

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System) Docket No. ER18-728-000
Operator Corporation)

**MOTION FOR LEAVE TO FILE ANSWER AND ANSWER TO PROTESTS AND
COMMENTS OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR
CORPORATION**

The California Independent System Operator Corporation (CAISO) moves for leave to answer, and submits its answer, to the protest of the Southern California Edison Company (SCE), the protest of Public Citizen, Inc., and the comments of the CAISO’s Department of Market Monitoring (DMM) regarding the CAISO’s January 29, 2018, tariff amendment filing submitted in the above-referenced docket.¹

I. Introduction

The Resource Adequacy Availability Incentive Mechanism (RAAIM) is the tool the CAISO uses to evaluate Resource Adequacy (RA) capacity availability and assess charges and payments for capacity that either falls below or exceeds, respectively, defined availability thresholds. The January 29 filing seeks authority to implement three modifications to the RAAIM calculations. The CAISO proposes to:

(1) calculate availability as a MW value each day, and for each RA capacity product,

¹ The CAISO files this answer pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.213. The CAISO requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to make an answer to the protests. Good cause for this waiver exists here because the answer will aid the Commission in understanding the issues in this proceeding, provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in this case. *See, e.g., Equitrans, L.P.*, 134 FERC ¶ 61,250, P 6 (2011); *Cal. Indep. Sys. Operator Corp.*, 132 FERC ¶ 61,023, P 16 (2010); *Xcel Energy Services, Inc.*, 124 FERC ¶ 61,011, P 20 (2008).

instead of MW by hour; (2) calculate availability for system RA and flexible RA separately, as opposed to combining them into a single assessment as done currently; and (3) scale RAAIM charges and incentive payments based on the number of days the resource providing RA capacity was shown for system RA and flexible RA separately relative to how many days it could have been shown. These revisions are necessary because the existing RAAIM methodology over-weights the availability of flexible RA capacity, compared to generic RA capacity, and assesses performance in a manner that skews performance incentives and inadvertently incentivizes resources to act contrary to the best interests of maintaining grid reliability at a just and reasonable cost.

Two parties, Public Citizen and SCE, protest the January 29 filing and one party, DMM, filed comments. None identify a flaw in the CAISO's January 29 filing or otherwise demonstrate that the CAISO failed meet its burden of proposing just and reasonable revisions to its tariff. The Commission should approve the CAISO proposal as filed on January 29.

II. Answer to Protest of Public Citizen

Public Citizen protests the January 29 filing because it did not explain the financial impact from the current RAAIM methodology's problems. Public Citizen argues that if these problems have created unjust and unreasonable rates, then the Commission should open a proceeding under section 206 of the Federal Power Act and establish a refund effective date.² The impetus for Public Citizen's protest appears to be their suspicion that the issues the tariff changes would address

² Public Citizen protest, at 1.

already have “allowed certain, unidentified ‘market participants’ to exploit a loophole to avoid paying required non-performance penalties. The payment (and non-payment) of such non-performance penalties directly impact rates.”³

Public Citizen’s protest provides no grounds for rejecting the January 29 filing. Instead, its protest misconstrues: (1) how RAAIM charges/payments are funded; (2) the facts underlying the ISO’s January 29 filing; and (3) the nature of a tariff amendment brought under section 205 of the Federal Power Act, as opposed to a complaint or investigation under section 206 of the Federal Power Act.

Public Citizen’s concern about the impact the current design has on California’s electric ratepayers does not reflect full appreciation for how RAAIM is designed. The January 29 filing made clear that RAAIM payments and charges involve funds shifting among the units providing RA capacity, stating “[t]he assessment of non-availability charges fund the availability incentive payments entirely.”⁴ Based on RAAIM design, a generator’s avoidance of RAAIM charges or receipt of excess RAAIM payments would not pose a direct ratepayer impact. A systematically flawed RAAIM conceivably would cause eventual ratepayer impacts if suppliers of RA capacity must price the costs of flawed RAAIM into the price of capacity they sell to load serving entities, and the load serving entity in turn passes those costs onto its retail customers. Such a systematic flaw, however, is exactly what this filing proposes to address.

³ Public Citizen protest, at 1.

⁴ January 29 filing, at 4.

On the second issue, the impetus for the January 29 filing was not loophole exploitation, as Public Citizen suggests is possible. The filing, rather, was based on a recognition that the current rules were not setting the best incentives for RA capacity and that in the extreme, the existing rule could be exploited. The CAISO did not intend through its filing to suggest it is aware any such activity has occurred.

Finally, any details about flaws or shortcoming of the current rules were provided in the January 29 filing as context and background. The CAISO's burden in filing under section 205 is to demonstrate that the proposed tariff changes are just and reasonable.⁵ Public Citizen's apparent suspicion that participants have exploited problems in the current rules does not speak to whether the proposed changes are just and reasonable. Also, if Public Citizen is concerned about problems in the current rule, protesting the CAISO filing would only exacerbate the existing problems by freezing the status quo.

III. Answer to Protest of Southern California Edison Company (SCE)

SCE's protest focuses on the CAISO's continued reliance on: (1) penalizing capacity that simultaneously has both a generic and flexible RA obligation based on the higher performance obligation (*i.e.*, penalizing overlapping capacity on a "worse of" basis); and (2) imposing a single penalty price for RA capacity, rather than tailoring a different penalty price for generic RA than for flexible RA. The January 29 filing anticipated both concerns and already addressed them.

⁵ *E.g.*, *Northern Maine Independent Service Administrator, Inc.*, 119 FERC ¶ 61,231, P 17 (2007) (finding that party filing under section 205 "failed to demonstrate that the proposed tariff revisions are just and reasonable, and, accordingly, has failed to satisfy its burden of proof under section 205 of the FPA.").

On the first issue SCE raises, they argue that the ISO approach penalizes a resource as if it failed to provide both flexible and generic RA capacity, even if the generic capacity remained available. SCE argues this creates perverse incentives for a resource not to perform where it can meet its generic obligation but has an issue that impacts its ability to ramp (and thus meet the flexible RA capacity obligation). The CAISO explained that the so-called “worse of” penalty approach already was litigated in RSI 1a. The Commission approved it based on a concern that alternative approaches might not create sufficient incentives to submit economic bids for the flexible RA capacity component of the overlapping bid. Any approach that provides a resource “partial credit” for meeting its generic RA obligation but failing its flexible RA obligation requires establishing a relative value of generic RA as compared to flexible RA. This is another form of establishing separate penalty prices for generic and flexible RA. As further discussed below, having such separate prices is not feasible.

On the second issue SCE raises, they claim that the market landscape for RA has changed enough since RAAIM was developed that a single penalty price for flexible and generic capacity should be re-evaluated. The CAISO explained in the January 29 filing that retaining the existing single-penalty-price approach is appropriate because:

1. Using a single price already was litigated in RSI 1a and the Commission approved it as just and reasonable.
2. There is no basis for changing this aspect of the existing RAAIM.

3. Establishing separate prices is not feasible because the ISO does not have sufficient information about any premium that flexible capacity receives in the bilateral market.
4. Any concerns about the existing design should be raised after the ISO files its required informational report after the first year of RAIM.

SCE's protest focuses on the second point, arguing that the changing RA market landscape provides a sound basis for changing the CAISO's RAIM policy. While there may have been changes in the bilateral RA market since the CAISO filed the RAIM tariff amendments in 2015,⁶ SCE does nothing to explain how those changes either: (a) rebut the CAISO's showing that the proposed tariff changes are just and reasonable; or (b) explain how the CAISO's existing single-price approach that already was accepted by the Commission would, if left unchanged, be unjust and unreasonable today.

SCE also briefly references the fourth point, the upcoming RAIM report, and suggests that the CAISO's policy on handling overlapping outages caused the RAIM implementation delays that delayed the year one report from Spring 2017 (when it initially would have been due) to Spring 2018. In SCE's view, this delay denied the Commission "the benefit of that information and nearly an additional year experience to ascertain the effectiveness" of RAIM. Even if the CAISO's initial decision on handling overlapping capacity were tied to these implementation delays, it would merely mean that the CAISO would have brought this amendment filing to

⁶ *Cal. Indep. Sys. Operator Corp.*, Transmittal Letter, FERC Docket No. ER15-1825 (May 29, 2015) (Phase 1A Filing).

the Commission a year earlier. That a further year has elapsed does nothing to speak to whether the CAISO's targeted changes to RAAIM are just and reasonable.

IV. Answer to Comments of the Department of Market Monitoring (DMM)

In its comments, DMM states its view that the CAISO proposal is an improvement over the status quo but asserts that DMM and other stakeholders did not have sufficient time to review the specific equations included in the CAISO's draft final proposal. In light of DMM's view that there were limited review opportunities, along with what they view as the complexity of the CAISO's proposed approach, "DMM recommends CAISO closely monitor the impact and effectiveness of the new RAAIM approach as it is implemented, and be prepared to modify or enhance the methodology as needed."⁷

As with any market rule enhancement, if approved by the Commission, the CAISO will evaluate the revised RAAIM on an ongoing basis and will consider further refinements, as experience warrants. The CAISO, however, does not view this ongoing evaluation to substitute for the analysis that DMM, as the CAISO's independent market monitoring unit,⁸ conducts of RAAIM, the RA tariff provisions, and all other aspects of the CAISO markets.⁹ The CAISO will conduct its post-implementation analysis in parallel with any similar such DMM monitoring.

⁷ DMM comments, at 1.

⁸ 18 C.F.R. § 35.28(b)(7) ("Market Monitoring Unit means the person or entity responsible for carrying out the market monitoring functions that the Commission has ordered Commission-approved independent system operators and regional transmission organizations to perform.")

⁹ Under Commission regulations, the first of three core market monitoring unit duties is to "Evaluate existing and proposed market rules, tariff provisions and market design elements . . ." 18 C.F.R. § 35.28(g)(3)(ii)(A).

V. Delay to Planned Implementation

On February 14, 2018, the CAISO petitioned the Commission to suspend temporarily the effectiveness, or alternatively grant a limited waiver, of the Phase 1B and Phase 2 Reliability Services Initiative (RSI1b/RSI2) tariff revisions the Commission approved in a January 18, 2018, order.¹⁰ The CAISO explained that implementation issues required the CAISO to delay RSI1b/RSI2 so that the changes would apply beginning with the May 2018 RA month, rather than the April 2018 RA month as intended initially. In that February 14 filing, the CAISO explained that the same implementation issues would require the CAISO, “[t]hrough a separate forthcoming filing, [to] request a delay (from April 1, 2018, to May 1, 2018) of the planned effective date for the tariff provisions proposed in the January 29 RAAIM filing.”¹¹ If the Commission approves the tariff amendments proposed in this docket, the CAISO intends immediately to make a similar petition to delay implementation of the tariff amendments proposed in this docket.

VI. CONCLUSION

None of the comments or protests filed in response to the CAISO’s January 29 filing provide a reason for the Commission to reject the CAISO proposal as filed. The CAISO proposal represents a just and reasonable modification to RAAIM. The CAISO reiterates its respectful request that the Commission accept the tariff changes proposed in this docket to be effective April 1, 2018. The CAISO makes

¹⁰ *Cal. Indep. Sys. Operator Corp.*, 162 FERC ¶ 61,042 (2018).

¹¹ *Cal. Indep. Sys. Operator Corp.*, Petition for Limited Tariff Waiver, at 4 n.5, FERC Docket No. ER18-1 (Feb. 14, 2018).

this request on the understanding that, if accepted, the CAISO immediately would petition to shift implementation from April 1, 2018, to May 1, 2018.

Respectfully submitted,

By: /s/ David S. Zlotlow

Roger E. Collanton

General Counsel

Anthony J. Ivancovich

Deputy General Counsel

David S. Zlotlow

Senior Counsel

California Independent System

Operator Corporation

250 Outcropping Way

Folsom, CA 95630

Tel: (916) 608-7007

Fax: (916) 608-7222

dzlotlow@caiso.com

Counsel for the California Independent
System Operator Corporation

Dated: February 28, 2018

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the above-referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 28th day of February 2018.

Is/ Anna Pascuzzo

Anna Pascuzzo