LETTERS TO DAYBREAK

<u>2/7/20, from Don Kreis</u>

Re: Forward Capacity Market

I know you are usually on pretty solid ground when it comes to trusting what David Brooks at the *Monitor* has to say about energy matters, but in this case he got it wrong (and you, understandably, repeated his error). He was referring to the result of the just-completed annual FCM auction at ISO New England. FCM stands for "forward capacity market." The "forward" in this context refers to the fact that the auction is held three years in advance, in order to give builders of new capacity time to do the actual construction. "Capacity" is basically just a promise to be available to generate power if needed – it is not the electricity itself and thus when the ISO sets capacity prices three years in advance it is not predicting the future price of energy. It is SETTING the future price of CAPACITY, which consumers will pay in addition to the price of the actual electricity.

Why the heck do we do this, you ask? It's a good question – there is, for example, no capacity market (and no capacity purchase requirement) in Texas. Capacity markets are supposedly necessary in places like New England that place a cap on energy prices. The cap protects energy consumers by not subjecting them to the huge prices that would prevail in times of scarcity (e.g., $10,000 per megawatt-hour, compared to the price of $46.62 that happens to be applicable as I am writing to you). Here in New England our hourly price is essentially capped at $2,500, and the generation owners use the phrase "missing money" to describe the difference between $2,500 and $10,000 (or whatever some ultra-high price approaching infinity looks like to you). The capacity market is intended to provide the missing money and with it reasonable inducements for investors to give the region the capacity it needs to keep the lights on.

As New Hampshire's ratepayer advocate I have a hard time telling the difference between "missing money" and "free money." The capacity market has never worked effectively, it resembles a Rube Goldberg machine, and its rules are jiggered to prop up legacy generators of the fossil and nuclear variety while discouraging renewable generation. Let's get rid of it!

Sincerely,
Don Kreis

In response to:

Meanwhile, power companies themselves are betting New England electric prices will come down. *On his Granite Geek blog, David Brooks notes that the recently concluded Forward Capacity Auction, in which firms predict the cost of making power in 2023, wound up with a predicted price of $2 per kilowatt-month. Three years ago, the figure set by power plants was $5.30.*