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ISO New England Files Fuel Security Proposal with the Federal Energy Regulatory Commission

On August 31, 2018, ISO New England, Inc. ("ISO-NE") the regional electric grid operator, filed with FERC its proposed fuel security mechanism for the next several years (through May 2025). Because New England has nearly eliminated coal plants and has vastly reduced power generation through oil, while relying ever more heavily on natural gas for power generation, the strains on the natural gas pipelines into the area have increased. Meanwhile, regional efforts to develop new or expanded natural gas pipelines to promote reliability and avoid price spikes for customers have been stalled and ultimately defeated by interest groups and a Massachusetts court ruling. This has created a risky and dangerous situation for winter electric reliability, when the natural gas pipelines are also being heavily used for winter heating. However, until recently, ISO-NE did not have a mechanism for ensuring that power plants necessary for reliability on the basis of fuel security remain in operation despite economic challenges.

These issues came to a head earlier this year, when Exelon, owner of the Mystic Generating Station in Massachusetts, threatened to retire 1,400 megawatts of needed gas-fired power plant capacity consisting of its Units 8 and 9 because of economic losses. The loss of these units would in turn threaten the continued existence of the large Distrigas liquefied natural gas ("LNG") terminal, also owned by Exelon, because the Mystic units are a key customer for Distrigas. ISO-NE quickly sought to craft a subsidy arrangement with Mystic and make a change to its governing rules (called "tariffs" in utility parlance) with the Federal Energy Regulatory Commission ("FERC") to prevent the reliability risks that would arise from the retirement of both the plants and the terminal. CT OCC intervened in the FERC proceeding to seek to protect the interests of Connecticut customers, including to make sure that Mystic does not receive excessive subsidies and to advocate for fair cost allocation.

In response, FERC ordered ISO-NE to (1) file tariff changes that would provide rules for considering individualized, "short-term" contracts (through May 2025) with Mystic or other generating stations claimed to be needed for reliability and fuel security that threaten retirement based on economic challenges; and (2) develop, in conjunction with stakeholders, a longer-term, market-based solution to the fuel security issues facing the region.

ISO-NE's August 31, 2018 filing seeks to accomplish the first of these two tasks. It establishes new parameters for determining whether a generating station that is seeking to retire is indeed needed for reasons of fuel security and should receive subsidies to remain in operation. ISO-NE updated its methods for performing this analysis based in part on stakeholder comments, including by taking into account availability of a variety of fuels for generation during peak times and new resources that are slated to come on-line, including renewable resources. In the stakeholder processes conducted at the New England Power Pool, of which OCC is a member, OCC voted in support of ISO-NE's updated approaches to this analysis.

Importantly, ISO-NE's August 31, 2018 also proposes that the units receiving subsidization for fuel security reasons should count as participating in the regional Forward Capacity Market. Some generator interests and others expressed concerns to ISO-NE and FERC that keeping these units, that would have preferred to retire, in the capacity market would dampen prices and forestall the development of replacement capacity. OCC and others meanwhile expressed concern about price spikes in the regional capacity market and the needless expense and damage to the overall market scheme of compensating both the subsidized units, which remain in existence, and their replacements at the same time. OCC is pleased to report that ISO-NE's proposal agrees that the correct theoretical approach would be to treat the units retained for fuel security as "price takers," similarly to other existing units. This proposal will continue to face opposition at FERC, however, primarily from owners of other power plants.

CT OCC will continue to participate in these important and complex stakeholder proceedings at NEPOOL and at FERC on behalf of the ratepayers of Connecticut.

Please visit [OCC's website](#).