

Basic Proposition: Improve definition of capacity product by distinguishing between capacity resources and de-listed resources on the following basis (in addition to existing capacity resource requirements):

Service Obligation	Resources purchased as capacity	Resources not purchased as capacity
Energy bids capped at \$1000/mwh	YES.	NO. Allowed to bid to levels higher than capacity resources.
Energy revenue limited to \$1000/mwh	YES. Any hourly energy revenue proceeds above \$1000/mwh are credited to capacity buyer.	NO.
Restricted from restating bids prior to real time market if any MWh scheduled in the day ahead market	YES.	NO. May be reasonable to restrict bid restatement for MWh's scheduled in the day ahead market, but remaining MWh's could be restated prior to real time.
Subject to Mitigation	YES. Tighter criteria than for resources not sold as capacity.	YES, however the criteria would not be as tight as that applied to resources sold as capacity and would need to allow resource with the ability to recover capital costs through the energy market.
Restriction on Minimum Economic Generation level	YES. Resource could be restricted in its bid in order to provide operating reserves (this could be discontinued when a day ahead market for operating reserves is implemented).	NO.
Restriction on frequency of updates to Start-Up and No Load bids.	YES.	NO. However, for practical reasons a bid deadline would likely need to exist in advance of the Day Ahead commitment.
Any other restrictions on market participation for which generator not explicitly compensated in hourly markets.	YES.	NO.

Why?

The existing uniform application of those requirements on all New England generators, including generators not purchased as capacity, distorts market price signals and prevents a portion of generator value from being reflected in market prices.

Why should anyone care about these issues?

Merchant Generators rely on market prices to recover their costs, including capital costs. All of the above requirements, when applied as uniform requirements instead of purchased supplier obligations, prevent prices in the ISO-NE administered markets from reflecting the competitive value of the services rendered. In addition, some of these requirements impose risks and costs on merchant generators without the opportunity to recover those costs. Defining these services as obligations assumed upon the sale of capacity (currently UCAP) allows the UCAP market to reflect their value.

Loads rely on market signals to encourage investment in generation, transmission and demand response infrastructure in order to meet their reliability needs and provide stable prices. To the extent that the existing uniform application of these requirements as hardwired mitigations hinders capital recovery and introduces additional costs and risks of entry, investment will be discouraged and competitive entry will be delayed. This will increase the severity or duration of scarcity conditions and leads to higher prices for longer periods later.

ISO-NE relies on market signals to encourage investment in generation, transmission and demand response infrastructure in order to meet system reliability needs. While temporary solutions such as RMR Contracts have provided a unit specific revenue supplement where market signals have not been sufficient to encourage investment or sustain existing operations, the Commission's recent order suggests its tolerance for relying on temporary, unit-specific solutions has diminished.