



Memorandum

To: ISO Board of Governors

From: Dede Subakti, Vice President, System Operations

Date: March 9, 2022

Re: **Decision on authorization for settlement recalculations**

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management requests that the Board authorize the recalculation of market settlements to enable the ISO to distribute incentive payments collected under the resource adequacy availability incentive mechanism (RAAIM) to the parties that would have received those payments had the ISO published thirty-six-month settlement statements for the August 2018 and September 2018 monthly settlement statements.

Board approval is required for the proposed adjustments because they affect trading days that are over three years old. In this situation, the tariff allows further recalculations of the settlements only with the approval of either the Board or FERC. Management believes there is good cause to direct these recalculations. Absent the Board directing these recalculations, the affected market participants, through no fault of their own, would not receive funds the ISO tariff otherwise would dictate they receive. This situation is similar to prior instances when the Board authorized recalculations beyond the three-year settlement cycle in effect for these trading days. Finally, these recalculations would be in the best interest of the market because it would reinforce the policies underlying the RAAIM tariff provisions.

Management recommends the following motion:

Moved, that the ISO Board of Governors directs Management to perform unscheduled directed recalculation settlement statements as necessary and appropriate to distribute the pool of funds described in the memorandum dated March 9, 2022.

DISCUSSION AND ANALYSIS

The Board May Authorize “Unscheduled” Settlement Recalculations

For trading days before January 1, 2021, the tariff specifies that, for each trading day, initial settlement statements will be issued three business days later based on estimated data. Each initial settlement statement is followed by a series of recalculations that reflect the incremental results of additional data that has become available. The tariff sets a schedule for these recalculations, beginning at 12 business days after the trading day, then 55 business days, 9 months, 18 months, 33 months, and 36 months. The result of issuing multiple recalculation settlement statements is that, on every business day, a scheduling coordinator receives multiple settlement statements that correspond to several previous trading days.

The ISO adopted this approach to adjusting settlements in 2009 as part of an effort to foster finality. In its transmittal letter to FERC, the ISO explained that it wanted to finalize most settlements after 36 months. The ISO also explained, however, that further unscheduled settlement recalculations would be allowed, with the approval of the ISO Board of Governors or FERC, because the ISO could not foresee every possible circumstance under which a recalculation could be necessary.

Starting with the January 1, 2021, trading day, the ISO adopted a further accelerated settlements timeline concluding at 24 months instead of 36. The basic mechanics, including the opportunity for the ISO Board of Governors or FERC to direct unscheduled settlement recalculations, have remained the same.

In executive session, the Board previously has approved “off-cycle” settlement recalculations to resolve specific settlement disputes that, for various reasons, the ISO and the market participants could not resolve within the 36-month settlements timeline.

There is Good Cause to Direct these Recalculations

Management believes there is good cause to direct settlement recalculations because the affected market participants would not receive funds the ISO tariff otherwise would dictate they receive. These market participants also did not have access to the information to raise the issue on their own and pursue resolution through the settlements dispute process.

Through RAIM, the ISO assesses non-availability charges and provides availability incentive payments to both generic and flexible resource adequacy (RA) resources based on whether their performance falls below or above defined performance thresholds. If a resource falls below 94.5 percent of its must offer obligation, the ISO assesses a non-availability charge for the month. If the resource’s availability exceeds 98.5 percent of its

must-offer obligation, it is eligible for an availability incentive payment for the month. If the resource falls between 94.5-98.5 percent, it does not receive a charge or payment.

RAAIM is self-funding; the ISO only pays out availability incentive payments to the extent it has collected non-availability charges. In each month the ISO pays out the charges it collects to the high-performing resources pro-rata based on the RA capacity provided. To avoid windfall payments, the ISO tariff limits the incentive payment any individual resource can receive to three times the non-availability charge. Without this limitation, in a month with one high-performing resource and many low-performing resources, the single high-performing resource would receive an excessive incentive payment for doing what it already was contracted to do. Any excess funds that remain because of this windfall provision or because there are no high-performing resources in a month roll over to the next month to fund potential incentive payments. The funds roll over until the end of the year, at which point any remaining funds are allocated pro-rata to load-serving entities. In administering this process, the ISO assesses RAAIM and maintains separate rollover accounts for generic RA and flexible RA.

Through a market notice issued on November 12, 2021, the ISO informed its market participants it was about to distribute the unallocated flexible RA RAAIM funds from 2018 to load-serving entities. In that same market notice, the ISO notified market participants of an administrative issue in distributing the separate pool of unallocated generic RA funds for 2018. The ISO is holding \$305,476.09 in unallocated 2018 generic RA funds. The ISO has not yet distributed those funds to load-serving entities because that balance exists due to the ISO not publishing thirty-six-month settlement statements for the August 2018 and September 2018 monthly settlement statements even though there were incremental changes in RAAIM incentive payments and charges compared to the thirty-three-month statements. The ISO did not publish these statements because of process gaps in the manual procedures for identifying the need to publish the final potential statements in the settlement timeline. Those gaps have since been identified and a process validation for unallocated RAAIM funds has been implemented to prevent a recurrence.

Had the ISO published thirty-six-month settlement statements for the August 2018 and September 2018 monthly settlement statements, the \$305,476.09 would have been distributed fully to the RA resources providing generic RA capacity in September 2018 that performed above the RAAIM performance threshold of 98.5 percent. Because the three-year settlements window has closed on the August 2018 and September 2018 monthly settlement statements, the ISO cannot address this oversight in the ordinary course of business.

Management's view is that the group of high-performing resources in the September 2018 RA month are the appropriate recipients of the \$305,476.09 the ISO is holding in escrow. The affected parties should not lose their allocation from this pool of funds because of an ISO error. Further, these parties would have had no basis to submit a dispute through the ISO's established settlements dispute process. Individual resources will know if their performance exceeded the performance threshold for a month. But without having access

to the monthly performance of every other resource providing RA in that month and in prior months of that year, there is no way for an individual resource to know if it is due an incentive payment for a month in which its performance exceeds the threshold. Failing to ensure these funds flow to the high-performing resources also would undermine market participant confidence in the incentive structure RAIM creates. Resources' interest in exceeding the performance threshold may be undermined if they do not receive the incentive payments they are due for performing at a high level.

Based on these circumstances, Management requests that the Board of Governors direct the ISO to publish recalculation settlement statements for the August 2018 and September 2018 monthly settlement statements to the extent necessary to distribute the funds at issue to RA resources rather than load-serving entities.

The ISO will not Charge any Incremental Costs to the Market Participants

Tariff section 11.29.7.3.4 provides that, when a recalculation is approved by the Board of Governors, the entity that requested the recalculation must bear the costs of the recalculation work unless the recalculation was necessary due to a clerical oversight or error by ISO staff. It is not clear these recalculation efforts will impose any material additional cost on the ISO. The tariff is also ambiguous as to whether this provision applies to legacy trade dates before January 1, 2021. Because of this ambiguity and because the market participants bear no responsibility for this issue, to the extent there are costs of processing the requested recalculations, Management would not assess those costs to the market participants involved.

CONCLUSION

As set forth above, Management is requesting that the Board authorize the issuance of unscheduled directed recalculation settlement statements for August 2018 and September 2018 monthly settlement statements to the extent needed to distribute the \$305,476.09 in unallocated 2018 generic resource adequacy funds to the high-performing generic resource adequacy resources from September 2018, rather than distributing those funds to load-serving entities.