

FERC also denied rehearing, and complainants appealed to the D.C. Circuit court. The D.C. Circuit found that the Commission did not adequately explain why it allowed ISO-NE to forego an offer floor for its seven-year price lock period despite previously rejecting PJM's request to remove the offer floor for its three-year price lock period. Accordingly, the court remanded the Commission's orders for further explanation.

On August 24, six parties submitted initial briefs.² ISO New England adopted a neutral position on the need for a price-lock, citing the amount of new generation supply qualifying and clearing in the market in recent years when the price-lock was in effect, as well as significant changes in the market rules and associated incentives, as potential reasons that could support eliminating the price-lock mechanism. Two parties, the New England Power Generators Association ("NEPGA") and Potomac Economics, the External Market Monitor ("EMM") for ISO-NE, argued that the price-lock mechanism should be eliminated on the assertion that it is an unnecessary and market-distorting incentive for new entrants and that the associated zero-price rule creates inefficient price suppression. NRG Energy ("NRG") argued that the zero-price rule should be reviewed and either eliminated or modified to remove the price suppression effects, but that the overall construct of the seven-year price-lock is still an important part of assuring the finance ability of new generation. The Massachusetts Attorney General's Office ("MA AG") did not present a position on retaining or eliminating the price-lock but did describe the changed market circumstances (i.e., a capacity surplus) and the need to balance consumer cost interests with any efforts to counter-act price suppression.

² In addition to the six briefs on the substance of the proceeding, NEPOOL submitted comments requesting that if any changes are to be made to the market rules regarding the price-lock mechanism, the issues be referred to ISO-NE and the region's stakeholders to work out appropriate changes.

II. COMMENTS

ESA joins with RENEW in these reply comments to ensure that the interests of energy storage developers and operators, which represent a unique and particular set of interests within the clean energy sector, are appropriately represented in the record of this proceeding. Initial briefs have not acknowledged the unique role of energy storage in balancing supply and demand as the generation fleet transitions to more renewable energy sources, as well as the nascent nature of deployments of storage in RTO/ISO markets. This unique situation warrants specific consideration of these technologies in deciding what changes may be warranted in the existing price-lock mechanism.

RENEW and ESA request that, if the Commission directs any changes to the ISO-NE price-lock mechanism, that the Commission specifically direct that the ability to secure a guaranteed stream of capacity revenues for up to seven years remain intact for energy storage, which will rely more heavily on capacity revenues than on energy revenues, as well as wind, solar, and hydropower generation that will rely on a price-lock to add capacity via repowering.

The price-lock was originally instituted at the outset of the FCM design in 2006, and the term was extended to seven years at a time when the ISO-NE capacity market was facing shortages of supply and the project lending community was reluctant to finance projects in ISO-NE. The rationale at that time was that the revenue certainty was necessary to give lenders and investors confidence to invest in ISO-NE and bring forward new projects. Since then, with the 7-year price lock in place, the region has experienced significant levels of investment, both in traditional technologies, as renewable generation being built with the support of state-endorsed long-term contracts. To date, energy storage and hydropower has not had access to state-backed contracts, and although a significant number of energy storage projects have qualified to

participate in the ISO-NE markets, very few have cleared in the capacity auctions. A major factor prompting financing and deployment of these energy storage projects is the availability of the price-lock. There has been merchant investment in hydropower on the basis of the existing 7-year price lock. Elimination of the price-lock would further set back progress on energy storage and other merchant investment on renewable generation in the region.

In its initial brief, RENEW Northeast presented a careful analysis describing the financial structure of new solar and wind energy generation projects and why the ISO-NE markets are not well-aligned with the financial and cost recovery needs of these technologies.³ While, repowering generally requires lower capital investment than new projects; existing hydropower, wind, and solar could increase performance and project lifespans without state policy contracts, the sizable capital investment can be financed on the basis of the price lock in the capacity market. Furthermore, while energy storage consists primarily of upfront capital costs and has very low operating costs like wind and solar generation, storage differs from renewables in that it provides significant capacity value relative to its nameplate power rating. The financial structure and business models for energy storage therefore align more closely and rely more heavily on capacity market revenues, as opposed to energy market revenues. This characteristic of storage is also therefore a characteristic of integrated storage and renewable resource hybrids. The ability to access a multi-year price-lock for capacity revenues will be instrumental in financing energy storage projects and hybrid resources in ISO/RTO markets.

Notably, there is not a single reference in the FERC filings to any source from the *project finance industry* suggesting that the current ISO-NE price-lock is not essential to financing new entry. RENEW and ESA do not seek to address the arguments of various parties with respect to

³ *Initial Brief of RENEW Northeast, Inc.*, Docket No. EL20-54 (Aug 24, 2020).

whether the price lock continues to be needed as a financing support for traditional fossil resources. Rather, RENEW and ESA observe that nascent technologies face even greater challenges to secure financing on a purely merchant basis. Regardless of the conflicting opinions of other parties on the needs of traditional fossil generation, there is no comparable evidence that new technologies such as storage can be financed in the absence of some form of multi-year revenue certainty.

Indeed, newer technologies that rely heavily on capacity revenues, such as energy storage, do not have the benefit of a financial infrastructure that has deep experience with the technology or the business models. Energy storage that has been developed to date is typically supported by a long-term contract with an off-taker, often a regulated utility, or was developed in response to specific favorable market circumstances—such as fast-responding ancillary service market products—that are not available in ISO-NE or most other markets.⁴

The price-lock mechanism is a valid and reasonable policy tool to support the deployment of newer technologies and repowering of existing renewable energy technologies that contribute to resource adequacy, public policy and drive greater competition. Merchant investment in energy storage and repowering of legacy hydropower will be critically important over the coming decades to enable and facilitate the penetration of ever-greater amounts of wind and solar generation on the system. That investment will be hampered in particular if energy storage is not recognized as a unique grid and market asset – with many of the capacity characteristics of traditional fossil resources but with a very limited track record of familiarity in the financial community. In addition, energy storage and existing hydropower rarely have access

⁴ Most energy storage deployed for organized wholesale electric market service has been in fast-responding frequency regulation service. Necessary ACE control signals and market designs for that service have only been available in PJM and in ERCOT to date.

to the forms of valuation available to wind and solar, namely Class I renewable energy certificates (“RECs”) and long-term contracts for energy and/or RECs. There is not an empirical argument as to why the current price-lock, which was broadly supported in ISO-NE as necessary for this particular market, is no longer required in today’s project finance market.

RENEW and ESA respectfully requests that the Commission make the 7-year price lock option continue to be available for newer technologies that will rely heavily on capacity market revenues, such as energy storage, including pumped hydro storage, as well as repowered hydropower, wind, and solar resources. Doing so will ensure that such technologies may compete to provide capacity value on the same basis as incumbents that were built very recently under such arrangements. Alternatively, if the Commission is inclined to limit the availability of the price-lock, RENEW and ESA respectfully request that the Commission consider either a schedule for phasing out the price-lock over a number of years or shortening the duration of the price-lock to something less than seven years rather than seek its full elimination, which can serve as an effective compromise between the positions presented in this docket to date.

III. CONCLUSION

RENEW and ESA thank the Commission for consideration of these comments. While the proceedings in the instant docket are expansive in their scope of inquiry, we respectfully request that the Commission maintain a conservative stance on making changes to ISO-NE FCM’s price-lock in the absence of significant evidence that it is not producing just and reasonable rates. Newer resources whose value is likely to derive from Capacity market service, such as energy storage, and repowered renewable energy resources still merit a price-lock in ISO-NE’s FCM. Solving the issues identified by parties associated with the zero-price rule would most appropriately be addressed with minimal changes to present market design.

Respectfully submitted,

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I, Anne O'Hanlon, hereby certify that the foregoing Reply Brief was served via electronic mail to the service list in the above-referenced docket.

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