PUBLIC VERSION - CONTAINS REDACTIONS

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Results of Thirteenth Forward Capacity Auction	**)**	**Docket No. ER19-1166-000**

MOTION TO INTERVENE OF THE ISO-NEW ENGLAND EXTERNAL MARKET MONITOR

Pursuant to Rules 212 and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("FERC" or "Commission"), 18 C.F.R. §§ 385.212 and 214 (2007), Potomac Economics respectfully moves to intervene in the above-captioned proceeding concerning the ISO-New England ("ISO-NE") filing of the results of the thirteenth Forward Capacity Auction ("FCA-13"). The ISO's filing also included information on the Internal Market Monitor's ("IMM") review and mitigation of offers and bids from new and existing capacity resources.

Potomac Economics is the External Market Monitor ("EMM") for ISO-NE. In that capacity, we review the mitigation performed by the IMM, and also evaluate the performance of and recommend design changes to the ISO-NE markets. Our comments cover the IMM's review and mitigation process for the Killingly Energy Center's ("KEC") Offer Floor Price for FCA-13.

I. NOTICE AND COMMUNICATIONS

All correspondence and communications in this matter should be addressed to:

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II. MOTION TO INTERVENE AND REQUEST FOR CONFIDENTIAL TREATMENT

As the EMM for ISO-NE, Potomac Economics is responsible for evaluating the quality and appropriateness of the mitigation by IMM. Potomac Economics has a unique insight into the IMM's review of New Resource Offer Floor Price that project sponsors submit as part of the qualification package. Potomac Economics is also responsible for monitoring and evaluating the performance of the ISO-NE markets, and recommending market design changes to improve the performance of the markets. Therefore, Potomac Economics' interests cannot be adequately represented by any other party. Accordingly, Potomac Economics respectfully requests that it be permitted to intervene in this proceeding with full rights as a party.

We discuss several elements of an individual New Resource Offer Floor Price submission, and the IMM's review and mitigation process. This information is commercially sensitive, and the ISO has filed similar information with Commission as confidential. Accordingly, we request confidential treatment of our comments pursuant to 18 C.F.R. § 388.112. We file a public, redacted version of our comments separately.

III. INTRODUCTION AND BACKGROUND

Killingly Energy Center ("KEC") is a proposed 632 MW combined cycle plant whose developer ("NTE") submitted a New Resource Offer Floor Price for the IMM's review prior to the FCA-13. The IMM reviewed the developer's submittal and issued a Qualification Determination Notice ("QDN") which communicated the results of its review and mitigation process, and the final Offer Floor Price. The resource subsequently obtained a Capacity Supply Obligation ("CSO") in FCA-13, which cleared at $3.80 per kW-month.

In accordance with its tariff, the IMM filed with the Commission its review and mitigation process for KEC's offer along with FCA-13 results. The Capacity Suppliers expressed concerns about the IMM's review, given that fact that KEC was able to obtain a CSO when the FCA clearing price was less than half the ORTP for combined cycle units.[1] The Commission, after the IMM and the Capacity Suppliers filed answers, issued a deficiency letter that requested additional information regarding KEC's Offer Floor Price and the IMM's review of it.

As the EMM for ISO-NE, we were involved in reviewing the mitigation performed by IMM for the new resources that submitted Offer Floor Prices. The IMM provided us with access to all FCA-13 new resource offers (including NTE's) that were submitted, and discussed its proposed mitigation actions and the issues we raised regarding the submittals.

We are submitting the following comments as we believe they would be helpful to the Commission as it considers NTE's submittal, and the IMM's and the Capacity Suppliers' answers. Our comments cover: (a) the objectives of the Minimum Offer Pricing Rule ("MOPR") and the incentives for project sponsors in submitting Offer Floor Prices to the IMM, and (b) the appropriateness of IMM's review and mitigation process of KEC's Offer Floor Price.

IV. KILLINGLY IS A MERCHANT ENTRANT

At the outset, it is important to understand that the objective of MOPR provisions is to prevent buyer-side market power by deterring suppliers from investing uneconomically to suppress capacity prices.

[1] See April 12, 2019 *Motion to Intervene and Protest of the Capacity Suppliers* filed in this docket.

A large capacity buyer or a state may have an incentive to suppress prices by artificially increasing the quantity of capacity procured in an FCA. The likelihood of a new resource clearing and securing a CSO in an FCA increases as its offer price decreases. Therefore, the sponsors of a new project that is affiliated with or subsidized by a state or large capacity buyer have an incentive to secure as low an Offer Floor Price as possible for their resource. Mitigation of offers from such resources to their competitive levels would prevent artificial suppression of capacity prices.[2]

In contrast, merchant projects that rely only on competitive market revenues are likely harmed by suppressing capacity prices. A purely merchant project may not want to move forward with the project if the FCA clearing price is below its expected cost of entry. Hence, the incentive to secure an Offer Floor below its expected cost of entry is likely non-existent for projects that do not receive subsidies. As part of its review, the IMM collects information from each project sponsor on whether its project is receiving or is planning to seek out-of-market revenues. [redacted] Accordingly, KEC could be deemed to be a merchant project.

To the extent that the offer from a merchant project such as KEC appears to be low, adjusting specific elements of the offer is not the primary objective of the MOPR provisions. A low Offer Floor Price submittal from a merchant project could be based on its own optimistic expectations of future conditions, and such projects should not be prohibited from taking on the market risk themselves. Subjecting purely merchant projects to MOPR provisions could act as a barrier to competitive private investment, and could have undesirable consequences for market

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2 A competitive offer would not include the potential effects of subsidies on the project's revenues, costs and discount rate.

(Continued…)

efficiency. Hence, as part of our annual reports, we have been recommending a "competitive entry exemption" to prevent the MOPR from interfering with private market-based investment.[3] Essentially, such a provision would exempt a new resource from the MOPR if it demonstrates that it is not receiving any direct subsidies or indirect subsidies via contract with a regulated entity.

Although these arguments do not nullify the requirements of the tariff to review such offers, we encourage the Commission to consider these incentives in reviewing the specific information provided by the ISO and in determining whether to accept the FCA-13 results.

V. IMM'S REVIEW OF KILLINGLY'S OFFER PRICE

NTE submitted an Offer Floor Price of [redacted] which was lower than the combined cycle ORTP of $8.19 per kW-month, causing KEC's offer to be subject to the IMM's review.

Section III.A.21.2.(b).(i) of the ISO's tariff provides detailed guidance to the IMM on treatment of out-of-market revenues. As noted in the previous section and in the IMM's answer, the Offer Floor Price submission from NTE does not include any out-of-market revenues. Accordingly, the IMM did not make any adjustments to NTE's submission for this reason.

The tariff also requires the IMM to review several project parameters (including "capital costs, discount rates, depreciation and tax treatment") that impact the project's offer. The tariff requires the IMM to adjust assumptions "that are clearly inconsistent with prevailing market conditions". The IMM, in compliance with other provisions of the tariff, reviewed the new generating capacity resource model workbook and the supporting documentation to determine if the inputs to the offer floor are "clearly inconsistent" with prevailing market conditions. As with the other projects, the IMM engaged in several rounds of communication with NTE [redacted]

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3 See our reports on *Assessment of the ISO New England Electricity Markets* for 2017 and 2018.

[redacted] The IMM also sought inputs from Concentric Energy Advisors ("CEA") and consulted with us as part of its review process.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted] We find the IMM's review and mitigation process for KEC's requested Offer Floor Price to be reasonable and compliant with the tariff.

[redacted]

Some commenters have expressed concerns about the reasonableness of the review given the significant difference between the default ORTP for combined cycle plants ($8.19 per kW-month) and the FCA clearing price ($3.80 per kW-month) at which Killingly received a CSO. [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted] We recommend the Commission find the IMM's determination of KEC's Offer Floor Price to be compliant with the tariff and accept the FCA-13 results.

VI. <u>CONCLUSION</u>

WHEREFORE, for the foregoing reasons, Potomac Economics, Ltd. respectfully requests the Commission to grant its motion to intervene in this proceeding, accept these comments, and find the IMM's determination for KEC's Offer Floor Price to be compliant with the tariff.

Respectfully submitted,

/s/ David B. Patton

David Patton
President
Potomac Economics, Ltd.

CERTIFICATE OF SERVICE

I hereby certify that I have this day e-served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 8th day of July, 2019 in Fairfax, VA.

/s/ David B. Patton