ISO New England Capacity Proposals to Force Consumers to Pay Twice for Capacity

New England consumers have this fall a golden opportunity to ensure renewable energy generation can fully participate in wholesale electricity markets run by grid operator ISO New England (ISO). Despite New England consumers’ paying for utility contracts with renewable generation that provides physical capacity, the ISO is proposing to block renewable resources like offshore wind from its capacity market. If these renewable resources are not counted, customers must buy an equivalent amount of capacity- largely from the 15,000 megawatts of natural-gas-fired power plants- that can participate in the capacity market.

Consumers must demand the ISO accurately determine the lowest competitive price these resources can offer into the capacity market, known as the Offer Review Trigger Price, which is an administratively determined minimum price new generation resources can offer into the Forward Capacity Auction. The Offer Review Trigger Price reflects the capacity market revenue each generation type needs for a new project to be commercially plausible based on forecasted project costs and non-capacity revenues from the ISO markets and other competitive sources like state Renewable Energy Certificates and the federal Investment Tax Credit.

Renewable technologies have experienced great cost declines over the past decade having reached the point that, if accurately calculated according to the ISO’s own Tariff, they will be highly competitive in the Forward Capacity Auction. In fact, the ISO has already ceased to mitigate land-based wind offers into the capacity auction by giving them a default minimum offer price of $0. However, offshore wind and solar, which are the most rapidly growing resources in New England, are in danger of being blocked by the ISO through its consultants’ use of flawed and unsupported assumptions.

The ISO’s estimates for offshore wind costs are the most egregious. The ISO’s consultants’ offshore wind capital cost input is almost DOUBLE the prevailing commercial expectations according to publicly available data from a wide range of professional sources, including one prepared for the State of New York. ISO incredibly assumes project developers that have signed long-term contracts will be taking a $1.5 billion loss per project.

Interesting, the ISO in October further revised its proposed Offer Review Trigger Price for battery energy storage from its initial high of $8.79/kW-month down to $3.64/kW-month. To put a $3.64/kW-month floor price for battery energy storage in perspective, that is below the Forward Capacity Auction clearing price in every auction, except the most recent one, going back to 2014 when the auction price floor was removed. Should prices rebound even slightly in the upcoming auction, energy storage projects with their high capacity value might be financed subsidy-free solely by locking-in the higher capacity price. RENEW appreciates that ISO and its consultants were open to new information from RENEW about battery energy storage costs that led to this important price adjustment.

It is striking then that the ISO’s consultants continue to insist on an offshore wind capital cost assumption that is incredibly similar to the expected cost of Cape Wind and the assumption used by ISO in its 2012 capital cost calculation for offshore wind. This is despite today’s set of offshore wind projects having 70 percent lower contract prices than the Cape Wind project from the previous decade. Business groups that once opposed Cape Wind on price grounds are singing the praises of today’s crop of low-cost offshore wind contracts.
RENEW is proposing that ISO adopt an Offer Review Trigger Price for offshore wind reflecting the prevailing market conditions, as shown in the figure, that are based on executed contracts for today’s New England offshore wind projects. RENEW worked with Daymark Energy Advisors which determined the weighted average capital cost of all recent New England offshore wind projects with publicly available Power Purchase Agreement pricing that could be supported by their locked in contract revenues plus assumed capacity market revenues is $3,108/kW or almost half of the ISO’s proposed $5,358/kW. The analysis for the State of New York (NYSERDA) represented in the above figure consisting of a detailed bottom-up estimate of project costs checked against real New York offshore wind contract prices validates Daymark’s determination of capital costs for New England offshore wind projects with its near identical cost figures ($3,155/kW).

If the Offer Review Trigger Price for offshore wind is not changed to the RENEW proposal from what ISO seeks, consumers will pay twice: once for renewable energy capacity through state policy contracts and then a second time due to exclusion of those resources in the Forward Capacity Market. The Offer Review Trigger Price recalculation underway now represents the only chance that the States and their consumers will have for several years under the current market structure to ensure renewable energy can fully participate in the capacity market.

Offer Review Trigger Price values are only recalculated from scratch every three years. The recalculation that will be voted on by the NEPOOL Markets Committee on November 9-10 would start with Forward Capacity Auction 16 which represents projects that are expected to reach commercial operation by
early 2025 and would be utilized, with minor adjustments, for the following two auctions for projects expected to reach commercial operation by early 2027. This matches the period during which thousands of megawatts of offshore wind are scheduled to come online.

To ensure consumers do not pay twice for capacity, consumers must demand of ISO New England that it stop trying to block offshore wind from the capacity market by using inaccurate cost information in the calculation of the Offer Review Trigger Price for offshore wind.

On November 9th and 10th, 2020, the NEPOOL Markets Committee will be discussing and voting on alternatives, including the RENEW Proposal. To see the proposal and learn more visit https://renewne.org/fair-market-for-renewables/.