



Day-Ahead Ancillary Services

Observations on changes to ISO-NE's Day-Ahead Market

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ISO-NE's Day-Ahead Ancillary Services market went live on March 1, 2025

- The co-optimized energy and A/S market brings operating reserve and load forecast requirements into DAM clearing
 - Benefits: information, compensation, incentives, price signals
 - New DA A/S products settle as call options on RT energy

Reliability need	New DA constraints	New DA products
Operating reserve	Flexible Response Services (FRS)	DA TMSR, DA TMNSR, DA TMOR
Load forecast	Forecast Energy Requirement (FER)	Energy Imbalance Reserve (EIR)

Designing and implementing the new DA A/S market took over three years

- Internal market design work began in early 2022
 - ISO-NE was able to leverage previous work on a market design that was not implemented, or this stage would have taken longer
- Monthly stakeholder meetings began in October 2022 and ended July 2023
 - Tariff changes were filed with FERC on October 31, 2023, and accepted on January 30, 2024
- ISO-NE IT departments and market software vendor (GE) worked for 13 months to meet the Mar 1, 2025 go-live

DA A/S market has satisfied design objectives, but costs have been higher than expected

- DA A/S market has competitively procured and priced the capability necessary to meet operating reserve requirements and the load forecast
- The NE system operated reliably through extreme weather and load conditions in the last 12 months
 - Internal Market Monitor (IMM) analysis shows that commitments of long-lead-time generators during periods of stressed system conditions are greater under DA A/S than prior energy-only DAM
 - Other benefits, like improved incentives for input energy procurement, are harder to quantify

DA A/S market has satisfied design objectives, but costs have been higher than expected (cont'd)

- The IMM estimates that from March 2025 – January 2026, incremental DA A/S costs totaled \$921 million (9% of total wholesale E & A/S cost)
- Higher fuel prices, changes in the resource mix, and higher loads have contributed to the observed DA A/S cost
- The IMM recently recommended targeted changes to the DA A/S market that address market participation and DA A/S offer prices and demand quantities
 - Recommended changes: Upward adjustment to Strike Price, downward adjustment of FRS and FER demand quantities

Other observations on lessons learned

- In between filing (Oct 2023) and go-live (Mar 2025), more ISO outreach and education may have been beneficial
- ISO had considered 'dry-runs' of the new DA A/S design where participants submit DA A/S offer data to the ISO, but decided against it