

NRG Energy, Inc. Comments on  
Resource Adequacy Availability Incentive Mechanism Modification Draft Final Proposal

Submitted by	Company	Date Submitted
Brian Theaker	NRG Energy, Inc.	October 3, 2017

NRG offers the following comments on the September 21, 2017 *Resource Adequacy Availability incentive Mechanism modification: Draft Final Proposal* (“Draft Final Proposal” or “DFP”).

**Summary:** The CAISO is conducting an accelerated stakeholder process trying to fix the incentive and penalty structure for Resource Adequacy (RA) products that the CAISO is just beginning to fundamentally re-examine. Unquestionably, the “cart” (the RAAIM) is broken and needs to be fixed, but fixing it by splitting in two and then putting both “repaired” halves in front of the horse (the fundamental RA structure) is suboptimal. Moreover, the CAISO is trying to address the fundamental problem that results from the misalignment of the nature of the must-offer obligation for these two products by separating the availability calculations for the two products, exposing suppliers of flexible capacity to a substantial penalty for failing to provide to the CAISO’s satisfaction a product that has no incremental value for the supplier.

**Comments**

First, NRG commends the CAISO for releasing a red-lined draft of its DFP. This practice – posting clean and redlined versions of revised proposals - should be the standard practice for all CAISO stakeholder initiative proposals.

It is clear that the CAISO intends to press ahead at full speed with modifications to the Resource Adequacy Availability Incentive Mechanism (“RAAIM”), given (1) the discovery of formulaic errors that create an incentive for market participants to dilute their RAAIM non-availability charge on generic RA capacity by also showing a small amount of flexible RA capacity and (2) the unwillingness of certain market participants to suspend the assessment of RAAIM charges.

At the same time, the CAISO has launched a comprehensive re-examination of the flexible capacity framework in the FRACMOO2 initiative, and intends to embark on a similar comprehensive re-examination of the RA framework in a stakeholder process slated to begin later this year. It is unfortunate that the CAISO believes it must try to repair a complicated but clearly broken RAAIM structure before these two fundamental re-examination processes have played out and the new, true nature of what the CAISO is actually trying to create incentives and penalties for is known. Deferring the development of a structure intended to incent market participants to provide market-based reliability services would surely benefit from knowing exactly what those market reliability services actually are. Since that option is not on the table in this initiative, NRG will focus its comments not on the particulars of the CAISO’s proposed changes to the RAAIM process, but on the shortcomings of the current paradigm.

**Shortcoming 1 – the incentive mechanism does not reflect the nature of the offer obligation of the underlying product.**

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On page 4 of the DFP, the CAISO offered that the RAAIM tool was developed “...with a goal of ensuring resources had the proper incentives to (1) be available to the ISO consistent with the must-offer obligation for the type of RA which a resource provided...” **By design**, the RAAIM mechanism does not meet this goal. The generic RA product has a 24 x 7 offer obligation, but the availability performance of this product is measured across a much narrower set of availability assessment hours currently focused on afternoon peak demand hours. Conversely, the availability performance of flexible capacity is measured across the entirety of its must-offer obligation, leading one to the unsupportable conclusion that every hour in the flexible capacity must-offer obligation is just as important as every other hour. For example, the availability performance of Category 1 (Base Ramping) flexible capacity is measured across the 17-hour span during which the flexible capacity must be made available to the CAISO. The use of a five-hour strip to measure the availability of generic RA is intended to signal that the availability of RA is far more important in those particular five hours (the CAISO’s withdrawn attempt to modify the availability assessment hours for 2018 notwithstanding). However, the fact that the availability of flexible capacity is measured across all of its must-offer hours implies, but cannot reasonably mean, that every hour in which flexibility must be offered is just as valuable as every other hour in which flexibility must be offered. Such a conclusion – that flexibility at noon is of the same importance as flexibility at 6 PM - would be misguided. This misaligned set of assumptions – that generic RA capacity that has to offer in every hour is really only valuable in a narrow swath of weekday peak load hours, while flexible RA capacity that has to offer only in 17 hours is equally valuable in every single one of those hours – overshadows the computational problem the CAISO is now trying to narrowly fix instead of addressing the design problem.

**Shortcoming 2 – the CAISO is trying to fix the application of an incentive and penalty structure to a product that has no incremental value.**

The CAISO’s lowering of the RAAIM non-availability charge in the RSI 1 initiative from the CPM soft offer cap to 60% of the CPM soft offer cap was an overdue, rational and welcome move that reflected the ever-shrinking value of RA capacity, especially system RA capacity.

In this initiative, however, the CAISO is seeking to separately calculate and apply a non-zero penalty to a product that is widely understood to have no incremental value. NRG understands why the CAISO is proposing to assess the availability of generic and flexible capacity separately – to try to untangle the computational knot created by blending the assessment of products with two different must-offer obligations. This is rational. However, the outcome – to penalize suppliers for their failure to provide to the CAISO’s specifications a flexibility product that has no incremental value – is not.