



To: Vermont System Planning Committee

From: Frank Ettori, Director of NEPOOL/ISO-NE Relations and Power Accounting

Date: July 10, 2017

Re: Update on ISO-New England issues

IMAPP effort seeks to integrate public policy initiatives and markets

In April, ISO New England released for stakeholder input a proposal in the Integrating Markets and Public Policy Initiative (IMAPP). ISO-NE's creative proposal addresses several capacity market issues by linking fossil fuel generator retirements with capacity payments for renewable generators. Minimum offer price rules require renewable generators to submit a higher capacity requirement because of the out-of-market subsidies they receive. The proposal allows for a secondary auction where a fossil fuel generator that submitted a priced retirement and cleared the auction may sell its capacity supply obligation to a new renewable generator that did not clear that first auction. This proposal allows for the retirement of old fossil fuel generators and capacity payments to renewable generators that wouldn't have otherwise qualified. It is likened to a "cash for clunkers" program. At this early stage, VELCO supports this proposal as an effective means of harnessing market forces in service of broadly supported energy market and environmental objectives

NEPOOL convened the IMAPP initiative last year to seek ways to better integrate states' climate change and renewable energy policies with federally driven market design. The effort stalled somewhat early this year primarily from lack of state and ISO-NE support for a common market model. New England's energy and capacity markets were designed to be fuel-neutral and to choose in a fuel-neutral fashion the most economically efficient resources sufficient to meet reliability needs. However, market pricing for natural gas, the New England states' climate change policies, and associated out-of-market subsidies, are hastening fossil fuel generation retirements and a transition to a low-carbon, renewable fleet. The IMAPP process seeks to better align market constructs with states' policy goals.

The ISO-NE proposal will kick off a reinvigorated Markets Committee effort to secure greater stakeholder engagement to produce a fully developed proposal that includes tariff language for a Federal Energy Regulatory Commission (FERC) filing. The current schedule is for a Participants Committee vote and filing with FERC in December/January.

VELCO meets with ISO-NE senior staff

On May 18, VELCO staff met with ISO-NE staff to discuss a range of topics including summer reliability, the Sheffield Highgate Export Interface (SHEI), day-ahead forecast improvements, VELCO/ISO-NE forecasting pilot, Utopus Insights, the Massachusetts Clean Energy Initiative, and IMAPP.

The SHEI was a key focus of discussion. The limitations imposed by the SHEI and related regulatory protocols currently constrain renewable energy generation in Vermont's northern tier in a manner that financially hurts Vermonters. The group discussed potential solutions to remediate the constraint including a sub-transmission upgrade, installation of an automatic voltage regulator on a generator, or installation of a special protection scheme (SPS). ISO-NE indicated it would not support the SPS alternative. We also secured agreement on how best to share information critical to mitigating SHEI impacts with key stakeholders. The discussion led to an agreement that VELCO will seek to secure agreement for a special Vermont System Planning Committee meeting to which the New England Planning Advisory Committee would also be invited. This will allow for the broadest, most efficient means of information sharing regarding the SHEI constraint consistent with federal requirements to not provide any market participant an unfair advantage.

ISO-NE remains concerned about winter natural gas availability; however, they will wait and see how effectively the new pay-for-performance program replaces the previous winter fuel procurement program. They also intend to conduct a scenario analysis with a wide range of fuel options to assess the winter fuel shortage risk. For the last three winters, ISO-NE has implemented a winter fuel procurement program to pay oil and LNG generators to have fuel in their tanks. For the last two winters, with relatively mild conditions, this insurance wasn't really needed. Nevertheless, ISO-NE remains concerned that a sustained cold snap, when home heating is utilizing significant amounts of natural gas, will produce a significant fuel shortage. VELCO shares this concern.

ISO-NE described the ability to work with the Vermont Weather Analytics Center and now Utopus Insights team and tools as critical to their ability to better calculate, account and plan for the continued impacts of solar generation in the region. VELCO also learned that ISO-NE is making significant investments in PV data to better forecast residual demand.