

Policies and Markets Problem Statement

May 17, 2016

Problem Statement: *Competitive wholesale electricity markets are designed to meet New England's need to maintain reliability by selecting the lowest-cost resources. They do not include states' legal obligation to execute state energy and environmental laws. However, as the markets move the region to increasing reliance on one fuel source for power generation, questions about reliability become more acute. The challenge is finding a means to execute states' policy-related requirements at the lowest reasonable cost without unduly diminishing the benefits of competitive organized markets or amplifying the cost to consumers of implementing those state policies in order to maintain markets. In the same way that market mechanisms identify the lowest cost way to satisfy the region's reliability needs, states seek to determine whether market mechanisms can accommodate public policies without unreasonably increasing the costs to consumers.*

Mechanisms To Date: The states have worked with ISO-NE and market participants to develop and implement mechanisms to accommodate state energy and environmental laws in the regional competitive electricity market. Among those FERC has approved are (1) ISO-NE's use of its Distributed Generation Forecast (DG Forecast) to reduce in a timely way the amount of resources consumers need to buy, and (2) the Renewable Technology Resource ("RTR") exemption in the Forward Capacity Market to ensure those resources count towards meeting the reliability requirement. Several generators challenged ISO-NE's application of the DG Forecast at FERC. FERC agreed that ISO-NE's approach is reasonable. FERC also recently upheld the RTR exemption following a challenge by several generators to the D.C. Circuit Court of Appeals. The RTR exemption is narrowly tailored and structured to accommodate states' Renewable Portfolio Standard (RPS) requirements - 200 MW per year of those resources eligible for any state's RPS, with a 600 MW limit to any carryover. These mechanisms allow states to satisfy some policy objectives. Going forward, some states have other objectives to satisfy, including, for example, fuel source diversity and increased levels of no-and/or low-carbon resources.

Current Challenge: Today's organized markets meet resource adequacy at the lowest price - nothing more, nothing less - and do so in a way that is resource neutral or blind to environmental attributes. Other than through the RTR exemption, the current organized markets do not - by design - generally include resources that can satisfy policy objectives that currently require, for whatever reason, additional non-market revenues to operate. Consistent with positions states have taken over the past year on a variety of market matters, states have continued to support organized wholesale markets. To be sustainable over time, markets must reasonably accommodate various policy requirements such as, for example, carbon-emissions reductions or fuel source diversity.

However, when states provide economic support to resources to enable compliance with public policy requirements consumer costs increase even more if the wholesale electric markets preclude those resources. At best, additional consumer costs occur when the capacity market does not consider such resources, so that consumers purchase a public policy resource and are then forced to purchase some redundant capacity in the market. At worst, consumer costs rise even more dramatically and unnecessarily when the market structure causes such a redundant purchase *and* results in a “multiplier” effect in a given market, i.e., the higher per unit cost applies to all market resources, not just to the policy resources that require additional revenue.

States require action, even if imperfect, that allows incremental accommodation of state policy objectives in the near-term. To the extent additional changes are required to accommodate further needs over the longer-term, the states will be pleased to continue working with ISO-NE and NEPOOL to that end. The states are hopeful that New England will succeed in crafting a way forward that enjoys relatively broad support, cognizant of the timing imperatives.