



## **FERC Paves the Way for Higher Capacity Prices in Advance of the Upcoming ISO-NE Capacity Market Auction**

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FERC's January 24 orders are the result of two proceedings initiated last fall. On October 31, 2013, the New England Power Generators Association (NEPGA) filed a complaint against ISO-NE alleging that certain provisions of the ISO-NE Tariff relevant to the Forward Capacity Market were unjust, unreasonable, and unduly discriminatory. NEPGA's October 31 complaint warned that recent market dynamics in ISO-NE gave rise to a high risk that ISO-NE's upcoming Forward Capacity Auction (called "FCA 8") would not attract sufficient capacity resources. Specifically, NEPGA argued that low clearing prices last year combined with the recent announcement of more than 3,000 MW of generation resources would lead to a capacity shortfall in the 2017/18 delivery year absent additional financial incentives. To encourage participation from both new and existing resources, NEPGA urged FERC to increase the administrative price for FCA 8 in instances of inadequate supply or insufficient competition from \$3.47/kW-month to \$11.00/kW-month, a level that NEPGA argued was consistent with recent assessments of the cost of new entry in the region.

On November 25, 2013, ISO-NE filed its own proposal with FERC, agreeing that the current administrative pricing provisions would be insufficient to attract sufficient capacity resources. ISO-NE stopped short of endorsing NEPGA's proposed price increase, however, asking FERC instead to double (not triple) the administrative price for FCA 8 in instances of inadequate supply or insufficient competition, to \$7.025/kW-month. ISO-NE's proposal drew criticism from all sides, with generators arguing that the proposed price was too low to encourage participation in the upcoming auction, and state and municipal parties and retail supplier and consumer interests arguing that the proposed rate was too high and would lead to rate shock.

On January 24, 2014, FERC sided with ISO-NE, accepting the grid operator's proposed administrative price of \$7.025/kW-month. In addition, FERC made the revised administrative pricing provisions effective as of January 24 so that they will be in place when the upcoming capacity auction for the 2017/18 delivery year, FCA 8, is held next week on February 3. In doing so, FERC indicated its belief that the middle ground proposed by ISO-NE reflected an appropriate balance between the existing price advocated by state, retail supplier, and consumer interests and the higher price advocated by NEPGA in its complaint against ISO-NE. On this point, Commissioner Clark dissented, concluding that NEPGA had demonstrated that its proposed administrative price of \$11.00/kW-month was correct because, in auctions when new entry is needed, the administrative price "should reflect a reasonable estimate of the cost of new entry."

While FERC accepted ISO-NE's administrative price hike for the upcoming capacity auction, the agency concluded that there are larger issues with the region's market design that will require further adjustments. In conjunction with its administrative pricing proposal, ISO-NE took the position that a downward sloping demand curve would eliminate the need for future administrative pricing rules and expressed its intent to file a downward sloping demand curve in the summer of 2014. In response, FERC directed ISO-NE to file its revised market design proposal no later than April 1, 2014, in order to ensure that the market reforms needed are implemented before the February 2015 capacity market auction.

Thus, while Friday's orders resolve an important pricing issue in time for next week's capacity market auction, a broader debate over the design of ISO-NE's capacity market and the appropriate balancing of interests is certain to continue through the end of 2014.

Copies of FERC's January 24 orders on ISO-NE's proposed administrative price increase and the NEPGA complaint are available [here](#) and [here](#), respectively.

## Categories

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