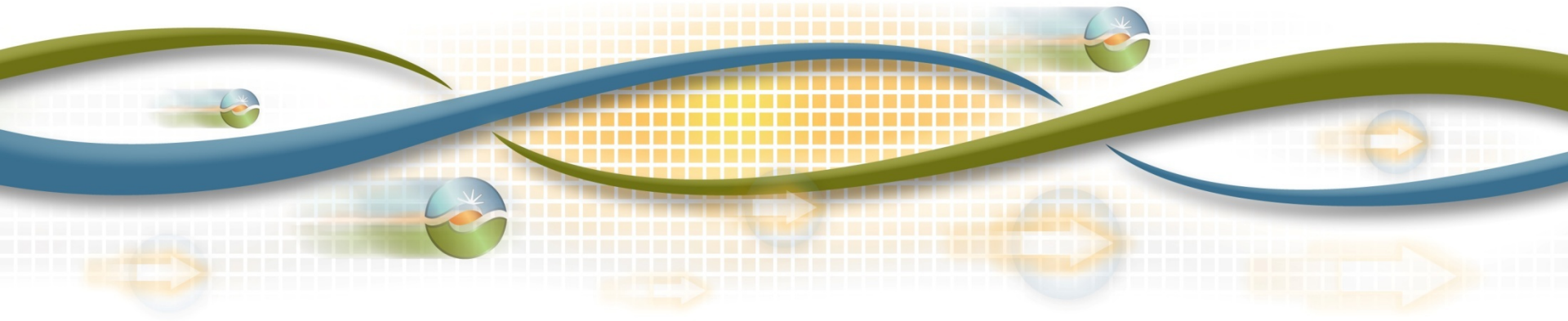




Decision on resource adequacy availability incentive mechanism (RAAIM) modifications

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A policy gap was identified in RAIM calculation that requires modifications to eliminate adverse incentives.

Current calculation disproportionately weighs flexible capacity resulting in opportunity for resources to lower exposure to charges

- Weighting performance based on availability assessment hours
 - Flexible RA – 17 assessment hours/day
 - System and local RA – 5 assessment hours/day
- As a result, resources can take unilateral action to lower their exposure to RAIM charges by adding 1 MW of flexible capacity to an RA showing

Resources	System Capacity	Flexible Capacity	RAIM charge from a 5 day outage
Resource A	100 MW	0 MW	\$69,393
Resource B	100 MW	1 MW	\$14,567

Proposed modifications to the current RAAIM calculation appropriately weight system and flexible resource adequacy performance.

- Separately calculate the availability for generic (system and local) RA and flexible RA for each day
 - Resolves issues caused by combining the RAAIM into a single calculation
 - Ensures proper incentives are in place to meet the must offer and outage replacement obligations
- Because this is a policy change, modifications will apply prospectively

The revised RAIM calculation eliminates opportunity for resources to reduce incentives to meet RA obligations.

- Separate assessment for generic (system/local) and flexible RA corrects gap in current RAIM calculation

Resources	System	Flexible	RAIM charge from a 5 day outage		
			System	Flexible	Total
Resource A	100 MW	0 MW	\$69,049	\$0	\$69,319
Resource B	100 MW	1 MW	\$68,626	\$423	\$69,049

- Provides more precise availability assessment for each product type provided

Stakeholders support correcting the incentives, but differ on how to achieve this objective.

- DMM, NRG, and SCE recommend creating separate prices for generic and flexible capacity
 - Primary challenge to separate prices is insufficient information available to determine the correct prices while still maintaining strong incentives for all RA products
 - Proposal consistent with existing FERC-approved policy
- CDWR, PG&E, and Six Cities do not oppose the proposal, but request additional support through implementation
 - The ISO is committed to providing this support
- DMM has suggested an alternate calculation
 - Alternate calculation reduces incentives for resources to follow flexible RA must-offer obligations

Management recommends the Board approve the proposed enhancements to the RAIM calculation.

- Resolves concerns with the current calculation that overly weights flexible relative to generic RA capacity
- Provides a clearer and more accurate incentive for resources to follow their must offer obligation and provide replacement capacity when on outage
- Is consistent with existing FERC-approved policy
- Delay would result in the ISO relying on the current methodology through summer 2018
- The ISO will continue to work closely with stakeholders through tariff and BPM development