

To: ISO New England

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Date: August 9, 2022

Subject: **NEPOOL’s 2023 Priorities**

From among the many issues identified to each of the six Vice-Chairs of the Participants Committee by members of their respective Sector, the Officers collectively identified the following NEPOOL business priorities (provided below in no particular order). A high priority exists among multiple Sectors for each of these items and thus are presented here for consideration as ISO-NE management prepares the 2023-24 regional work plan.

➤ **ENERGY ADEQUACY/SECURITY CHALLENGE**

Overall objective for this high-priority item is to achieve better understanding and greater consensus among regional stakeholders, the States and ISO of the region’s energy adequacy challenges (particularly during the winter months) and to explore market-based solution(s) to address such challenge(s).

In furtherance of this shared objective, NEPOOL believes it is critically important for stakeholders and the ISO to further discuss and assess the challenges together. Consistent with the stated objectives for the September 8 FERC-hosted New England Winter Forum, these discussions should include identification of any steps or analysis/information that may be needed to better understand and define the problem. Collective agreement on a problem statement is key to successfully moving forward as a region.

With a better common understanding of our energy security/adequacy challenges, the region will then be better positioned to explore and consider together an effective long-term market-based solution(s) that is transparent to the marketplace and can be hedged.

Some of the related questions/concerns that have been expressed on this item include:

- Need a clear(er) definition of the problem. Is there agreement on the problem(s) or challenge(s) we are trying to solve for? (i.e., three-month winter fuel security

- problem or year-round energy security challenge, or both, short-term or affected by future changes in the resource mix, or something different?)
- Assessment of whether additional information or tools are needed to better understand the challenges and develop effective solutions.
- There is a seeming lack of a comprehensive statement/plan from ISO on how to solve the problem as well as comments suggesting the potential efficacy or not of any market-based solution. What is the scope of potential solutions here?
- How does this fit into RCA and ancillary service efforts/enhancements?
- Concern that there might be another Mystic-like retention or other out-of-market actions.

➤ **FCM ENTRY-RELATED IMPROVEMENTS**

This priority item requests that as part of the 2023 Work Plan, ISO would work with stakeholders to review and adopt and/or develop proposed reforms to establish a better balancing of incentives for new entry in the Forward Capacity Market.

- ***3-Year Capacity Time Out*** – Request for ISO to work with stakeholders to review/evaluate current rules and consider elimination or modification of the 3-year time out rule while continuing to address the queue blocking issues that the time out rule was intended to mitigate.

NEPOOL agrees with the ISO’s assessment that new generation timelines and approaches have changed since the 3-year time out rules were first developed. Given the “relatively modest” effort ISO anticipates to address this issue and the benefit it may provide to the marketplace by permitting projects to enter the capacity market only when they are ready to do so, NEPOOL requests that the ISO incorporate this assessment and potential modification into the 2023 annual work plan.

- ***FCM Financial Assurance Policy*** – Request for ISO to review/assess the current FCM FA requirements and implement reforms to address identified efficiencies/gaps (such as the ISO adopting CPV proposal or something similar).

NEPOOL appreciates ISO’s reluctance to adopt certain rule changes that would place greater reliance on the CPS monitoring process (such as those included in the CPV proposal) but would like to explore with ISO-NE how the ISO may be able to achieve similar objectives, without such CPS-related changes, through a slightly different or modified approach that wouldn’t be in the category of a “major lift.”

PRIORITY ITEMS THAT ARE PART OF, OR RELATED TO, ONGOING REGIONAL EFFORTS/PROJECTS¹

The priority items listed under this category are or could potentially be within the scope of ongoing or planned projects/efforts; projects that have either been initiated by the ISO voluntarily or prompted by FERC through pending rulemaking proceedings. NEPOOL appreciates that the Sector-identified priority items listed here are or will be part of those ongoing efforts. And although one or more of these items did not achieve a consensus position amongst the Sectors at this time, NEPOOL may revisit these items as a priority based on the results of ongoing/planned ISO initiatives and/or FERC compliance requirements.

- **Explore Incremental Improvements/Right-Sizing Transmission Projects** – Consider and develop standards or guidelines for right-sizing future transmission projects.

This request could/should be addressed or reassessed as a result of the Phase 2 of Extended-Term Transmission Studies initiative and/or FERC Order related to the Transmission NOPR (RM21-17). NEPOOL acknowledges that to the extent that specific issues of concern to certain Sectors or individual members are not addressed through the aforementioned initiatives, NEPOOL may be asked to re-visit/consider this item as a potential future NEPOOL priority.

- **Transmission Planning Transparency & Oversight of Costs** – Request that ISO-NE analyze and report on the following:
 - How to ensure highest impact, lowest cost solutions
 - Evaluation of alternatives
 - Oversight of transmission projects for design, scope and cost
 - How to ensure broadest benefit from transmission solutions.
 - How ISO-NE could work with the states on potential siting-related issues early in the process of evaluating transmission solutions.

Like the previous item, this request could also be addressed or reassessed as a result of the initiatives cited above, including through the ongoing NOPR-related effort.

¹ While not identified as a new priority item herein, NEPOOL notes the continued importance of the **Future Grid Initiative**, which NEPOOL leadership, working closely with NESCOE and ISO-NE representatives, launched in 2020 to help the region prepare for and support New England’s transition to a future grid. Through two parallel processes, this initiative was established for two key purposes: (1) to define and assess the future state of New England’s regional power system (*Future Grid Reliability Study*); and (2) to explore and evaluate potential market frameworks that could be pursued to help advance the clean energy transition (*Pathways to the Future Grid*). Both of these efforts have materially advanced this year. Successfully moving forward with any particular alternative market framework(s) depends on the collaboration and consensus building within the region, particularly with and among the six New England States and NEPOOL members. NEPOOL looks forward to continued engagement with, and input from, the States (through NESCOE and NECPUC) and ISO-NE before deciding on next steps for the *Pathways* process.

- **FCM Retirement Reforms** – NEPOOL appreciates that the ISO will be tackling the retirement reform proposal that was approved by NEPOOL earlier this year² and that ISO is also planning to explore with stakeholders additional market reforms to enable retired resources to return to service under a broader set of conditions.³

In addition to the above, NEPOOL remains interested in hearing from ISO about potential inclusion of plans/projects in the 2023 Work Plan to continue to improve upon the rules relating to exit from the market.

- **Pay-For-Performance (PFP) Issues** – The list of questions/concerns with PFP is long -- is the Performance Penalty Rate (PPR) too high, do the stop loss and PPR rate at current levels work against each other and send inappropriate signals during scarcity conditions that lasts longer than an hour, should we revisit the definition of a Capacity Scarcity Condition, is the current construct frustrating retirement signals, and others.

NEPOOL looks forward to the release of ISO's anticipated Q3 2022 memorandum and subsequent Markets Committee discussions relating to ISO's assessment of PFP-related issues. Because it is unclear at this time whether or not additional PFP-related work will be considered as part of ISO's expected 2023 Work Plan, NEPOOL may revisit this item once more information is available and/or further dialogue is completed on this subject matter.

- **Request for Detailed Information on ISO's Overall Plan to support Clean Energy Transition** – Desire for better/clearer understanding of the ISO's overall plan to evolve wholesale markets and the electric grid to achieve decarbonization. As part of this Sector-identified priority item, there was a request for ISO to produce a detailed roadmap of the initiatives it believes will be necessary to achieve a reliable decarbonized grid, beyond the resource capacity accreditation reform and new day-ahead ancillary services initiatives already included in the ISO's Work Plan.

As ISO noted in its preliminary feedback on the larger list of Sector-identified priorities, "this work is underway and ongoing." NEPOOL appreciates the ISO's attention to and ongoing work related to this item, including ISO's recent publication/distribution of its *2022-2025 Roadmap to the Future Grid*, which identifies planned work over the next few years to adapt the markets and the power system for the evolving resource mix and clean-energy transition.

² During its February 3, 2022 meeting, the NEPOOL Participants Committee approved a participant-sponsored proposal to modify provisions of Market Rule 1 (Sections III.13.1.2.3, III.13.1.2.4 and III.13.8.1) to allow Retirement De-List Bids and Permanent De-List Bids the ability to decrease their originally submitted bid prices by up to 25% during the Static De-List Bid finalization window and to move the Internal Market Monitor's filing of finalized prices and elections to early November.

³ Per its updated 2022 Annual Work Plan, ISO plans to begin NEPOOL stakeholder discussions on an alternative mothball option in Q4 of this year. See https://www.iso-ne.com/static-assets/documents/2022/04/2022_awp_update_for_04_07_22_pc.pdf.

- **Capacity Accreditation of Tie Benefits and HQICCs** – While the Resource Capacity Accreditation (RCA) effort is already a priority item within the existing Work Plan, the request here was to assure the RCA effort included an evaluation of the reliability contributions from tie benefits and HQICCs.

ISO stated in its written feedback to NEPOOL that: *“Evaluation of the reliability contributions from tie benefits and HQICCs in the RCA initiative would take place over the next year as part of the project.”*

- **Dynamic Line Ratings (DLR)** – FERC Order 881 prompted examination and reform of transmission line ratings in New England, resulting in ISO’s compliance changes to implement ambient adjusted line ratings (AARs). However, Order 881 did not require the use of DLRs. With FERC earlier this year opening a Notice of Inquiry to examine whether the use of DLRs would improve the accuracy and transparency of transmission line ratings, the request here is for ISO to further consider with stakeholders whether DLR requirements would help with some of the congestion issues in the region.

With acknowledgement of the requisite priority of FERC compliance-related work, NEPOOL agrees with ISO’s assessment that this request could be resolved or reassessed later based on AAR implementation and/or receipt of FERC’s potential NOPR on DLRs.

OTHER ITEMS OF REQUESTED NEPOOL PRIORITY

The following items were identified by member representatives within one or more of the Sectors but did not achieve consensus among the Sector Vice-Chairs as items of the highest priority for NEPOOL as a whole. NEPOOL leadership does though encourage the ISO to consider these items on a going forward basis, especially if one or more such item(s) may help to address any of the aforementioned priorities. Additionally, NEPOOL may revisit these items as a potential priority in the future.

- **Overlapping Impact Study Result Transparency** – Request to publish publicly (with the appropriate CEII approval) overlapping impact test results, in exactly the same way that Feasibility Study and System Impact Study reports are available in the interconnection space.

NEPOOL appreciates the ISO’s preliminary assessment that any changes to effectuate this request would require a relatively modest amount of effort. However, there appears to be a split among certain of the NEPOOL Sectors regarding both the benefits and potential downsides of public release of currently protected information from the overlapping impact test results. Some within NEPOOL continue to believe that publication would significantly improve the amount of information and transparency available to the marketplace, while a few other members have expressed some preliminary concern with the public release of certain market information. NEPOOL would appreciate any further insight from ISO on the potential pros and cons of publicly publishing results from overlapping impact tests.

- **Consideration of an additional performance mechanism** – Request that as part of the 2023 Work Plan, the ISO dedicates time and resources for further consideration of additional market design features that provide improved performance distinctions among resources holding a Capacity Supply Obligation (separate and distinct from scarcity event hours under PFP). It was suggested that such a mechanism could help to improve energy adequacy signals.
- **FCM Planning Horizons** – Request of ISO to dedicate resources to review the current three-year forward planning horizon and depending on outcome of assessment, consider potential alternative time horizons.
- **Potential Regulation Market Enhancements** – This requested effort would include ISO and stakeholder review, evaluation and consideration of the following issues and/or changes to the Regulation Market:
 - Implementing a co-optimization of the regulation market
 - Increasing the current caps of the regulation market
 - How is a unit that provides regulation treated during PFP events?
 - If an asset is regulating in an hour with day-ahead schedule, and energy prices in real-time increase over day-ahead, the NCPC will not cover the shortfall
- **Settlement Item on Reactive Power** – ISO-NE settlement system currently allocates Schedule 2 VAR/Reactive Power capacity cost payments for qualified reactive resources to identified Asset Owners monthly as part of its energy settlement. There is no ability for a Lead Market Participant to receive those payments directly. The request here is for ISO to consider changes to the allocation option in its settlement system for Schedule 2 VAR/Reactive Power capacity cost payments.

Although this is not a NEPOOL-wide priority, the ISO has identified a limited in scope approach to this request:

“Change the settlement system so that all Lead Market Participants are paid VAR Capacity Cost instead of Asset Owners, which they encourage the ISO to review as part of its customer service efforts. This is a relatively simple cost-allocation change that would require some minor IT and documentation changes.”

Given the lighter lift with this contemplated approach, the NEPOOL Sector Vice-Chairs encourage the ISO to review addressing this request as part of its ongoing customer service efforts.

REQUESTS FOR ASSESSMENT BY IMM AND/OR EMM

While one or both of the following Sector-identified priority items may be worthwhile for inclusion in the 2023 Work Plan, there is general agreement among the NEPOOL Officers that these items would likely benefit from new or additional assessment by either the ISO’s Internal or External Market Monitor. Also, because the scope of the DDBT-related request could, as ISO

noted, “be affected by the Sealed Bid FCA request/assessment”, NEPOOL appreciates the value in getting the sequencing right here with the two items. If this request is done prior, it may need to be modified based on the outcome of the Sealed Bid FCA request/assessment.”

- **Dynamic Delist Bid Threshold (DDBT) Review/Assessment** – Based on bidding in the latest auction (FCA 17), more than 1500 MW sought to delist within 2 cents of one another. This large amount of delists across a very small price range at least indicative of an issue that should be reviewed. Upon further assessment by the IMM or EMM, the ISO should consider possible revisions to the current formula to add more bandwidth (e.g., multiplying the current formula by 1.5).
- **Further Evaluation/Consideration of Sealed Bid FCA** – Prompted by a desire among some of the NEPOOL members to move to a sealed bid Forward Capacity Auction to streamline mitigation of existing resources given significant competition under the DDBT demonstrated in past auctions, this request is for ISO to work with stakeholders to review and consider a sealed bid FCA.

As noted above, NEPOOL leadership is interested in the IMM (and/or EMM) conducting further assessment of the mitigation issues at play with both of these items.

REQUEST TO INITIATE GROUNDWORK DISCUSSION

- **Environmental Justice** – During the States’ Energy Vision process, various stakeholders, including end users, raised the need to incorporate environmental justice considerations into regional decision-making. In their Advancing the Vision Report, the states subsequently asked the ISO to incorporate environment justice considerations into its decision-making. The initial request here is for ISO to detail any plans to address the states’ ask concerning the interplay of environmental justice issues.

As a first step, NEPOOL leadership acknowledges the request of the states and agrees that it would be helpful, as a starting point, for an interested group of stakeholders to initiate preliminary discussions within NEPOOL, with the ISO, state representatives and others as to the proposed scope of such an initiative, including on issues relating to the overlap of environmental justice objectives and ISO jurisdictional authority. Initiation and completion of such discussions should help to lay the foundation for further consideration by ISO and NEPOOL.