

150 FERC ¶ 61,003
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Chairman;
Philip D. Moeller, Tony Clark,
and Norman C. Bay.

ISO New England Inc.

Docket No. ER15-325-000

ORDER ACCEPTING FILING

(Issued January 2, 2015)

1. On November 4, 2014, pursuant to section 205 of the Federal Power Act (FPA),¹ ISO New England Inc. (ISO-NE) filed proposed values for the Installed Capacity Requirement (ICR), Hydro Quebec Interconnection Capability Credits (HQICCs) and related values for the 2018/2019 Capacity Commitment Period.² These values will be used as part of the ninth Forward Capacity Auction (FCA), which is scheduled to be held in February 2015. As discussed below, we will accept the proposed values, effective January 3, 2015, as requested.

I. Background and Summary of Filing

2. ISO-NE administers the Forward Capacity Market, in which eligible resources compete in an annual Forward Capacity Auction (FCA), to provide capacity three years in advance of the relevant delivery year.³ The ICR is the minimum level of capacity required to meet the reliability requirements defined for the New England control area.⁴ The net ICR, the quantity of capacity procured in the FCA, is the capacity value remaining after subtracting the HQICCs from the ICR.⁵

¹ 16 U.S.C. § 824d (2012).

² The 2018/2019 Capacity Commitment Period starts on June 1, 2018 and ends on May 31, 2019.

³ See, e.g., Transmission, Markets and Services Tariff (Tariff) section I.2.2 (50.0.0).

⁴ ISO-NE Testimony at 8.

⁵ See, e.g., Tariff section III.13.2.2 (28.0.0).

3. On November 4, 2014, ISO-NE submitted proposed values for the Installed Capacity Requirement, Local Sourcing Requirement, and HQICCs for the 2018/2019 Capacity Commitment Period and the ninth FCA (FCA 9). Consistent with prior years, ISO-NE states that the values for the Installed Capacity Requirement are based on three essential components: the load forecast, resource availability, and tie benefits. ISO-NE states that the forecast published in the 2014 – 2023 Forecast Report of Capacity, Energy, Loads, and Transmission, dated May 1, 2014 (2014 CELT Report), was used to determine the load forecast, and forecasted resource availability was calculated by ISO-NE in accordance with section III.12.7.3 of Market Rule 1 using the methods and procedures that were previously employed for calculating resource capacity ratings.⁶ ISO-NE explains that the methodology used to calculate the ICR remains the same as the methodology utilized in previous years, but there is a change to the methodology used to calculate the Local Sourcing Requirements and the determination of import- or export-constrained Capacity Zones.⁷ In addition, for the first time, ISO-NE states that a System-Wide Capacity Demand Curve⁸ will be utilized in the FCA.⁹

4. ISO-NE proposes that the ICR for the 2018/2019 Capacity Commitment Period be 35,142 MW. ISO-NE states that, after deducting the HQICC value of 953 MW per month, the net ICR is 34,189 MW.¹⁰

5. ISO-NE states that, by vote on September 16, 2014, the NEPOOL Reliability Committee supported the ICR. It further states that, by vote on October 3, 2014, while

⁶ ISO-NE Transmittal at 10-12.

⁷ ISO-NE Transmittal at 2 (*See ISO New England Inc.*, 147 FERC ¶ 61,071 (2014)).

⁸ The Commission accepted the use of a sloped demand curve in *ISO New England Inc. and New England Power Pool*, 147 FERC ¶ 61,173 (2014). The revisions to the Tariff to reflect the use of the Demand Curve in the Forward Capacity Market starting with the FCA for the 2018/2019 Capacity Commitment Period were accepted by the Commission in a letter order dated July 24, 2014 in Docket No. ER14-2153-000. ISO-NE has stated that the system-wide sloped demand curve will replace the ICR as the determinant of the amount of capacity that clears the FCA. *ISO New England Inc.*, 147 FERC ¶ 61,173, at P 13 (2014).

⁹ ISO-NE Transmittal at 3.

¹⁰ ISO-NE Transmittal at 2.

the NEPOOL Participants Committee supported the proposed HQICC values, it did not support the ICR-Related Values, with a vote of only 38.61 percent in favor.¹¹

II. Notice of Filing and Responsive Pleadings

6. Notice of the filing was published in the *Federal Register*, 79 Fed. Reg. 67,430 (2014), with interventions and protests due on or before November 25, 2014. Timely-filed motions to intervene were submitted by New England Power Pool Participants Committee (NEPOOL), Exelon Corporation, GDF Suez Energy North America, Vermont Public Service Board, Connecticut Office of Consumer Counsel, EnerNOC, Emera Energy Services Inc., and Northeast Utilities Service Company. The United Illuminating Company moved to intervene out of time. NEPOOL filed comments on November 19, 2014. On November 25, 2014, the New England States Committee (NESCOE) filed a motion to intervene and comments and Connecticut Public Utilities Regulatory Authority (CT PURA) filed a notice of intervention and comments. On December 5, 2014, ISO-NE filed an answer to NEPOOL's and NESCOE's comments.

7. NEPOOL states that it does not support the ICR value because NEPOOL believes the ICR value should be reduced to account for distributed generation, especially solar photovoltaic resources, that is forecasted to be available during the 2018/2019 Capacity Commitment Period.¹² According to NEPOOL, some participants contend that failure to reflect the amount of solar photovoltaic capacity in the ICR calculation will lead to over-procurement of capacity in the FCA.¹³

8. NEPOOL states that ISO-NE responded to those concerns during the Participants Committee meeting, explaining that some distributed generation is already reflected in the ICR as load reduction. According to NEPOOL, ISO-NE explained that it is not opposed to including distributed generation in the ICR calculation as a resource, but that doing so requires that ISO-NE and stakeholders more fully consider and address the associated complexities, including market and operational issues, such as those associated with including significant amounts of behind-the-meter distributed generation. NEPOOL states that, while some participants desired ISO-NE to include a reasonable distributed generation forecast in the ICR calculation for FCA 9, others acknowledged the

¹¹ ISO-NE Transmittal at 16.

¹² NEPOOL Comments at 2.

¹³ NEPOOL Comments at 5.

complexities of the issues and were willing to wait until ISO-NE and NEPOOL had fully vetted the issues.¹⁴

9. NEPOOL explains that any guidance the Commission can provide on this issue will benefit future stakeholder discussions. NEPOOL states that ISO-NE has expressed a willingness to work with NEPOOL, but has not given a firm timeframe for completing the work. NEPOOL requests that the Commission direct ISO-NE to prepare and file a schedule for addressing the issue of how and when ISO-NE will consider changes in the manner and extent to which it will include distributed generation – especially solar photovoltaic – in its ICR calculation.¹⁵

10. NESCOE¹⁶ echoes NEPOOL's sentiment on this issue, stating that ISO-NE remains unclear whether it will apply the Distributed Generation Forecast¹⁷ when calculating the ICR for FCA 10, i.e., the 2020/2021 Capacity Commitment Period. NESCOE similarly asserts that ISO-NE's exclusion of the Distributed Generation Forecast and the impacts of the new capacity market design from the ICR calculation adds unnecessary costs to consumers through an over-procurement of resources.¹⁸ According to NESCOE, ISO-NE must immediately begin taking steps to incorporate the

¹⁴ NEPOOL Comments at 5-6.

¹⁵ NEPOOL Comments at 6.

¹⁶ CT PURA filed comments adopting and supporting the comments filed by NESCOE.

¹⁷ The Distributed Generation Forecast refers to an interim solar photovoltaic forecast ISO-NE developed from late 2013 into 2014. NESCOE states that ISO-NE focused exclusively on solar photovoltaic resources for its first forecast because this resource technology constitutes the largest segment of Distributed Generation resources throughout New England. NEPOOL states that ISO-NE's distributed generation working group has produced a PV forecast published in May 2014 showing that by the end of the FCA 9 Commitment Period there would be approximately 1,500 MW of installed PV capacity in New England. NEPOOL Comments at 5. *See also* NESCOE comments at 5-6, 5-6 nn.11-2 (citing ISO-NE, 2014 Interim Forecast of Solar Photovoltaic (PV) Resources, Apr. 2014 ("Final PV Forecast"), *available at* www.iso-ne.com/staticassets/documents/committees/comm_wkgrps/othr/distributed_generation_frcst/2014_pv_frcst/2014_final_solar_forecast.pdf).

¹⁸ NESCOE Comments at 9.

Distributed Generation Forecast into the calculation of ICR for FCA 10 to avoid consumers having to pay unnecessary costs that will occur if ISO-NE delays action.¹⁹

11. On a separate issue, NESCOE also states that ISO-NE fails to reflect any projected increase in resource availability resulting from the integration of ISO-NE's new two-step settlement procedures²⁰ into the capacity market design, under which, by the 2018-2019 Capacity Commitment Period, resource performance and availability should increase significantly. According to NESCOE, failing to account for this expected improvement in resource availability is at odds with why ISO-NE explained the need for that capacity market design in the first place. NESCOE argues that consumers should not first pay to strengthen financial incentives for capacity resources, and then be forced to purchase more resources than are needed to achieve resource adequacy standards as if these strengthened incentives were not in place.²¹

12. NESCOE states that, while it is not challenging here whether ISO-NE followed its market rules and approved methodologies, future assumptions that fail to consider the Distributed Generation Forecast and impacts of the new capacity market design cannot be considered reasonable. Nor, NESCOE adds, can resulting rates based on an ICR value that over-procures resources be considered just and reasonable. According to NESCOE, the process for implementing rule changes should begin now so that they can be in place by FCA 10.²²

13. In its answer, ISO-NE explains that its tariff already allows it to include some photovoltaic resources in FCA 9. First, according to ISO-NE, approximately 90 MW of solar photovoltaic resources were captured in the historical load calculation. Second,

¹⁹ NESCOE Comments at 8.

²⁰ Under the two-step settlement procedure, a capacity resource's total capacity revenue is comprised of a Capacity Base Payment and a Capacity Performance Payment. The Capacity Base Payment is determined for each resource by multiplying the amount of MW associated with its Capacity Supply Obligation by the FCA clearing price. The Capacity Performance Payment is determined for each resource by measuring its performance against its forward position (i.e., its share of the system's requirements at the time of each Capacity Scarcity Condition). If a resource provides more than its share of energy and reserves, it will receive a positive Capacity Performance Payment; if it provides less than its share, it will receive a negative Capacity Performance Payment. See *ISO New England Inc.*, 147 FERC ¶ 61,172 (2014).

²¹ NESCOE Comments at 8-9.

²² NESCOE Comments at 9.

ISO-NE states that approximately 5 MW of solar photovoltaic resources obtained capacity supply obligations in previous years, thus allowing them to be counted towards the ICR in subsequent years. Together, ISO-NE states that a total of approximately 95 MW from photovoltaic resources are already reflected in the ICR calculation for FCA 9. ISO-NE states that additional solar photovoltaic resources have qualified for FCA 9 and, if those resources clear the auction, they may be included in future calculations of the ICR.²³

14. ISO-NE states that it has committed to work with stakeholders to determine whether it is appropriate to include in the ICR calculations solar photovoltaic resources that do not participate in the FCA. ISO-NE states that, through working with stakeholders, it will explore whether and how solar photovoltaic resources not currently captured through existing FCM mechanisms should impact the ICR calculations based solely on a forecast, as well as the impact of more solar photovoltaic resources on power system planning and operations. According to ISO-NE, these discussions will determine whether additional amounts of forecasted solar photovoltaic should be included in ICR calculations and, if so, how. ISO-NE adds that although it understands the desire to have these issues resolved as quickly as possible, it is not certain that all of them can be addressed in time for the tenth FCA, and it cannot substitute sound engineering practice with inadequate analysis. ISO-NE states that it should not be directed to file a schedule with the Commission to detail stakeholder discussion of this issue, but rather, like all other issues, ISO-NE and NEPOOL should work together in the annual prioritization process to come to consensus on the timeline for the project.²⁴

15. With regard to the question of using the improved resource performance anticipated through ISO-NE's new two-settlement capacity market design, ISO-NE states that it would be inappropriate to use forecasted future performance to estimate resource availability. ISO-NE explains that, in calculating the ICR, it uses five years of historical data to create a five-year rolling average of resource availability, as has been accepted industry practice for years. According to ISO-NE, NESCOE's proposal to estimate resource availability based on future anticipated performance under the two-settlement capacity market design would be imprudent and unsound, as well as purely speculative, as ISO-NE has no basis to predict the exact performance outcome. ISO-NE states that ICR calculations should be based on assumptions using actual data rather than

²³ New resources participating in an FCA are not included in the ICR calculation for that same FCA; rather they would be included in the ICR if they clear in the FCA, thus becoming existing resources for the subsequent FCA. ISO-NE Answer at 3-4, 3 fn.13.

²⁴ ISO-NE Answer at 4-6.

speculation about future performance under new market rules. ISO-NE states that the prudent method to calculate the ICR is to continue using the historical five-year data, which will eventually reflect resource performance under the two-settlement capacity market design in the five-year rolling average.²⁵

III. Commission Determination

A. Procedural Matters

16. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2014), the timely, unopposed motions to intervene and notice of intervention serve to make the entities that filed them parties to this proceeding. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2014), we will grant The United Illuminating Company's late-filed motion to intervene, given the party's interest in this proceeding, the early stage of the proceeding, and the absence of any undue prejudice or delay.

17. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2014), prohibits an answer to a protest or an answer unless otherwise ordered by the decisional authority. We will accept ISO-NE's answer because it has provided information that assisted us in our decision-making process.

B. Substantive Matters

18. We will accept the proposed ICR values for filing, effective January 3, 2015, as requested. The purpose of the instant filing is for ISO-NE to propose values for ICR, Local Sourcing Requirements and the HQICCs to be used in FCA 9. We note that ISO-NE determined its proposed ICR value for FCA 9 using the established calculation methodology and updated system modeling data.²⁶ Specifically, with respect to the load forecast, ISO-NE used the forecast published in the 2014 CELT Report, consistent with prior years,²⁷ and forecasted resource availability was calculated by ISO-NE in accordance with Section III.12.7.3 of Market Rule 1.²⁸ We are satisfied that ISO-NE followed its Commission-approved tariff in calculating the proposed ICR values.

²⁵ ISO-NE Answer at 6-7.

²⁶ ISO-NE Transmittal at 9-12.

²⁷ ISO-NE Transmittal at 10.

²⁸ ISO-NE Transmittal at 11-12.

19. On the matter of incorporating expectations about improved resource performance into the ICR calculation, we disagree with NESCOE. While ISO-NE's two-settlement capacity market design aims to incent improved resource performance, we agree with ISO-NE that it would have no basis to use forecasted performance data in the absence of actual historical performance under this nascent two-settlement market design. We therefore support ISO-NE's current methodology, which incorporates actual resource performance data. We expect, however, that ISO-NE will continue to evaluate the potential impacts of the two-settlement design on the amount of capacity that would need to be procured through the ICR, and, if warranted, will propose timely revisions to the five-year averaging procedure to avoid over-procurement of resources.

20. While we acknowledge concerns about excluding distributed generation from the ICR calculation, we also agree with ISO-NE and various stakeholders that ISO-NE must examine the market and operational issues associated with incorporating distributed generation into the ICR calculation. Accordingly, while we are accepting ISO-NE's proposed values for FCA 9, we expect ISO-NE to fully explore the incorporation of distributed generation into the ICR calculation in the stakeholder process. We expect ISO-NE to do this on a schedule that will allow these factors to be reflected, if determined appropriate, in the ICR calculation for FCA 10.²⁹

The Commission orders:

ISO-NE's proposed values for the 2018/2019 Capacity Commitment Period are hereby accepted, effective January 3, 2015, as requested.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

²⁹ We do not agree with commenters that it is necessary to require ISO-NE to file a schedule with the Commission, as ISO-NE's stakeholder process should ensure a reasonable timetable for completion.