

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

New England Power Pool Participants Committee     )  
ISO-New England Inc.                                     )  
   )

Docket No. ER24-1245-000

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**MOTION TO INTERVENE AND COMMENTS  
OF THE  
ISO NEW ENGLAND’S EXTERNAL MARKET MONITOR**

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Pursuant to Rules 212 and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission, 18 C.F.R. §§ 385.212 and 214 (2019), Potomac Economics respectfully moves to intervene in the above-captioned proceedings. ISO New England (“ISO-NE”) and the New England Power Pool (“NEPOOL”), together the “Filing Parties”, filed proposed tariff revisions to revise the Forward Reserve Market (“FRM”) Offer Cap. Potomac Economics is the External Market Monitor (“EMM”) for ISO-NE and is responsible for monitoring the electricity markets and evaluating potential rule changes that impact these markets. These comments explain our reasons for supporting the proposed changes.

**I. NOTICE AND COMMUNICATIONS**

All correspondence and communications in this matter should be addressed to:

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## II. COMMENTS

The Filing Parties propose to revise downward the FRM Offer Cap from \$9,000 per MW-month to \$7,100 per MW-month in time for the summer 2024 Forward Reserve Auction. The FRM Offer Cap is a mechanism that limits the potential impact of market power by ensuring the suppliers do not submit offers that exceed the upper range of expected supplier costs. We have raised concerns regarding the efficiency of FRM outcomes and long recommended eliminating the FRM entirely. These comments discuss our support for the proposal.

The IMM recently observed that the FRM is structurally non-competitive and raised concerns regarding suppliers' offers in the summer 2023 Forward Reserve Auction.<sup>1</sup> The FRM has had a general offer cap, but it has never had unit-specific or portfolio-specific market power mitigation measures, which increases the potential for anticompetitive conduct. In 2016, we observed that the FRM tended to be less competitive than the Real-Time Reserve Market. If we had not recommended eliminating the FRM entirely since 2016, we likely would have recommended portfolio-specific mitigation measures or other rule changes to ensure competitive outcomes.<sup>2</sup>

We strongly supported the ISO's recently-approved proposal to eliminate the FRM because it has major deficiencies that undermine market efficiency. First, forward reserve providers are obligated to offer energy at inefficiently high cost which leads to inefficient dispatch and clearing prices. Second, the Forward Reserve Market does little to ensure sufficient reserves are available to maintain reliability since the reserves procured may be dispatched for energy when load is high and prices are above their specified energy offer threshold.

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<sup>1</sup> See *ISO New England Internal Market Monitor, Spring 2023 Quarterly Markets Report*, dated August 1, 2023.

<sup>2</sup> See *2015 Assessment of the ISO New England Electricity Markets*, by Potomac Economics, External Market Monitor for ISO-NE, June 2016, pages 10-11.

Fortunately, the Forward Reserve Market will be eliminated when it implements Day-Ahead operating reserves markets in 2025.

Given that the FRM will remain in place for some time and that it is not structurally competitive, it is desirable to reduce the potential exercise of market power. The IMM and ISO have observed that the FRM offer cap of \$9,000 per MW-month was based on assumptions that have grown stale, and the Filing Parties have proposed updates to these assumptions. This update lowered the proposed FRM offer cap to \$7,100 per MW-month. We support this update and find that the lower resulting offer cap value is an unambiguous improvement that will improve the competitive performance of the FRM until it can be eliminated.

### **III. CONCLUSION**

As the EMM for ISO-NE, we support the Filing Parties proposal to revise the FRM Offer Cap based on updated assumptions. Therefore, we respectfully recommend that the Commission approve the proposal.

Respectfully submitted,

*/s/ David B. Patton*

David Patton  
President  
Potomac Economics, Ltd.

March 6, 2024

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day e-served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 6<sup>th</sup> day of March 2024 in Fairfax, VA.

*/s/ David B. Patton*

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