	<b>Case 2 (MW)</b>
<b>1 Existing Capacity Resources</b>	9,500	9,500
<b>2 ICR</b>	10,000	10,000
<b>3 Shortfall in Existing Capacity Resources (i.e., New Capacity Required) (1-2)</b>	-500	-500
<b>4 New generation</b>	200	300
<b>5 New demand response</b>	200	300
<b>6 New imports</b>	500	300

<b>7 Total new resources (4+5+6)</b>	900	900
<b>8 Total eligible resources for FCA (1+7)</b>	10,400	10,400
<b>9 Surplus entering FCA (8-2)</b>	400	400

2. How the Hypothetical Example Illustrates the IC Gap

The provisions of the IC Rule (Section III.13.2.8.2 of Market Rule 1) are provided below with commentary in *italicized brackets* using numbers from Cases 1 and 2 in the table above, illustrating the IC Gap (which is contained in the existing language of subsections (b)(i) and (ii)):

The Forward Capacity Auction shall be considered to have Insufficient Competition system-wide or in any import-constrained Capacity Zone if the following two conditions are both satisfied:

- (a) at the Forward Capacity Auction Starting Price, the amount of capacity offered from Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources is less than the Installed Capacity Requirement; [*This is true in both Cases 1 and 2, as evidenced by the 500 MW shortfall in Line 3*] and
- (b) at the Forward Capacity Auction Starting Price:
  - (i) less than 300 MW of capacity is offered from New Generating Capacity Resources and New Demand Resources [*this provision is not triggered in either Case 1 or Case 2, because there is 400MW currently remaining*];
  - (ii) the amount of capacity offered from New Generating Capacity Resources and New Demand Resources is more than the amount of New Capacity Required but less than twice the amount of New Capacity Required; [*In Case 1 this provision is not triggered because 400MW is offered, which is not more than the 500MW of new capacity required*] [*In Case 2 this provision is triggered because the 600 MW offered by new generation and new demand resources is more than the New Capacity Required (500 MW) but less than twice the amount of New Capacity Required (1000 MW)*] or
  - (iii) any Market Participant's total capacity from New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources is pivotal. A Market Participant shall be considered pivotal if, at the Forward Capacity Auction Starting Price, some capacity from that Market Participant's potential New

Generating Capacity Resources, New Import Capacity Resources, or New Demand Resources is required to satisfy the Installed Capacity Requirement (net of HQICCs) or the Local Sourcing Requirement, as applicable ***[this provision is not triggered in this hypothetical]***.

If the Forward Capacity Auction has Insufficient Competition, New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources shall be paid the Capacity Clearing Price during the associated Capacity Commitment Period, and Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources ... shall be paid the lower of: (1) the Capacity Clearing Price; or (2) 1.1 times the Capacity Clearing Price for the most recent Forward Capacity Auction not having Insufficient Competition during the associated Capacity Commitment Period. ...

Accordingly, using the numbers from Case 1, Insufficient Competition pricing would not be triggered because more than 300 MW of new capacity are offered, but none of the circumstances described in subsection (b) are present. However, using the numbers from Case 2 (*increasing* the 400 MW of New Generation and New Demand Resources to 600 MW), Insufficient Competition pricing *would* be triggered because the 600 MW is between the 500 MW shortfall and twice that shortfall – *i.e.*, the circumstances described in provision (b)(2) are present. In short, the IC Gap means that (using these examples) Insufficient Competition pricing *would not* be triggered if the auction is 300 to 500 MW long, but *is* triggered if the auction is 500 to 1000 MW long. So *adding* more new resources to the FCA would cause the auction to be deemed *less* competitive; that is clearly a gap in the rule language, not a logical or intended outcome.

### 3. The IC Gap Can Produce Anomalous Outcomes

The consequences of the IC Gap are not logical or consistent with the overall intent of the IC Rule. Again, examples best illustrate this point. Continuing with the hypothetical numbers above, there are two outcomes under the two illustrative cases. First, assume that, of the 400 MW of excess resources in Case 1, 300 MW drop out of the auction at the starting price and the next 150 MW seek to drop out at \$12/kW-month. Since allowing the 150 MW to leave the FCA would drop the system below ICR, the auction would stop at a price of \$12/kW-month. Case 1 demonstrates the IC Gap where Insufficient Competition is *not* triggered, and so all resources would receive \$12/kW-month. Using Case 2, and the same auction prices, the auction would still stop at \$12/kW-month. However, since Insufficient Competition *is* triggered, new resources will receive the \$12/kW-month price, but Existing Resources will receive the administrative price associated with the Insufficient Competition rule.

The IC Gap is truly a gap in the rule; it is not justified by any economic principles and undermines the effectiveness of the insufficient competition provisions. Therefore, the ISO believes it must be remedied.

4. Proposed Revision to Remedy the IC Gap

To eliminate the IC Gap, the ISO proposes revising subsection (b)(ii) of the rule to delete the “lower limit” of the trigger (with the strikethrough showing that deletion):

the amount of capacity offered from New Generating Capacity Resources and New Demand Resources is ~~more than the amount of New Capacity Required~~ but less than twice the amount of New Capacity Required; ...

With this revision, subsection (b) of the IC Rule would be triggered either when the amount of capacity offered from New Generating Capacity Resources and New Demand Resources is less than 300 MW, or where the amount of new capacity offered is less than twice the amount of New Capacity Required. This will produce a correct and consistent economic result.

**B. Revisions Addressing Administrative Pricing in the Insufficient Competition and Inadequate Supply Rules**

1. Background and History of FCM Administrative Pricing

The IC Rule is applied system-wide or in an import-constrained Capacity Zone when there is enough new entry from generation and demand resources in an FCA, when combined with the total existing resources (generation, demand response and imports), to meet the ICR for that year, but there is not sufficient new entry of generation and demand response resources to assure that the auction result is competitive. In this situation, the FCA is administered as usual, but only new resources receive the Capacity Clearing Price. Existing capacity resources are paid the lower of the Capacity Clearing Price, or an administrative price currently specified in the rules as 1.1 times the Capacity Clearing Price in the last competitive FCA, which would be \$3.46/kW-month.

Administrative pricing is also reflected in the IS Rule. An import-constrained Capacity Zone will be considered to have Inadequate Supply if at the Forward Capacity Auction Starting Price the amount of capacity offered in the import-constrained Capacity Zone through New Capacity Offers is less than the amount of New Capacity Required in that Capacity Zone. In that case, new resources are paid the Forward Capacity Auction Starting Price and existing resources are paid 1.1 times the Capacity Clearing Price for the most recent FCA not having Inadequate Supply. That administrative price is also paid in conditions of system-wide Inadequate Supply, which occurs if, at the Forward Capacity Auction Starting Price, the total amount of capacity offered in the FCA is less than the ICR.

For the first seven FCAs, the administrative price specified in the IS/IC Rules was 1.1 times CONE. When the FCM rules were initially filed in 2007, they specified that CONE was \$7.50/kW-month for the first FCA, and so 1.1 times CONE equaled \$8.25/kW-month at that time. Pursuant to provisions in the initial rules, the CONE calculated for the next two FCAs decreased to \$6.00/kW-month and then to \$4.918/kW-

month, respectively. The rules were then revised in February 2010 to state that for FCA 4, CONE again would be \$4.918/kW-month.<sup>21</sup> The revised rules also contained a modified formula to calculate CONE for subsequent FCAs, but that formula was never triggered, because the revised rules also stated that if the FCA cleared at the floor price then in place, the \$4.918/kW-month CONE value would simply be indexed based on a rolling three-year average of the Handy-Whitman Index of Public Utility Construction Costs. The floor price provision has applied in all FCAs since FCA 4, and as a result of the required indexing, CONE has increased from \$4.918/kW-month in FCA 4 to \$6.055/kW-month in FCA 7. Using that CONE value, the administrative price of 1.1 times CONE equaled \$6.66/kW-month in FCA 7. This administrative price was applied in the NEMA/Boston Capacity Zone due to Insufficient Competition in that zone in FCA 7.

Subsequently, the Commission ordered the ISO to eliminate the FCA floor price and the use of CONE. And, as noted above, in the 2011 Paper Hearing Order the Commission rejected “NEPGA’s suggestion that the price paid to existing resources in the event of insufficient competition should be slightly above the benchmark cost of a peaker.”<sup>22</sup> In its compliance filing, accordingly, the ISO replaced the 1.1 times CONE element with an element specifying 1.1 times the clearing price in the most recent competitive FCA.<sup>23</sup> This provision yields an administrative price of \$3.46/kW-month for FCA 8. In that compliance filing, the ISO noted, however:

Now that the Offer Review Trigger Price mechanism has been developed and is poised to be implemented, however, the ISO believes that the new Offer Review Trigger Price for a combustion turbine would be a far better estimate of the revenues that a new peaking resource would need to recover from the capacity market. Hence, while the instant filing replaces CONE with the Capacity Clearing Price from the most recent competitive FCA, as directed by the Commission, the ISO believes that the Inadequate Supply and Insufficient Competition pricing provisions for existing resources should instead refer to 1.1 times the Offer Review Trigger Price for a combustion turbine. The ISO intends to initiate a stakeholder process to make this change in the near future, preferably in time to be effective for the eighth FCA.<sup>24</sup>

A price of 1.1 times the current Offer Review Trigger Price for a combustion turbine for FCA 8 would equate to \$11.00/kW-month.

---

<sup>21</sup> See ISO New England Inc. and New England Power Pool, Various Revisions to FCM Rules Related to FCM Redesign, Docket No. ER10-787-000 (filed February 22, 2010) at 6, 23-24, *accepted in ISO New England Inc. and New England Power Pool Participants Committee*, 131 FERC ¶ 61,065 at P 143 (2010).

<sup>22</sup> See Paper Hearing Order at P 342.

<sup>23</sup> See December 2012 Compliance Filing at 44.

<sup>24</sup> *Id.*

Because of the expectation that neither the IS Rule nor the IC Rule would be triggered in FCA 8, the anticipation that the administrative pricing rules would be supplanted with a sloped demand curve, and because of workload resulting from other high priorities in the market design area, including Hourly Reoffers, Day-Ahead Market timing, FCM Pay for Performance, the Winter 2013/14 program, Reserve Market enhancements and Regulation market changes, the ISO did not pursue this change.

## 2. Changing Circumstances for FCA 8

As noted in Section I of this transmittal letter, in the summer and early fall of 2013, it appeared that a surplus of capacity resources (new and existing) would be participating in FCA 8. Over 3,000 MW of new resources had been qualified to participate in FCA8 and there was an excess of roughly 2,000 MW of existing resources. In October 2013, however, the outlook for FCA 8 changed dramatically. Over 3,000 MWs left the FCM by submitting NPRRs. This changed the supply-demand balance from a surplus of existing resources of over 2000 MWs to a deficiency of existing resources of over 1000 MWs, compared with the ICR. In addition, roughly 800 MW of qualified new resources elected not to participate in the auction. The abrupt change in the supply-demand balance, coupled with the decline in the amount of new entry, means that it is possible that the IC Rule will be invoked. In light of these circumstances, the ISO believes that the administrative rate must be addressed now.

## 3. Rationale for Proposed Administrative Price

As noted earlier, the proposed rule changes replace “1.1 times the Capacity Clearing Price for the most recent Forward Capacity Auction” with a value of \$7.025/kW-month. This value is derived by essentially applying the rules in place for FCA 7. Specifically, if CONE were still applicable for FCA 8, it would be \$6.386 (*i.e.*, the FCA 7 CONE of \$6.055 escalated using the Handy-Whitman Index of 1.0546). Multiplying that \$6.386 figure by 1.1 yields \$7.025/kW-month. While the ISO recognizes that this rule is no longer in effect, the ISO believes it is the most appropriate rate under the current and rapidly changing circumstances in New England. There are several reasons why the ISO believes that this rate is appropriate for FCA8.

While the ISO continues to recognize that a downward-sloping demand curve centered around a well-supported CONE is the best longer-term solution, the ISO simply cannot develop such a curve and have it in place for FCA8. Even if the ISO could, it has not developed the appropriate CONE value and vetted it through the stakeholder process. In this regard, it is noteworthy that the updated Offer Review Trigger Prices currently being developed by the Internal Market Monitor and reviewed by stakeholders appear materially different than the current Offer Review Trigger Price rates contained in the ISO-NE Tariff. For example, the cost of a combined-cycle unit now appears lower than a combustion turbine, and its cost is lower than historical values; this indicates that CONE will certainly be different than the existing values and may be lower when updated for current market conditions.

As noted earlier, the resource supply circumstances in New England did not change until well after new resources could qualify to participate in FCA 8. The current process, wherein NPRRs are received late in the process, is deficient. This is because there is no opportunity for new resource entry at this late stage of the process. While there were new resources that did qualify, the amount of new generation and new demand response continued the declining pattern seen over earlier auctions. While this hypothesis cannot be proven, the ISO's perspective is that low prices were expected to prevail in FCA 8 and, therefore, qualifying new resources made little sense when the price floor was being eliminated and there was a significant excess of supply.

Existing resources have been receiving compensation in the first seven FCAs by virtue of the operation of the floor price. These floor prices have distorted the past auction clearing prices, and it is likely that these prices are higher than those that would have otherwise prevailed. Given this, an increase in the level of the administrative price for existing resources – from the currently effective \$3.46 to \$11.00 – is not an appropriate administrative outcome.

For these reasons, the ISO believes that the proposed \$7.025/kW-month rate addresses these concerns. It recognizes the need to send price signals consistent with evolving market conditions, but also avoids lurching between administrative prices derived from the vertical demand curve, price floors and potentially uncompetitive auctions. The \$7.025 rate is derived directly from the tariff language that was in effect for FCA 7 and was used to determine the administrative price in that FCA. This price was recently accepted by resources in the NEMA/Boston Capacity Zone and by the Commission, and the methodology which determined them is familiar to stakeholders. While maintaining the status quo was not an option because it is clearly inconsistent with the changed capacity landscape in New England, neither is moving directly to the ISO's solution as noted in its December 2012 Compliance Filing because of the reasons cited above.

In sum, the ISO believes that the administrative price under the existing IS/IC rules of \$3.46/kW-month is too low, and would undermine investor confidence in the long-term stability of FCM revenues. However, the ISO also believes that the \$11.00/kW-month price that would result from applying the formula of 1.1 times the Offer Review Trigger Price for a combustion turbine is too high. Therefore, in order to maintain confidence in the market while balancing the various other factors discussed above, the ISO is proposing to establish \$7.025/kW-month as the administrative price, *for purposes of FCA 8*, calculated using the formula, with escalation of the CONE figure, used for FCA 7. This revision is accomplished through the insertion of the \$7.025/kW-month figure in the IS Rule and IC Rule.<sup>25</sup>

---

<sup>25</sup> See revisions to Sections III.13.2.8.1.1(a) and (d), III.13.2.8.1.2(a), (c) and (d), and III.13.2.8.2(b).

### **C. Removal/Replacement of “New Capacity Required” Definition**

The Rule Revisions address Section III.13.2.8.1.1 of the IS Rule, to remove the definition of “New Capacity Required” for the Rest-of-Pool Capacity Zone and replace it with a definition of “New Capacity Required” for the system-wide context.

This removal and replacement is necessary due to a flaw in the market rule. Section III.13.2.8.1.1, entitled “Inadequate Supply in an Import-Constrained Capacity Zone,” contains two definitions of “New Capacity Required”: one for an import-constrained Capacity Zone, and one for the Rest-of-Pool Capacity Zone. However, the Rest-of-Pool Capacity Zone by itself cannot have Inadequate Supply or Insufficient Competition, so the definition of New Capacity Required is unnecessary and confusing.

The replacement of that definition with a definition of “New Capacity Required” system-wide is necessary because that phrase is used in the IC Rule (in subsection (b)(ii)) in determining whether Insufficient Competition exists system-wide, but is not currently defined there.<sup>26</sup> Specifically, the Rule Revisions add the following definition (following the text defining “New Capacity Required” in an import-constrained Capacity Zone):

system-wide, “New Capacity Required” shall mean the Installed Capacity Requirement (net of HQICCs) minus the total amount of capacity of Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources (that is not permanently de-listed for the Capacity Commitment Period), minus capacity otherwise obligated for the Capacity Commitment Period.

### **D. Clarification of the Treatment of Permanently De-Listed Resources and Capacity Otherwise Obligated**

The Rule Revisions modify Section III.13.2.8.2(a) of the IC Rule to clarify the treatment of permanently de-listed resources (and capacity otherwise obligated) in the calculation of any amount by which the ICR or LSR, as applicable, exceeds capacity offered from existing capacity resources.

Section III.13.2.8.2(a) states one of the conditions that must be satisfied for Insufficient Competition to exist system-wide or in an import-constrained Capacity Zone, namely, that at the Forward Capacity Auction Starting Price, the amount of capacity offered from Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources is less than the ICR (net of HQICCs) or the LSR, as applicable. However, as written, that subsection does not make clear (as it should) that permanently de-listed resources and capacity that is otherwise obligated for

---

<sup>26</sup> The existing definition in Section III.13.2.8.1.1 of “New Capacity Required” in the context of an import-constrained Capacity Zone is used in determining (in Section III.13.2.8.2(b)(ii)) whether Insufficient Competition exists in an import-constrained Capacity Zone.

the Capacity Commitment Period should not be considered existing capacity. To clarify that treatment, the Rule Revisions modify subsection (a) – with new language in underscoring – to read:

...the amount of capacity offered from Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources (that is not permanently de-listed for the Capacity Commitment Period), minus capacity otherwise obligated for the Capacity Commitment Period, is less than the Installed Capacity Requirement (net of HQICCs) or the Local Sourcing Requirement, as applicable; and...

The new language is consistent with the proposed definition of system-wide New Capacity Required, as discussed in the previous subsection of this transmittal letter.

**E. Clarification of the Treatment of De-List and Export Bids When the Capacity Clearing Price Is Set Administratively Due to the Operation of the Carry Forward Rule**

The Rule Revisions clarify the treatment of de-list and export bids when the capacity clearing price is set administratively due to the operation of the Carry Forward Rule.

Pursuant to current Section III.13.2.5.2.7, where the Capacity Clearing Price is set pursuant to the IS Rule or IC Rule, and as a result a Permanent De-List Bid, Static De-List Bid or Export Bid clears that would not otherwise have cleared, then the amount of de-listed or exported capacity is not replaced in the current FCA (that is, the amount of capacity procured in the FCA is the ICR (net of HQICCs) or LSR as appropriate, minus the amount of the de-listed or exported capacity that results from the application of administratively determined prices) and is included in subsequent annual reconfiguration auctions (that is, the amount of capacity procured in subsequent annual reconfiguration auctions shall be increased by the amount of the de-listed or imported capacity).

The Carry Forward Rule, like the IS and IC Rules, includes an administrative price (see Section III.13.2.7.9.2) to which the Capacity Clearing Price is set if triggered pursuant to Section III.13.2.7.9.1. The current text of Section III.13.2.5.2.7 does not address how de-list and export bids should be treated where the Capacity Clearing Price is set administratively due to the operation of the Carry Forward Rule. Accordingly, to ensure completeness and consistency of treatment of such bids across similar administrative price regimes, the ISO proposes that the text of Section III.13.2.5.2.7 be modified as follows (with the new language underscored):

Where the Capacity Clearing Price is set pursuant to Section III.13.2.7.9 (Capacity Carry Forward Rule), or where payments are set pursuant to Section III.13.2.8 (Inadequate Supply and Insufficient Competition)...

## **VI. REQUESTED EFFECTIVE DATE**

The ISO requests that the Commission permit the Rule Revisions to become effective January 24, 2014, without condition, suspension or hearing.

## **VII. STAKEHOLDER PROCESS**

As noted above, the ISO discussed the Rule Revisions in two meetings of the NEPOOL Markets Committee, on November 13 and 18, 2013. Following the November 18, the NEPOOL officers determined to cancel the previously noticed special meeting of the NEPOOL Participants Committee.

## **VIII. ADDITIONAL SUPPORTING INFORMATION**

Section 35.13 of the Commission's regulations generally requires public utilities to file certain cost and other information related to an examination of traditional cost-of-service rates. However, the Rule Revisions do not modify a traditional "rate" and ISO-NE is not a traditional investor-owned utility. Therefore, to the extent necessary, ISO-NE requests waiver of Section 35.13 of the Commission's regulations. Notwithstanding its request for waiver, ISO-NE submits the following additional information in substantial compliance with relevant provisions of Section 35.13 of the Commission's regulations:

35.13(b)(2) –ISO-NE respectfully requests that the Commission issue an order accepting the Tariff Revisions to be effective as of January 24, 2014.

35.13(b)(3) – Pursuant to Section 17.11(e) of the Participants Agreement, Governance Participants are being served electronically rather than by paper copy. The names and addresses of the Governance Participants are posted on ISO-NE's website at <http://www/committees/directory/default/committee.action?committeeId=1>. A copy of this transmittal letter and the accompanying materials have also been sent electronically to the governors and electric utility regulatory agencies for the six New England states that comprise the New England Control Area, to the New England Conference of Public Utility Commissioners, and to the Executive Director of the New England States Committee on Electricity. In accordance with Commission rules and practice, there is no need for the Governance Participants or the other entities described above to be included on the Commission's official service list in the captioned proceeding unless such entities become intervenors in this proceeding.

35.13(b)(4) - A description of the materials submitted pursuant to this filing is contained in this transmittal letter. Clean and redlined copies of the revised tariff sheets are included with this eTariff filing.

35.13(b)(5) - The reasons for this filing are discussed in this transmittal letter.

35.13(b)(6) – ISO-NE's approval of the Rule Revisions is evidenced by this filing.

The Honorable Kimberly D. Bose, Secretary

November 25, 2013

Page 17 of 17

35.13(b)(7) – The ISO has no knowledge of any relevant expenses or costs-of-service that have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

35.13(c)(1) - The market rule changes herein do not modify a traditional “rate,” and the statement required under this Commission regulation is not applicable to the instant filing.

35.13(c)(2) - ISO-NE does not provide services under other rate schedules that are similar to the sale for resale and transmission services it provides under the ISO-NE Tariff.

35.13(c)(3) - No specifically assignable facilities have been or will be installed or modified in connection with the revisions proposed herein.

## **IX. CONCLUSION**

For the reasons stated herein, the ISO respectfully requests that the Commission accept the Rule Revisions without condition, modification or hearing, to be effective on January 24, 2014.

Respectfully submitted,

/s/ Raymond W. Hepper

Raymond W. Hepper  
Vice President, General Counsel and  
Corporate Secretary  
ISO New England Inc.  
One Sullivan Road  
Holyoke, MA 01040-2841  
Tel: (413) 540-4592  
Fax: (413) 535-4379  
E-mail: [rhepper@iso-ne.com](mailto:rhepper@iso-ne.com)

/s/ Howard H. Shafferman

Howard H. Shafferman  
Ballard Spahr LLP  
1909 K Street, NW  
12<sup>th</sup> Floor  
Washington, DC 20006  
Tel: (202) 661-2200  
Fax: (202) 661-2299  
E-mail: [hhs@ballardspahr.com](mailto:hhs@ballardspahr.com)

### **III.13.2. Annual Forward Capacity Auction.**

#### **III.13.2.1. Timing of Annual Forward Capacity Auctions.**

Except with respect to the first six Forward Capacity Auctions (as described in Section III.13.1.10), each Forward Capacity Auction will be conducted beginning on the first Monday in the February that is approximately three years and four months before the beginning of the associated Capacity Commitment Period (unless, no later than the immediately preceding December 1, an alternative date is announced by the ISO), or, where exigent circumstances prevent the start of the Forward Capacity Auction at that time, as soon as possible thereafter.

#### **III.13.2.2. Amount of Capacity Purchased in Each Forward Capacity Auction.**

Each Forward Capacity Auction shall procure one hundred percent of the Installed Capacity Requirement (net of HQICCs) approved by the Commission for the associated Capacity Commitment Period, except as a result of the Capacity Rationing Rule, as described in Sections III.13.2.6 and III.13.2.7.4. The sum of the Hydro-Quebec Interconnection Capability Credits and import capacity purchased over the Phase I/II HVDC-TF interconnection shall not exceed the capacity transfer limit of those facilities, as determined by the ISO.

#### **III.13.2.3. Conduct of the Forward Capacity Auction.**

The Forward Capacity Auction shall be a descending clock auction, which will determine, subject to the provisions of Section III.13.2.7, the Capacity Clearing Price for each Capacity Zone modeled in that Forward Capacity Auction pursuant to Section III.12.4, and the Capacity Clearing Price for certain offers from New Import Capacity Resources and Existing Import Capacity Resources pursuant to Section III.13.2.3.3(d). The Forward Capacity Auction shall determine the outcome of all offers and bids accepted during the qualification process and submitted during the auction. Each Forward Capacity Auction shall be conducted as a series of rounds, which shall continue (for up to five consecutive Business Days, with up to eight rounds per day, absent extraordinary circumstances) until the Forward Capacity Auction is concluded for all modeled Capacity Zones in accordance with the provisions of Section III.13.2.3.3. Each round of the Forward Capacity Auction shall consist of the following steps, which shall be completed simultaneously for each Capacity Zone included in the round:

##### **III.13.2.3.1. Step 1: Announcement of Start-of-Round Price and End-of-Round Price.**

For each round, the auctioneer shall announce a single Start-of-Round Price (the highest price associated with a round of the Forward Capacity Auction) and a single (lower) End-of-Round Price (the lowest price

associated with a round of the Forward Capacity Auction). In the first round, the Start-of-Round Price shall equal the Forward Capacity Auction Starting Price for all modeled Capacity Zones. In each round after the first round, the Start-of-Round Price shall equal the End-of-Round Price from the previous round.

#### **III.13.2.3.2. Step 2: Compilation of Offers and Bids.**

The auctioneer shall compile all of the offers and bids for that round, as follows:

##### **(a) Offers from New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources.**

(i) The Project Sponsor for any New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource accepted in the qualification process for participation in the Forward Capacity Auction may submit an offer (a “New Capacity Offer”) indicating the quantity of capacity that the Project Sponsor would commit to provide from the resource (in the associated modeled Capacity Zone during the qualification process) during the Capacity Commitment Period at that round’s prices. A New Capacity Offer shall be defined by the submission of one to five prices, each strictly less than the Start-of-Round Price but greater than or equal to the End-of-Round Price, and an associated quantity in the associated modeled Capacity Zone. Each price shall be expressed in units of dollars per kilowatt-month to an accuracy of at most three digits to the right of the decimal point, and each quantity shall be expressed in units of MWs to an accuracy of at most three digits to the right of the decimal point. Such a New Capacity Offer shall imply a supply curve indicating quantities offered at all of that round’s prices, pursuant to the convention of Section III.13.2.3.2(a)(iii).

(ii) If the Project Sponsor of a New Generating Capacity Resource, a New Import Capacity Resource, or New Demand Resource elects to offer in a Forward Capacity Auction, the Project Sponsor must offer the resource’s full FCA Qualified Capacity at the Forward Capacity Auction Starting Price in the first round of the auction. A New Capacity Offer for a resource may in no event be for greater capacity than the resource’s full FCA Qualified Capacity at any price. A New Capacity Offer for a resource may not be for less capacity than the resource’s Economic Minimum Limit at any price, except where the New Capacity Offer is for a capacity quantity of zero.

(iii) Let the Start-of-Round Price and End-of-Round Price for a given round be  $P_S$  and  $P_E$ , respectively. Let the  $m$  prices ( $1 \leq m \leq 5$ ) submitted by a Project Sponsor for a modeled Capacity Zone be  $p_1, p_2, \dots, p_m$ , where  $P_S > p_1 > p_2 > \dots > p_m \geq P_E$ , and let the associated quantities submitted for a New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource be  $q_1, q_2, \dots, q_m$ . Then the Project Sponsor's supply curve, for all prices strictly less than  $P_S$  but greater than or equal to  $P_E$ , shall be taken to be:

$$S(p) = \begin{cases} q_0, & \text{if } p > p_1, \\ q_1, & \text{if } p_2 < p \leq p_1, \\ q_2, & \text{if } p_3 < p \leq p_2, \\ \dots & \dots, \\ q_m, & \text{if } p \leq p_m. \end{cases}$$

where, in the first round,  $q_0$  is the resource's full FCA Qualified Capacity and, in subsequent rounds,  $q_0$  is the resource's quantity offered at the lowest price of the previous round.

(iv) [Reserved.]

(v) A New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource may not include any capacity in a New Capacity Offer during the Forward Capacity Auction at any price below the resource's New Resource Offer Floor Price. The amount of capacity included in each New Capacity Offer at each price shall be included in the aggregate supply curves at that price as described in Section III.13.2.3.3.

(b) **Bids from Existing Capacity Resources Accepted in Qualification.** Static De-List Bids, Permanent De-List Bids, and Export Bids from Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources submitted and accepted in the qualification process (or as directed by the Commission) shall be automatically bid into the appropriate round(s) of the Forward Capacity Auction, such that each such resource's summer Qualified Capacity will be included in the aggregate supply curves as described in Section III.13.2.3.3. until any Static De-List Bid, Permanent De-List Bid, or Export Bid clears in the Forward Capacity Auction, as described in Section III.13.2.5.2, and is removed from the aggregate supply curves. Administrative Export De-List Bids shall be automatically entered into the first round of the Forward Capacity Auction at the Forward Capacity Auction Starting Price. If the amount of capacity associated with Export Bids for an interface exceeds the transfer limit of

that interface (minus any accepted Administrative De-List Bids over that interface), then the set of Export Bids associated with that interface equal to the interface's transfer limit (minus any accepted Administrative De-List Bids over that interface) having the highest bid prices shall be included in the auction as described above; capacity for which Export Bids are not included in the auction as a result of this provision shall be entered into the auction pursuant to Section III.13.2.3.2(c).

(c) **Existing Capacity Resources Not Having Accepted De-List or Export Bids and Self-Supplied FCA Resources.** Each Existing Generating Capacity Resource, Existing Import Capacity Resource, and Existing Demand Resource that did not submit a Static De-List Bid, a Permanent De-List Bid, an Export Bid, or an Administrative Export De-List Bid in its Existing Capacity Qualification Package, or an Existing Generating Capacity Resource, Existing Import Capacity Resource, or Existing Demand Resource that did not have any such bid accepted in the qualification process, and each existing Self-Supplied FCA Resource shall be automatically entered into each round of the Forward Capacity Auction at its FCA Qualified Capacity, such that the resource's FCA Qualified Capacity will be included in the aggregate supply curves as described in Section III.13.2.3.3, except where such resource, if permitted, submits an appropriate Dynamic De-List Bid, as described in Section III.13.2.3.2(d). Each new Self-Supplied FCA Resource shall be automatically entered into each round of the Forward Capacity Auction at its designated self-supplied quantity at prices at or above the resource's New Resource Offer Floor Price, such that the resource's designated self-supply quantity will be included in the aggregate supply curves as described in Section III.13.2.3.3.

(d) **Dynamic De-List Bids.** In any round of the Forward Capacity Auction in which prices are below \$1.00/kW-month, any Existing Generating Capacity Resource, Existing Import Capacity Resource, or Existing Demand Resource (but not any Self-Supplied FCA Resources) may submit a Dynamic De-List Bid at prices below \$1.00/kW-month. Such a bid shall be defined by the submission of one to five prices, each less than \$1.00/kW-month (or the Start-of-Round Price, if lower than \$1.00/kW-month) but greater than or equal to the End-of-Round Price, and a single quantity associated with each price. Such a bid shall be expressed in the same form as specified in Section III.13.2.3.2(a)(i) and shall imply a curve indicating quantities at all of that round's relevant prices, pursuant to the convention of Section III.13.2.3.2(a)(iii). The curve may in no case increase the quantity offered as the price decreases. A dynamic De-List Bid may not offer less capacity than the resource's Economic Minimum Limit at any price, except where the amount of capacity offered is zero. All Dynamic De-List Bids are subject to a reliability review as described in Section III.13.2.5.2.5, and if not rejected for reliability reasons, shall be included in the round in the same manner as Static De-List Bids as described in Section III.13.2.3.2(b).

Where a resource elected pursuant to Section III.13.1.1.2.2.4 or Section III.13.1.4.2.2.5 to have the Capacity Supply Obligation and Capacity Clearing Price continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which the offer clears, the capacity associated with any resulting Capacity Supply Obligation may not be subject to a Dynamic De-List Bid in subsequent Forward Capacity Auctions for Capacity Commitment Periods for which the Project Sponsor elected to have the Capacity Supply Obligation and Capacity Clearing Price continue to apply. Where a Lead Market Participant submits any combination of Dynamic De-List Bid, Static De-List Bid, Export Bid, and Administrative Export De-List Bid for a single resource, none of the prices in a set of price-quantity pairs associated with a bid may be the same as any price in any other set of price-quantity pairs associated with another bid for the same resource.

(e) **Repowering.** Offers and bids associated with a resource participating in the Forward Capacity Auction as a New Generating Capacity Resource pursuant to Section III.13.1.1.1.2 (resources previously counted as capacity resources) shall be addressed in the Forward Capacity Auction in accordance with the provisions of this Section III.13.2.3.2(e). The Project Sponsor shall offer such a New Generating Capacity Resource into the Forward Capacity Auction in the same manner and pursuant to the same rules as other New Generating Capacity Resources, as described in Section III.13.2.3.2(a). As long as any capacity is offered from the New Generating Capacity Resource, the amount of capacity offered is the amount that the auctioneer shall include in the aggregate supply curve at the relevant prices, and the quantity of capacity offered from the associated Existing Generating Capacity Resource shall not be included in the aggregate supply curve. If any portion of the New Generating Capacity Resource clears in the Forward Capacity Auction, the associated Existing Generating Capacity Resource shall be permanently de-listed as of the start of the associated Capacity Commitment Period. If at any price, no capacity is offered from the New Generating Capacity Resource, then the auctioneer shall include capacity from the associated Existing Generating Capacity Resource at that price, subject to any bids submitted and accepted in the qualification process for that Existing Generating Capacity Resource pursuant to Section III.13.1.2.5. Bids submitted and accepted in the qualification process for an Existing Generating Capacity Resource pursuant to Section III.13.1.2.5 shall only be entered into the Forward Capacity Auction after the associated New Generating Capacity Resource is fully withdrawn (that is, the Forward Capacity Auction reaches a price at which the resource's New Capacity Offer is zero capacity), and shall only then be subject to the reliability review described in Section III.13.2.5.2.5.

(f) **Conditional Qualified New Generating Capacity Resources.** Offers associated with a resource participating in the Forward Capacity Auction as a Conditional Qualified New Generating Capacity

Resource pursuant to Section III.13.1.1.2.3(f) shall be addressed in the Forward Capacity Auction in accordance with the provisions of this Section III.13.2.3.2(f). The Project Sponsor shall offer such a Conditional Qualified New Generating Capacity Resource into the Forward Capacity Auction in the same manner and pursuant to the same rules as other New Generating Capacity Resources, as described in Section III.13.2.3.2(a). An offer from at most one resource at a Conditional Qualified New Generating Capacity Resource's location will be permitted to clear (receive a Capacity Supply Obligation for the associated Capacity Commitment Period) in the Forward Capacity Auction. As long as a positive quantity is offered at the End-of-Round Price in the final round of the Forward Capacity Auction by the resource having a higher queue priority at the Conditional Qualified New Generating Capacity Resource's location, as described in Section III.13.1.1.2.3(f), then no capacity from the Conditional Qualified New Generating Capacity Resource shall clear. If at any price greater than or equal to the End-of-Round Price in the final round of the Forward Capacity Auction, zero quantity is offered from the resource having higher queue priority at the Conditional Qualified New Generating Capacity resource's location, as described in Section III.13.1.1.2.3(f), then the auctioneer shall consider capacity offered from the Conditional Qualified New Generating Capacity Resource in the determination of clearing, including the application of Section III.13.2.7.

(g) **Mechanics.** Offers and bids that may be submitted during a round of the Forward Capacity Auction must be received between the starting time and ending time of the round, as announced by the auctioneer in advance. The ISO at its sole discretion may authorize a participant in the auction to complete or correct its submission after the ending time of a round, but only if the participant can demonstrate to the ISO's satisfaction that the participant was making reasonable efforts to complete a valid offer submission before the ending time of the round, and only if the ISO determines that allowing the completion or correction will not unreasonably disrupt the auction process. All decisions by the ISO concerning whether or not a participant may complete or correct a submission after the ending time of a round are final.

### **III.13.2.3.3. Step 3: Determination of the Outcome of Each Round.**

The auctioneer shall use the offers and bids for the round as described in Section III.13.2.3.2 to determine the aggregate supply curves for the New England Control Area and for each modeled Capacity Zone included in the round. The aggregate supply curve for the New England Control Area (the "Total System Capacity") shall reflect at each price the sum of (the amount of capacity offered in all Capacity Zones modeled as import-constrained Capacity Zones at that price (excluding capacity offered from New Import Capacity Resources and Existing Import Capacity Resources)) plus (the amount of capacity offered in the

Rest-of-Pool Capacity Zone at that price (excluding capacity offered from New Import Capacity Resources and Existing Import Capacity Resources)) plus (for each Capacity Zone modeled as an export-constrained Capacity Zone, the lesser of the amount of capacity offered in the Capacity Zone at that price (excluding capacity offered from New Import Capacity Resources and Existing Import Capacity Resources) or the Capacity Zone's Maximum Capacity Limit) plus (for each interface between the New England Control Area and an external Control Area, the lesser of that interface's approved capacity transfer limit (net of tie benefits) or the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources). In computing the Total System Capacity, capacity associated with any New Capacity Offer at any price greater than the Forward Capacity Auction Starting Price will not be included in the tally of total capacity at the Forward Capacity Auction Starting Price for that Capacity Zone. In no event shall the Capacity Clearing Price for a Capacity Zone be greater than the Forward Capacity Auction Starting Price for that Capacity Zone. On the basis of these aggregate supply curves, the auctioneer shall determine the outcome of the round for each modeled Capacity Zone as follows:

(a) **Import-Constrained Capacity Zones.**

For a Capacity Zone modeled as an import-constrained Capacity Zone, if either of the following two conditions is met during the round:

- (1) the aggregate supply curve for the import-constrained Capacity Zone, adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), equals or is less than the Capacity Zone's Local Sourcing Requirement; or
- (2) the Total System Capacity, adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), equals or is less than the Installed Capacity Requirement (net of HQICCs);

then the Forward Capacity Auction for that Capacity Zone is concluded and such Capacity Zone will not be included in further rounds of the Forward Capacity Auction. The Capacity Clearing Price for that Capacity Zone shall be set at the highest price at which either of the two conditions above are satisfied, subject to the other provisions of this Section III.13.2. If neither of the two conditions above are met in the round, then the auctioneer shall publish the quantity of system-wide excess supply at the End-of-Round Price (the amount of capacity offered at the End-of-

Round Price in all modeled Capacity Zones minus the Installed Capacity Requirement (net of HQICCs)) and the quantity of capacity from Demand Resources by type at the End-of-Round Price, and that Capacity Zone will be included in the next round of the Forward Capacity Auction.

(b) **Rest-of-Pool Capacity Zone.** For the Rest-of-Pool Capacity Zone, if the Total System Capacity adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), equals or is less than the Installed Capacity Requirement (net of HQICCs), then the Forward Capacity Auction for the Rest-of-Pool Capacity Zone is concluded and the Rest-of-Pool Capacity Zone will not be included in further rounds of the Forward Capacity Auction. The Capacity Clearing Price for the Rest-of-Pool Capacity Zone shall be set at the highest price at which the Total System Capacity is less than or equal to the Installed Capacity Requirement (net of HQICCs), subject to the other provisions of this Section III.13.2. If the Total System Capacity exceeds the Installed Capacity Requirement (net of HQICCs) at the End-of-Round Price, then the auctioneer shall publish the quantity of system-wide excess supply at the End-of-Round Price (the amount of capacity offered at the End-of-Round Price in all modeled Capacity Zones minus the Installed Capacity Requirement (net of HQICCs)) and the quantity of capacity from Demand Resources by type at the End-of-Round Price, and the Rest-of-Pool Capacity Zone will be included in the next round of the Forward Capacity Auction.

(c) **Export-Constrained Capacity Zones.** For a Capacity Zone modeled as an export-constrained Capacity Zone, if both of the following two conditions are met during the round:

(i) the aggregate supply curve for the export-constrained Capacity Zone, adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), is equal to or below the Capacity Zone's Maximum Capacity Limit; and

(ii) the Total System Capacity, adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), equals or is less than the Installed Capacity Requirement (net of HQICCs);

then the Forward Capacity Auction for that Capacity Zone is concluded and such Capacity Zone will not be included in further rounds of the Forward Capacity Auction. The Capacity Clearing Price for that Capacity Zone shall be set at the highest price at which both of the conditions above

are satisfied, subject to the other provisions of this Section III.13.2. If it is not the case that both of the two conditions above are satisfied in the round, then the auctioneer shall publish the quantity of system-wide excess supply at the End-of-Round Price (the amount of capacity offered at the End-of-Round Price in all modeled Capacity Zones minus the Installed Capacity Requirement) and the quantity of excess supply in the export-constrained Capacity Zone (the amount of capacity offered at the End-of-Round Price in the export-constrained Capacity Zone minus the Maximum Capacity Limit of the export-constrained Capacity Zone) and the quantity of capacity from Demand Resources by type at the End-of-Round Price, and that Capacity Zone will be included in the next round of the Forward Capacity Auction.

(d) **Treatment of Import Capacity.** Where the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between the New England Control Area and an external Control Area is less than or equal to that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF), then the capacity offers from those resources shall be treated as capacity offers in the modeled Capacity Zone associated with that interface. Where the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between the New England Control Area and an external Control Area is greater than that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF), then the following provisions shall apply (separately for each such interface):

(i) For purposes of determining which capacity offers from the New Import Capacity Resources and Existing Import Capacity Resources over the interface shall clear and at what price, the offers over the interface shall be treated in the descending-clock auction as if they comprised a separately-modeled export-constrained capacity zone, with an aggregate supply curve consisting of the offers from the New Import Capacity Resources and Existing Import Capacity Resources over the interface.

(ii) The amount of capacity offered over the interface that will be included in the aggregate supply curve of the modeled Capacity Zone associated with the interface shall be the lesser of the following two quantities: the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over the interface; and the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF).

(iii) The Forward Capacity Auction for New Import Capacity Resources and Existing Import Capacity Resources over the interface is concluded when the following two conditions are both satisfied: the amount of capacity offered from New Import Capacity Resource and Existing Import Capacity Resources over the interface is less than or equal to the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF); and the Forward Capacity Auction is concluded in the modeled Capacity Zone associated with the interface.

(e) **Treatment of Export Capacity.** Any Export Bid or any Administrative Export De-List Bid that is used to export capacity through an export interface connected to an import-constrained Capacity Zone from another Capacity Zone, or through an export interface connected to the Rest-of-Pool Capacity Zone from an export-constrained Capacity Zone in the Forward Capacity Auction will be modeled in the Capacity Zone where the export interface that is identified in the Existing Capacity Qualification Package is located. The Export Bid or Administrative Export De-List Bid clears against the Capacity Clearing Price in the Capacity Zone where the Export Bid or Administrative Export De-List Bid is modeled.

(i) Then the MW quantity equal to the relevant Export Bid or Administrative Export De-List Bid from the resource associated with the Export Bid or Administrative Export De-List Bid will be de-listed in the Capacity Zone where the resource is located. If the export interface is connected to an import-constrained Capacity Zone, the MW quantity procured will be in addition to the Local Sourcing Requirement of the import-constrained Capacity Zone.

(ii) If the Export Bid or Administrative Export De-List Bid does not clear, then the resource associated with the Export Bid or Administrative Export De-List Bid will not be de-listed in the Capacity Zone where the resource is located.

(f) **Treatment of Real-Time Emergency Generation Resources.** In determining when the Forward Capacity Auction is concluded, no more than 600 MW of capacity from Real-Time Emergency Generation Resources shall be counted towards meeting the Installed Capacity Requirement (net of HQICCs). If the sum of the Capacity Supply Obligations of Real-Time Emergency Generation Resources exceeds 600 MW, the Capacity Clearing Price, or in the case of Inadequate Supply or Insufficient Competition, the payment as described in Section III.13.2.8, (as adjusted pursuant to Section III.13.2.7.3(b)) paid to all Real-Time Emergency Generation Resources shall be adjusted by the ratio of 600 MW divided by the total of the final Capacity Supply Obligations of Real-Time Emergency

Generation Resources. The acceptance of a Real-Time Emergency Generation Resource Static De-list Bid, Dynamic De-list Bid, or Permanent De-list Bid shall be based on the effective Capacity Clearing Price as described in Section III.13.2.7.

**III.13.2.3.4. Determination of Final Capacity Zones.**

(a) For all Forward Capacity Auctions up to and including the sixth Forward Capacity Auction (for the Capacity Commitment Period beginning June 1, 2015), after the Forward Capacity Auction is concluded for all modeled Capacity Zones, the final set of distinct Capacity Zones that will be used for all purposes associated with the relevant Capacity Commitment Period, including for the purposes of reconfiguration auctions and Capacity Supply Obligation Bilaterals, shall be those having distinct Capacity Clearing Prices as a result of constraints between modeled Capacity Zones binding in the running of the Forward Capacity Auction. Where a modeled constraint does not bind in the Forward Capacity Auction, and as a result adjacent modeled Capacity Zones clear at the same Capacity Clearing Price, those modeled Capacity Zones shall be a single Capacity Zone used for all purposes of the relevant Capacity Commitment Period, including for the purposes of reconfiguration auctions and Capacity Supply Obligation Bilaterals.

(b) For all Forward Capacity Auctions beginning with the seventh Forward Capacity Auction (for the Capacity Commitment Period beginning June 1, 2016) the final set of distinct Capacity Zones that will be used for all purposes associated with the relevant Capacity Commitment Period, including for the purposes of reconfiguration auctions and Capacity Supply Obligation Bilaterals, shall be those described in Section III.12.4.

**III.13.2.4. Forward Capacity Auction Starting Price.**

The Forward Capacity Auction Starting Price for each Capacity Zone in the Forward Capacity Auction for the Capacity Commitment Period beginning on June 1, 2016 shall be \$15/kW-month. Thereafter, the Forward Capacity Auction Starting Price will be adjusted after each Forward Capacity Auction using a rolling three-year average of the Handy-Whitman Index of Public Utility Construction Costs. References in this Section III.13 to the Forward Capacity Auction Starting Price shall mean the Forward Capacity Auction Starting Price for the Forward Capacity Auction associated with the relevant Capacity Commitment Period.

**III.13.2.5. Treatment of Specific Offer and Bid Types in the Forward Capacity Auction.**

**III.13.2.5.1. Offers from New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources.**

A New Capacity Offer (other than one from a Conditional Qualified New Generating Capacity Resource) clears (receives a Capacity Supply Obligation for the associated Capacity Commitment Period) in the Forward Capacity Auction if the Capacity Clearing Price is greater than or equal to the price specified in the offer, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6. An offer from a Conditional Qualified New Generating Capacity Resource clears (receives a Capacity Supply Obligation for the associated Capacity Commitment Period) in the Forward Capacity Auction, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6, if all of the following conditions are met: (i) the Capacity Clearing Price is greater than or equal to the price specified in the offer; (ii) capacity from that resource is considered in the determination of clearing as described in Section III.13.2.3.2(f); and (iii) such offer minimizes the costs for the associated Capacity Commitment Period, subject to Section III.13.2.7.7(c).

The amount of capacity that receives a Capacity Supply Obligation through the Forward Capacity Auction shall not exceed the quantity of capacity offered from the New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource at the Capacity Clearing Price.

**III.13.2.5.2. Bids and Offers from Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources.**

**III.13.2.5.2.1. Permanent De-List Bids.**

Except as provided in Section III.13.2.5.2.5 and Section III.13.2.5.2.7, a Permanent De-List Bid clears in the Forward Capacity Auction (does not receive a Capacity Supply Obligation for the associated Capacity Commitment Period) if the Capacity Clearing Price is less than or equal to the price specified in the bid, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6.

**III.13.2.5.2.2. Static De-List Bids and Export Bids.**

Except as provided in Section III.13.2.5.2.5 and Section III.13.2.5.2.7, a Static De-List Bid or an Export Bid clears in the Forward Capacity Auction (does not receive a Capacity Supply Obligation for the associated Capacity Commitment Period) if the Capacity Clearing Price is less than or equal to the price

specified in the bid, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6.

### **III.13.2.5.2.3. Dynamic De-List Bids.**

A Dynamic De-List Bid clears in the Forward Capacity Auction (does not receive a Capacity Supply Obligation for the associated Capacity Commitment Period) if the Capacity Clearing Price is less than or equal to the price specified in the bid, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6. If more Dynamic De-List Bids are submitted at a price than are needed to clear the market, such Dynamic De-List Bids shall be cleared pro-rata, but in no case less than a resource's Economic Minimum Limit.

### **III.13.2.5.2.4. Administrative Export De-List Bids.**

An Administrative Export De-List Bid clears in the Forward Capacity Auction (does not receive a Capacity Supply Obligation for the associated Capacity Commitment Period) regardless of the Capacity Clearing Price and regardless of whether there is Inadequate Supply or Insufficient Competition in the Capacity Zone.

### **III.13.2.5.2.5. Bids Rejected for Reliability Reasons.**

The ISO shall review each Non-Price Retirement Request, Permanent De-List Bid, Static De-List Bid, Export Bid, Administrative Export De-List Bid, and Dynamic De-List Bid entered into the Forward Capacity Auction to determine whether the capacity associated with that Non-Price Retirement Request or de-list bid is needed for reliability reasons during the Capacity Commitment Period associated with the Forward Capacity Auction. The capacity shall be deemed needed for reliability reasons if the absence of the capacity would result in the violation of any NERC or NPCC (or their successors) criteria, or ISO New England System Rules. Non-Price Retirement Requests and de-list bids shall not be rejected pursuant to this Section III.13.2.5.2.5 solely on the basis that acceptance of the Non-Price Retirement Request or de-list bid may result in the procurement of less capacity than the Installed Capacity Requirement (net of HQICCs) or Local Sourcing Requirement for Load Zones or aggregations of Load Zones considered for modeling in a Forward Capacity Auction. Where a Non-Price Retirement Request would otherwise be accepted, or a Permanent De-List Bid, Static De-List Bid, Export Bid, Administrative Export De-List Bid, or Dynamic De-List Bid would otherwise clear in the Forward Capacity Auction, but the ISO has determined that some or all of the capacity associated with the Non-Price Retirement Request or de-list bid is needed for reliability reasons, then the de-list bid having capacity needed for reliability

will not clear in the Forward Capacity Auction and the Non-Price Retirement Request will not be approved as described in Section III.13.1.2.3.1.5.3, and the following provisions will apply:

(a) The Lead Market Participant shall be notified that its de-list bid did not clear for reliability reasons at the later of: (i) immediately after the end of the Forward Capacity Auction round in which the auction price reaches the price of the de-list bid; or (ii) as soon as practicable after the time at which the ISO has determined that the de-list bid must be rejected for reliability reasons. In no event, however, shall a Lead Market Participant be notified that a bid submitted pursuant to Section III.13.1.2.5 and accepted in the qualification process for an Existing Generating Capacity Resource did not clear for reliability reasons if the associated New Generating Capacity Resource remains in the Forward Capacity Auction. In such a case, the Lead Market Participant shall be notified that its bid did not clear for reliability reasons at the later of: (i) immediately after the end of the Forward Capacity Auction round in which the auction price reaches the price of the bid; (ii) immediately after the end of the Forward Capacity Auction round in which the associated New Generating Capacity Resource is fully withdrawn (that is, the Forward Capacity Auction reaches a price at which the resource's New Capacity Offer is zero capacity); or (iii) as soon as practicable after the time at which the ISO has determined that the bid must be rejected for reliability reasons.

(i) In the case of Non-Price Retirement Request, the Lead Market Participant will be notified whether or not the request has been rejected for reliability reasons within 90 days of the submission of the request.

(b) A resource that has a de-list bid rejected pursuant to this Section III.13.2.5.2.5 shall be compensated pursuant to the terms set out in Section III.13.2.5.2.5.1. An Existing Generating Capacity Resource or Existing Demand Resource that has a Non-Price Retirement Request rejected pursuant to this Section III.13.2.5.2.5 shall have the option to retire pursuant to Section III.2.5.2.5.3(a)(iii) or to continue operation and be compensated pursuant to Section III.13.2.5.2.5.1. A resource receiving payment under this Section III.13.2.5.2.5 and Section III.13.2.5.2.5.1 shall have the obligations of resources with Capacity Supply Obligations as described in Section III.13.6.1. Such resources shall be counted towards the Installed Capacity Requirement (net of HQICCs) for the Capacity Commitment Period.

(c) The ISO shall review the results of each annual reconfiguration auction and determine whether the reliability need which prevented the de-listing of the resource has been met through the annual

reconfiguration auction. The ISO may also attempt to address the reliability concern through other reasonable means (including transmission enhancements).

(d) If the reliability need that prevented the de-listing of the resource is met through a reconfiguration auction or other means, the resource shall be de-listed, be relieved of its Capacity Supply Obligation and no longer be eligible to receive the compensation specified in Section III.13.2.5.2.5(b). The ISO shall enter bids at the Forward Capacity Auction Starting Price to replace the capacity on behalf of load in subsequent annual reconfiguration auctions associated with the Capacity Commitment Period (and subsequent Capacity Commitment Periods, in the case of a Permanent De-List Bid).

(e) If a Permanent De-List Bid that would otherwise clear in a Forward Capacity Auction or a Non-Price Retirement Request is rejected for reliability reasons, that resource, or portion thereof, as applicable, is no longer eligible to participate as an Existing Generating Capacity Resource in any reconfiguration auction, Forward Capacity Auction or Capacity Supply Obligation Bilateral for that and subsequent Capacity Commitment Periods. If the resource, or portion thereof, continues to be needed for reliability reasons, it shall be counted as capacity in the Forward Capacity Auction and shall be compensated as described in Section III.13.2.5.2.5.1 until such time as it is no longer needed for reliability reasons.

(f) [Reserved.]

(g) The ISO shall review with the Reliability Committee (i) the status of any prior rejected delist bids reported to the Commission in an FCA results filing pursuant to Section 13.8.2, and (ii) the status of any Non-Price Retirement Request that has been rejected for reliability reasons and has elected to continue to operate, prior to the New Capacity Qualification Deadline in accordance with Section 4.1(c) of Attachment K of the ISO OATT.

In instances where an identified reliability need results in the rejection of a Non-Price Retirement Request, or the rejection of a Permanent De-List Bid, Export Bid, Administrative Export De-List Bid, Static De-List Bid, or Dynamic De-List Bid while executing an FCA, the ISO shall (i) review each specific reliability need with the Reliability Committee in accordance with the timing provided for in the ISO New England Operating Documents and, (ii) update the current system Needs Assessments pursuant to Section 4.1(c) of Attachment K of the ISO OATT. For de-list bids, this review and update will follow ISO's filing of the FCA results with the Commission pursuant to Section 13.8.2. System needs associated with Non-Price Retirement Requests that are rejected for reliability reasons will be reviewed with the

Reliability Committee prior to the notification of the Lead Market Participant that has submitted the Non-Price Retirement Request consistent with Section 13.2.5.2.5(a)(i).

**III.13.2.5.2.5.1. Compensation for Bids Rejected for Reliability Reasons.**

(a)(i) In cases where a Static De-List Bid, Export Bid, Administrative Export De-List Bid, Dynamic De-List Bid, or partial Permanent De-List Bid would otherwise clear in the Forward Capacity Auction but the de-list bid has been rejected for reliability reasons pursuant to Section III.13.2.5.2.5 and the resource qualifies for payment under Section III.13.2.5.2.5.1(a)(ii), the resource will be paid by the ISO in the same manner as all other capacity resources, except that payment shall be made on the basis of its de-list bid as accepted for the Forward Capacity Auction for the relevant Capacity Commitment Period instead of the Forward Capacity Market Clearing Price. Under this Section, accepted Dynamic De-list Bids filed with the Commission as part of the FCA results filing are subject to review and approval by the Commission pursuant to the “just and reasonable” standard of Section 205 of the Federal Power Act.

(a)(ii) A resource will qualify for payment under Section III.13.2.5.2.5.1(a)(i) if the ISO has not notified the resource that it is no longer needed for reliability reasons by 12:00 a.m. on June 1 of the year preceding the commencement of the Capacity Commitment Period for which the de-list bid was rejected. Once qualified under this Section III.13.2.5.2.5.1(a)(ii), the resource will have a Capacity Supply Obligation for the 12-month Capacity Commitment Period for which the de-list bid was rejected.

(b)(i) In cases where a Permanent De-List Bid for the capacity of an entire resource would otherwise clear in the Forward Capacity Auction but the Permanent De-List Bid has been rejected for reliability reasons pursuant to Section III.13.2.5.2.5 and the resource qualifies for payment under Section III.13.2.5.2.5.1(b)(ii), the resource will be paid either (i) in the same manner as all other capacity resources, except that payment shall be made on the basis of its de-list bid as accepted for the Forward Capacity Auction for the relevant Capacity Commitment Period instead of the Forward Capacity Market Clearing Price or (ii) under the terms of a cost-of-service agreement pursuant to Section III, Appendix I. Resources must notify the ISO of their election within six months after the ISO files the results of the relevant Forward Capacity Auction with the Commission. A resource that has had a Permanent De-List Bid rejected for reliability reasons and does not notify the ISO of its election as described in this paragraph will be paid on the basis of the resource’s Permanent De-List Bid as accepted for the Forward Capacity Auction. Cost-of-service agreements must be filed with and approved by the Commission, and cost-of-service compensation may not commence until the Commission has approved the use of cost-of-service rates for the unit in question or has accepted the use of the cost-of-service rates subject to refund

while the rate is reviewed. In no event will payment under the cost-of-service agreement start prior to the start of the relevant Capacity Commitment Period for which the Permanent De-List Bid was submitted. Resources that elect payment based on the accepted Permanent De-List Bid may file with the Commission pursuant to Section 205 of the Federal Power Act to update its Permanent De-List Bid if the unit is retained for reliability for a period longer than the Capacity Commitment Period for which the Permanent De-List Bid was originally submitted.

(b)(ii) A resource will qualify for payment under Section III.13.2.5.2.5.1(b)(i) if the ISO has not notified the resource that it is no longer needed for reliability reasons by 12:00 a.m. on June 1 of the year preceding the commencement of the Capacity Commitment Period for which the Permanent De-List Bid was rejected. Once qualified under this Section III.13.2.5.2.5.1(b)(ii), the resource will have a Capacity Supply Obligation for the 12-month Capacity Commitment Period for which the Permanent De-List Bid was rejected. If a resource continues to be needed for reliability in Capacity Commitment Periods following the Capacity Commitment Period for which the Permanent De-List Bid was rejected, payment pursuant to Section III.13.2.5.2.5.1(b)(i) will continue and will terminate upon 120 day notice from the ISO to the resource that it is no longer needed for reliability.

(c)(i) In cases where a Non-Price Retirement Request for less than the entire resource has been submitted and the request has been rejected for reliability reasons pursuant to Section III.13.2.5.2.5 and the resource has not elected to retire pursuant to Section III.13.2.5.2.5.3(a)(iii), the resource will continue to be paid in the same manner as other listed capacity resources until such time as the resource is no longer needed for reliability. In cases where a Non-Price Retirement Request for the entire resource has been submitted and the request has been rejected for reliability reasons pursuant to Section III.13.2.5.2.5 and the resource has not elected to retire pursuant to Section III.13.2.5.2.5.3(a)(iii), the resource may elect to either (i) continue to be paid in the same manner as other listed capacity resources until such time as the resource is no longer needed for reliability, or (ii) the resource may elect to receive cost-of-service compensation pursuant to Section III, Appendix I. Resources must notify the ISO of their election within six months after the ISO files the results of the relevant Forward Capacity Auction with the Commission. A resource that has had a Non-Price Retirement Request rejected for reliability reasons and does not notify the ISO of its election as described in this paragraph will be paid in the same manner as other listed capacity resources. Cost-of-service agreements must be filed with and approved by the Commission, and cost-of-service compensation may not commence until the Commission has approved the use of cost-of-service rates for the unit in question or has accepted subject to refund while the rate is reviewed. In no

event will compensation under the cost-of-service agreement start prior to the start of the relevant Capacity Commitment Period for which the Non-Price Retirement Request was rejected.

(c)(ii) A resource will qualify for payment under Section III.13.2.5.2.5.1(c)(i) if the ISO has not notified the resource that it is no longer needed for reliability reasons by 12:00 a.m. on June 1 of the year preceding the commencement of the Capacity Commitment Period for which the Non-Price Retirement Request was rejected. Once qualified under this Section III.13.2.5.2.5.1(c)(ii), compensation will be provided for the 12-month Capacity Commitment Period for which the Non-Price Retirement Request was rejected. If a resource continues to be needed for reliability in Capacity Commitment Periods following the Capacity Commitment Period for which the Non-Price Retirement Request was rejected, payment pursuant to Section III.13.2.5.2.5.1 will continue and will terminate upon 120 day notice from the ISO to the resource that it is no longer needed for reliability.

(d) The difference between payments based on resource de-list bids or cost-of-service compensation as detailed in this Section III.13.2.5.2.5.1 and payments based on the market clearing price for the Forward Capacity Market under this Section III.13.2.5.2.5.1 shall be allocated to Regional Network Load within the affected Reliability Region.

(e) **Compensation for Existing Generating Capacity Resources at Stations with Common Costs that are Retained for Reliability.** If a Static De-List Bid or Permanent De-List Bid from an Existing Generating Capacity Resource that is associated with a Station having Common Costs is rejected for reliability reasons, the Existing Generating Capacity Resource will be paid as follows: (i) if one or more Existing Generating Capacity Resources at the Station assume a Capacity Supply Obligation through the normal clearing of the Forward Capacity Auction and one or more Existing Generating Capacity Resources are retained for reliability, then the Existing Generating Capacity Resources retained for reliability will be paid the sum of the Asset-Specific Going Forward Costs for the assets comprising that Existing Generating Capacity Resource; or (ii) if no Existing Generating Capacity Resources at the Station assumes a Capacity Supply Obligation through the normal clearing of the Forward Capacity Auction and one or more Existing Generating Capacity Resources are retained for reliability, then each Existing Generating Capacity Resource retained for reliability will be paid the sum of the Asset-Specific Going Forward Costs for the assets associated with that Existing Generating Capacity Resource plus a portion of the Station Going Forward Common Costs (such that the full amount of Station Going Forward Common Costs are allocated to the Existing Generating Capacity Resources retained for reliability).

**III.13.2.5.2.5.2. Incremental Cost of Reliability Service From Non-Price Retirement Request Resources:**

In cases where an Existing Generating Capacity Resource or Existing Demand Resource has had a Non-Price Retirement Request for the entire resource rejected for reliability reasons pursuant to Section III.13.2.5.2.5, does not elect to retire pursuant to Section III.13.2.5.2.5.3(a)(iii), and must make a capital improvement to the unit to remain in operation in order to continue to operate to meet the reliability need identified by the ISO, the resource may make application to the Commission pursuant to Section 205 of the Federal Power Act to receive just and reasonable compensation of the capital investment pursuant to the following:

- (a) **Notice to State Utility Commissions, the ISO and Stakeholder Committees of Expectation that a Capital Expense will be Necessary to Meet the Reliability Need Identified by ISO New England:** A resource seeking to avail itself of the recovery mechanism provided in this Section must notify the state utility commissions in the states where rate payers will fund the capital improvement, the ISO, and the Participants Committee of its intent to make the capital expenditure and the need for the expenditure. This notification must be made at least 120 days prior to the resource making the capital expenditure.
  
- (b) **Required Showing Made to the Federal Energy Regulatory Commission:** In order to receive just and reasonable compensation for a capital expenditure under this Section, a resource must file an explanation of need with the Commission that explains why the capital expenditure is necessary in order to meet the reliability need identified by the ISO. This showing must demonstrate that the expenditure is reasonably determined to be the least-cost commercially reasonable option consistent with Good Utility Practice to meet the reliability need identified by the ISO. If the resource elects cost-of-service treatment pursuant to Section III.13.2.5.2.5.1(c), the Incremental Cost of Reliability Service filing described in this Section must be made separately from and may be made in advance of the resource's cost-of-service filing.
  
- (c) **Allocation:** Costs of capital expenditures approved by the Commission under this provision shall be allocated to Regional Network Load within the affected Reliability Region.

**III.13.2.5.2.5.3. Retirement of Resources**

(a)(i) A resource, or portion thereof, that submits a Non-Price Retirement Request pursuant to Section III.13.1.2.3.1.5 will be retired coincident with the commencement of the Capacity Commitment Period for

which the Non-Price Retirement Request is submitted if the request is approved, or if not approved the resource nonetheless elects to retire pursuant to Section III.13.2.5.2.5.3(a)(iii). If the Non-Price Retirement Request is approved after the resource has a Capacity Supply Obligation for the Capacity Commitment Period for which the Non-Price Retirement Request was submitted, the resource, or portion thereof, will be retired coincident with the end of Capacity Supply Obligation under Section III.13.2.5.2.5.1(c)(ii). The interconnection rights, or relevant portion thereof, for the resource will terminate and the status of the resource, or portion thereof, will be converted to retired on the date of retirement, consistent with the provisions of Schedules 22 and 23 of the OATT.

(a)(ii) An Existing Generating Capacity Resource or Existing Demand Resource with an approved Non-Price Retirement Request may retire the resource, or portion thereof, earlier than the Capacity Commitment Period for which its Non-Price Retirement Request has been approved if it is able to transfer the relevant Capacity Supply Obligation of the resource to another resource through one or more approved Capacity Supply Obligation Bilateral transactions as described in Section III.13.5.1 or reconfiguration auctions as described in Section III.13.4.1. A resource, or portion thereof, electing to retire pursuant to this provision must notify the ISO in writing of its election to retire and the date of retirement. The interconnection rights, or relevant portion thereof, for the resource will terminate and the status of the resource, or portion thereof, will be converted to retired on the date of retirement, consistent with the provisions of Schedules 22 and 23 of the OATT.

(a)(iii) In cases where an Existing Generating Capacity Resource or Existing Demand Resource has submitted a Non-Price Retirement Request and the request is not approved because the resource is determined to be needed for reliability pursuant to Section III.13.2.5.2.5, the portion of the resource subject to the Non-Price Retirement Request may nonetheless retire as permitted by applicable law coincident with the commencement of the Capacity Commitment Period for which the Non-Price Retirement Request is submitted by notifying ISO within six months of receiving the notice from the ISO that the Non-Price Retirement Request has not been approved for reliability reasons. Such an election will be binding. A resource making an election pursuant to this Section III.13.2.5.2.5.3(a)(iii) will not be eligible for compensation pursuant to Sections III.13.2.5.2.5.1 or III.13.2.5.2.5.2. The interconnection rights, or relevant portion thereof, for the resource will terminate and the status of the resource, or portion thereof, will be converted to retired on the date of retirement, consistent with the provisions of Schedules 22 and 23 of the OATT.

(b)(i) A resource that has submitted a non-partial Permanent De-List Bid that has cleared in the Forward Capacity Auction may retire the resource as of the Capacity Commitment Period for which its Permanent De-List Bid has cleared or earlier as described in Section III.13.2.5.2.5.3(b)(ii) by notifying the ISO in writing of its election to retire and the date of retirement. The date specified for retirement is subject to the limit for resource inactivity set out in Section III.13.2.5.2.5.3(d). The interconnection rights for the resource will terminate and the status of the resource will be converted to retired on the date of retirement.

(b)(ii) A resource with a cleared non-partial Permanent De-List Bid may retire the resource earlier than the Capacity Commitment Period for which its Permanent De-List Bid has cleared if it is able to transfer the entire Capacity Supply Obligation of the resource to another resource through one or more approved Capacity Supply Obligation Bilateral transactions as described in Section III.13.5.1 or reconfiguration auctions as described in Section III.13.4. A resource electing to retire pursuant to this provision must notify ISO in writing of its election to retire and the date of retirement. The interconnection rights for the resource will terminate and the status of the resource will be converted to retired on the date on retirement.

(c) A resource that has never been counted as a capacity resource may retire the asset by notifying the ISO in writing of its election to retire and the date of retirement. The date specified for retirement is subject to the limit for resource inactivity set out in Section III.13.2.5.2.5.3(d). The interconnection rights for the resource will terminate and the status of the resource will be converted to retired on the date of retirement.

(d) A resource that does not operate commercially for a period of three calendar years will be deemed by the ISO to be retired. The interconnection rights for the unit will terminate and the status of the unit will be converted to retired on the date of retirement. Where a generator has submitted an application to repower under Schedule 22 or 23 of the OATT, the current interconnection space will be maintained beyond the three years unless the application under Schedule 22 or 23 is withdrawn voluntarily or by the operation of those provisions. Where an application is withdrawn under Schedule 22 or 23, the three year period will be calculated from the last day of commercial operation of the resource.

**III.13.2.5.2.6. [Reserved.]**

### **III.13.2.5.2.7. Treatment of De-List and Export Bids When the Capacity Clearing Price is Set Administratively.**

Where the Capacity Clearing Price is set pursuant to Section III.13.2.7.9 (Capacity Carry Forward Rule), or where payments are set pursuant to Section III.13.2.8 (Inadequate Supply and Insufficient Competition), and as a result a Permanent De-List Bid, Static De-List Bid, or Export Bid clears that would not otherwise have cleared, then the de-listed or exported capacity will not be replaced in the current Forward Capacity Auction (that is, the amount of capacity procured in the Forward Capacity Auction shall be the Installed Capacity Requirement (net of HQICCs) or Local Sourcing Requirement, as appropriate, minus the amount of the de-listed or exported capacity that results from the application of administratively determined prices) and shall be included in subsequent annual reconfiguration auctions (that is, the amount of capacity procured in subsequent annual reconfiguration auctions shall be increased by the amount of the de-listed or exported capacity).

### **III.13.2.6. Capacity Rationing Rule.**

Except for Dynamic De-List Bids, Export Bids, and offers from New Import Capacity Resources and Existing Import Capacity Resources, offers and bids in the Forward Capacity Auction must clear or not clear in whole, unless the offer or bid specifically indicates that it may be rationed. A resource may elect to be rationed to either its Economic Minimum Limit or a level above its Economic Minimum Limit. These levels are submitted pursuant to Section III.13.1.1.2.2.3. Offers from New Import Capacity Resources and Existing Import Capacity Resources are subject to rationing, except where such rationing would violate any applicable physical minimum flow requirements on the associated interface. Export Bids may elect to be rationed generally, but regardless of such election will always be subject to potential rationing where the associated external interface binds. If more Dynamic De-List Bids are submitted at a price than are needed to clear the market, the bids shall be cleared pro-rata, subject to honoring the Economic Minimum Limit of the resources. Where an offer or bid may be rationed, such rationing may not result in procuring an amount of capacity that is below the associated resource's Economic Minimum Limit.

### **III.13.2.7. Determination of Capacity Clearing Prices.**

The Capacity Clearing Price in each Capacity Zone shall be the price established by the descending clock Forward Capacity Auction as described in Section III.13.2.3, subject to the other provisions of this Section III.13.2.

### **III.13.2.7.1. Import-Constrained Capacity Zone Capacity Clearing Price Floor.**

The Capacity Clearing Price in an import-constrained Capacity Zone shall not be lower than the Capacity Clearing Price in the Rest-of-Pool Capacity Zone. If after the Forward Capacity Auction is conducted, the Capacity Clearing Price in an import-constrained Capacity Zone is less than the Capacity Clearing Price in the Rest-of-Pool Capacity Zone, all resources clearing in the import-constrained Capacity Zone shall be paid based on the Capacity Clearing Price in the Rest-of-Pool Capacity Zone during the associated Capacity Commitment Period.

**III.13.2.7.2. Export-Constrained Capacity Zone Capacity Clearing Price Ceiling.**

The Capacity Clearing Price in an export-constrained Capacity Zone shall not be higher than the Capacity Clearing Price in the Rest-of-Pool Capacity Zone. If after the Forward Capacity Auction is conducted, the Capacity Clearing Price in an export-constrained Capacity Zone is higher than the Capacity Clearing Price in the Rest-of-Pool Capacity Zone, all resources clearing in the export-constrained Capacity Zone shall be paid based on the Capacity Clearing Price in the Rest-of-Pool Capacity Zone during the associated Capacity Commitment Period.

**III.13.2.7.3. Capacity Clearing Price Floor.**

In the Forward Capacity Auctions for the Capacity Commitment Periods beginning on June 1, 2013, June 1, 2014, June 1, 2015, and June 1, 2016 only, the following additional provisions regarding the Capacity Clearing Price shall apply in all Capacity Zones (and in the application of Section III.13.2.3.3(d)(iii)):

(a) [Reserved.]

(b) The Capacity Clearing Price shall not fall below 0.6 times CONE (or in the case of the Forward Capacity Auction for the Capacity Commitment Period beginning June 1, 2016 below \$3.15). Where the Capacity Clearing Price reaches 0.6 times CONE (or in the case of the Forward Capacity Auction for the Capacity Commitment Period beginning June 1, 2016 reaches \$3.15), offers shall be prorated such that no more than the Installed Capacity Requirement (net of HQICCs) is procured in the Forward Capacity Auction, as follows:

(i) The total payment to all listed capacity resources during the associated Capacity Commitment Period shall be equal to 0.6 times CONE (or in the case of the Forward Capacity Auction for the Capacity Commitment Period beginning June 1, 2016 shall be equal to \$3.15) times the Installed Capacity Requirement (net of HQICCs) applicable in the Forward Capacity Auction.

(ii) Payments to individual listed resources shall be prorated based on the total number of MWs of capacity clearing in the Forward Capacity Auction (receiving a Capacity Supply Obligation for the associated Capacity Commitment Period).

(iii) Suppliers may instead prorate their bid MWs of participation in the Forward Capacity Market by partially de-listing one or more resources. Regardless of any such proration, the full amount of capacity that cleared in the Forward Capacity Auction will be ineligible for treatment as new capacity in subsequent Forward Capacity Auctions (except as provided under Section III.13.1.1.1.2).

(iv) Any proration shall be subject to reliability review. Where proration is rejected for reliability reasons, the resource's payment shall not be prorated as described in subsection (ii) above, and the difference between its actual payment based on the Capacity Clearing Price and what its payment would have been had prorationing not been rejected for reliability reasons shall be allocated to Regional Network Load within the affected Reliability Region. In this case, the total payment described in subsection (i) above will increase accordingly.

(v) Any election to prorate bid MWs associated with a New Capacity Offer that clears in the Forward Capacity Auction shall also apply in subsequent Forward Capacity Auctions for Capacity Commitment Periods for which the Project Sponsor elected to have the Capacity Supply Obligation and Capacity Clearing Price continue to apply pursuant to Section III.13.1.1.2.2.4 or Section III.13.1.4.2.2.5.

#### **III.13.2.7.3A Treatment of Imports.**

At the Capacity Clearing Price, if the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between an external Control Area and the New England Control Area is greater than that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF):

(a) the full amount of capacity offered at that price from Existing Import Capacity Resources associated with contracts listed in Section III.13.1.3.3(c) shall clear, unless that amount of capacity is greater than the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF), in which case the capacity offered at that

price from Existing Import Capacity Resources associated with contracts listed in Section III.13.1.3.3(c) shall be rationed such that the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF) is not exceeded; and

(b) if there is space remaining over the interface after the allocation described in subsection (a) above, then the capacity offered at that price from New Import Capacity Resources and Existing Import Capacity Resources other than Existing Import Capacity Resources associated with the contracts listed in Section III.13.1.3.3(c) will be rationed such that the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF) is not exceeded. If the capacity offered at that price by any single New Import Capacity Resource or Existing Import Capacity Resource that is not associated with the contracts listed in Section III.13.1.3.3(c) is greater than the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF), then the capacity offered by that resource that is above the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF) shall not be included in the rationing.

#### **III.13.2.7.4. Effect of Capacity Rationing Rule on Capacity Clearing Price.**

Where the requirement that offers and bids clear or not clear in whole (Section III.13.2.6) prohibits the descending clock auction in its normal progression from clearing a Capacity Zone at the precise amount of capacity required, then the auctioneer shall analyze the aggregate supply curve to determine cleared capacity offers and Capacity Clearing Prices that result in procuring at least the amount of capacity required while seeking to maximize social surplus for the associated Capacity Commitment Period. In an import-constrained Capacity Zone, the clearing algorithm will not consider blocks of capacity not needed to meet the import-constrained Capacity Zone's Local Sourcing Requirement when price separation occurs between the import-constrained Capacity Zone and the Rest-of-Pool Capacity Zone. The clearing algorithm may result in offers below the Capacity Clearing Price not clearing, and in de-list bids below the Capacity Clearing Price clearing.

#### **III.13.2.7.5. Effect of Decremental Repowerings on the Capacity Clearing Price.**

Where the effect of accounting for certain repowering offers and bids (as described in Section III.13.2.3.2(e)) results in the auction not clearing at the lowest price for the required quantity of capacity, then the auctioneer will conduct additional auction rounds of the Forward Capacity Auction as necessary to minimize capacity costs.

**III.13.2.7.6. Minimum Capacity Award.**

Each offer (excluding offers from Conditional Qualified New Generating Capacity Resources that do not satisfy the conditions specified in Sections III.13.2.5.1(i)-(iii)) clearing in the Forward Capacity Auction shall be awarded a Capacity Supply Obligation at least as great as the amount of capacity offered at the End-of-Round Price in the final round of the Forward Capacity Auction. For Intermittent Power Resources and Intermittent Settlement Only Resources, the Capacity Supply Obligation for months in the winter period (as described in Section III.13.1.5) shall be adjusted based on its winter Qualified Capacity as determined pursuant to Section III.13.1.1.2.2.6 and Section III.13.1.2.2.2.

**III.13.2.7.7. Tie-Breaking Rules.**

Where the provisions in this Section III.13.2 for clearing the Forward Capacity Auction (system-wide or in a single Capacity Zone) result in a tie – that is, where two or more resources offer sufficient capacity at prices that would clear the auction at the same minimum costs – the auctioneer shall apply the following rules (in sequence, as necessary) to determine clearing:

- (a) The auctioneer shall clear the resources in such a manner as to maximize the total amount of capacity procured.
- (b) If multiple projects may be rationed, they will be rationed proportionately.
- (c) Where clearing either the offer associated with a resource with a higher queue priority at a Conditional Qualified New Generating Capacity Resource’s location or the offer associated with the Conditional Qualified New Generating Capacity Resource would result in equal costs, the offer associated with the resource with the higher queue priority shall clear.
- (d) The offer associated with the Project Sponsor having the lower market share in the capacity auction (including Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources) shall be cleared.

**III.13.2.7.8. [Reserved.]**

**III.13.2.7.9 Capacity Carry Forward Rule.**

**III.13.2.7.9.1. Trigger.**

The capacity carry forward rule shall be triggered in an import-constrained Capacity Zone if all of the following conditions are met:

- (a) the sum of the amount of New Capacity Required plus the amount of Permanent De-List Bids clearing in the Forward Capacity Auction in the Capacity Zone is less than or equal to zero;
- (b) there is not Inadequate Supply in the Forward Capacity Auction in the Capacity Zone; and
- (c) at the Capacity Clearing Price, the sum of the amount of New Capacity Required plus the amount of Permanent De-List Bids clearing in the Forward Capacity Auction plus the amount of capacity carried forward due to rationing is greater than zero. The amount of capacity carried forward due to rationing shall equal the amount of capacity above the Local Sourcing Requirement procured in that Capacity Zone in the previous Forward Capacity Auction as a result of the Capacity Rationing Rule.

**III.13.2.7.9.2. Pricing.**

If the capacity carry forward rule is triggered, then the Capacity Clearing Price for the Capacity Zone shall be the lesser of: (1) \$0.01 below the price at which the last New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource in the Capacity Zone to withdraw withdrew from the Forward Capacity Auction; or (2) the Offer Review Trigger Price for a combustion turbine, as set forth in Section III.A.21.1.1; provided, however, that if in the Capacity Zone there is Insufficient Competition and no capacity offered from New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources has been withdrawn from the Forward Capacity Auction, then the Capacity Clearing Price shall equal the Offer Review Trigger Price for a combustion turbine, as set forth in Section III.A.21.1.1.

**III.13.2.8. Inadequate Supply and Insufficient Competition.**

In the case of either Inadequate Supply or Insufficient Competition, as defined in this Section III.13.2.8, the Forward Capacity Auction shall still be used to the extent possible; that is, the remedy for Inadequate Supply or Insufficient Competition shall be limited to the Capacity Zones having Inadequate Supply or Insufficient Competition.

**III.13.2.8.1. Inadequate Supply.**

### III.13.2.8.1.1. Inadequate Supply in an Import-Constrained Capacity Zone.

An import-constrained Capacity Zone will be considered to have Inadequate Supply if at the Forward Capacity Auction Starting Price the amount of capacity offered in the import-constrained Capacity Zone through New Capacity Offers is less than the amount of New Capacity Required in that Capacity Zone. In an import-constrained Capacity Zone, “New Capacity Required” shall mean the Capacity Zone’s Local Sourcing Requirement, minus the total amount of capacity of Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources in the Capacity Zone (that is not permanently de-listed for the Capacity Commitment Period), minus capacity otherwise obligated in the Capacity Zone for the Capacity Commitment Period; ~~in the Rest of Pool Capacity Zones system-wide,~~ “New Capacity Required” shall mean the Installed Capacity Requirement (net of HQICCs), ~~minus the Local Sourcing Requirement of each modeled import-constrained Capacity Zone, minus, for each modeled export constrained Capacity Zone, the lesser of the Capacity Zone’s Maximum Capacity Limit or the total amount of capacity of Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources in the Capacity Zone (that is not permanently de-listed for the Capacity Commitment Period),~~ minus the total amount of capacity of Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources ~~in the Rest of Pool Capacity Zone~~ (that is not permanently de-listed for the Capacity Commitment Period), minus capacity otherwise obligated ~~in the Rest of Pool Capacity Zone~~ for the Capacity Commitment Period.

(a) Where an import-constrained Capacity Zone has Inadequate Supply, Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources (other than those still subject to a multi-year Capacity Commitment Period election as described in Sections III.13.1.1.2.2.4 and III.13.1.4.2.2.5) in that Capacity Zone, other than such resources, or portions thereof, that have no Capacity Supply Obligation or are designated as Self-Supplied FCA Resources for the Capacity Commitment Period, shall be paid ~~1.1 times the Capacity Clearing Price for the most recent Forward Capacity Auction not having Inadequate Supply~~ \$7.025/kW-month during the associated Capacity Commitment Period, and New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources in the Forward Capacity Auction in that Capacity Zone shall be paid the Forward Capacity Auction Starting Price during the associated Capacity Commitment Period (and subsequent Capacity Commitment Periods, as elected pursuant to Section III.13.1.1.2.2.4 or Section III.13.1.4.2.2.5).

(b) In an import-constrained Capacity Zone having Inadequate Supply, the difference between the amount of capacity offered in the Capacity Zone through New Capacity Offers and the amount of New Capacity Required in that Capacity Zone shall be included in subsequent annual reconfiguration auctions.

(c) Inadequate Supply in one or more import-constrained Capacity Zones shall not affect Capacity Zones having adequate supply.

(d) Any availability penalty assessed during the associated Capacity Commitment Period pursuant to Section III.13.7.2.7.1.2 on a resource in an import-constrained Capacity Zone having Inadequate Supply will be assessed at a rate equal to ~~1.1 times the Capacity Clearing Price for the most recent Forward Capacity Auction not having Inadequate Supply~~ \$7.025/kW-month.

#### **III.13.2.8.1.2. System-Wide Inadequate Supply.**

The New England Control Area will be considered to have system-wide Inadequate Supply if at the Forward Capacity Auction Starting Prices, the total amount of capacity offered in the Forward Capacity Auction is less than the Installed Capacity Requirement (net of HQICCs).

(a) In the case of system-wide Inadequate Supply, Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources other than such resources, or portions thereof, that have no Capacity Supply Obligation or are designated as Self-Supplied FCA Resources for the Capacity Commitment Period, shall be paid ~~1.1 times the Capacity Clearing Price for the most recent Forward Capacity Auction not having Inadequate Supply~~ \$7.025/kW-month during the associated Capacity Commitment Period, and New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources in the Forward Capacity Auction shall be paid the Forward Capacity Auction Starting Price during the associated Capacity Commitment Period (and subsequent Capacity Commitment Periods, as elected pursuant to Section III.13.1.1.2.2.4 or Section III.13.1.4.2.2.5).

(b) In the case of system-wide Inadequate Supply, the difference between the total amount of capacity offered in the Forward Capacity Auction and the Installed Capacity Requirement (net of HQICCs) shall be included in subsequent annual reconfiguration auctions.

(c) System-wide Inadequate Supply will not affect the Forward Capacity Auction in Capacity Zones having adequate supply, except that in those Capacity Zones having adequate supply, New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources shall be paid the

Capacity Clearing Price, and Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources other than such resources, or portions thereof, that have no Capacity Supply Obligation or are designated as Self-Supplied FCA Resources for the Capacity Commitment Period, will be paid the lower of: (1) the Capacity Clearing Price; or (2) ~~1.1 times the Capacity Clearing Price for the most recent Forward Capacity Auction not having Inadequate Supply~~ \$7.025/kW-month.

(d) If there is system-wide Inadequate Supply, but the amount of capacity offered in an export-constrained Capacity Zone, including imports as appropriate, is greater than the Maximum Capacity Limit in that export-constrained Capacity Zone, the Forward Capacity Auction in the export-constrained Capacity Zone shall be unaffected, and in that case the price paid to Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources in the Rest-of-Pool Capacity Zone shall be the higher of: (1) ~~1.1 times the Capacity Clearing Price for the most recent Forward Capacity Auction not having Inadequate Supply~~ \$7.025/kW-month; or (2) the price in the export-constrained Capacity Zone.

#### **III.13.2.8.2. Insufficient Competition.**

The Forward Capacity Auction shall be considered to have Insufficient Competition system-wide or in any import-constrained Capacity Zone if the following two conditions are both satisfied:

(a) at the Forward Capacity Auction Starting Price, the amount of capacity offered from Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources (that is not permanently de-listed for the Capacity Commitment Period), minus capacity otherwise obligated for the Capacity Commitment Period, is less than the Installed Capacity Requirement (net of HQICCs) or the Local Sourcing Requirement, as applicable; and

(b) at the Forward Capacity Auction Starting Price:

(i) less than 300 MW of capacity is offered from New Generating Capacity Resources and New Demand Resources (the ISO shall revisit the appropriateness of the 300 MW threshold in the case of an import-constrained Capacity Zone having a Local Sourcing Requirement of less than 5000 MW);

(ii) the amount of capacity offered from New Generating Capacity Resources and New Demand Resources is ~~more than the amount of New Capacity Required but~~ less than twice the amount of New Capacity Required; or

(iii) any Market Participant's total capacity from New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources is pivotal. A Market Participant shall be considered pivotal if, at the Forward Capacity Auction Starting Price, some capacity from that Market Participant's potential New Generating Capacity Resources, New Import Capacity Resources, or New Demand Resources is required to satisfy the Installed Capacity Requirement (net of HQICCs) or the Local Sourcing Requirement, as applicable.

If the Forward Capacity Auction has Insufficient Competition, New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources shall be paid the Capacity Clearing Price during the associated Capacity Commitment Period, and Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources (other than those still subject to a multi-year Capacity Commitment Period election as described in Sections III.13.1.1.2.2.4 and III.13.1.4.2.2.5) shall be paid the lower of: (1) the Capacity Clearing Price; or (2) ~~1.1 times the Capacity Clearing Price for the most recent Forward Capacity Auction not having Insufficient Competition~~ \$7.025/kW-month during the associated Capacity Commitment Period. Any availability penalty assessed during the associated Capacity Commitment Period pursuant to Section III.13.7.2.7.1.2 on a resource in an import-constrained Capacity Zone having Insufficient Competition will be assessed at a rate equal to the lower of: (1) the Capacity Clearing Price; or (2) ~~1.1 times the Capacity Clearing Price for the most recent Forward Capacity Auction not having Insufficient Competition~~ \$7.025/kW-month.

**III.13.2.9. [Reserved.]**

### **III.13.2. Annual Forward Capacity Auction.**

#### **III.13.2.1. Timing of Annual Forward Capacity Auctions.**

Except with respect to the first six Forward Capacity Auctions (as described in Section III.13.1.10), each Forward Capacity Auction will be conducted beginning on the first Monday in the February that is approximately three years and four months before the beginning of the associated Capacity Commitment Period (unless, no later than the immediately preceding December 1, an alternative date is announced by the ISO), or, where exigent circumstances prevent the start of the Forward Capacity Auction at that time, as soon as possible thereafter.

#### **III.13.2.2. Amount of Capacity Purchased in Each Forward Capacity Auction.**

Each Forward Capacity Auction shall procure one hundred percent of the Installed Capacity Requirement (net of HQICCs) approved by the Commission for the associated Capacity Commitment Period, except as a result of the Capacity Rationing Rule, as described in Sections III.13.2.6 and III.13.2.7.4. The sum of the Hydro-Quebec Interconnection Capability Credits and import capacity purchased over the Phase I/II HVDC-TF interconnection shall not exceed the capacity transfer limit of those facilities, as determined by the ISO.

#### **III.13.2.3. Conduct of the Forward Capacity Auction.**

The Forward Capacity Auction shall be a descending clock auction, which will determine, subject to the provisions of Section III.13.2.7, the Capacity Clearing Price for each Capacity Zone modeled in that Forward Capacity Auction pursuant to Section III.12.4, and the Capacity Clearing Price for certain offers from New Import Capacity Resources and Existing Import Capacity Resources pursuant to Section III.13.2.3.3(d). The Forward Capacity Auction shall determine the outcome of all offers and bids accepted during the qualification process and submitted during the auction. Each Forward Capacity Auction shall be conducted as a series of rounds, which shall continue (for up to five consecutive Business Days, with up to eight rounds per day, absent extraordinary circumstances) until the Forward Capacity Auction is concluded for all modeled Capacity Zones in accordance with the provisions of Section III.13.2.3.3. Each round of the Forward Capacity Auction shall consist of the following steps, which shall be completed simultaneously for each Capacity Zone included in the round:

##### **III.13.2.3.1. Step 1: Announcement of Start-of-Round Price and End-of-Round Price.**

For each round, the auctioneer shall announce a single Start-of-Round Price (the highest price associated with a round of the Forward Capacity Auction) and a single (lower) End-of-Round Price (the lowest price

associated with a round of the Forward Capacity Auction). In the first round, the Start-of-Round Price shall equal the Forward Capacity Auction Starting Price for all modeled Capacity Zones. In each round after the first round, the Start-of-Round Price shall equal the End-of-Round Price from the previous round.

#### **III.13.2.3.2. Step 2: Compilation of Offers and Bids.**

The auctioneer shall compile all of the offers and bids for that round, as follows:

##### **(a) Offers from New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources.**

(i) The Project Sponsor for any New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource accepted in the qualification process for participation in the Forward Capacity Auction may submit an offer (a “New Capacity Offer”) indicating the quantity of capacity that the Project Sponsor would commit to provide from the resource (in the associated modeled Capacity Zone during the qualification process) during the Capacity Commitment Period at that round’s prices. A New Capacity Offer shall be defined by the submission of one to five prices, each strictly less than the Start-of-Round Price but greater than or equal to the End-of-Round Price, and an associated quantity in the associated modeled Capacity Zone. Each price shall be expressed in units of dollars per kilowatt-month to an accuracy of at most three digits to the right of the decimal point, and each quantity shall be expressed in units of MWs to an accuracy of at most three digits to the right of the decimal point. Such a New Capacity Offer shall imply a supply curve indicating quantities offered at all of that round’s prices, pursuant to the convention of Section III.13.2.3.2(a)(iii).

(ii) If the Project Sponsor of a New Generating Capacity Resource, a New Import Capacity Resource, or New Demand Resource elects to offer in a Forward Capacity Auction, the Project Sponsor must offer the resource’s full FCA Qualified Capacity at the Forward Capacity Auction Starting Price in the first round of the auction. A New Capacity Offer for a resource may in no event be for greater capacity than the resource’s full FCA Qualified Capacity at any price. A New Capacity Offer for a resource may not be for less capacity than the resource’s Economic Minimum Limit at any price, except where the New Capacity Offer is for a capacity quantity of zero.

(iii) Let the Start-of-Round Price and End-of-Round Price for a given round be  $P_S$  and  $P_E$ , respectively. Let the  $m$  prices ( $1 \leq m \leq 5$ ) submitted by a Project Sponsor for a modeled Capacity Zone be  $p_1, p_2, \dots, p_m$ , where  $P_S > p_1 > p_2 > \dots > p_m \geq P_E$ , and let the associated quantities submitted for a New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource be  $q_1, q_2, \dots, q_m$ . Then the Project Sponsor's supply curve, for all prices strictly less than  $P_S$  but greater than or equal to  $P_E$ , shall be taken to be:

$$S(p) = \begin{cases} q_0, & \text{if } p > p_1, \\ q_1, & \text{if } p_2 < p \leq p_1, \\ q_2, & \text{if } p_3 < p \leq p_2, \\ \dots & \dots, \\ q_m, & \text{if } p \leq p_m. \end{cases}$$

where, in the first round,  $q_0$  is the resource's full FCA Qualified Capacity and, in subsequent rounds,  $q_0$  is the resource's quantity offered at the lowest price of the previous round.

(iv) [Reserved.]

(v) A New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource may not include any capacity in a New Capacity Offer during the Forward Capacity Auction at any price below the resource's New Resource Offer Floor Price. The amount of capacity included in each New Capacity Offer at each price shall be included in the aggregate supply curves at that price as described in Section III.13.2.3.3.

(b) **Bids from Existing Capacity Resources Accepted in Qualification.** Static De-List Bids, Permanent De-List Bids, and Export Bids from Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources submitted and accepted in the qualification process (or as directed by the Commission) shall be automatically bid into the appropriate round(s) of the Forward Capacity Auction, such that each such resource's summer Qualified Capacity will be included in the aggregate supply curves as described in Section III.13.2.3.3. until any Static De-List Bid, Permanent De-List Bid, or Export Bid clears in the Forward Capacity Auction, as described in Section III.13.2.5.2, and is removed from the aggregate supply curves. Administrative Export De-List Bids shall be automatically entered into the first round of the Forward Capacity Auction at the Forward Capacity Auction Starting Price. If the amount of capacity associated with Export Bids for an interface exceeds the transfer limit of

that interface (minus any accepted Administrative De-List Bids over that interface), then the set of Export Bids associated with that interface equal to the interface's transfer limit (minus any accepted Administrative De-List Bids over that interface) having the highest bid prices shall be included in the auction as described above; capacity for which Export Bids are not included in the auction as a result of this provision shall be entered into the auction pursuant to Section III.13.2.3.2(c).

(c) **Existing Capacity Resources Not Having Accepted De-List or Export Bids and Self-Supplied FCA Resources.** Each Existing Generating Capacity Resource, Existing Import Capacity Resource, and Existing Demand Resource that did not submit a Static De-List Bid, a Permanent De-List Bid, an Export Bid, or an Administrative Export De-List Bid in its Existing Capacity Qualification Package, or an Existing Generating Capacity Resource, Existing Import Capacity Resource, or Existing Demand Resource that did not have any such bid accepted in the qualification process, and each existing Self-Supplied FCA Resource shall be automatically entered into each round of the Forward Capacity Auction at its FCA Qualified Capacity, such that the resource's FCA Qualified Capacity will be included in the aggregate supply curves as described in Section III.13.2.3.3, except where such resource, if permitted, submits an appropriate Dynamic De-List Bid, as described in Section III.13.2.3.2(d). Each new Self-Supplied FCA Resource shall be automatically entered into each round of the Forward Capacity Auction at its designated self-supplied quantity at prices at or above the resource's New Resource Offer Floor Price, such that the resource's designated self-supply quantity will be included in the aggregate supply curves as described in Section III.13.2.3.3.

(d) **Dynamic De-List Bids.** In any round of the Forward Capacity Auction in which prices are below \$1.00/kW-month, any Existing Generating Capacity Resource, Existing Import Capacity Resource, or Existing Demand Resource (but not any Self-Supplied FCA Resources) may submit a Dynamic De-List Bid at prices below \$1.00/kW-month. Such a bid shall be defined by the submission of one to five prices, each less than \$1.00/kW-month (or the Start-of-Round Price, if lower than \$1.00/kW-month) but greater than or equal to the End-of-Round Price, and a single quantity associated with each price. Such a bid shall be expressed in the same form as specified in Section III.13.2.3.2(a)(i) and shall imply a curve indicating quantities at all of that round's relevant prices, pursuant to the convention of Section III.13.2.3.2(a)(iii). The curve may in no case increase the quantity offered as the price decreases. A dynamic De-List Bid may not offer less capacity than the resource's Economic Minimum Limit at any price, except where the amount of capacity offered is zero. All Dynamic De-List Bids are subject to a reliability review as described in Section III.13.2.5.2.5, and if not rejected for reliability reasons, shall be included in the round in the same manner as Static De-List Bids as described in Section III.13.2.3.2(b).

Where a resource elected pursuant to Section III.13.1.1.2.2.4 or Section III.13.1.4.2.2.5 to have the Capacity Supply Obligation and Capacity Clearing Price continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which the offer clears, the capacity associated with any resulting Capacity Supply Obligation may not be subject to a Dynamic De-List Bid in subsequent Forward Capacity Auctions for Capacity Commitment Periods for which the Project Sponsor elected to have the Capacity Supply Obligation and Capacity Clearing Price continue to apply. Where a Lead Market Participant submits any combination of Dynamic De-List Bid, Static De-List Bid, Export Bid, and Administrative Export De-List Bid for a single resource, none of the prices in a set of price-quantity pairs associated with a bid may be the same as any price in any other set of price-quantity pairs associated with another bid for the same resource.

(e) **Repowering.** Offers and bids associated with a resource participating in the Forward Capacity Auction as a New Generating Capacity Resource pursuant to Section III.13.1.1.1.2 (resources previously counted as capacity resources) shall be addressed in the Forward Capacity Auction in accordance with the provisions of this Section III.13.2.3.2(e). The Project Sponsor shall offer such a New Generating Capacity Resource into the Forward Capacity Auction in the same manner and pursuant to the same rules as other New Generating Capacity Resources, as described in Section III.13.2.3.2(a). As long as any capacity is offered from the New Generating Capacity Resource, the amount of capacity offered is the amount that the auctioneer shall include in the aggregate supply curve at the relevant prices, and the quantity of capacity offered from the associated Existing Generating Capacity Resource shall not be included in the aggregate supply curve. If any portion of the New Generating Capacity Resource clears in the Forward Capacity Auction, the associated Existing Generating Capacity Resource shall be permanently de-listed as of the start of the associated Capacity Commitment Period. If at any price, no capacity is offered from the New Generating Capacity Resource, then the auctioneer shall include capacity from the associated Existing Generating Capacity Resource at that price, subject to any bids submitted and accepted in the qualification process for that Existing Generating Capacity Resource pursuant to Section III.13.1.2.5. Bids submitted and accepted in the qualification process for an Existing Generating Capacity Resource pursuant to Section III.13.1.2.5 shall only be entered into the Forward Capacity Auction after the associated New Generating Capacity Resource is fully withdrawn (that is, the Forward Capacity Auction reaches a price at which the resource's New Capacity Offer is zero capacity), and shall only then be subject to the reliability review described in Section III.13.2.5.2.5.

(f) **Conditional Qualified New Generating Capacity Resources.** Offers associated with a resource participating in the Forward Capacity Auction as a Conditional Qualified New Generating Capacity

Resource pursuant to Section III.13.1.1.2.3(f) shall be addressed in the Forward Capacity Auction in accordance with the provisions of this Section III.13.2.3.2(f). The Project Sponsor shall offer such a Conditional Qualified New Generating Capacity Resource into the Forward Capacity Auction in the same manner and pursuant to the same rules as other New Generating Capacity Resources, as described in Section III.13.2.3.2(a). An offer from at most one resource at a Conditional Qualified New Generating Capacity Resource's location will be permitted to clear (receive a Capacity Supply Obligation for the associated Capacity Commitment Period) in the Forward Capacity Auction. As long as a positive quantity is offered at the End-of-Round Price in the final round of the Forward Capacity Auction by the resource having a higher queue priority at the Conditional Qualified New Generating Capacity Resource's location, as described in Section III.13.1.1.2.3(f), then no capacity from the Conditional Qualified New Generating Capacity Resource shall clear. If at any price greater than or equal to the End-of-Round Price in the final round of the Forward Capacity Auction, zero quantity is offered from the resource having higher queue priority at the Conditional Qualified New Generating Capacity resource's location, as described in Section III.13.1.1.2.3(f), then the auctioneer shall consider capacity offered from the Conditional Qualified New Generating Capacity Resource in the determination of clearing, including the application of Section III.13.2.7.

(g) **Mechanics.** Offers and bids that may be submitted during a round of the Forward Capacity Auction must be received between the starting time and ending time of the round, as announced by the auctioneer in advance. The ISO at its sole discretion may authorize a participant in the auction to complete or correct its submission after the ending time of a round, but only if the participant can demonstrate to the ISO's satisfaction that the participant was making reasonable efforts to complete a valid offer submission before the ending time of the round, and only if the ISO determines that allowing the completion or correction will not unreasonably disrupt the auction process. All decisions by the ISO concerning whether or not a participant may complete or correct a submission after the ending time of a round are final.

### **III.13.2.3.3. Step 3: Determination of the Outcome of Each Round.**

The auctioneer shall use the offers and bids for the round as described in Section III.13.2.3.2 to determine the aggregate supply curves for the New England Control Area and for each modeled Capacity Zone included in the round. The aggregate supply curve for the New England Control Area (the "Total System Capacity") shall reflect at each price the sum of (the amount of capacity offered in all Capacity Zones modeled as import-constrained Capacity Zones at that price (excluding capacity offered from New Import Capacity Resources and Existing Import Capacity Resources)) plus (the amount of capacity offered in the

Rest-of-Pool Capacity Zone at that price (excluding capacity offered from New Import Capacity Resources and Existing Import Capacity Resources)) plus (for each Capacity Zone modeled as an export-constrained Capacity Zone, the lesser of the amount of capacity offered in the Capacity Zone at that price (excluding capacity offered from New Import Capacity Resources and Existing Import Capacity Resources) or the Capacity Zone's Maximum Capacity Limit) plus (for each interface between the New England Control Area and an external Control Area, the lesser of that interface's approved capacity transfer limit (net of tie benefits) or the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources). In computing the Total System Capacity, capacity associated with any New Capacity Offer at any price greater than the Forward Capacity Auction Starting Price will not be included in the tally of total capacity at the Forward Capacity Auction Starting Price for that Capacity Zone. In no event shall the Capacity Clearing Price for a Capacity Zone be greater than the Forward Capacity Auction Starting Price for that Capacity Zone. On the basis of these aggregate supply curves, the auctioneer shall determine the outcome of the round for each modeled Capacity Zone as follows:

(a) **Import-Constrained Capacity Zones.**

For a Capacity Zone modeled as an import-constrained Capacity Zone, if either of the following two conditions is met during the round:

- (1) the aggregate supply curve for the import-constrained Capacity Zone, adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), equals or is less than the Capacity Zone's Local Sourcing Requirement; or
- (2) the Total System Capacity, adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), equals or is less than the Installed Capacity Requirement (net of HQICCs);

then the Forward Capacity Auction for that Capacity Zone is concluded and such Capacity Zone will not be included in further rounds of the Forward Capacity Auction. The Capacity Clearing Price for that Capacity Zone shall be set at the highest price at which either of the two conditions above are satisfied, subject to the other provisions of this Section III.13.2. If neither of the two conditions above are met in the round, then the auctioneer shall publish the quantity of system-wide excess supply at the End-of-Round Price (the amount of capacity offered at the End-of-

Round Price in all modeled Capacity Zones minus the Installed Capacity Requirement (net of HQICCs)) and the quantity of capacity from Demand Resources by type at the End-of-Round Price, and that Capacity Zone will be included in the next round of the Forward Capacity Auction.

(b) **Rest-of-Pool Capacity Zone.** For the Rest-of-Pool Capacity Zone, if the Total System Capacity adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), equals or is less than the Installed Capacity Requirement (net of HQICCs), then the Forward Capacity Auction for the Rest-of-Pool Capacity Zone is concluded and the Rest-of-Pool Capacity Zone will not be included in further rounds of the Forward Capacity Auction. The Capacity Clearing Price for the Rest-of-Pool Capacity Zone shall be set at the highest price at which the Total System Capacity is less than or equal to the Installed Capacity Requirement (net of HQICCs), subject to the other provisions of this Section III.13.2. If the Total System Capacity exceeds the Installed Capacity Requirement (net of HQICCs) at the End-of-Round Price, then the auctioneer shall publish the quantity of system-wide excess supply at the End-of-Round Price (the amount of capacity offered at the End-of-Round Price in all modeled Capacity Zones minus the Installed Capacity Requirement (net of HQICCs)) and the quantity of capacity from Demand Resources by type at the End-of-Round Price, and the Rest-of-Pool Capacity Zone will be included in the next round of the Forward Capacity Auction.

(c) **Export-Constrained Capacity Zones.** For a Capacity Zone modeled as an export-constrained Capacity Zone, if both of the following two conditions are met during the round:

(i) the aggregate supply curve for the export-constrained Capacity Zone, adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), is equal to or below the Capacity Zone's Maximum Capacity Limit; and

(ii) the Total System Capacity, adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), equals or is less than the Installed Capacity Requirement (net of HQICCs);

then the Forward Capacity Auction for that Capacity Zone is concluded and such Capacity Zone will not be included in further rounds of the Forward Capacity Auction. The Capacity Clearing Price for that Capacity Zone shall be set at the highest price at which both of the conditions above

are satisfied, subject to the other provisions of this Section III.13.2. If it is not the case that both of the two conditions above are satisfied in the round, then the auctioneer shall publish the quantity of system-wide excess supply at the End-of-Round Price (the amount of capacity offered at the End-of-Round Price in all modeled Capacity Zones minus the Installed Capacity Requirement) and the quantity of excess supply in the export-constrained Capacity Zone (the amount of capacity offered at the End-of-Round Price in the export-constrained Capacity Zone minus the Maximum Capacity Limit of the export-constrained Capacity Zone) and the quantity of capacity from Demand Resources by type at the End-of-Round Price, and that Capacity Zone will be included in the next round of the Forward Capacity Auction.

(d) **Treatment of Import Capacity.** Where the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between the New England Control Area and an external Control Area is less than or equal to that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF), then the capacity offers from those resources shall be treated as capacity offers in the modeled Capacity Zone associated with that interface. Where the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between the New England Control Area and an external Control Area is greater than that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF), then the following provisions shall apply (separately for each such interface):

(i) For purposes of determining which capacity offers from the New Import Capacity Resources and Existing Import Capacity Resources over the interface shall clear and at what price, the offers over the interface shall be treated in the descending-clock auction as if they comprised a separately-modeled export-constrained capacity zone, with an aggregate supply curve consisting of the offers from the New Import Capacity Resources and Existing Import Capacity Resources over the interface.

(ii) The amount of capacity offered over the interface that will be included in the aggregate supply curve of the modeled Capacity Zone associated with the interface shall be the lesser of the following two quantities: the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over the interface; and the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF).

(iii) The Forward Capacity Auction for New Import Capacity Resources and Existing Import Capacity Resources over the interface is concluded when the following two conditions are both satisfied: the amount of capacity offered from New Import Capacity Resource and Existing Import Capacity Resources over the interface is less than or equal to the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF); and the Forward Capacity Auction is concluded in the modeled Capacity Zone associated with the interface.

(e) **Treatment of Export Capacity.** Any Export Bid or any Administrative Export De-List Bid that is used to export capacity through an export interface connected to an import-constrained Capacity Zone from another Capacity Zone, or through an export interface connected to the Rest-of-Pool Capacity Zone from an export-constrained Capacity Zone in the Forward Capacity Auction will be modeled in the Capacity Zone where the export interface that is identified in the Existing Capacity Qualification Package is located. The Export Bid or Administrative Export De-List Bid clears against the Capacity Clearing Price in the Capacity Zone where the Export Bid or Administrative Export De-List Bid is modeled.

(i) Then the MW quantity equal to the relevant Export Bid or Administrative Export De-List Bid from the resource associated with the Export Bid or Administrative Export De-List Bid will be de-listed in the Capacity Zone where the resource is located. If the export interface is connected to an import-constrained Capacity Zone, the MW quantity procured will be in addition to the Local Sourcing Requirement of the import-constrained Capacity Zone.

(ii) If the Export Bid or Administrative Export De-List Bid does not clear, then the resource associated with the Export Bid or Administrative Export De-List Bid will not be de-listed in the Capacity Zone where the resource is located.

(f) **Treatment of Real-Time Emergency Generation Resources.** In determining when the Forward Capacity Auction is concluded, no more than 600 MW of capacity from Real-Time Emergency Generation Resources shall be counted towards meeting the Installed Capacity Requirement (net of HQICCs). If the sum of the Capacity Supply Obligations of Real-Time Emergency Generation Resources exceeds 600 MW, the Capacity Clearing Price, or in the case of Inadequate Supply or Insufficient Competition, the payment as described in Section III.13.2.8, (as adjusted pursuant to Section III.13.2.7.3(b)) paid to all Real-Time Emergency Generation Resources shall be adjusted by the ratio of 600 MW divided by the total of the final Capacity Supply Obligations of Real-Time Emergency

Generation Resources. The acceptance of a Real-Time Emergency Generation Resource Static De-list Bid, Dynamic De-list Bid, or Permanent De-list Bid shall be based on the effective Capacity Clearing Price as described in Section III.13.2.7.

**III.13.2.3.4. Determination of Final Capacity Zones.**

(a) For all Forward Capacity Auctions up to and including the sixth Forward Capacity Auction (for the Capacity Commitment Period beginning June 1, 2015), after the Forward Capacity Auction is concluded for all modeled Capacity Zones, the final set of distinct Capacity Zones that will be used for all purposes associated with the relevant Capacity Commitment Period, including for the purposes of reconfiguration auctions and Capacity Supply Obligation Bilaterals, shall be those having distinct Capacity Clearing Prices as a result of constraints between modeled Capacity Zones binding in the running of the Forward Capacity Auction. Where a modeled constraint does not bind in the Forward Capacity Auction, and as a result adjacent modeled Capacity Zones clear at the same Capacity Clearing Price, those modeled Capacity Zones shall be a single Capacity Zone used for all purposes of the relevant Capacity Commitment Period, including for the purposes of reconfiguration auctions and Capacity Supply Obligation Bilaterals.

(b) For all Forward Capacity Auctions beginning with the seventh Forward Capacity Auction (for the Capacity Commitment Period beginning June 1, 2016) the final set of distinct Capacity Zones that will be used for all purposes associated with the relevant Capacity Commitment Period, including for the purposes of reconfiguration auctions and Capacity Supply Obligation Bilaterals, shall be those described in Section III.12.4.

**III.13.2.4. Forward Capacity Auction Starting Price.**

The Forward Capacity Auction Starting Price for each Capacity Zone in the Forward Capacity Auction for the Capacity Commitment Period beginning on June 1, 2016 shall be \$15/kW-month. Thereafter, the Forward Capacity Auction Starting Price will be adjusted after each Forward Capacity Auction using a rolling three-year average of the Handy-Whitman Index of Public Utility Construction Costs. References in this Section III.13 to the Forward Capacity Auction Starting Price shall mean the Forward Capacity Auction Starting Price for the Forward Capacity Auction associated with the relevant Capacity Commitment Period.

**III.13.2.5. Treatment of Specific Offer and Bid Types in the Forward Capacity Auction.**

**III.13.2.5.1. Offers from New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources.**

A New Capacity Offer (other than one from a Conditional Qualified New Generating Capacity Resource) clears (receives a Capacity Supply Obligation for the associated Capacity Commitment Period) in the Forward Capacity Auction if the Capacity Clearing Price is greater than or equal to the price specified in the offer, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6. An offer from a Conditional Qualified New Generating Capacity Resource clears (receives a Capacity Supply Obligation for the associated Capacity Commitment Period) in the Forward Capacity Auction, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6, if all of the following conditions are met: (i) the Capacity Clearing Price is greater than or equal to the price specified in the offer; (ii) capacity from that resource is considered in the determination of clearing as described in Section III.13.2.3.2(f); and (iii) such offer minimizes the costs for the associated Capacity Commitment Period, subject to Section III.13.2.7.7(c).

The amount of capacity that receives a Capacity Supply Obligation through the Forward Capacity Auction shall not exceed the quantity of capacity offered from the New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource at the Capacity Clearing Price.

**III.13.2.5.2. Bids and Offers from Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources.**

**III.13.2.5.2.1. Permanent De-List Bids.**

Except as provided in Section III.13.2.5.2.5 and Section III.13.2.5.2.7, a Permanent De-List Bid clears in the Forward Capacity Auction (does not receive a Capacity Supply Obligation for the associated Capacity Commitment Period) if the Capacity Clearing Price is less than or equal to the price specified in the bid, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6.

**III.13.2.5.2.2. Static De-List Bids and Export Bids.**

Except as provided in Section III.13.2.5.2.5 and Section III.13.2.5.2.7, a Static De-List Bid or an Export Bid clears in the Forward Capacity Auction (does not receive a Capacity Supply Obligation for the associated Capacity Commitment Period) if the Capacity Clearing Price is less than or equal to the price

specified in the bid, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6.

### **III.13.2.5.2.3. Dynamic De-List Bids.**

A Dynamic De-List Bid clears in the Forward Capacity Auction (does not receive a Capacity Supply Obligation for the associated Capacity Commitment Period) if the Capacity Clearing Price is less than or equal to the price specified in the bid, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6. If more Dynamic De-List Bids are submitted at a price than are needed to clear the market, such Dynamic De-List Bids shall be cleared pro-rata, but in no case less than a resource's Economic Minimum Limit.

### **III.13.2.5.2.4. Administrative Export De-List Bids.**

An Administrative Export De-List Bid clears in the Forward Capacity Auction (does not receive a Capacity Supply Obligation for the associated Capacity Commitment Period) regardless of the Capacity Clearing Price and regardless of whether there is Inadequate Supply or Insufficient Competition in the Capacity Zone.

### **III.13.2.5.2.5. Bids Rejected for Reliability Reasons.**

The ISO shall review each Non-Price Retirement Request, Permanent De-List Bid, Static De-List Bid, Export Bid, Administrative Export De-List Bid, and Dynamic De-List Bid entered into the Forward Capacity Auction to determine whether the capacity associated with that Non-Price Retirement Request or de-list bid is needed for reliability reasons during the Capacity Commitment Period associated with the Forward Capacity Auction. The capacity shall be deemed needed for reliability reasons if the absence of the capacity would result in the violation of any NERC or NPCC (or their successors) criteria, or ISO New England System Rules. Non-Price Retirement Requests and de-list bids shall not be rejected pursuant to this Section III.13.2.5.2.5 solely on the basis that acceptance of the Non-Price Retirement Request or de-list bid may result in the procurement of less capacity than the Installed Capacity Requirement (net of HQICCs) or Local Sourcing Requirement for Load Zones or aggregations of Load Zones considered for modeling in a Forward Capacity Auction. Where a Non-Price Retirement Request would otherwise be accepted, or a Permanent De-List Bid, Static De-List Bid, Export Bid, Administrative Export De-List Bid, or Dynamic De-List Bid would otherwise clear in the Forward Capacity Auction, but the ISO has determined that some or all of the capacity associated with the Non-Price Retirement Request or de-list bid is needed for reliability reasons, then the de-list bid having capacity needed for reliability

will not clear in the Forward Capacity Auction and the Non-Price Retirement Request will not be approved as described in Section III.13.1.2.3.1.5.3, and the following provisions will apply:

(a) The Lead Market Participant shall be notified that its de-list bid did not clear for reliability reasons at the later of: (i) immediately after the end of the Forward Capacity Auction round in which the auction price reaches the price of the de-list bid; or (ii) as soon as practicable after the time at which the ISO has determined that the de-list bid must be rejected for reliability reasons. In no event, however, shall a Lead Market Participant be notified that a bid submitted pursuant to Section III.13.1.2.5 and accepted in the qualification process for an Existing Generating Capacity Resource did not clear for reliability reasons if the associated New Generating Capacity Resource remains in the Forward Capacity Auction. In such a case, the Lead Market Participant shall be notified that its bid did not clear for reliability reasons at the later of: (i) immediately after the end of the Forward Capacity Auction round in which the auction price reaches the price of the bid; (ii) immediately after the end of the Forward Capacity Auction round in which the associated New Generating Capacity Resource is fully withdrawn (that is, the Forward Capacity Auction reaches a price at which the resource's New Capacity Offer is zero capacity); or (iii) as soon as practicable after the time at which the ISO has determined that the bid must be rejected for reliability reasons.

(i) In the case of Non-Price Retirement Request, the Lead Market Participant will be notified whether or not the request has been rejected for reliability reasons within 90 days of the submission of the request.

(b) A resource that has a de-list bid rejected pursuant to this Section III.13.2.5.2.5 shall be compensated pursuant to the terms set out in Section III.13.2.5.2.5.1. An Existing Generating Capacity Resource or Existing Demand Resource that has a Non-Price Retirement Request rejected pursuant to this Section III.13.2.5.2.5 shall have the option to retire pursuant to Section III.2.5.2.5.3(a)(iii) or to continue operation and be compensated pursuant to Section III.13.2.5.2.5.1. A resource receiving payment under this Section III.13.2.5.2.5 and Section III.13.2.5.2.5.1 shall have the obligations of resources with Capacity Supply Obligations as described in Section III.13.6.1. Such resources shall be counted towards the Installed Capacity Requirement (net of HQICCs) for the Capacity Commitment Period.

(c) The ISO shall review the results of each annual reconfiguration auction and determine whether the reliability need which prevented the de-listing of the resource has been met through the annual

reconfiguration auction. The ISO may also attempt to address the reliability concern through other reasonable means (including transmission enhancements).

(d) If the reliability need that prevented the de-listing of the resource is met through a reconfiguration auction or other means, the resource shall be de-listed, be relieved of its Capacity Supply Obligation and no longer be eligible to receive the compensation specified in Section III.13.2.5.2.5(b). The ISO shall enter bids at the Forward Capacity Auction Starting Price to replace the capacity on behalf of load in subsequent annual reconfiguration auctions associated with the Capacity Commitment Period (and subsequent Capacity Commitment Periods, in the case of a Permanent De-List Bid).

(e) If a Permanent De-List Bid that would otherwise clear in a Forward Capacity Auction or a Non-Price Retirement Request is rejected for reliability reasons, that resource, or portion thereof, as applicable, is no longer eligible to participate as an Existing Generating Capacity Resource in any reconfiguration auction, Forward Capacity Auction or Capacity Supply Obligation Bilateral for that and subsequent Capacity Commitment Periods. If the resource, or portion thereof, continues to be needed for reliability reasons, it shall be counted as capacity in the Forward Capacity Auction and shall be compensated as described in Section III.13.2.5.2.5.1 until such time as it is no longer needed for reliability reasons.

(f) [Reserved.]

(g) The ISO shall review with the Reliability Committee (i) the status of any prior rejected delist bids reported to the Commission in an FCA results filing pursuant to Section 13.8.2, and (ii) the status of any Non-Price Retirement Request that has been rejected for reliability reasons and has elected to continue to operate, prior to the New Capacity Qualification Deadline in accordance with Section 4.1(c) of Attachment K of the ISO OATT.

In instances where an identified reliability need results in the rejection of a Non-Price Retirement Request, or the rejection of a Permanent De-List Bid, Export Bid, Administrative Export De-List Bid, Static De-List Bid, or Dynamic De-List Bid while executing an FCA, the ISO shall (i) review each specific reliability need with the Reliability Committee in accordance with the timing provided for in the ISO New England Operating Documents and, (ii) update the current system Needs Assessments pursuant to Section 4.1(c) of Attachment K of the ISO OATT. For de-list bids, this review and update will follow ISO's filing of the FCA results with the Commission pursuant to Section 13.8.2. System needs associated with Non-Price Retirement Requests that are rejected for reliability reasons will be reviewed with the

Reliability Committee prior to the notification of the Lead Market Participant that has submitted the Non-Price Retirement Request consistent with Section 13.2.5.2.5(a)(i).

**III.13.2.5.2.5.1. Compensation for Bids Rejected for Reliability Reasons.**

(a)(i) In cases where a Static De-List Bid, Export Bid, Administrative Export De-List Bid, Dynamic De-List Bid, or partial Permanent De-List Bid would otherwise clear in the Forward Capacity Auction but the de-list bid has been rejected for reliability reasons pursuant to Section III.13.2.5.2.5 and the resource qualifies for payment under Section III.13.2.5.2.5.1(a)(ii), the resource will be paid by the ISO in the same manner as all other capacity resources, except that payment shall be made on the basis of its de-list bid as accepted for the Forward Capacity Auction for the relevant Capacity Commitment Period instead of the Forward Capacity Market Clearing Price. Under this Section, accepted Dynamic De-list Bids filed with the Commission as part of the FCA results filing are subject to review and approval by the Commission pursuant to the “just and reasonable” standard of Section 205 of the Federal Power Act.

(a)(ii) A resource will qualify for payment under Section III.13.2.5.2.5.1(a)(i) if the ISO has not notified the resource that it is no longer needed for reliability reasons by 12:00 a.m. on June 1 of the year preceding the commencement of the Capacity Commitment Period for which the de-list bid was rejected. Once qualified under this Section III.13.2.5.2.5.1(a)(ii), the resource will have a Capacity Supply Obligation for the 12-month Capacity Commitment Period for which the de-list bid was rejected.

(b)(i) In cases where a Permanent De-List Bid for the capacity of an entire resource would otherwise clear in the Forward Capacity Auction but the Permanent De-List Bid has been rejected for reliability reasons pursuant to Section III.13.2.5.2.5 and the resource qualifies for payment under Section III.13.2.5.2.5.1(b)(ii), the resource will be paid either (i) in the same manner as all other capacity resources, except that payment shall be made on the basis of its de-list bid as accepted for the Forward Capacity Auction for the relevant Capacity Commitment Period instead of the Forward Capacity Market Clearing Price or (ii) under the terms of a cost-of-service agreement pursuant to Section III, Appendix I. Resources must notify the ISO of their election within six months after the ISO files the results of the relevant Forward Capacity Auction with the Commission. A resource that has had a Permanent De-List Bid rejected for reliability reasons and does not notify the ISO of its election as described in this paragraph will be paid on the basis of the resource’s Permanent De-List Bid as accepted for the Forward Capacity Auction. Cost-of-service agreements must be filed with and approved by the Commission, and cost-of-service compensation may not commence until the Commission has approved the use of cost-of-service rates for the unit in question or has accepted the use of the cost-of-service rates subject to refund

while the rate is reviewed. In no event will payment under the cost-of-service agreement start prior to the start of the relevant Capacity Commitment Period for which the Permanent De-List Bid was submitted. Resources that elect payment based on the accepted Permanent De-List Bid may file with the Commission pursuant to Section 205 of the Federal Power Act to update its Permanent De-List Bid if the unit is retained for reliability for a period longer than the Capacity Commitment Period for which the Permanent De-List Bid was originally submitted.

(b)(ii) A resource will qualify for payment under Section III.13.2.5.2.5.1(b)(i) if the ISO has not notified the resource that it is no longer needed for reliability reasons by 12:00 a.m. on June 1 of the year preceding the commencement of the Capacity Commitment Period for which the Permanent De-List Bid was rejected. Once qualified under this Section III.13.2.5.2.5.1(b)(ii), the resource will have a Capacity Supply Obligation for the 12-month Capacity Commitment Period for which the Permanent De-List Bid was rejected. If a resource continues to be needed for reliability in Capacity Commitment Periods following the Capacity Commitment Period for which the Permanent De-List Bid was rejected, payment pursuant to Section III.13.2.5.2.5.1(b)(i) will continue and will terminate upon 120 day notice from the ISO to the resource that it is no longer needed for reliability.

(c)(i) In cases where a Non-Price Retirement Request for less than the entire resource has been submitted and the request has been rejected for reliability reasons pursuant to Section III.13.2.5.2.5 and the resource has not elected to retire pursuant to Section III.13.2.5.2.5.3(a)(iii), the resource will continue to be paid in the same manner as other listed capacity resources until such time as the resource is no longer needed for reliability. In cases where a Non-Price Retirement Request for the entire resource has been submitted and the request has been rejected for reliability reasons pursuant to Section III.13.2.5.2.5 and the resource has not elected to retire pursuant to Section III.13.2.5.2.5.3(a)(iii), the resource may elect to either (i) continue to be paid in the same manner as other listed capacity resources until such time as the resource is no longer needed for reliability, or (ii) the resource may elect to receive cost-of-service compensation pursuant to Section III, Appendix I. Resources must notify the ISO of their election within six months after the ISO files the results of the relevant Forward Capacity Auction with the Commission. A resource that has had a Non-Price Retirement Request rejected for reliability reasons and does not notify the ISO of its election as described in this paragraph will be paid in the same manner as other listed capacity resources. Cost-of-service agreements must be filed with and approved by the Commission, and cost-of-service compensation may not commence until the Commission has approved the use of cost-of-service rates for the unit in question or has accepted subject to refund while the rate is reviewed. In no

event will compensation under the cost-of-service agreement start prior to the start of the relevant Capacity Commitment Period for which the Non-Price Retirement Request was rejected.

(c)(ii) A resource will qualify for payment under Section III.13.2.5.2.5.1(c)(i) if the ISO has not notified the resource that it is no longer needed for reliability reasons by 12:00 a.m. on June 1 of the year preceding the commencement of the Capacity Commitment Period for which the Non-Price Retirement Request was rejected. Once qualified under this Section III.13.2.5.2.5.1(c)(ii), compensation will be provided for the 12-month Capacity Commitment Period for which the Non-Price Retirement Request was rejected. If a resource continues to be needed for reliability in Capacity Commitment Periods following the Capacity Commitment Period for which the Non-Price Retirement Request was rejected, payment pursuant to Section III.13.2.5.2.5.1 will continue and will terminate upon 120 day notice from the ISO to the resource that it is no longer needed for reliability.

(d) The difference between payments based on resource de-list bids or cost-of-service compensation as detailed in this Section III.13.2.5.2.5.1 and payments based on the market clearing price for the Forward Capacity Market under this Section III.13.2.5.2.5.1 shall be allocated to Regional Network Load within the affected Reliability Region.

(e) **Compensation for Existing Generating Capacity Resources at Stations with Common Costs that are Retained for Reliability.** If a Static De-List Bid or Permanent De-List Bid from an Existing Generating Capacity Resource that is associated with a Station having Common Costs is rejected for reliability reasons, the Existing Generating Capacity Resource will be paid as follows: (i) if one or more Existing Generating Capacity Resources at the Station assume a Capacity Supply Obligation through the normal clearing of the Forward Capacity Auction and one or more Existing Generating Capacity Resources are retained for reliability, then the Existing Generating Capacity Resources retained for reliability will be paid the sum of the Asset-Specific Going Forward Costs for the assets comprising that Existing Generating Capacity Resource; or (ii) if no Existing Generating Capacity Resources at the Station assumes a Capacity Supply Obligation through the normal clearing of the Forward Capacity Auction and one or more Existing Generating Capacity Resources are retained for reliability, then each Existing Generating Capacity Resource retained for reliability will be paid the sum of the Asset-Specific Going Forward Costs for the assets associated with that Existing Generating Capacity Resource plus a portion of the Station Going Forward Common Costs (such that the full amount of Station Going Forward Common Costs are allocated to the Existing Generating Capacity Resources retained for reliability).

**III.13.2.5.2.5.2. Incremental Cost of Reliability Service From Non-Price Retirement Request Resources:**

In cases where an Existing Generating Capacity Resource or Existing Demand Resource has had a Non-Price Retirement Request for the entire resource rejected for reliability reasons pursuant to Section III.13.2.5.2.5, does not elect to retire pursuant to Section III.13.2.5.2.5.3(a)(iii), and must make a capital improvement to the unit to remain in operation in order to continue to operate to meet the reliability need identified by the ISO, the resource may make application to the Commission pursuant to Section 205 of the Federal Power Act to receive just and reasonable compensation of the capital investment pursuant to the following:

- (a) **Notice to State Utility Commissions, the ISO and Stakeholder Committees of Expectation that a Capital Expense will be Necessary to Meet the Reliability Need Identified by ISO New England:** A resource seeking to avail itself of the recovery mechanism provided in this Section must notify the state utility commissions in the states where rate payers will fund the capital improvement, the ISO, and the Participants Committee of its intent to make the capital expenditure and the need for the expenditure. This notification must be made at least 120 days prior to the resource making the capital expenditure.
- (b) **Required Showing Made to the Federal Energy Regulatory Commission:** In order to receive just and reasonable compensation for a capital expenditure under this Section, a resource must file an explanation of need with the Commission that explains why the capital expenditure is necessary in order to meet the reliability need identified by the ISO. This showing must demonstrate that the expenditure is reasonably determined to be the least-cost commercially reasonable option consistent with Good Utility Practice to meet the reliability need identified by the ISO. If the resource elects cost-of-service treatment pursuant to Section III.13.2.5.2.5.1(c), the Incremental Cost of Reliability Service filing described in this Section must be made separately from and may be made in advance of the resource's cost-of-service filing.
- (c) **Allocation:** Costs of capital expenditures approved by the Commission under this provision shall be allocated to Regional Network Load within the affected Reliability Region.

**III.13.2.5.2.5.3. Retirement of Resources**

(a)(i) A resource, or portion thereof, that submits a Non-Price Retirement Request pursuant to Section III.13.1.2.3.1.5 will be retired coincident with the commencement of the Capacity Commitment Period for

which the Non-Price Retirement Request is submitted if the request is approved, or if not approved the resource nonetheless elects to retire pursuant to Section III.13.2.5.2.5.3(a)(iii). If the Non-Price Retirement Request is approved after the resource has a Capacity Supply Obligation for the Capacity Commitment Period for which the Non-Price Retirement Request was submitted, the resource, or portion thereof, will be retired coincident with the end of Capacity Supply Obligation under Section III.13.2.5.2.5.1(c)(ii). The interconnection rights, or relevant portion thereof, for the resource will terminate and the status of the resource, or portion thereof, will be converted to retired on the date of retirement, consistent with the provisions of Schedules 22 and 23 of the OATT.

(a)(ii) An Existing Generating Capacity Resource or Existing Demand Resource with an approved Non-Price Retirement Request may retire the resource, or portion thereof, earlier than the Capacity Commitment Period for which its Non-Price Retirement Request has been approved if it is able to transfer the relevant Capacity Supply Obligation of the resource to another resource through one or more approved Capacity Supply Obligation Bilateral transactions as described in Section III.13.5.1 or reconfiguration auctions as described in Section III.13.4.1. A resource, or portion thereof, electing to retire pursuant to this provision must notify the ISO in writing of its election to retire and the date of retirement. The interconnection rights, or relevant portion thereof, for the resource will terminate and the status of the resource, or portion thereof, will be converted to retired on the date of retirement, consistent with the provisions of Schedules 22 and 23 of the OATT.

(a)(iii) In cases where an Existing Generating Capacity Resource or Existing Demand Resource has submitted a Non-Price Retirement Request and the request is not approved because the resource is determined to be needed for reliability pursuant to Section III.13.2.5.2.5, the portion of the resource subject to the Non-Price Retirement Request may nonetheless retire as permitted by applicable law coincident with the commencement of the Capacity Commitment Period for which the Non-Price Retirement Request is submitted by notifying ISO within six months of receiving the notice from the ISO that the Non-Price Retirement Request has not been approved for reliability reasons. Such an election will be binding. A resource making an election pursuant to this Section III.13.2.5.2.5.3(a)(iii) will not be eligible for compensation pursuant to Sections III.13.2.5.2.5.1 or III.13.2.5.2.5.2. The interconnection rights, or relevant portion thereof, for the resource will terminate and the status of the resource, or portion thereof, will be converted to retired on the date of retirement, consistent with the provisions of Schedules 22 and 23 of the OATT.

(b)(i) A resource that has submitted a non-partial Permanent De-List Bid that has cleared in the Forward Capacity Auction may retire the resource as of the Capacity Commitment Period for which its Permanent De-List Bid has cleared or earlier as described in Section III.13.2.5.2.5.3(b)(ii) by notifying the ISO in writing of its election to retire and the date of retirement. The date specified for retirement is subject to the limit for resource inactivity set out in Section III.13.2.5.2.5.3(d). The interconnection rights for the resource will terminate and the status of the resource will be converted to retired on the date of retirement.

(b)(ii) A resource with a cleared non-partial Permanent De-List Bid may retire the resource earlier than the Capacity Commitment Period for which its Permanent De-List Bid has cleared if it is able to transfer the entire Capacity Supply Obligation of the resource to another resource through one or more approved Capacity Supply Obligation Bilateral transactions as described in Section III.13.5.1 or reconfiguration auctions as described in Section III.13.4. A resource electing to retire pursuant to this provision must notify ISO in writing of its election to retire and the date of retirement. The interconnection rights for the resource will terminate and the status of the resource will be converted to retired on the date on retirement.

(c) A resource that has never been counted as a capacity resource may retire the asset by notifying the ISO in writing of its election to retire and the date of retirement. The date specified for retirement is subject to the limit for resource inactivity set out in Section III.13.2.5.2.5.3(d). The interconnection rights for the resource will terminate and the status of the resource will be converted to retired on the date of retirement.

(d) A resource that does not operate commercially for a period of three calendar years will be deemed by the ISO to be retired. The interconnection rights for the unit will terminate and the status of the unit will be converted to retired on the date of retirement. Where a generator has submitted an application to repower under Schedule 22 or 23 of the OATT, the current interconnection space will be maintained beyond the three years unless the application under Schedule 22 or 23 is withdrawn voluntarily or by the operation of those provisions. Where an application is withdrawn under Schedule 22 or 23, the three year period will be calculated from the last day of commercial operation of the resource.

**III.13.2.5.2.6. [Reserved.]**

**III.13.2.5.2.7. Treatment of De-List and Export Bids When the Capacity Clearing Price is Set Administratively.**

Where the Capacity Clearing Price is set pursuant to Section III.13.2.7.9 (Capacity Carry Forward Rule), or where payments are set pursuant to Section III.13.2.8 (Inadequate Supply and Insufficient Competition), and as a result a Permanent De-List Bid, Static De-List Bid, or Export Bid clears that would not otherwise have cleared, then the de-listed or exported capacity will not be replaced in the current Forward Capacity Auction (that is, the amount of capacity procured in the Forward Capacity Auction shall be the Installed Capacity Requirement (net of HQICCs) or Local Sourcing Requirement, as appropriate, minus the amount of the de-listed or exported capacity that results from the application of administratively determined prices) and shall be included in subsequent annual reconfiguration auctions (that is, the amount of capacity procured in subsequent annual reconfiguration auctions shall be increased by the amount of the de-listed or exported capacity).

**III.13.2.6. Capacity Rationing Rule.**

Except for Dynamic De-List Bids, Export Bids, and offers from New Import Capacity Resources and Existing Import Capacity Resources, offers and bids in the Forward Capacity Auction must clear or not clear in whole, unless the offer or bid specifically indicates that it may be rationed. A resource may elect to be rationed to either its Economic Minimum Limit or a level above its Economic Minimum Limit. These levels are submitted pursuant to Section III.13.1.1.2.2.3. Offers from New Import Capacity Resources and Existing Import Capacity Resources are subject to rationing, except where such rationing would violate any applicable physical minimum flow requirements on the associated interface. Export Bids may elect to be rationed generally, but regardless of such election will always be subject to potential rationing where the associated external interface binds. If more Dynamic De-List Bids are submitted at a price than are needed to clear the market, the bids shall be cleared pro-rata, subject to honoring the Economic Minimum Limit of the resources. Where an offer or bid may be rationed, such rationing may not result in procuring an amount of capacity that is below the associated resource's Economic Minimum Limit.

**III.13.2.7. Determination of Capacity Clearing Prices.**

The Capacity Clearing Price in each Capacity Zone shall be the price established by the descending clock Forward Capacity Auction as described in Section III.13.2.3, subject to the other provisions of this Section III.13.2.

**III.13.2.7.1. Import-Constrained Capacity Zone Capacity Clearing Price Floor.**

The Capacity Clearing Price in an import-constrained Capacity Zone shall not be lower than the Capacity Clearing Price in the Rest-of-Pool Capacity Zone. If after the Forward Capacity Auction is conducted, the Capacity Clearing Price in an import-constrained Capacity Zone is less than the Capacity Clearing Price in the Rest-of-Pool Capacity Zone, all resources clearing in the import-constrained Capacity Zone shall be paid based on the Capacity Clearing Price in the Rest-of-Pool Capacity Zone during the associated Capacity Commitment Period.

**III.13.2.7.2. Export-Constrained Capacity Zone Capacity Clearing Price Ceiling.**

The Capacity Clearing Price in an export-constrained Capacity Zone shall not be higher than the Capacity Clearing Price in the Rest-of-Pool Capacity Zone. If after the Forward Capacity Auction is conducted, the Capacity Clearing Price in an export-constrained Capacity Zone is higher than the Capacity Clearing Price in the Rest-of-Pool Capacity Zone, all resources clearing in the export-constrained Capacity Zone shall be paid based on the Capacity Clearing Price in the Rest-of-Pool Capacity Zone during the associated Capacity Commitment Period.

**III.13.2.7.3. Capacity Clearing Price Floor.**

In the Forward Capacity Auctions for the Capacity Commitment Periods beginning on June 1, 2013, June 1, 2014, June 1, 2015, and June 1, 2016 only, the following additional provisions regarding the Capacity Clearing Price shall apply in all Capacity Zones (and in the application of Section III.13.2.3.3(d)(iii)):

(a) [Reserved.]

(b) The Capacity Clearing Price shall not fall below 0.6 times CONE (or in the case of the Forward Capacity Auction for the Capacity Commitment Period beginning June 1, 2016 below \$3.15). Where the Capacity Clearing Price reaches 0.6 times CONE (or in the case of the Forward Capacity Auction for the Capacity Commitment Period beginning June 1, 2016 reaches \$3.15), offers shall be prorated such that no more than the Installed Capacity Requirement (net of HQICCs) is procured in the Forward Capacity Auction, as follows:

(i) The total payment to all listed capacity resources during the associated Capacity Commitment Period shall be equal to 0.6 times CONE (or in the case of the Forward Capacity Auction for the Capacity Commitment Period beginning June 1, 2016 shall be equal to \$3.15) times the Installed Capacity Requirement (net of HQICCs) applicable in the Forward Capacity Auction.

(ii) Payments to individual listed resources shall be prorated based on the total number of MWs of capacity clearing in the Forward Capacity Auction (receiving a Capacity Supply Obligation for the associated Capacity Commitment Period).

(iii) Suppliers may instead prorate their bid MWs of participation in the Forward Capacity Market by partially de-listing one or more resources. Regardless of any such proration, the full amount of capacity that cleared in the Forward Capacity Auction will be ineligible for treatment as new capacity in subsequent Forward Capacity Auctions (except as provided under Section III.13.1.1.1.2).

(iv) Any proration shall be subject to reliability review. Where proration is rejected for reliability reasons, the resource's payment shall not be prorated as described in subsection (ii) above, and the difference between its actual payment based on the Capacity Clearing Price and what its payment would have been had prorationing not been rejected for reliability reasons shall be allocated to Regional Network Load within the affected Reliability Region. In this case, the total payment described in subsection (i) above will increase accordingly.

(v) Any election to prorate bid MWs associated with a New Capacity Offer that clears in the Forward Capacity Auction shall also apply in subsequent Forward Capacity Auctions for Capacity Commitment Periods for which the Project Sponsor elected to have the Capacity Supply Obligation and Capacity Clearing Price continue to apply pursuant to Section III.13.1.1.2.2.4 or Section III.13.1.4.2.2.5.

#### **III.13.2.7.3A Treatment of Imports.**

At the Capacity Clearing Price, if the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between an external Control Area and the New England Control Area is greater than that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF):

(a) the full amount of capacity offered at that price from Existing Import Capacity Resources associated with contracts listed in Section III.13.1.3.3(c) shall clear, unless that amount of capacity is greater than the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF), in which case the capacity offered at that

price from Existing Import Capacity Resources associated with contracts listed in Section III.13.1.3.3(c) shall be rationed such that the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF) is not exceeded; and

(b) if there is space remaining over the interface after the allocation described in subsection (a) above, then the capacity offered at that price from New Import Capacity Resources and Existing Import Capacity Resources other than Existing Import Capacity Resources associated with the contracts listed in Section III.13.1.3.3(c) will be rationed such that the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF) is not exceeded. If the capacity offered at that price by any single New Import Capacity Resource or Existing Import Capacity Resource that is not associated with the contracts listed in Section III.13.1.3.3(c) is greater than the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF), then the capacity offered by that resource that is above the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF) shall not be included in the rationing.

#### **III.13.2.7.4. Effect of Capacity Rationing Rule on Capacity Clearing Price.**

Where the requirement that offers and bids clear or not clear in whole (Section III.13.2.6) prohibits the descending clock auction in its normal progression from clearing a Capacity Zone at the precise amount of capacity required, then the auctioneer shall analyze the aggregate supply curve to determine cleared capacity offers and Capacity Clearing Prices that result in procuring at least the amount of capacity required while seeking to maximize social surplus for the associated Capacity Commitment Period. In an import-constrained Capacity Zone, the clearing algorithm will not consider blocks of capacity not needed to meet the import-constrained Capacity Zone's Local Sourcing Requirement when price separation occurs between the import-constrained Capacity Zone and the Rest-of-Pool Capacity Zone. The clearing algorithm may result in offers below the Capacity Clearing Price not clearing, and in de-list bids below the Capacity Clearing Price clearing.

#### **III.13.2.7.5. Effect of Decremental Repowerings on the Capacity Clearing Price.**

Where the effect of accounting for certain repowering offers and bids (as described in Section III.13.2.3.2(e)) results in the auction not clearing at the lowest price for the required quantity of capacity, then the auctioneer will conduct additional auction rounds of the Forward Capacity Auction as necessary to minimize capacity costs.

**III.13.2.7.6. Minimum Capacity Award.**

Each offer (excluding offers from Conditional Qualified New Generating Capacity Resources that do not satisfy the conditions specified in Sections III.13.2.5.1(i)-(iii)) clearing in the Forward Capacity Auction shall be awarded a Capacity Supply Obligation at least as great as the amount of capacity offered at the End-of-Round Price in the final round of the Forward Capacity Auction. For Intermittent Power Resources and Intermittent Settlement Only Resources, the Capacity Supply Obligation for months in the winter period (as described in Section III.13.1.5) shall be adjusted based on its winter Qualified Capacity as determined pursuant to Section III.13.1.1.2.2.6 and Section III.13.1.2.2.2.

**III.13.2.7.7. Tie-Breaking Rules.**

Where the provisions in this Section III.13.2 for clearing the Forward Capacity Auction (system-wide or in a single Capacity Zone) result in a tie – that is, where two or more resources offer sufficient capacity at prices that would clear the auction at the same minimum costs – the auctioneer shall apply the following rules (in sequence, as necessary) to determine clearing:

- (a) The auctioneer shall clear the resources in such a manner as to maximize the total amount of capacity procured.
- (b) If multiple projects may be rationed, they will be rationed proportionately.
- (c) Where clearing either the offer associated with a resource with a higher queue priority at a Conditional Qualified New Generating Capacity Resource’s location or the offer associated with the Conditional Qualified New Generating Capacity Resource would result in equal costs, the offer associated with the resource with the higher queue priority shall clear.
- (d) The offer associated with the Project Sponsor having the lower market share in the capacity auction (including Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources) shall be cleared.

**III.13.2.7.8. [Reserved.]**

**III.13.2.7.9 Capacity Carry Forward Rule.**

**III.13.2.7.9.1. Trigger.**

The capacity carry forward rule shall be triggered in an import-constrained Capacity Zone if all of the following conditions are met:

- (a) the sum of the amount of New Capacity Required plus the amount of Permanent De-List Bids clearing in the Forward Capacity Auction in the Capacity Zone is less than or equal to zero;
- (b) there is not Inadequate Supply in the Forward Capacity Auction in the Capacity Zone; and
- (c) at the Capacity Clearing Price, the sum of the amount of New Capacity Required plus the amount of Permanent De-List Bids clearing in the Forward Capacity Auction plus the amount of capacity carried forward due to rationing is greater than zero. The amount of capacity carried forward due to rationing shall equal the amount of capacity above the Local Sourcing Requirement procured in that Capacity Zone in the previous Forward Capacity Auction as a result of the Capacity Rationing Rule.

**III.13.2.7.9.2. Pricing.**

If the capacity carry forward rule is triggered, then the Capacity Clearing Price for the Capacity Zone shall be the lesser of: (1) \$0.01 below the price at which the last New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource in the Capacity Zone to withdraw withdrew from the Forward Capacity Auction; or (2) the Offer Review Trigger Price for a combustion turbine, as set forth in Section III.A.21.1.1; provided, however, that if in the Capacity Zone there is Insufficient Competition and no capacity offered from New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources has been withdrawn from the Forward Capacity Auction, then the Capacity Clearing Price shall equal the Offer Review Trigger Price for a combustion turbine, as set forth in Section III.A.21.1.1.

**III.13.2.8. Inadequate Supply and Insufficient Competition.**

In the case of either Inadequate Supply or Insufficient Competition, as defined in this Section III.13.2.8, the Forward Capacity Auction shall still be used to the extent possible; that is, the remedy for Inadequate Supply or Insufficient Competition shall be limited to the Capacity Zones having Inadequate Supply or Insufficient Competition.

**III.13.2.8.1. Inadequate Supply.**

### **III.13.2.8.1.1. Inadequate Supply in an Import-Constrained Capacity Zone.**

An import-constrained Capacity Zone will be considered to have Inadequate Supply if at the Forward Capacity Auction Starting Price the amount of capacity offered in the import-constrained Capacity Zone through New Capacity Offers is less than the amount of New Capacity Required in that Capacity Zone. In an import-constrained Capacity Zone, “New Capacity Required” shall mean the Capacity Zone’s Local Sourcing Requirement, minus the total amount of capacity of Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources in the Capacity Zone (that is not permanently de-listed for the Capacity Commitment Period), minus capacity otherwise obligated in the Capacity Zone for the Capacity Commitment Period; system-wide, “New Capacity Required” shall mean the Installed Capacity Requirement (net of HQICCs), minus the total amount of capacity of Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources (that is not permanently de-listed for the Capacity Commitment Period), minus capacity otherwise obligated for the Capacity Commitment Period.

(a) Where an import-constrained Capacity Zone has Inadequate Supply, Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources (other than those still subject to a multi-year Capacity Commitment Period election as described in Sections III.13.1.1.2.2.4 and III.13.1.4.2.2.5) in that Capacity Zone, other than such resources, or portions thereof, that have no Capacity Supply Obligation or are designated as Self-Supplied FCA Resources for the Capacity Commitment Period, shall be paid \$7.025/kW-month during the associated Capacity Commitment Period, and New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources in the Forward Capacity Auction in that Capacity Zone shall be paid the Forward Capacity Auction Starting Price during the associated Capacity Commitment Period (and subsequent Capacity Commitment Periods, as elected pursuant to Section III.13.1.1.2.2.4 or Section III.13.1.4.2.2.5).

(b) In an import-constrained Capacity Zone having Inadequate Supply, the difference between the amount of capacity offered in the Capacity Zone through New Capacity Offers and the amount of New Capacity Required in that Capacity Zone shall be included in subsequent annual reconfiguration auctions.

(c) Inadequate Supply in one or more import-constrained Capacity Zones shall not affect Capacity Zones having adequate supply.

(d) Any availability penalty assessed during the associated Capacity Commitment Period pursuant to Section III.13.7.2.7.1.2 on a resource in an import-constrained Capacity Zone having Inadequate Supply will be assessed at a rate equal to \$7.025/kW-month.

**III.13.2.8.1.2. System-Wide Inadequate Supply.**

The New England Control Area will be considered to have system-wide Inadequate Supply if at the Forward Capacity Auction Starting Prices, the total amount of capacity offered in the Forward Capacity Auction is less than the Installed Capacity Requirement (net of HQICCs).

(a) In the case of system-wide Inadequate Supply, Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources other than such resources, or portions thereof, that have no Capacity Supply Obligation or are designated as Self-Supplied FCA Resources for the Capacity Commitment Period, shall be paid \$7.025/kW-month during the associated Capacity Commitment Period, and New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources in the Forward Capacity Auction shall be paid the Forward Capacity Auction Starting Price during the associated Capacity Commitment Period (and subsequent Capacity Commitment Periods, as elected pursuant to Section III.13.1.1.2.2.4 or Section III.13.1.4.2.2.5).

(b) In the case of system-wide Inadequate Supply, the difference between the total amount of capacity offered in the Forward Capacity Auction and the Installed Capacity Requirement (net of HQICCs) shall be included in subsequent annual reconfiguration auctions.

(c) System-wide Inadequate Supply will not affect the Forward Capacity Auction in Capacity Zones having adequate supply, except that in those Capacity Zones having adequate supply, New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources shall be paid the Capacity Clearing Price, and Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources other than such resources, or portions thereof, that have no Capacity Supply Obligation or are designated as Self-Supplied FCA Resources for the Capacity Commitment Period, will be paid the lower of: (1) the Capacity Clearing Price; or (2) \$7.025/kW-month.

(d) If there is system-wide Inadequate Supply, but the amount of capacity offered in an export-constrained Capacity Zone, including imports as appropriate, is greater than the Maximum Capacity Limit in that export-constrained Capacity Zone, the Forward Capacity Auction in the export-constrained Capacity Zone shall be unaffected, and in that case the price paid to Existing Generating Capacity

Resources, Existing Import Capacity Resources, and Existing Demand Resources in the Rest-of-Pool Capacity Zone shall be the higher of: (1) \$7.025/kW-month; or (2) the price in the export-constrained Capacity Zone.

**III.13.2.8.2. Insufficient Competition.**

The Forward Capacity Auction shall be considered to have Insufficient Competition system-wide or in any import-constrained Capacity Zone if the following two conditions are both satisfied:

- (a) at the Forward Capacity Auction Starting Price, the amount of capacity offered from Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources (that is not permanently de-listed for the Capacity Commitment Period), minus capacity otherwise obligated for the Capacity Commitment Period, is less than the Installed Capacity Requirement (net of HQICCs) or the Local Sourcing Requirement, as applicable; and
- (b) at the Forward Capacity Auction Starting Price:
  - (i) less than 300 MW of capacity is offered from New Generating Capacity Resources and New Demand Resources (the ISO shall revisit the appropriateness of the 300 MW threshold in the case of an import-constrained Capacity Zone having a Local Sourcing Requirement of less than 5000 MW);
  - (ii) the amount of capacity offered from New Generating Capacity Resources and New Demand Resources is less than twice the amount of New Capacity Required; or
  - (iii) any Market Participant's total capacity from New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources is pivotal. A Market Participant shall be considered pivotal if, at the Forward Capacity Auction Starting Price, some capacity from that Market Participant's potential New Generating Capacity Resources, New Import Capacity Resources, or New Demand Resources is required to satisfy the Installed Capacity Requirement (net of HQICCs) or the Local Sourcing Requirement, as applicable.

If the Forward Capacity Auction has Insufficient Competition, New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources shall be paid the Capacity Clearing Price during the associated Capacity Commitment Period, and Existing Generating Capacity Resources, Existing

Import Capacity Resources, and Existing Demand Resources (other than those still subject to a multi-year Capacity Commitment Period election as described in Sections III.13.1.1.2.2.4 and III.13.1.4.2.2.5) shall be paid the lower of: (1) the Capacity Clearing Price; or (2) \$7.025/kW-month during the associated Capacity Commitment Period. Any availability penalty assessed during the associated Capacity Commitment Period pursuant to Section III.13.7.2.7.1.2 on a resource in an import-constrained Capacity Zone having Insufficient Competition will be assessed at a rate equal to the lower of: (1) the Capacity Clearing Price; or (2) \$7.025/kW-month.

**III.13.2.9.**            **[Reserved.]**

## New England Governors, State Utility Regulators and Related Agencies

### Maine

The Honorable Paul LePage  
One State House Station  
Office of the Governor  
Augusta, ME 04333-0001  
[Kathleen.Newman@maine.gov](mailto:Kathleen.Newman@maine.gov)

Maine Public Utilities Commission  
18 State House Station  
Augusta, ME 04333-0018  
[Maine.puc@maine.gov](mailto:Maine.puc@maine.gov)

### New Hampshire

The Honorable Maggie Hassan  
Office of the Governor  
26 Capital Street  
Concord NH 03301  
[Molly.Connors@nh.gov](mailto:Molly.Connors@nh.gov)  
[Meredith.Hatfield@nh.gov](mailto:Meredith.Hatfield@nh.gov)

New Hampshire Public Utilities Commission  
21 South Fruit Street, Ste. 10  
Concord, NH 03301-2429  
[steve.mullen@puc.nh.gov](mailto:steve.mullen@puc.nh.gov)  
[tom.frantz@puc.nh.gov](mailto:tom.frantz@puc.nh.gov)  
[george.mccluskey@puc.nh.gov](mailto:george.mccluskey@puc.nh.gov)  
[F.Ross@puc.nh.gov](mailto:F.Ross@puc.nh.gov)  
[David.goyette@puc.nh.gov](mailto:David.goyette@puc.nh.gov)  
[RegionalEnergy@puc.nh.gov](mailto:RegionalEnergy@puc.nh.gov)

### Vermont

The Honorable Peter Shumlin  
Office of the Governor  
109 State Street, Pavilion  
Montpelier, VT 05609  
[elizabeth.miller@state.vt.us](mailto:elizabeth.miller@state.vt.us)  
[Jeb.Spaulding@state.vt.us](mailto:Jeb.Spaulding@state.vt.us)

Vermont Public Service Board  
112 State Street  
Montpelier, VT 05620-2701  
[mary-jo.krolewski@state.vt.us](mailto:mary-jo.krolewski@state.vt.us)

Vermont Department of Public Service  
112 State Street, Drawer 20  
Montpelier, VT 05620-2601  
[bill.jordan@state.vt.us](mailto:bill.jordan@state.vt.us)  
[chris.recchia@state.vt.us](mailto:chris.recchia@state.vt.us)  
[Ed.McNamara@state.vt.us](mailto:Ed.McNamara@state.vt.us)

### Massachusetts

The Honorable Deval Patrick  
Office of the Governor  
Rm. 360 State House  
Boston, MA 02133

Massachusetts Department of Public Utilities  
One South Station  
Boston, MA 02110  
[Thomas.Bessette@state.ma.us](mailto:Thomas.Bessette@state.ma.us)

### Rhode Island

The Honorable Lincoln Chafee  
Office of the Governor  
State House Room 115  
Providence, RI 02903  
[Marion.Gold@energy.ri.gov](mailto:Marion.Gold@energy.ri.gov)  
[CKearns@doa.ri.gov](mailto:CKearns@doa.ri.gov)  
[Danny.Musher@energy.ri.gov](mailto:Danny.Musher@energy.ri.gov)

Rhode Island Public Utilities Commission  
89 Jefferson Blvd.  
Warwick, RI 02888  
[nicholas.ucci@puc.ri.gov](mailto:nicholas.ucci@puc.ri.gov)  
[paul.roberti@puc.ri.gov](mailto:paul.roberti@puc.ri.gov)

### Connecticut

The Honorable Dannel P. Malloy  
Office of the Governor  
State Capitol  
210 Capitol Ave.  
Hartford, CT 06106  
[Liz.Donohue@ct.gov](mailto:Liz.Donohue@ct.gov)  
[Luke.Bronin@ct.gov](mailto:Luke.Bronin@ct.gov)  
[Paul.Mounds@ct.gov](mailto:Paul.Mounds@ct.gov)

## **New England Governors, State Utility Regulators and Related Agencies**

Connecticut Public Utilities Regulatory  
Authority  
10 Franklin Square  
New Britain, CT 06051-2605  
[robert.luysterborghs@ct.gov](mailto:robert.luysterborghs@ct.gov)  
[michael.coyle@ct.gov](mailto:michael.coyle@ct.gov)  
[clare.kindall@ct.gov](mailto:clare.kindall@ct.gov)

### **New England Governors, Utility Regulatory and Related Agencies**

Anne Stubbs  
Coalition of Northeastern Governors  
400 North Capitol Street, NW  
Washington, DC 20001  
[coneg@sso.org](mailto:coneg@sso.org)

Heather Hunt, Executive Director  
New England States Committee on Electricity  
655 Longmeadow Street  
Longmeadow, MA 01106  
[HeatherHunt@nescoe.com](mailto:HeatherHunt@nescoe.com)  
[JasonMarshall@nescoe.com](mailto:JasonMarshall@nescoe.com)

Sarah Hofman, Executive Director  
New England Conference of Public Utilities  
Commissioners  
50 State Street – Suite 1  
Montpelier, VT 05602  
[director@necpuc.org](mailto:director@necpuc.org)

John Betkoski, President  
New England Conference of Public Utilities  
Commissioners  
10 Franklin Square  
New Britain, CT 06051-2605  
[John.betkoski@ct.gov](mailto:John.betkoski@ct.gov)

Harvey L. Reiter, Esq.  
Counsel for New England Conference of Public  
Utilities Commissioners, Inc.  
c/o Stinson Morrison Hecker LLP  
1150 18th Street, N.W., Ste. 800  
Washington, DC 20036-3816  
[HReiter@stinson.com](mailto:HReiter@stinson.com)