

**CENTRALIZED CAPACITY MARKETS IN
REGIONAL TRANSMISSION ORGANIZATIONS
AND INDEPENDENT SYSTEM OPERATORS**

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Good afternoon and thank you for the opportunity to participate in this timely and important technical conference. I serve as the Director of Analysis for the New England States Committee on Electricity (NESCOE), and I am speaking today on behalf of the six New England states.¹

NESCOE is the Regional State Committee for New England. It is governed by a board of managers appointed by the Governors of the six New England states. NESCOE's mission is to represent the interests of the citizens of the region by advancing policies designed to provide electricity at the lowest possible price over the long term, consistent with maintaining reliable service and environmental quality.

NESCOE seeks to accomplish its objectives in the context of a wholesale electricity market that is primarily characterized by competitive market mechanisms, subject to the constraints and directions of law, regulation and public policy. NESCOE strives to advance its mission through collaborative work with ISO New England Inc. (ISO-NE), the New England Power Pool (NEPOOL), and other regional stakeholders.

NESCOE informs policymakers' consideration of issues by providing independent

¹ These comments, as well as any view expressed during the technical conference, seek to convey the collective view of the six New England states. They do not necessarily reflect the specific view of any one New England state on any particular issue.

technical analysis. NESCOE is active in many proceedings before the Commission, including those relating to the ISO-NE Forward Capacity Market (FCM).²

Earlier today, panelists presented their views on the mechanics of capacity markets and the role of these markets in assuring resource adequacy. Building on these subjects, I have been invited to provide a perspective on the intersection of state and federal policies and emerging technologies with centralized capacity markets, and in particular, how these policies and technologies impact the goals and objectives of capacity markets. These questions are ripe in New England and elsewhere, as laws promoting clean energy and requiring emissions reductions as well as changing market dynamics are increasingly influencing the electric generation portfolio.

As a threshold matter, NESCOE recognizes that the task before FERC, and the challenge for all of us here, is a difficult one. Attempting to structure rules that ensure efficient wholesale markets while at the same time accommodating public policies underscores the tension and complexity of integrating public policies into the wholesale markets. NESCOE appreciates the Commission convening this technical conference to facilitate dialogue around these issues.

The focus of NESCOE's comments today is on whether a capacity market that does not recognize new capacity developed pursuant to the requirements of state statutes and regulations is sustainable over the long-term. From the perspective of

² Additional information about NESCOE and updates on its activities is available at www.nescoe.com.

state officials tasked with implementing these statutes and regulations, the answer is that such a market cannot endure.

The New England states have long valued and encouraged renewable resources as a matter of state law. In addition to delivering environmental benefits, renewable resources help diversify the region’s resource mix, enhance fuel source security, and contribute to price stability. For regions like New England currently grappling with increasing—and as it is turning out, costly—operational risks associated with increasing dependence on natural gas, other capacity supplies matter all the more. From Renewable Portfolio Standards and tax incentives to long-term contracting opportunities, policymakers have employed a broad range of statutory and regulatory requirements to achieve clean energy objectives and foster industry development.

As a result of these policies and dedicated public investments in clean energy, an increasing amount of new renewable capacity is expected to be added. In 2012, approximately half of all new capacity installed across the country was renewable.³ In New England, while new gas-fired generation continues to dominate the interconnection queue, ISO-NE’s 2012 Regional System Plan showed that renewable resources make up almost 40% of new generation projects proposed in the region. Moreover, in considering the interconnection queue, the relatively short development lead-time for many renewable resources should be taken into account. Thus, to the extent renewable resources do not enter the interconnection queue

³ See FERC, Office of Energy Projects, *Energy Infrastructure Update For December 2012*, at 5, available at <http://www.ferc.gov/legal/staff-reports/dec-2012-energy-infrastructure.pdf>.

until they are in further stages of development, today’s interconnection queue may represent a low value of proposed renewable projects in the region.

As new renewable generation is added to New England’s resource mix, it will be coming on-line despite—rather than supported by—the wholesale capacity market. The Staff Report developed in conjunction with this technical conference, “Centralized Capacity Market Design Elements,” closely details the Minimum Offer Price Rule (MOPR), and NESCOE will not replicate that description here. However, in response to the questions posed to this panel, NESCOE can confirm that the MOPR, as presently constituted under New England’s capacity market construct, effectively disqualifies the participation of a significant and growing amount of renewable capacity.

These renewable resources, which advance public policy objectives around fuel diversity, energy security, emissions reductions, and clean energy deployment, will continue to be installed at a steady pace due to specific state statutory mandates and other carbon reduction objectives and requirements. However, by effectively excluding these resources from the capacity market, the market rules impose on New England’s consumers higher costs for capacity than is necessary: in the first instance to meet state law requirements, and in the second through the price of regional resource adequacy requirements—set at a level that pretends these renewable resources do not exist.

More broadly, there is also a risk to the staying power of the capacity market as currently configured. At the same time that existing resources retire—in a recent

example, the Vermont Yankee Nuclear Power Station announced that it will retire in 2014—there will be a substantial increase in renewable power coming on-line, funded with public dollars but not counted toward the Installed Capacity Requirement. Such an outcome would make no sense.

As the Staff Report notes, one potential mechanism for striking a balance between efficient wholesale markets and accommodating public policies is through a MOPR exemption. NESCOE developed and proposed such an exemption through the New England stakeholder process, seeking a capped exemption for a limited amount of renewable resources in each capacity auction corresponding with the states' renewable energy statutory requirements. This proposal was one of the issues raised in a proceeding referenced in the Staff Report. NESCOE appreciates that there may be restrictions in addressing specific proposals in light of open proceedings, and NESCOE looks forward to the general discussion regarding exemptions.

In addition to an increasing amount of renewable capacity in New England that will not be counted toward resource adequacy, concerns regarding resource performance are also driving a consideration of changes to the FCM. ISO-NE has identified resource performance—as well as the increasing dependence on natural gas-fired capacity and penetration of intermittent generation—as the impetus for developing a proposal to redesign New England's capacity market structure to improve resource availability and unit performance during periods of system stress. Alternative proposals have emerged that seek to achieve the same end. These

proposals suggest that the focus has shifted from traditional concerns, such as how the capacity market can incent new market entry and retention, to how the capacity market can ensure that resources respond when they are needed. Dialogue in New England indicates there is not universal agreement that resource performance is best achieved through the capacity market. That debate persists.

NESCOE appreciates the clarity that the Commission provided in a recent order on resource performance obligations, which informs future decisions about incremental reliability needs. However, serious questions remain for policymakers, including how best to balance performance in—and between—the electric and gas industries and how, when and for what specific purpose capacity markets need to be restructured. A paramount question pertains to costs. At the end of the day, states and consumers need assurance that expected cost increases associated with proposed capacity market adjustments are justified by the benefits delivered. Today, that question is outstanding in connection with all proposals on the table to restructure New England’s capacity market.

The New England states continue to have a preference for competition—although it is understood that competition is not an end in itself—and market-based approaches to executing their laws and policy goals. NESCOE has endeavored to work within the existing market structure to achieve a balance between promoting competitive outcomes in wholesale markets and accommodating public policies. NESCOE is, however, increasingly concerned that competitive capacity markets are not adequately addressing state public policies, and ever changing dynamics that

affect electric energy production. Thank you again for the opportunity to participate in this technical conference. NESCOE looks forward to the discussion today and going forward.