



Forward Capacity Market Generating Development Interest

Forward Capacity Market Overview

ISO New England is working to implement the recently developed Forward Capacity Market (FCM), which provides economic incentives to attract investment in new and existing capacity resources in New England. These resources may include supply from power plants or decreased electricity use through Demand Resources.

Developed through industry and regulatory consensus, the FCM provides an auction structure through which capacity resources compete to obtain a market-priced capacity payment, in exchange for a commitment to be available in the years ahead to meet the region's electricity needs. Pending approval of the market rules by the Federal Energy Regulatory Commission, the first auction will be held in February 2008 for the capacity needed in 2010.

In order to participate in the competitive auction, capacity resources must first complete a Qualification process. Through this process, capacity resources must show support that they can meet their commitment to provide capacity. The first step for a new resource is to submit a Show of Interest Application (existing resources are automatically entered into the auction, unless they specifically opt out under certain conditions set forth in the rules).¹

From these applications, ISO staff will then evaluate the information and analyze the projects to determine if upgrades are needed to the power grid to support the proposed resources and if they could be completed by the commitment period. Later in the process, further intensive studies are conducted. For power plant proposals, the ISO would conduct studies to ensure that resources can connect to the power grid without negatively impacting reliability; for Demand-Resource proposals, the ISO would ensure that the applicant's plan for reducing electricity use and their methods for estimating how much electricity use will be decreased meet ISO's quality standards.

The ISO has received Show of Interest Applications for over 17,200 megawatts (MW) of power resources.

¹ The deadline for new generation resources to submit a Show of Interest Application was December 31, 2006. The deadline for New Demand Resources to submit a Show of Interest Application was February 28, 2007. Existing resources that wish to opt out of the auction must do so by April 30, 2007. By October 1, 2007, ISO will notify new resources if they are eligible to participate in the auction based on its studies, and then those resources can compete to be selected in the FCM auction.

Market Signals are Working: Considerable Number of Initial Applications Received for First Auction

Decreasing Electricity Use on the Power Grid: Demand Resources Seek to Compete in First Auction

As of the February 28, 2007, deadline, ISO New England received over 250 Show of Interest applications for new Demand-Resource capacity representing a total of 2,279 MW from resources such as energy efficiency, load management, and distributed generation. A diverse pool of applications was received from municipalities, government agencies, electric utilities, retail customers, and competitive energy suppliers. Approximately 80% of the new Demand-Resource capacity was proposed by non-utility, “merchant” providers such as energy service companies, equipment vendors, and competitive energy suppliers, many of which have limited access to government funding. Several of the merchant providers are planning to greatly expand their operations in New England.

In order to serve New England with this new Demand-Resource capacity, the interested providers still need to qualify to compete in the FCM auction, offer the needed amount of capacity, be priced at a level such that they will be selected in the auction, and actually perform as promised to fulfill their Capacity Supply Obligation. If Demand-Resources are selected in the auction, their contribution to meeting New England’s capacity needs will signal an important milestone for the wholesale electricity markets in New England and may serve as a model for the rest of the country.

Demand-Resource Applications (Zone and MW)		Demand-Resource Applications (Type and MW)	
Load Zone	MWs	Resource Types	MWs
CT	577	Real-Time Demand Response	685
ME	215		
NEMA	510	Real-Time Emergency Generation	536
NH	131		
RI	190	Critical Peak	460
SEMA	335		
VT	54	On Peak	440
WCMA	268	Seasonal Peak	159
Total	2,279	Total	2,279

See footnote² for Demand Resource Type definitions

² Real-Time Demand Response Resources – designed for measures that can be dispatched (e.g., load management or distributed generation) by the ISO as needed; Real-Time Emergency Generation Resources – designed for Distributed Generation measures whose state air quality permits limit their operation to limited “emergency” conditions; Critical Peak Demand Resources – designed for measures that can be “dispatched” by the Project Sponsor (e.g., load management or distributed generation) as needed; On-Peak Demand Resources – designed for non-weather sensitive measures that reduce demand across a fixed set of on-peak hours such as energy efficient commercial lighting; and Seasonal Peak Demand Resources – designed for weather sensitive measures that reduce load during high-demand conditions such as energy efficient air conditioning.

New Supply Options Submitted for Areas of Need

The deadline for new generation resource applications was December 31, 2006, and ISO New England received applications for over 15,000 MW of generation capacity through proposed supply-side resources. These applications represent resources from traditional generating resources, including renewables and imports.

One of the primary reasons for implementing a new capacity market in New England was to better indicate where in New England new resources were needed for reliability in order to encourage development in those locations. In recent years, ISO studies have indicated that resources are particularly needed in Connecticut and Massachusetts since they have pockets of high demand that cannot be solely met by local power resources. Well over half of the projects proposed in the Show of Interest applications are for resources in Connecticut and Massachusetts indicating that the market is designed properly. The market reaches across the region, however, as approximately 700 MWs of capacity are seeking consideration in the other New England states.

Applications from Supply Resources							
	CT	MA	VT	RI	NH	ME	Totals
MW	4,764	4,588	105	352	42	200	10,051
Imports							
	New York AC Ties	New Brunswick		Quebec Interface		Totals	
MW	2,366	912		2,040		5,318	