

Resource Adequacy Availability Incentive Mechanism Modification

White Paper

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Summary:

Calpine supports the current RAIM “modification” proposal. Specifically, restatement of charges due to non-material, “minor errors¹” can be made back to April 1. Also, we support the CAISO’s proposed treatment of the substantive “modification” (as in the title of this white paper) to be submitted to FERC and implemented only on a prospective basis, after FERC approval. Lastly, we continue our review of the proposed modifications, their incorporation into new spreadsheets and calculations and will respond directly to the CAISO should that review raise questions.

The “Modifications” are Substantive

The CAISO proposes to change the structure of the RAIM settlements, including, among other things, separation of compliance measurements for flexible versus generic RA capacity and converting from hourly assessments to daily assessments. The CAISO recognizes that these changes are significant, both in the description of those changes in the proposal, as well as the description of the new calculations embedded in the new and entirely revised spreadsheets. Clearly the changes will result in stronger incentives (i.e., higher charges) for non-compliant resources.

These “modifications” are intended to ensure that resources “follow must-offer obligations and to provide replacement capacity²”. In fact the CAISO summarily and appropriately concludes that that they are so significant that “the ISO intends to implement such modifications on a prospective basis”. Calpine concurs.

¹ White Paper, at p3

² Ibid, P3

Behaviors Cannot be Undone

The CAISO is concerned that the current calculations (embedded both in the tariff, as well as in the simulated settlements and posted spreadsheets) lessens the financial incentive to meet the must offer obligations and submit replacement capacity during a forced outage. Their proposed modifications are an attempt to shore up these goals.

However, the financial incentives were what they were, and market participants could reasonably behave based on the incentives that were tested, modeled and implemented. The ISO's proposal reasonably recognizes that historic behaviors cannot be changed even if the CAISO would have liked different outcomes. As discussed below, applying the "modifications" to historic behavior invokes concerns of retroactive ratemaking.

FERC Decisions Clearly Require Review of the Modifications.

A FERC order issued December 2, 2011³ provides relevant guidance on requirements for "modifications" such as those proposed in the instant proposal. Specifically, when the CAISO sought to modify its bid-cost recovery calculation, FERC provided unambiguous direction:

"We find that neither the filed rate doctrine nor the terms of the CAISO's tariff permit it to automatically resettle payments when CAISO reinterprets its tariff and the proposed resettlements depart from the way in which calculations were previously performed."⁴

Further, the decision clarifies that:

"The filed rate doctrine does not allow CAISO to automatically resettle past payments when the resettlement involves a reinterpretation of how to apply its tariff and the reinterpreted methodology is different from one outlined in the CASIO's business practice manual."⁵

For all of these reasons, we support the CAISO's proposal to submit the "modifications" to FERC for review and prospective implementation.

Thanks

³ Dockets ER11-3149-002 and ER11-3713-000 ("December 2 Decision"), P7

⁴ December 2 Decision at P7

⁵ Ibid, P8