UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

ISO New England Inc.	**)**	**Docket No. EL18-182-000**
	)	**Docket No. ER18-2364-001**
	)	

PROTEST OF NRG POWER MARKETING LLC

Pursuant to Rule 211 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (the "Commission"),[1] NRG Power Marketing LLC ("NRG") respectfully submits this protest to the ISO New England ("ISO") filing[2] responding to the Commission's July 2, 2018 Order.[3] In its filing, the ISO explains that it has purportedly addressed the Commission's concerns by establishing a fuel security reliability standard, a short-term cost-of-service mechanism and cost allocation for out-of-market compensation.

I. INTRODUCTION

NRG fully acknowledges that the ISO has determined that the loss of the firm fuel attributes of certain units at the Mystic Generating Station ("Mystic") pose an unacceptable threat to the reliability of the New England system. However, as attested to in the attached affidavit by market design expert Mr. Peter Fuller, the ISO proposal fails to address the problem appropriately ("Fuller Affidavit"). The ISO first sought a waiver, wherein it stated it would price the Mystic units in the upcoming capacity auction, Forward Capacity Auction ("FCA") 13, at zero. In response, the Commission instituted a Section 206 proceeding finding that its existing

---

[1] 18 C.F.R. § 385.211.

[2] *ISO New England Inc.*, Compliance Filing to Establish a Fuel Security Reliability Standard, Short-Term Cost-of-Service Mechanism, and Related Cost Allocation for Out-of-Market Compensation Docket Nos. EL18-182 and Docket No. ER18-2364 (filed August 31, 2018) ("ISO Filing").

[3] *Order Denying Waiver Request, Instituting Section 206, and Extending Deadlines, ISO New England Inc.*, 164 FERC ¶ 61,003 (2008) ("Order").

Tariff is no longer just and reasonable. Over these past 60 days, the ISO could have been working on an appropriate fix to the fuel security issues it has identified. Instead, the ISO has effectively run the clock down further until FCA 13 and submitting effectively the same proposal that was rejected as part of its Waiver filing,[4] even though the Commission ordered that the new proposal "include a mechanism that addresses how resources retained for fuel security (e.g., under cost-of-service agreements) would be treated in the FCM."[5] The Commission should reject the ISO's second attempt to suppress capacity prices by pricing the Mystic units at zero in the capacity market and direct the ISO to:

1. Fulfill the Commission's requirement to price the Mystic units into the FCA at its *competitive* bid price;

2. Provide all fuel-secure units non-discriminatory treatment in *every* future Forward Capacity Market; and

3. Focus on developing a long-term mechanism to procure and value fuel security to fairly compensate all resources that can provide such service in the energy or ancillary markets.

Without this type of immediate action, the Commission cannot ensure just, reasonable and non-discriminatory rates in the upcoming FCA 13, even if that means a short delay in the auction date.

II. BACKGROUND

On May 1, 2018, the ISO filed a petition for waiver of tariff provisions so that it could retain units for fuel security purposes.[6] Specifically, on March 23, 2018, Exelon submitted Retirement De-List Bids for the Mystic Units 7, 8, 9, and the "Mystic Jet," demonstrating its

[4] *ISO New England Inc.*, Docket No. ER18-1509 (May 1, 2018) ("Waiver Filing").

[5] Order at P 57.

[6] *See* Waiver Filing.

intention to retire the plant after its Capacity Supply Obligations ("CSO") expire on May 31, 2022. Mystic Units 8 and 9 have a winter rating of approximately 1,700 MW. Adjacent to the Mystic units is the Everett Marine Terminal ("Distrigas"). Distrigas is a liquefied natural gas import terminal and provides fuel for the Mystic Units 8 and 9.

The ISO asserts that it studied the retirements of each of the Mystic units and determined that the loss of Mystic 8 & 9 would pose fuel security risks to the New England grid, and potentially to the Eastern Interconnection as a whole.[7] The ISO has identified that the reliability need is expected to be most acute during the 2022/2023 winter period and the 2023/2024 winter period. Therefore, the ISO determined that Mystic 8 & 9 would be needed past their planned retirement dates. The Tariff however does not allow the ISO to retain units to address reliability risks related to fuel security, so it filed its waiver request.

In total, the ISO sought waiver of over ten separate provisions of its Forward Capacity Market ("FCM") rules, most dealing with the operation of the FCM, ensuring that the Mystic units continues to clear in the FCM as a price-taker, providing Mystic additional time to elect between retirement and receiving a full cost of service contract until *after* the Commission's ruling on the filing, and extending the term of the reliability contract from one to two years:[8]

On July 2, 2018, the Commission issued its order denying the ISO's waiver request, instituting a Section 206 proceeding and extending deadlines. The Commission explained that it was instituting a Section 206 because it finds that "ISO-NE's Tariff may be unjust and unreasonable, based on ISO-NE's demonstration in this proceeding that its Tariff fails to address specific regional fuel security concerns identified in the record that could result in reliability

[7] Waiver Filing at p. 3.

[8] Waiver Filing at p. 6.

violations as soon as year 2022."[9] Specifically, the Commission ordered the ISO to either:

> (1) to submit within 60 days of the date of this order interim Tariff revisions that provide for the filing of a short-term, cost-of-service agreement to address demonstrated fuel security concerns and to submit by July 1, 2019 permanent Tariff revisions reflecting improvements to its market design to better address regional fuel security concerns; or (2) within 60 days of the date of this order, to show cause as to why the Tariff remains just and reasonable in the short- and long-term such that one or both filings is not necessary.[10]

The Commission also recognized that there may be "material differences between retaining resources through cost-of-service agreements for local transmission needs and retaining resources through cost-of-service agreements for regional fuel security concerns."[11] The Commission explained that ISO New England should price resources retained for fuel security at a price above zero. The Commission made clear "[i]f ISO-NE proposes to revise its Tariff, its proposal should include a mechanism that addresses how resources retained for fuel security (e.g., under cost-of-service agreements) would be treated in the FCM."[12] On August 31, 2018 the ISO filed its proposal in response to the Commission's Section 206 Order.

The ISO dismisses the two approaches the Commission laid out in its Order for the ISO to consider, and instead continues to propose that resources retained for fuel security offer into FCAs 13 – 15 as price-takers, which will result in material price decreases in upcoming auctions (as measured against pricing these units into the market at their actual costs).[13] The ISO suggests that these provisions are "interim" in nature and will "only" be in effect for FCAs 13-

[9] Order at P 2.

[10] Order at P 55.

[11] Order at P 57.

[12] Order at P 57.

[13] ISO Filing at pg. 4.

15.[14] The proposal would sunset after FCA 15, and the ISO will file a longer-term solution by July 1, 2019, approximately five months after FCA 13 will be conducted with harmful price-taking bids should the ISO have its way.[15]

III. PROTEST

The ISO has failed to respond to the Commission's Section 206 Order with a just and reasonable proposal. *First*, it has ignored the Commission's order to include a mechanism that addresses, in a constructive way, how resources retained for fuel security would be treated in the FCM. Ignoring the pernicious pricing impacts of requiring the Mystic units to participate in the FCM as price takers is contrary to both the Commission's capacity market principles set forth in the CASPR order, as well as the Commission's directive that ISO New England's compliance filing "include a mechanism that addresses how resources retained for fuel security (e.g., under cost-of-service agreements) would be treated in the FCM."[16]

Second, the ISO New England proposal conflates two different services: fuel security and resource adequacy. The correct price for resource adequacy can only be set if resources retained for fuel security are required to reflect their actual costs of providing resource adequacy service to the market. Otherwise, units retained for fuel security will mask the true cost of ensuring resource adequacy in New England.

Third, the ISO New England proposal unduly discriminates against other fuel-secure units currently operating in the market. Treating some fuel secure resources more favorably than others providing the identical service is the *sine qua non* of undue discrimination.

[14] ISO Filing at pg. 2.

[15] ISO Filing at pg. 2.

[16] Order at P 57.

A. The ISO's Filing Ignores the Commission's Directive to Create a Mechanism that Prevents Resources Retained for Fuel Security from Suppressing Capacity Prices.

The ISO's filing is non-compliant with the Commission's order in this proceeding. The Commission made clear "[i]f ISO-NE proposes to revise its Tariff, its proposal should include a mechanism that addresses how resources retained for fuel security (e.g., under cost-of-service agreements) would be treated in the FCM."[17] The Commission even provided an example for what it was looking for from the ISO:

> For example, if a resource was retained for fuel security purposes, the IMM could submit a de-list bid on its behalf that reflects the IMM's estimate of that resource's net going-forward costs. If ISO-NE enters the resource into the FCM at a price that is above zero but still subject to IMM review, and the resource clears the FCA (i.e., it receives a capacity supply obligation), it would be treated as any other capacity resource with a capacity supply obligation while still receiving additional out-of-market revenues to make it whole per the terms of its cost-of-service contract. If the resource does not clear the FCA (i.e., it does not receive a capacity supply obligation), the resource would be compensated under a cost-of-service agreement and would also be subject to the performance and penalty risks pursuant to the terms of that agreement.[18]

Instead of heeding the Commission's guidance, the ISO clarified that, "[u]nder the ISO's proposal, any resource that is retained for fuel security will be entered into the FCA as a price taker."[19] The Commission already rejected this idea in the Waiver Order. Dr. Geissler even acknowledges that the Commission directed the ISO to consider two concepts regarding the treatment of resources retained for fuel security,[20] but then proceeds to dismiss the

[17] Order at P 57.

[18] Order at P 57 (citations omitted).

[19] ISO Filing, Geissler Testimony 16:20-21.

[20] ISO Filing, Geissler Testimony 5:10-12.

Commission's directives as improvident.[21] Dr. Geissler explains the purported flaws of the two concepts and instead tries to explain why the ISO's proposal to treat resources for fuel security as price-takers is the best method in considering the resource adequacy contribution of the resource.

Boiled down, the ISO's argument is apparently that, even though the Waiver Order directed the ISO to "price" resources retained for fuel security, zero is a price, and thus that its filing is compliant. The plain language of the Commission's order makes clear, that although it was not directing a specific pricing regime, that establishing a zero price for resources retained for fuel security is simply not compliant and should be summarily rejected.[22]

B. The ISO Has Not Shown that Its Proposal is Just and Reasonable.

Even if the Commission disagrees with its prior determination in the Waiver Order that "it may be reasonable for resources retained for fuel security purposes to be offered into the FCA at an offer price that is above zero, but still subject to mitigation by the IMM,"[23] and does not summarily reject the ISO's filing, the proposal is still bad economics and should be rejected as not just or reasonable. Dr. Geissler asserts that the ISO's proposal, unlike the two proposals explained in the Commission's Order, considers the resource adequacy contribution of the resource. Dr. Geissler's reasoning is flawed in several regards. Dr. Geissler (1) mis-defines the product, (2) incorrectly asserts that there will be no price suppression and (3) does not address the discriminatory nature of the proposal.

i. The ISO Must Distinguish Between Resource Adequacy and Fuel Security – Which are Two Different Services.

[21] ISO Filing, Geissler Testimony 5:12-18.

[22] Order at P 57.

[23] Order at P 57.

Dr. Geissler fails to properly identify the product that is being purchased by the FCM versus the product that is being purchased when a unit is retained for reliability. The FCA is designed to reveal the efficient marginal cost of providing resource adequacy to the region.[24] According to Mr. Fuller, a fatal flaw in the ISO's analysis is the "implicit assumption that the fuel security analysis supersedes and takes precedence over the established market construct and rules for resource adequacy."[25] "Instead, the ISO should allow the retirement bids and their associated prices to stand, and allow the auction to proceed accordingly. This will produce the correct marginal value for the resource adequacy product, whether the Mystic units receive a CSO in the auction or not."[26]

The economically correct approach is to do exactly what the Commission proposed in the Waiver Order: require that the Mystic units bid into the auction at their competitive bid prices just as all other financially motivated sellers do. If the units do receive a CSO, because the clearing price is above their retirement delist bid price, no additional steps are needed to protect fuel security. On the other hand, if the Mystic units' delist bid price is above the clearing price and they do not take on a CSO, the ISO at that point should enter into a separate agreement with the units, with appropriate obligations and compensation to ensure that the units will be available to the ISO during the winter months to protect the region's fuel security. In sum, the correct time to perform the fuel security review is *after* the auction, which will thus produce the accurate and efficient auction price for resource adequacy, and then allow the ISO to enter into appropriate agreements specifically for the fuel security service.[27]

---

[24] Fuller Affidavit at P 11.

[25] Fuller Affidavit at P 12.

[26] Fuller Affidavit at P 12.

[27] Fuller Affidavit at P 40.

ii. Concerns About Over-Procurement of New Gas Resources Do Not Justify Discriminatory Treatment.

Dr. Geissler expresses concern that there is a risk of over-procurement of capacity if fuel security units participate in FCA at their competitive prices. In particular, the ISO appears concerned about new entry from gas-fired only generation, which could theoretically exacerbate the region's dependence on natural gas. As Mr. Peter Fuller explains, the ISO overestimates the risk of over-procurement. Recent experience has shown that new capacity clearing is mostly composed of import capacity and often includes gas-fired resources with onsite backup fuel or other non-gas fired technologies. The last time new "traditional" generation cleared was in FCA 10, and they were all dual fuel capable.[28]

Moreover, any concern by the ISO that if Mystic is priced at its competitive price in the auction, then the auction clearing price will incent new gas-fired generation is entirely speculative. Increased prices will also make demand response, energy efficiency and other resources look more attractive. A new resource developer would rely on not just the clearing price, but the market dynamics. New resource developers are on notice that this market is going to price fuel-secure resources, and that those fuel-secure resources may get extra compensation. Therefore, any argument by the ISO that pricing Mystic at its going forward costs would create new build when it is not necessary is a red herring since new resource developers will consider the long-term market dynamics that may favor alternative resources.

iii. All Delist Bids Should be Reviewed for Fuel Security Impacts.

One of the most troubling aspects of the ISO's proposal is that it proposes to procure only some of the fuel-secure resources that the ISO's fuel security studies show are necessary to

[28] Fuller Affidavit at P 22.

maintain fuel security. Specifically, the ISO proposes to allow "necessary" fuel secure units to leave the market if they submit a delist bid, while providing out-of-market compensation to those submitting different types of bids. There is no economic basis for differentiating between "necessary" fuel secure units, solely dependent on how a unit signals its going-forward costs.

For example, the ISO proposal would permit a fuel-secure resource that is necessary to grid security, to de-list from the auction in any given auction without triggering any out-of-market actions. Under the existing proposal, only specific types of retirement bids trigger the fuel security provisions of the tariff – even though "[f]rom a reliability or fuel security perspective, the ISO has no more basis to rely on a unit delisted via permanent, static, dynamic or export than it has to rely on one delisted via retirement."[29]

If the Commission wishes to incorporate fuel security into the auction, then the appropriate market design is to review *all* delist bids for fuel security impacts, regardless of what type of bid the resource places. As Mr. Fuller explains, "[t]o properly protect reliability in the context of fuel security reviews, ISO-NE should review any delist bid for its fuel security impacts. Since any delist bid that clears in the FCA would have no obligation to participate in the Day-Ahead or Real-Time energy markets, the ISO should not assume that a delisted unit would be available. By failing to apply the fuel security analysis to all resources that are signaling their intent to forego capacity revenues *and the associated obligations*, the ISO is putting the region at risk of having insufficient fuel security resources."[30]

[29] Fuller Affidavit at P 30.

[30] Fuller Affidavit at P 27.

iv. The ISO's Proposal is Unduly Discriminatory.

In addition, the ISO's proposal should be rejected because it unduly discriminates between various fuel-secure resources. Fuel-secure units, other than the Mystic units, are not being treated comparably. The universe of units not reliant on natural gas includes approximately 5,000 MW of oil-fired resources, 2,000 MW of nuclear resources, and many distributed and demand response resources. The proposal to compensate the Mystic units for their fuel security attributes but deny that same level of compensation to other resources that provide similar secure fuel characteristics is the very definition of undue discrimination. Artificially suppressing capacity revenues will simply drive out the next tier of non-gas-fired capacity – largely the legacy oil fleet – which will tend to decrease system resilience and markedly exacerbate the region's fuel security challenges.

To its credit, the ISO has recently undertaken a comprehensive planning evaluation of the reliability of its system in the 2025 timeframe, known as the Operational Fuel-Security Analysis ("OFSA"). The OFSA report identifies severe breakdowns in reliability under a number of future scenarios, including an extended outage of pipeline capacity or a substantial decrease in the amount of oil-fired generation in the region. For example, one scenario assuming the

retirement of 5,400 MW of legacy[31] oil-fired generation in the region resulted in 599 hours of load shedding:

	INPUTS					TOTAL WINTER IMPACT					
	Retirements (MW)	LNG Cap (Bcf/Day)	Dual-Fuel (Oil Tank Fills)	Imports (MW)	Renewables (MW)	Days of LNG at ≥95% Assumed Cap	All OP 4 Hours	OP 4 Actions 6–11	Hrs. of 10-Min. Reserve Depletion	Hrs. of Load Shedding (OP 7)	Days with Load Shedding (OP 7)
NRG Reference All Oil Units In	-500	1	2	2,500	6,600	35	128	55	40	9	5
NRG Reference All Oil Units Out	-5,400	1	2	2,500	6,600	46	874	793	751	599	33

This comparison of the reliability of the system with and without the legacy oil fleet shows the tremendous reliance of the New England region on oil-fired generation.

Notably, NRG's 1,500 MW of legacy oil units have the ability to store more than sufficient oil to run at maximum output for 10 days, as well as the air permits to allow its use for extended periods in response to extreme weather or other reliability events. As the ISO recognizes in its Waiver filing, during the "Bomb Cyclone" of 2018, "oil- and coal-fired resources contributed a full one-third of all electricity generated in New England, while in the preceding year such resources had provided just two percent (yearly average) of New England's electricity."[32]

NRG has retired over 650 MW of oil, dual fuel, and coal fired generation since it entered the New England market in 1999. Many other generators with onsite fuel storage have followed suit, as the market continues to send the price signal for these resources to retire. To be clear: retirement of uneconomic power plants is part of a well-functioning market; but the ISO's

[31] The use of the term "legacy" oil units refers to the 5,400 MW of generation left in the region that are capable of burning oil as a primary fuel. These units are typically permitted to run for more hours and have substantially more storage than new natural gas units that utilize oil as a temporary backup fuel.

[32] Waiver Filing, Testimony of Peter Brandien, 13:17-20.

proposal to reward some firm-fuel units for their fuel-security attributes, while denying other similarly situated units comparable treatment is discriminatory. Such discriminatory treatment will simply drive more resources to retire and seek the same (overly) generous compensation being offered to the Mystic units, increasing costs to consumers and destroying the wholesale market.

v. The ISO's Proposed Fuel Security Analysis Methodology Makes Inappropriate Assumptions.

As part of its compliance filing with the Commission's 206 Order, the ISO has developed a new appendix to its Planning Procedure 10, "Planning Procedure to Support the Forward Capacity Market." While Planning Procedures are not filed with the Commission, the assumptions and methodology contained in the ISO's new proposed Appendix I describe how fuel security analyses will be conducted and thus have a direct bearing on the administration of the ISO's markets and the justness and reasonableness of outcomes in those markets.

Several key assumptions in the proposed Appendix I are particularly inappropriate, do not reflect realistic market conditions and operations, and could lead to incorrect conclusions regarding the fuel security contributions of some resources, reflecting a bias against oil-fueled generation.

First, the ISO proposes to assume that the fuel oil inventory of resources that are fueled exclusively with oil will be the same in the study period, four years into the future, as was reported by the resources in the most recent December fuel inventory survey. For example, if a resource reported in December of 2017 that it had ten days of fuel inventory, the ISO would assume, for purposes of the fuel security analysis that the resource had ten days of fuel inventory heading into the Winter 2022/2023 period. This assumption likely over-states the future availability of oil.

Second, the ISO proposes a simplified approach to 'economic' dispatch of generation in the future study period which then informs their proposed metrics of 'hours of depletion of 10-minute reserves' and 'hours of OP7 load shedding.' While the simplified approach is generally reasonable in an application like this, the ISO ignores actual and very predictable dynamics that routinely occur when the region experiences extended cold weather. Specifically, the ISO proposes a dispatch order, by technology and fuel type, that starts with assuming the dispatch of renewables, nuclear, coal and hydro resources, and then reads in relevant part:

> Next, the aggregate natural gas only resources are dispatched on pipeline gas in each hour, subject to the hourly availability of pipeline gas MWhs. If there is remaining pipeline gas, it is used by the gas-fired, dual-fueled, combined-cycle resources to serve remaining energy demands until the gas MWhs are exhausted.
>
> Next in the dispatch order are the natural-gas only resources that would be dispatched on pipeline-connected-LNG gas, subject to the hourly availability of pipeline-connected-LNG gas MWhs. If there is remaining pipeline-connected-LNG gas, it is used by the gas-fired, dual-fueled, combined-cycle resources to serve remaining energy demands until the pipeline-connected-LNG gas MWhs are exhausted.
>
> If more load still needs to be served, the dual-fueled combined cycle resources that have not been previously dispatched on pipeline or pipeline-connected-LNG are dispatched on distillate oil, subject to fuel in a specific generator's associated oil tank as determined in Section A below.
>
> **Next in the dispatch order are the distillate only generators not held for reserve and residual oil generators**, subject to fuel in a specific generator's oil tank determined in Section A below.
>
> Last, the dispatch of demand response resources will be applied to the unmet energy.

> Any remaining energy not served is then converted to MWhs of Operating Procedure – 4 Actions, Ten-Minute Reserve Depletion and Operating Procedure – 7 Load Shed.[33]
>
> [emphasis added]

Under normal market operations, it is reasonable to assume that oil-fueled resources, both the flexible units fueled with distillate oil and the larger, steam-based units fueled with residual oil are very late in the dispatch order. However, the ISO's fuel security analysis is specifically intended to evaluate the sufficiency of energy to serve the region's needs through periods of extended cold weather, which are decidedly not 'normal' market operations. Most notably, it is typical for residual oil resources to be called on in response to elevated natural gas prices that make the oil units more economical, and in response to reliability dispatch that seeks to position these fuel-secure resources to provide a stable source of energy in the event of constraints on gas pipeline deliveries.

The impact of the ISO's incorrect dispatch order is that residual oil resources, which have been a critical source of reliability during recent winters, will be under-valued for their fuel security contributions to the system, both when the ISO is evaluating other resources seeking to exit the capacity market, and more directly when one of the legacy oil units seeks to exit. By not accounting for the actual dispatch and fuel usage of these resources in the ISO simulations of other resources seeking to exit, it will appear, incorrectly, that a substantial inventory of oil is always in reserve in the region. In the case of a legacy oil unit seeking to exit the market, the ISO's approach could lead to the incorrect conclusion that natural gas and distillate oil for dual-fuel resources will always be sufficient to meet the region's energy needs.

[33] Proposed Appendix I to PP-10 as voted by the NEPOOL Reliability Committee, August 22, 2018, pages 3-4. https://www.iso-ne.com/static-assets/documents/2018/08/a2_1_iso_proposal_pp10_appendix_i_redline_rev1.docx.

The Commission should require the ISO to submit its proposed fuel security study methodology and assumptions and explain and defend the unrealistic assumptions being made about the role of residual oil units in supporting fuel security in the region.

C. The Commission Should Let the Markets Work.

The Commission has always expressed its strong support for competitive markets to accomplish reliability outcomes in the most cost-efficient manner. No one disputes that the correct economic outcome is to allow these units to retire. The Commission should not allow the ISO to negatively affect the capacity markets simply to postpone the correct outcome and simultaneously put other fuel diverse resources in jeopardy. While such actions may temporarily support one resource, they will have swift and long-standing consequences for the rest of the region's resources and the competitive market structures as a whole.

i. The ISO's Proposal Does Not Address the Energy Market Need.

The ISO seeks to shoehorn an *energy* market need (*i.e.*, the need for more fuel security) into its *capacity* market structure. As ISO New England describes its problem, the retirement of the Mystic units "presents unacceptable *fuel security* risks."[34] While the potential loss of the Mystic units could cause serious violations of energy market criteria (as simulated in ISO New England study cases), the capacity market can replace the retiring Mystic units with more economic capacity. Their potential retirement does not cause the capacity market to fail or prevent the capacity market from accurately determining the market value of capacity in New England.

As Mr. Fuller explains, "the solution to the New England region's fuel security concerns does not lie in the capacity market. The issue is not a shortage of *megawatts of capacity*. The

[34] Waiver Filing, at. p. 3 (emphasis added).

issue is a shortage, under some circumstances, of *megawatt-hours of energy* to continue to meet the regional demand in the face of extended cold weather… ."[35] The Commission should not allow the ISO to distort capacity prices and disrupt the capacity market, especially when what is needed is an energy or ancillary service market fix. If the Commission allows the ISO's proposal, it will be saving an uneconomic unit to the detriment of other units and the overall capacity market. The suppression of prices in the capacity market will force the retirement of other fuel-secure units, like oil units, as explained above, and have long-standing consequences for investors' confidence in the even-handed administration of the Commission-approved tariff.

ii. Fuel Security Resources do not Need to Participate in the Capacity Market.

As a practical matter, it is unnecessary to force fuel security resources into the capacity market. There are system resources that do not participate in the capacity market and only participate in the energy market. For instance, a new resource is subject to MOPR. If it does not clear in the capacity market, then it may only participate in the energy and ancillary services market for that capacity year. A parallel can be drawn to the Mystic units and the ISO's proposal. If there is an existing unit, and it does not take on a CSO in the capacity market, then it can still participate in the energy market. Any extra compensation that the ISO wishes to provide because it provides "fuel security" should be settled outside of the capacity market.

D. The ISO Should Instead Develop a Fuel Security Product.

The ISO assumes that retaining the Mystic units outside the capacity market is not an option because it would result in more capacity in the market than the Installed Reserve Margin ("IRM") would otherwise dictate. The inescapable consequence of this premise is that capacity

[35] Fuller Affidavit at P 43.

suppliers should internalize the costs of any emergency action taken by the ISO to preserve the fuel security needs of the New England region. The Commission has previously suggested that units retained for local reliability can be retained in the capacity market without unacceptably suppressing prices.[36] Fundamental to the Commission's reasoning is that there is no effective competition for meeting the local reliability need. By contrast, the fuel security constraint identified by the ISO here and in a series of analyses and winter operational experience going back at least 15 years, is a pool-wide energy constraint and *any* fuel-secure unit, *anywhere* in New England could meet the fuel security need currently being filled by Mystic. For example, if a New England state was to invest in battery storage of sufficient duration, or other fuel-secure investment, the reliability need for Mystic could be solved. Therefore, as the Mystic constraint is strictly seasonal, the entire capacity market should not be disrupted to fix an isolated issue.

The correct answer to a fuel security challenge is to develop a fuel security product or take other actions to meet the winter secure energy strip that ISO New England states that it needs. The ISO even stated that this was "an energy problem, not a capacity problem."[37] Mr. Robert Stoddard issued a whitepaper discussing the "Secure Energy Market" ("SEM") concept. The SEM is a competitive market solution designed to enhance reliability. The SEM is designed to be implemented as a separate service and not tied to existing energy or capacity market constructs. The SEM could thus be implemented as an "overlay" to the existing market. As noted in NRG's comments on the resilience filings,[38] NRG recommended that the Commission

[36] NRG disputes this view, since putting reliability units, which, by their very nature, are often the most expensive units on the system (otherwise they would not be retiring) at the very bottom of the supply stack is destructive to markets.

[37] Waiver Filing, Testimony of Peter T. Brandien at 10:15-16.

[38] *Comment of NRG Energy, Inc. on Resilience Filings*, Docket No. AD18-7 (May 9, 2018).

direct the ISO to implement a competitive forward fuel resilience market, like the SEM design proposed by Mr. Stoddard. Implementation of a SEM market design would address the region's fuel security needs in a fuel-neutral, competitive manner.

E. If Necessary, the Commission Should Delay the Auction.

If needed, the Commission should delay the FCA in order to allow for a principled solution to addressing the impacts of units retained for fuel security on FCA 13. PJM requested a waiver of its tariff provisions to delay its annual Base Residual Auction scheduled for May of 2019, due to challenges similar to what ISO is facing, namely, appropriate pricing in the capacity market of resources receiving substantial support from outside the market. As the Commission noted in that Order, the waiver is appropriate to ensure market participants are provided the certainty of the rules governing the 2019 BRA prior to the auction.[39]

Here, there is potential that a market fix can be delivered in time. The ISO has gone on record as suggesting that a market-based solution "outside of the Forward Capacity Market, such as through a shorter-term forward market" could be implemented as early as 2020.[40] In fact ISO has had a shorter-term, seasonal forward reserve market for over ten years for procurement of reserve products to meet 10-minute non-synchronous reserve and 30-minute operating reserve during on-peak hours whereby market participants submit offers in specific reserve zones twice annually prior to each seasonal capability period. Therefore, the Commission could order the ISO to go back to stakeholders and work on an alternative proposal that specifically solves the

[39] Order Granting Waiver, *PJM Interconnection, L.L.C.*, 164 FERC ¶ 61,153 at P 13; *see also PJM Interconnection, L.L.C.*, 151 FERC ¶ 61,067, at PP 25-28 (the Commission granted a similar request to extend the relevant BRA by approximately three months to accommodate Commission review and approval of PJM's Capacity Performance Filing.)

[40] Waiver Filing, pg. 24.

forward, seasonal fuel security issue while not distorting pricing in the capacity markets and perpetuating unnecessary out of market actions.

IV. CONCLUSION

For the aforementioned reasons, the NRG Companies respectfully request that the Commission deny ISO-NE's filing.

September 21, 2018

Respectfully submitted,

_/s/_____

Abraham Silverman
Jennifer Hsia
NRG Energy, Inc.
804 Carnegie Center
Princeton, NJ 08540

Attorneys for NRG Power Marketing LLC

Certificate Of Service

I hereby certify that I have served a copy of the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Princeton, New Jersey this 21st day of September, 2018.

/s/ *Maria DeLuca*