Remarks of
Commissioner William L. Massey
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ISO NEW ENGLAND
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Agenda Item CAE-34

Today, the New England region takes a big step in the evolution of electricity market design, and so does the Commission. The market redesign that we approve in the order before us grew out of that region's experience with what does not work, and a body of experience from elsewhere on what does work. New England market participants learned through experience that a single settlement system and a congestion management method that does not recognize locational congestion do not work so well. Experience elsewhere shows that a multiple settlement system and locational pricing do produce better results.

Likewise, today's order reflects the Commission's growing body of experience with market design and our willingness to use our acquired knowledge to call balls and strikes on proposals to ensure that we approve only market designs that are likely to work. The headlines about electricity price spikes and impending shortages drive home the importance of getting market design right. There is too much at stake in electricity markets for an "anything goes" attitude to prevail. My hope is that today's order is a signal of a more aggressive Commission posture on insisting on well designed and efficient markets.

I would like to take a just few minutes this morning to highlight some of the important features of the New England market redesign and our order. First, there is good news and bad new on congestion management. The good news is that there was broad consensus among New England stakeholders for adopting locational marginal pricing – or LMP. I applaud that decision. As today's order observes, locational marginal pricing sends correct price signals for using existing generation and transmission resources efficiently, and it encourages efficient location of future generation and transmission facilities. Clearly, locational marginal pricing is pro market. With today's order, I hope it is becoming the Commission's preferred congestion management system.

Today's order also recognizes the need for some flexibility in moving to LMP. While New England generators will see prices at individual nodes, we are allowing the load in various load zones to be billed at the average of the nodal prices in the region. Importantly, we require that each load be given a choice regarding whether it wants to face the zonal price or the nodal price.

The bad news is that we are told that it is going to take 18-24 months to get this system up and running. To the extent the delay is due to software development, I would note that PJM has successful LMP software. I would urge New England to consider purchasing PJM's software. It's tried and true.

Second, the New England market design adopts, with a broad consensus of stakeholders, a two-settlement system. Right now bids are made into the New England markets only on a real time basis. There are no signals and no financial commitments made before real time. With the multi-settlement system, anticipated market conditions will be previewed through a day-ahead market with final adjustments in the real-time markets for energy and ancillary services. The bids and financial obligations set in the day-ahead market will allow the ISO and market participants to better plan in advance of real time.

Third, today's order expresses our preferences on some key market design issues, strongly influenced by the prevailing market designs in the other ISOs in the region – New York and PJM. I strongly support this approach and advocate continuing the movement toward one large Northeast market as we address market design issues in the future. Consistent design and operation parameters among the ISOs help to eliminate seams between the three markets, and thereby embrace one large Northeastern market. This is consistent with Order No. 2000's goal of large regional markets.

Fourth, today's order strongly encourages increasing the participation of the demand side of the market. Price spikes and price volatility have made it clear that vibrant electricity markets need to hear the voice of the demand side of the market in making resource decisions. One way of dramatically dampening this volatility is to make electricity as much like other commodities as possible. I'm talking about giving buyers a chance to react to a price signal. Without being given the chance to react to a price signal that is close to being accurate in real time, customers do not have a chance to "just say no" when prices get too high. And without that demand

side voice that can say "no," suppliers can fetch ever higher prices, even far above the value some buyers may place on certain quantities of electricity. If I'm going to pay high and volatile prices, I want a chance to decide how much of the commodity to buy. In other words, "show me the prices and give me a market based choice!" A demand side voice can discipline prices by bringing supply and demand into balance, and lessen the calls for price caps.

Today's order strongly encourages ISO New England to actively pursue ways of providing customers with increased opportunities to react to price signals in electricity markets. I encourage the ISO to keep us informed of its progress. And I hope the Commission will become more active in promoting demand side participation in markets.

Fifth, today's order requires that all transmission projects in the regional plan should be built following a competitive solicitation. This will ensure the efficient implementation of the regional transmission plan and has my full support.

Sixth, the market design includes Financial Congestion Rights, or FCRs, to manage or hedge congestion risk. The FCRs will all be awarded through auction, instead of grandfathering some of these rights to certain participants. The auction approach will help ensure that the FCRs go to where they are most valued.

Finally, I want to express my appreciation to the New England stakeholders for their diligence in bringing the proposals to us. Market design raises a host of very complex issues. While it may be contentious and somewhat cumbersome, stakeholder involvement is important. Market participants have a lot at stake in the design issues and hearing all ideas is important, but it takes time.

I also want to express my appreciation for the hard work of the staff team that worked on this order. This is tough stuff to master. I heartily applaud the technical expertise of the staff that worked on this and other market design cases, and I truly appreciate their skill in explaining these issues in an understandable way. Thanks to all of you.

I support today's order.