UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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| ISO New England Inc. | Docket Nos. | EL18-182-000 |
| | | ER18-2364-000 |
| | | ER19-1428-000 |
| | | ER13-2266-004 |
| Constellation Mystic Power, LLC | | ER18-1639-000 |
| | | ER18-1639-002 |
| | | ER18-1639-003 |

# Comments of Neal A. Fitch, Senior Director, Regulatory Affairs, at NRG Energy, Inc.

Good afternoon. Thank you for this opportunity to discuss the views of NRG on this important market design matter. I am Neal Fitch, Senior Director, Regulatory Affairs for NRG. In this role, I am responsible for our interaction with the RTOs and ISOs in the East, including the company's interests in ISO-New England.

NRG is a leading integrated power company built on diverse generation assets and dynamic retail businesses. A Fortune 500 company, NRG supports consumers by producing, selling and delivering electricity and related products and services – including carbon free energy choices –in competitive markets across the U.S. and Canada. We have 23,000 MW of electric power generation including nuclear, coal, gas, oil and solar facilities. Our retail brands serve more than three million customers across nineteen states and provinces. In New England, we own nearly 1,500 MWs of fuel secure generation that have proven themselves instrumental in maintaining system reliability, particularly in times of high-demand.

My primary points today are as follows:

- First, energy security is at risk because the market does not recognize the value of such a product. This has led to market intervention, distorting market outcomes, and hides rather than reveals the value of energy security.

- Second, revenue neutral approaches provide no assurance that many of the most energy-secure resources in the region, such as NRG's, will invest in the desired product or remain in service.

- Third, the Energy Security Improvement proposal represents a mixed bag of the good--such as adding co-optimized reserve products to the Day Ahead market; the benign, such as the multi-day-ahead market; and the unfulfilled—the outstanding promise of a seasonal forward element that will actually address the energy security challenge.

Earlier today we heard an overview of the ISO's working proposal to resolve matters brought to the fore by the retirement of a single resource, one that both the ISO and stakeholders knew was a significant risk

factor to energy security even before the 2014 Polar Vortex. While I'll provide feedback on the proposal in a moment, I would like to step back to contemplate the bigger picture and what's at stake for NRG and other market participants.

First and foremost, the ISO's success in delivering value to New England consumers is the direct result of competition. Private capital has historically entered the market, as new investment and re-investment, because competitive markets create opportunities that put shareholder and investment dollars at risk in lieu of putting consumer dollars at risk. This reaps benefits for consumers by enhancing reliability at lower costs, and for the most competitive resources, provides the opportunity to achieve returns commensurate with their investment risks and the value they provide to the system.

But the success of competitive markets have been compromised by intervention in the form of out-of-market payments, without regard for the value competition has delivered to customers. Whether intervention has happened because a jurisdiction selected certain preferred assets or an announced resource retirement leads to an RMR contract, these externalities are putting competitive markets in New England at risk. Intervention may have saved an energy secure resource or two for the time being, but it did so at the cost of suppressing the value of energy security to the rest of the market. After years of taking step-upon-step to mute, mitigate, and suppress market prices, it's no wonder energy and fuel security matters have come to a head.

We are left with two choices – reflect the value of the service in the market or allow unencumbered market exit with the belief that economic incentives will produce efficient and reliable results. The latter is a choice nobody yet has been willing to make, so let's get on with the first choice.

In contemplating the appropriate market choice, it stands to reason that revenue neutral solutions to these problems won't get the job done. As we've noted in the ongoing Inventoried Energy Program proceeding, stakeholders are on notice from the ISO–NE IMM that potential revenue attributable to Inventoried Energy will be deducted from that same resource's capacity market delist bids. The net effect is that resources providing energy security in the years of this interim program may be no better off, and perhaps worse off, than with no short-term energy security program at all. How does such a design encourage market participants to take action in support of energy security? And do we want to mimic that approach for the long-term solution? The answers are: It won't and we don't.

Let's turn our attention to the ISO's Energy Security Improvements and NRG's perspective as we understand the proposal. We offer three primary takeaways:

First, the seasonal forward element is the single most important piece of the proposal. It is the aspect that will determine whether or not resources like NRG's, with the capability to procure, store, and replenish multiple days of energy on-site and run for extended periods will receive tangible incremental value from the new design to provide energy security services to the region. It is worth noting that once these 'at risk' legacy resources exit the market, there is no comparable replacement to reliably be available on stand-by to run for days on end during the extreme weather conditions that have tested the region in recent years.

NRG and others need to understand the structure of this forward element, and to gain confidence that it can support the maintenance and replenishment of energy inventories each year for all energy-secure

resources that require substantial capital at risk months in advance of operations. While the ISO noted this morning that additional information on this part of the ESI is coming in August, we reiterate our belief that this is the most critical component of the ISO set of proposals and should be given the highest priority.

With respect to its design, the program should look far enough into the future that market participants can take actionable steps. That might include oil purchases, contracting LNG cargoes, or other actions that would otherwise be unavailable in the middle of a winter cold snap. From NRG's experience in both oil and LNG markets, the sweet spot will likely be between four and six months in advance of operations. This should provide adequate notice for market participants—buyers, sellers, shippers and traders—to arrange for delivery or ready access to fuel stocks. Matching the timeframe of the investment decision is a principle we're all familiar with in ISO's Forward Capacity Market, where the decision is new entry. As much as near-term reserve products may support efficient operations, the investment decisions for the energy secure fleet in the region need to be made well in advance of the operating day and will not occur on the basis of highly uncertain and potentially volatile Day Ahead reserve and option market signals. In addition to the aspects noted above, we would anticipate such a framework to be fuel- and technology-neutral while establishing a fixed, performance-based payment for providers of the service. NRG has previously supported testimony along these lines.

Second, regarding the other aspects of ISO's Energy Security Improvements, the addition of a series of new voluntary reserve and option products to be co-optimized in the day ahead market makes sense. These should be implemented as a matter of good market design; other RTOs and ISOs have already taken similar steps. From NRG's perspective, these new products may help with overall day-ahead market and, ultimately, real-time efficiency but are unlikely to have the desired effect on energy security.

Third, the whole of these enhancements to value energy security are long overdue in New England and we shouldn't be made to wait years for implementation. The proposed schedule is tied to the departure of the Mystic units in 2024. If you'll pardon the cliché, this isn't the speed of business. While we won't minimize the amount of design work associated with this effort, implementation needs to begin well in advance of 2024 to bring efficiency to the Day Ahead markets, establish the seasonal forward energy security market, and, by reaping the benefits of the Energy Security Improvements, potentially enable a path to early elimination of market-distorting RMRs or avoidance of future RMRs.

In summary:

- New England's competitive markets are at risk. To achieve the energy secure future desired, it is urgent that the markets be enhanced to capture all of the needs and values of the system. We need the Commission's support to hold the ISO's feet to the fire and ensure that they fully address the market's failure to value energy security with a timely and just and reasonable solution.
- As NRG has noted in the Inventoried Energy Product proceeding and will reiterate for future market design, revenue neutral solutions are really no solution at all.
- ISO-NE must present a comprehensive seasonal forward market to complete the Energy Security Improvements in its October filing. One that provides a robust market signal that will incent and reward actions by resources, like ours, to incur the costs associated with bolstering fuel delivery

certainty or increasing onsite storage inventories, and to do so in a time frame where the desired action is achievable.

While stakeholder discussions are progressing, we remain concerned that the pace of play is not keeping up with the speed at which the October 15th finish line is approaching.

I'd like to thank the Commission, Staff, and NEPOOL organizers for the opportunity to speak today. Thank you.