Winter Reliability Program Back on the Table in New England
Price formation quickly becoming the most important development.

Well That Didn’t Take Long
As expected, market participants, including ISO New England, have already filed a grievance with the Federal Energy Regulatory Commission over its Jan. 20 directive to establish a market-based reliability program before next winter. This is no surprise, since we saw a similar reaction last year around this time after FERC made a similar directive. We continue to believe that this program has helped place a soft cap on Algonquin gas prices and spark spreads in New England. This program is important to both reliability and keeping prices in check.

New England’s pay-for-performance capacity program will go into effect in 2018, but we think the system still faces interim challenges. The ISO-NE filing addresses the possibility for additional Reserve Constraint Penalty Factor increases. In December, ISO-NE increased RCPF from $500/MW for spinning reserves and to $1,500/MW from $850/MW for nonspinning reserves to encourage generators in constrained conditions. ISO-NE seeks a rehearing to establish whether further increases are needed as an incentive for generators’ performance in winter.

Getting this pricing is extremely difficult and important. In a perfect world, the ISO would allow generators to decide what price they would offer load in order to prevent rolling blackouts. But this would hail cries of generator market power. Therefore, the ISOs must administratively set the price load is willing to pay to prevent a loss-of-load event. So the question remains: What price are New Englanders willing to pay to prevent a loss-of-load event in a given hour? My guess is more than $1,500/MW.

ISO-NE is also holding discussions regarding the pricing of fast-start resources. Currently, fast-start resources set locational marginal prices only when ramping up (five to 10 minutes). Once the resources are dispatched at full output, the LMP algorithm is unable to allow these resources to set LMP, even if they are the most expensive unit on the system since they have no incremental megawatt offer on the system once up and running. ISO-NE plans on filing the resulting market rule changes in 2015 and expects implementation in 2016. PJM Interconnection has addressed this issue by manually relaxing economic minimums for fast-start resources under certain conditions, which allows them to set LMPs.

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