

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**State Policies and Wholesale Markets Docket No. AD17-11-000
Operated by ISO New England Inc.,
New York Independent System Operator, Inc.,
and PJM Interconnection, L.L.C.**

**PRE-TECHNICAL CONFERENCE STATEMENT OF
COMMISSIONER ROBERT R. SCOTT OF THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION**

April 25, 2017

I. INTRODUCTION

Pursuant to the Federal Energy Regulatory Commission's ("Commission") April 13, 2017 Supplemental Notice of Technical Conference, this pre-technical conference statement is submitted consistent with my authority as the New Hampshire Manager for the New England States Committee on Electricity (NESCOE).

As noted in the April 13 Supplemental Notice, panelists are asked to discuss long-term expectations regarding the relative roles of competitive wholesale markets and state policies in the Eastern RTOs/ISOs in shaping the quantity and composition of resources needed to cost-effectively meet future reliability and operational needs. Panelists are also asked to discuss the development of regional solutions in the Eastern RTOs/ISOs to reconcile the competitive wholesale market framework with the increasing interest by states to support particular resources or resource attributes. I thank the Commission for convening this technical conference and for allowing me to share with you my thoughts on these important topics.

II. STATEMENT

Since the summer of 2016, NESCOE has worked diligently with other stakeholders in the NEPOOL Integrating Markets and Public Policies (IMAPP) process to develop potential solutions that might better integrate the requirements of specific state laws and competitive wholesale markets. The state laws in question generally require the development of increasing amounts of renewable resources and additional reductions in carbon emissions.

In a letter dated April 7, 2017 sent by NESCOE to NEPOOL, the New England states provided feedback to IMAPP stakeholders on two long-term market design proposals that had been offered as solutions to the problem: namely, the Forward Clean Energy Market and Carbon Pricing. Because NESCOE intends to submit a separate pre-technical conference statement that summarizes the key points in the letter, I will try not to cover the same ground. Instead, my statement will present New Hampshire's perspective on the IMAPP process and offer some thoughts on how the process might move forward.¹

Wholesale Markets and State Policies

A successful long-term outcome to the IMAPP process is by no means certain, if only because the requirements of the key stakeholders appear so different from each other that the required compromises may be difficult to achieve. States like Massachusetts are mandated to meet their carbon emissions goals by entering into long-term out-of-market contracts with developers of new clean energy resources. Because these contracts are likely to be expensive, the sponsoring states are understandably pushing to be compensated for the capacity value of the underlying clean resources. The owners of existing generators, on the other hand, point out that the operation of new clean resources will lower their energy market revenues and possibly capacity market revenues if those resources are allowed to enter the FCM without mitigation. Additionally, states like New Hampshire that have no legal mandate to reduce carbon emissions beyond RGGI are insistent that they pay none of the costs of implementing other states' policies including any increased market cost to accommodate those policies and any costs to appease existing generators.

Given these disparate requirements, a negotiated resolution to this problem will clearly depend on the willingness of stakeholders to make compromises. Adding the requirement that the benefits of competitive markets be preserved will make an already challenging problem all the more difficult. Indeed, I would venture to say that it is not possible to fully preserve the benefits of competition (i.e., meet future reliability and operational needs cost-effectively) with a market design that seeks to replace low cost resources with resources that cost more. Economic efficiency will be diminished.

Any IMAPP proposal that substantially increases the amount of clean energy resources entering the FCM will likely involve either the elimination of or modification of the Minimum Offer Price Rule (MOPR).² Such a change in market design should be accomplished in a thoughtful

¹ Nowhere in this statement do I take a position on or address ISO-NE's recent near-term CASPR proposal.

² New Hampshire takes no position at this time on any change to the MOPR.

manner and certainly not without a full understanding of the likely long-term implications for electric rates. Under the existing market design, the region has added about 13,000 MW of gas-fired generation to the system since the year 2000. Those additions, together with the availability of low-cost Marcellus gas, are largely responsible for the significant reduction (over 40%) in wholesale energy prices over that period as well as equally valuable reductions in air emissions.

Modifying a market design that has produced in recent years significant economic and environmental benefits for the purpose of producing a different allocation of costs is not on its face unreasonable.³ What would be unreasonable is if the decision to modify the design was made without first knowing the full cost impacts of the change. While NESCOE has recently completed a study that provides important information on the change in energy market and capacity market revenues for existing and new resources under various clean energy scenarios, I am not aware of any study that analyses the change in ancillary service costs that might result when a power system comprising mostly traditional generation resources is transformed into one comprising mostly intermittent generation resources. Given the possibility that this cost could be large, it may be advisable to slow further work on long-term IMAPP solutions until more is known about the implications of having substantially more clean energy resources enter the FCM. In short, while negotiation is likely to be long and difficult and may not produce a result that is satisfactory to all stakeholders, the alternative of litigation is in my opinion much less desirable because a court imposed solution to a problem as complex as this poses substantial risks to all stakeholders.

New Hampshire's Perspective on IMAPP

Like other New England states, New Hampshire has implemented numerous legislative initiatives designed to promote the development of clean generation resources and reduce environmental emissions. These include, but are not limited to, membership in RGGI, the nation's only cap-and-trade program for greenhouse gas reduction; a Renewable Portfolio Standard to promote the development of renewable generation resources; a net-metering program that provides rate incentives to thousands of customers with behind the meter rooftop solar systems; and spending on energy efficiency programs that among other things results in the region's most polluting power plants running less often. More recently, the New Hampshire Commission approved an Energy Efficiency Resource Standard that will provide for substantially higher levels of energy savings.

While New Hampshire is not funding its programs to the levels of Massachusetts or Connecticut, it is not because it values a cleaner environment less than those states. As is its right, New Hampshire has chosen to strike a different balance between lower electric rates and environmental gains. Any negotiated resolution of the IMAPP problem should take this balance into account.

IMAPP Proposals - Carbon Pricing

³ The purpose the change in market design is not to ensure greater environmental benefits. That goal can be achieved with long-term PPAs.

NEPOOL has been a strong proponent of carbon pricing, perhaps because all existing generators with the possible exception of oil-fired generation would benefit to some degree from it. The states, however, have been consistently opposed.

Although the states have offered numerous reasons to explain their opposition to a carbon pricing design, four stand out. The first is that a carbon pricing scheme binding enough to drive outcomes consistent with some other states' policies is likely to significantly increase electricity prices for all consumers. This would be unpalatable for New Hampshire, if not for all states, because business electric rates are already a concern given their impact on manufacturing competitiveness, the state's economy, and employment.

The second is that higher electricity prices would mean that a state like New Hampshire, which has no legal mandate to reduce carbon emissions below RGGI levels, could end up partially funding the mandates of other states. This would be a violation of a key agreement among the states – that no state be compelled to fund the mandates of other states.

The third is the potential to increase consumer costs without an appropriate corresponding consumer benefit. This potential was highlighted in a sensitivity analysis of carbon pricing conducted by ISO-NE as part of its 2016 economic study. With the carbon price set at \$64/short-ton, the analysis found that LMPs increased by about 30% while carbon emissions fell by only 15%-20%.

The fourth is that the New England states have shown the ability to work collaboratively to address climate change through RGGI, which is a program under state control. Addressing carbon emissions through a federally controlled tariff based on state policies raises significant concerns not only about the potential for unreasonable allocation of costs but also states' rights. If the federal government wishes to regulate carbon emissions in the wholesale electric sector, Congress should pass a law giving the appropriate agency such authority.

IMAPP Proposals - Forward Clean Energy Market

The Forward Clean Energy Market proposal provides for the establishment of a new ISO administered market that seeks to promote no or low carbon energy production by eligible resources. This could be achieved by providing a new clean energy resource an additional revenue stream, which would make it easier to obtain project financing. In addition, the clean energy revenues would not be subject to the MOPR, which would increase the resource's chances of clearing the FCM. Similar to the existing FCM, multi-year forward energy contracts would be solicited by auction, to be conducted either jointly with, or shortly before, the annual FCA.

The demand for clean energy in the FCEM would be based on state-submitted demand bids, which specify both the quantity required and the maximum price. States like New Hampshire that have no legal mandate to purchase clean energy could opt-out of the requirement to submit a demand bid. Only those states that submit demand bids would incur the cost of implementing the FCEM, a design feature that I support because it eliminates the risk that New Hampshire would be allocated market costs. However, a more definitive position on state support for the

concept is unlikely to be forthcoming until work on such things as product definition and auction design are completed.

Thank you for providing this venue to hear the views of states regarding this impactful issue.

Respectfully Submitted,



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