

**COMMENTS OF THE NEW ENGLAND CONFERENCE OF PUBLIC UTILITY
COMMISSIONERS (NECPUC)
ON EARLY RESULTS FOR ISO NEW ENGLAND'S FORWARD CAPACITY
MARKETS
FEDERAL ENERGY REGULATORY COMMISSION
CAPACITY MARKETS TECHNICAL CONFERENCE
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The New England state's regulatory commissions appreciate the opportunity to offer our observations on the current ISO New England market rules with regard to forward capacity markets, and our observations on the initial implementation of the ISO New England's first Forward Capacity Auction (FCA#1). New England's state regulators have long been involved in the development and implementation of wholesale market design and rules. It was negotiations between the New England Power Pool (NEPOOL) and the New England Conference of Public Utility Commissioners (NECPUC) that lead to the development of the ISO New England in 1997. Since then the states working jointly through NECPUC and sometimes independently, have frequently offered comments or intervened in this Commission's proceedings dealing with market rules.

ISO New England's current forward capacity market rules were finalized only about one year ago, and the amount of effort, time, and money involved in settlement negotiations, pleadings before this commission, and interminable hours spent in meetings for rule development are worth considering as the Commission contemplates making additional changes.

Capacity products by their very nature generate controversy. Prior to formation of the current market rules, the NEPOOL Capability Adjustment Charge and NEPOOL Capability Adjustment Penalty served as the mechanisms to ensure the region developed adequate electrical capacity and many of the complaints associated with those early capacity products linger in today's capacity markets. The controversy arises because an administrative process is used to forecast the amount of capacity resources that will be needed at some time in the future, where it will be needed the most, and what its price will be. No matter the process used, the money involved practically guarantees complaints about the calculations and input assumptions used to generate the results. Despite their weakness, capacity markets continue to be employed because of the potential benefits they offer. The ideal capacity product in the market would provide price stability for load, revenue certainty for generators, and assurance of long term system reliability for the system operator. ISO New England's FCM is an improvement because it allows the market to determine key parameters such as the cost of new entry rather than having these inputs determined administratively.

From NECPUC's perspective, ISO's first FCM auction was successful. Much work was still required of the participants to add details for Demand Resources to serve as qualified capacity to the FCM even after the Commission's approval of the settlement. A new stakeholder working group, the Demand Resources Working Group (DRWG), was formed to develop transition

period rules and to formulate the treatment of the demand response resource into the FCM. The DRWG established a new resource category “Other Demand Resources” that include a variety of demand response elements including energy efficiency programs, load response, and distributed generation. Formation of the DRWG brought traditional NEPOOL stakeholders together with new non-traditional sponsors of DR projects. These new perspectives and expertise in the negotiations benefitted the ISO in development of its rules. Current FCM rules still require administrative determination of the amount of capacity to purchase, but they have removed the need to administratively determine the product price and provided an opportunity for demand resources to participate.

NECPUC is enthused at the level of demand response selected in the auction. The benefits that demand response could provide if given the opportunity were foretold by modelling exercises conducted in the New England Demand Response Initiative (NEDRI), a joint effort between the New England states, ISO New England, and the FERC. Hence the results of this first auction where DR demonstrated its value by reducing forward capacity prices should come as no surprise.

New England state regulators understand the anxiety some may feel with so large a response from a novel product, but we have long regulated energy efficiency and demand response programs at the retail level and are comfortable they will perform as promised. We will continue to work with ISO to refine its Measurement and Verification procedures manual, and with EE program administrators to develop joint program evaluation protocols that ensure consistency and comparability among the programs in the region.

First round auction results were not satisfactory to everyone in the markets and there are requests for FERC to immediately begin making changes to the FCM. NECPUC believes the first auction demonstrated the Forward Capacity Market results in just and reasonable, competitive prices for capacity. The FERC should not disturb its carefully negotiated structure by acting on the comments filed by NEPGA. In fact the market results closely resemble those modelled in the NEDRI process and hypothesized by others. NECPUC therefore urges the Commission to observe the results of subsequent auctions to determine whether they too continue to operate as planned.

In summary, NECPUC thanks the Commission for this opportunity to offer its observations. ISO’s FCM rules have already gone beyond what the Commission has requested in this NOPR. Before directing further changes, NECPUC requests the Commission recognize the amount of effort already expended by New England’s market participants and allow additional auctions to proceed as planned. We stand ready to work with the Commission, ISO New England, and market participants to correct any significant problems should they arise in future rounds.