

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

Revision to Tariff Related)
to Competitive Auctions with)
Sponsored Policy Resources) Docket No. ER18-619-000

**COMMENTS OF ADVANCED ENERGY MANAGEMENT
ALLIANCE**

**REGARDING REVISION TO TARIFF RELATED TO COMPETITIVE AUCTIONS
WITH SPONSORED POLICY RESOURCES**

Pursuant to 18 C.F.R. § 375.315(b)(2), Advanced Energy Management Alliance (“AEMA”)¹ submits these comments regarding the Federal Energy Regulatory Commission (“Commission” or “FERC”) Docket No. ER18-619-000, § 205(d) Rate Filing: Rev. to Tariff Related to Competitive Auctions with Sponsored Policy Resources to be effective 3/9/2018, Applicant ISO New England, Inc.

AEMA is a trade association under Section 501(c)(6) of the Federal tax code whose members include national distributed energy resource companies and advanced energy management service and technology providers, including demand response (“DR”) providers, as well as some of the nation’s largest demand response and distributed energy resources. AEMA members support the beneficial incorporation of distributed energy resources (“DER” or “DERs”), including advanced energy management solutions into wholesale markets to achieve electricity cost savings for consumers, contribute to system reliability, and ensure balanced price

¹ Advanced Energy Management Alliance website: <http://aem-alliance.org>.

formation. This filing represents the collective consensus of AEMA as an organization, although it does not necessarily represent the individual positions of the full diversity of AEMA member companies.

I. Executive Summary

AEMA appreciates the opportunity to provide comments regarding ISO-New England's ("ISO-NE") proposed "Competitive Auctions with Sponsored Policy Resources" ("CASPR") tariff filing. We applaud ISO-NE for recognizing that the status quo in ISO-NE was no longer sustainable and for developing an innovative solution. AEMA supports the rights of states to control their own energy policy and to procure carbon-free resources that wholesale markets can integrate cost-effectively. However, it is imperative that such policies not distort competitive market outcomes, and that markets accommodate these policies in a competitive manner. The status quo in ISO-NE, where thousands of new megawatts ("MW") of renewable energy are expected to be developed in the upcoming years with only a 200 MW per year Renewable Technology Resource exemption, did not strike the right long-term balance. Throughout 2016 and 2017, ISO-NE and the New England Power Pool ("NEPOOL") members have been working together to identify potential solutions to integrate sponsored resources while maintaining competitive markets. From this discussion, ISO-NE has developed a made-in-New England proposal, CASPR, which balances the public policy goals of the states with competitive wholesale markets.

AEMA supports the CASPR proposal and provides these comments on how CASPR meets the objectives of the accommodate path, focused on the preservation of competitive capacity payments and the preservation of the demand response resource. The comments identify two

points for discussion: the review of eligibility of resources who can participate in the substitution auction going forward; and the amount of retiring MW in the region.

II. The “Accommodate” Path

AEMA has continued to support the “Accommodate” path that FERC outlined leading up to the Technical Conference in Docket No. AD17-11-000, on State Policies and Wholesale Markets in May 2017.² As identified in AEMA’s post technical conference comments on May 23, 2017³, an “Accommodate” path should seek to balance the following objectives:

- Ensure competitive market outcomes for unsubsidized resources, and minimize the ability for subsidized resources to distort market signals;
- Accommodate the gradual entry of subsidized carbon-free resources to participate in the market;
- Minimize total cost to consumers;
- Preserve the long-term viability of competitive wholesale markets; and
- Address all relevant forms of subsidies, but result in solutions that are not overly complicated to administer.

AEMA believes that ISO-NE’s CASPR can meet these objectives in a balanced manner. The proposal also balances the four principal design objectives that were developed through the “Integrating Markets and Public Policy” stakeholder consultation that was the predecessor to the CASPR proposal in New England:

² Technical Conference announcement and issue outline: <https://www.ferc.gov/CalendarFiles/20170523170542-AD17-11-000PostTC.pdf>

³ AEMA comments: <http://aem-alliance.org/advanced-energy-management-alliance-comments-ferc-post-technical-conference/>

- 1) Competitive capacity pricing;
- 2) Accommodation of the entry of new policy resources into the Forward Capacity Market (“FCM”) over time;
- 3) Avoidance of the cost shifts; and
- 4) A transparent, market-based approach.

Through the NEPOOL Market Committees process, the original CASPR proposal has evolved to further meet the objectives and a made-in ISO-NE proposal has emerged. The changes that were made to the original proposal based on discussion with the NEPOOL members produced a stronger proposal that continues to strike a balance of the competing objectives. Two key outcomes will be discussed in these comments: A) the preservation of competitively based capacity pricing; and B) the preservation of the demand response resource in ISO-NE.

A) Preservation of Competitively-based Capacity Pricing

Distributed Energy Resources, like any supply-side resource, depend on stable and predictable market signals to be developed. Competitive prices will be driven through the Forward Capacity Auction (“FCA”) and the most efficient outcome for the region will be delivered.

As noted in AEMA’s filing, the eastern capacity markets have successfully attracted large amounts of demand response. The availability of capacity payments has been a core driver for demand response participation. Due to the unique nature of the demand response resource, by placing a high value on a continuous supply of electricity and facing high marginal costs from electricity curtailments that generally exceed the energy price caps of the eastern markets, many customers receive limited revenue from the energy and ancillary services markets. Demand response customers depend heavily on competitive capacity markets.

The CASPR proposal maintains a competitive capacity market by having the sponsored resources compete for capacity supply obligations in the substitution auction. The proposal also achieves the objectives of states to avoid paying twice for capacity, as CASPR efficiently coordinates entry and exit of resources.

B) The Preservation of the Demand Response Resource

CASPR does not pose new barriers to the continued participation of demand response in ISO-NE. During the stakeholder process, the demand response community collaborated with the ISO staff and NEPOOL members to resolve design flaws in the initial proposal. The flaw was that all new unsubsidized/un-sponsored resources that received a capacity supply obligation in the primary auction would be automatically entered into the substitution auction. This would have created significant uncertainty for all developers, including generation and demand response. ISO-NE was able to address the concern that had prompted this particular design flaw and modify the design to eliminate the uncertainty. New resources that receive a capacity supply obligation will no longer be forced into the substitution auction. AEMA appreciates the ISO's willingness to be adaptive.

Points of Discussion:

1) Definition of Sponsored Policy Resource

In the original CASPR proposal, ISO-NE listed the other positive attributes that the substitution auction could achieve. This included feasibility, building the substitution auction upon the existing FCA design, the indirect carbon emission implications but also continuing the principle of 'technology neutral'. The substitution auction rules were originally proposed to be technology neutral, stating, "there are no limits to the resources that can participate as based on

technology types. No rules are envisioned, or necessary, governing which (current or possible future) technologies should be eligible to participate in the substitution auction.”⁴ While AEMA recognized that this definition was a concern as it was not limited to non-emitting resources, it kept the qualification simple. The original purpose of the effort was the integration of public policy and wholesale markets, and although carbon free resources was a key driver, it was not the sole driver.

The definition of sponsored policy resource in CASPR restricts eligibility to technologies that currently qualify under a state Renewable Portfolio Standard (“RPS”), Alternative Portfolio Standard (“APS”), or a Clean Energy Standard (“CES”). Although AEMA does not believe that the substitution auction should be used for new fossil-fuel resources, the substitution auction also should not discriminate against future technologies that are sponsored by states, in particular, energy storage. The Commission has recognized energy storage’s attributes as important to our future electric grid.⁵ While energy storage is not currently part of a state RPS, APS or CES, it could very well be in the future. The markets could therefore lose out on this tremendously valuable resource; in the near-term, the Minimum Offer Price Rule might result in energy storage not clearing in the primary auction, and the definition of sponsored policy resource could exclude storage from participating in the substitution auction.

By including a defined date in the definition of a supply resource in the substitution auction, non-emitting resources that are not included in a RPS, APS or CES (since the date is January 1st, 2018), the region has limited a potential resource that will assist states meet their emission goals and the system operator to meet its flexibility needs.

⁴ ISO-NE Competitive Auctions with Subsidized Policy Resources, Discussion Paper, April 2017, page 21. https://www.iso-ne.com/static-assets/documents/2017/04/caspr_discussion_paper_april_14_2017.pdf.

⁵ This was evident both in FERC Order 755 and in the NOPR on Energy Storage and DER, <https://www.ferc.gov/whats-new/comm-meet/2016/111716/E-1.pdf>.

AEMA recognizes that ISO-NE has indicated in the filing that it will work with stakeholders if state policies change, and new laws can be accommodated through CASPR. However, to provide necessary certainty to storage developers, a more formal solution is required. Therefore, we recommend that FERC approve as filed, but impose a compliance obligation for ISO-NE and stakeholders to review who is eligible to participate in the substitution auction on an annual/bi-annual basis. The compliance obligation should not interfere with CASPR being implemented in time for FCA 13. If for some reason FERC is not able to approve with the compliance obligation, they should still approve CASPR in time for FCA 13, and encourage through other means a regular review of technologies that qualify for the SA.

2) Substitution Auction Participation

AEMA notes that sufficient resource retirement is needed in order for sponsored resources to receive a Capacity Supply Obligation. Due to the aging nature of generation in ISO-NE, there should be resources willing to name the price at which they are willing to retire; however, CASPR will not work if there are insufficient retirements of existing generation. AEMA supports ISO-NE's commitment to work with stakeholders to refine or replace CASPR if it fails to accommodate sponsored resources and believes that this is an important element of ISO-NE's summary.

III. Conclusion

WHEREFORE, AEMA respectfully requests that the Commission accept the proposed revisions to ISO New England Transmission, Markets and Services Tariff to modify the Forward Capacity Market to better accommodate states' out-of-market procurements, specifically known as "Competitive Auctions with Sponsored Policy Resources". We appreciate the Commission's

consideration of these comments and remain poised to answer any comments or questions from the Commission regarding this filing.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Katherine Hamilton". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Katherine Hamilton
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