

Comments on the Resource Adequacy Availability Incentive Mechanism Modification White Paper

Department of Market Monitoring
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The California ISO Department of Market Monitoring (DMM) appreciates the opportunity to comment on the ISO's Resource Adequacy Availability Incentive Mechanism (RAAIM) Modification White Paper (White Paper).¹

The RAAIM modification proposed by the ISO is intended to fix issues with the current RAAIM design. Under the current design, a market participant can significantly and disproportionately reduce its RAAIM penalties for non-performance of system RA obligations by showing a small amount of flexible RA capacity.

The ISO's White Paper explains a flaw in the market design defined in the ISO tariff. DMM notes that participants in the California ISO markets are expected to comply with the ISO Tariff as well as federal regulations, including *18 C.F.R. § 1c.2 Prohibition on Electric Energy Market Manipulation* and *18 C.F.R. § 35.41 Market Behavior Rules*. Actions not expressly prohibited in the ISO Tariff are still subject to federal regulations. For example, submitting a flexible RA showing with the intent to reduce RAAIM penalties related to the performance on other RA contract types could be referred for investigation to the FERC Office of Enforcement.

The ISO should fix the market design flaw as soon as it can develop an adequate policy to replace it. Monitoring and referrals to FERC should not be relied upon to address market design flaws that can be exploited by market participants. Flexible RA showings that are not intended to reduce RAAIM penalties can reduce penalties. This difficulty makes monitoring less effective and could place unnecessary concerns on participants showing flexible RA for legitimate business reasons.

As noted in DMM's 2014 comments, DMM continues to believe each RA product should have its own RAAIM penalty price.² The current RAAIM policy has one penalty price for all products, not one price for each product. The most significant issue described in the White Paper – that small RA showings can significantly and disproportionately reduce RAAIM penalties – is a result of using a single price for two very differently defined RA products. While the ISO can alter the RAAIM penalty calculations to reduce how disproportionate particular effects are, using a single

¹ *Resource Adequacy Availability Incentive Mechanism Modification White Paper*, August 31, 2017: <http://www.caiso.com/Documents/WhitePaper-RAAIMCalculationModifications.pdf>.

² Department of Market Monitoring, *Comments on the Straw Proposal for Reliability Services*, July 28, 2014: <http://www.caiso.com/Documents/DMMComments-ReliabilityServices-StrawProposal.pdf>.

price for multiple products will always require some arbitrary assumptions and result in some logical inconsistencies.

DMM cannot provide specific comments on the ISO's proposed RAIM modifications as they are now written. This is because the ISO does not provide a formulation of the proposed new RAIM penalty calculations in the White Paper. Stakeholders are left to back out the formulation from examples in the White Paper and an accompanying excel spreadsheet.³ We agree with CDWR⁴ and PG&E⁵ that the ISO should provide explicit formulas for the proposed RAIM calculations and with the Six Cities that "the sample calculations are complex, and stakeholders have not had a great deal of time to study the details of the calculations."⁶

Part of the problem with the original RAIM process was that the ISO did not write out a formulation at that time and only gave stakeholders an excel spreadsheet. The problems with the current RAIM formulas were not readily apparent when looking at that spreadsheet. The ISO should put the proposed RAIM modifications formulation in its proposal to avoid repeating the issues that occurred after the original RAIM policy process. A written formulation is necessary for stakeholders, including DMM, to understand the proposal and provide comments.

³ It is not clear that the examples in the White paper and spreadsheet use the same formulation. For example, the White Paper examples use calculations that divide some hours by other hours. But the spreadsheet does not perform such a calculation. It may or may not be that both methods get the same results, but there is no way to tell without knowing what each formulation is.

⁴ *CDWR Comments – RAIM Calculation Modification White Paper:*

<http://www.caiso.com/Documents/CDWRComments-RAAIMCalculationModifications-WhitePaper.pdf>

⁵ *Comments of Pacific Gas & Electric Company Resource Adequacy Availability Incentive Mechanism Modification – White Paper:* <http://www.caiso.com/Documents/PG-EComments-RAAIMCalculationModifications-WhitePaper.pdf>

⁶ *Comments of the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California on CAISO's Resource Adequacy Availability Incentive Mechanism Modification White Paper:*

<http://www.caiso.com/Documents/SixCitiesComments-RAAIMCalculationModifications-WhitePaper.pdf>