



**Comments of Arizona Public Service
Variable Operations and Maintenance Cost Review Working Group – Gas Resources
July 31, 2019**

Submitted by	Organization	Date Submitted
Dzurak, Michael 602.250.4660	Arizona Public Service [APS]	31 July 2019

Arizona Public Service (APS) appreciates the opportunity to comment on the Variable Operations and Maintenance (VOM) Cost Review Working Group – Gas Resources that was held on July 15, 2019. APS submits the following comments for the CAISO’s consideration.

APS agrees with the majority of public comments submitted to CAISO in January 2019 encouraging the continued use of the existing default VOM values. Existing default prices are an equitable approximation and ensure just and reasonable cost recovery to participants. Conversely, the Nexant study, commissioned by the ISO, does not reasonably represent the true costs of operations. Furthermore, the proposal for complete itemization and negotiation of all maintenance is punitively onerous for gas generation operators across our nearly 4GW gas/oil fleet. Eventually, this process may become so onerous that EIM entities may choose to limit or remove select unit from EIM. APS requires full cost recovery of all incremental generation costs as a prerequisite to EIM participation of generators. The task of itemization may apply limitations on recovery unit-by-unit resulting in fewer units participating. If the ISO continues down this path, APS will be placed in the difficult position of withholding units without sufficient cost recovery from the market.

Nexant Study

Per the CAISO tariff, CAISO must conduct a review of the variable O&M adder values every three years. In order to gauge whether the default recovery price is just and reasonable, CAISO commissioned Nexant to conduct a study of operating costs for generating units. Through this study, CAISO determined that the default recovery price appears to be excessive and over-exaggerate actual costs of operating certain types of units. However, APS asserts that the Nexant study is fundamentally flawed and therefore should not serve as the basis to upend the VOM recovery mechanism. Nexant used cost figures from several other regions in the country, but failed to include any actual costs from the Southwest or West in general. The costs produced by Nexant seem to be significantly lower than existing costs in the West and do not accurately reflect the actual costs. If CAISO chooses to continue down the current path, the Nexant study must be updated with a complete and detailed analysis of costs associated with WECC specific natural gas generating resources.¹

¹ Many Gas Resources have additional necessary expenses like water treatment, chemical warehousing, and other administrative costs. For example, at the Redhawk facility owned and operated by APS, utilizes reclaimed water. Reclaimed water cooling is a cost specific to the desert Southwest and California, areas which often experience extreme drought and water challenges which are unique to the West. These types of VOM costs are not captured anywhere in the Nexant study.

Appendix A – Missing Maintenance Activities

The current version of Appendix A is entirely too prescriptive. It is complex to classify certain types of costs as long-term maintenance versus VOM as it largely depends on the situation. For example, the cost of consumables associated directly with the electrical production of fossil generation (item #53 for Chemical Cleaning) is classified as a VOM cost. Although, that may encapsulate the chemicals used for cleaning boilers and other critical components, it misses the standard consumables which APS might consider a maintenance cost. In other instances, costs that APS might consider VOM are included in the definition of major maintenance but not included in the VOM values.

Under the current recovery mechanism, VOM includes both variable consumable costs and non-MMA maintenance costs. If the CAISO re-defines Variable Operations costs to include only chemicals and consumables, it is critical that other maintenance (non MMA) costs be included in another way through the VOM bid price. Overall, the proposed methodology for itemizing costs does not allow the EIM entity sufficient flexibility to appropriately categorize activities and ensure accurate cost recovery.

Allocation of Maintenance Activities, Definitions and Additional Comments

APS again asserts that a reasonable default \$/MWH is the preferred approach to recovery of costs pertaining to major maintenance and VOM. The new methodology being proposed by the ISO requires extensive work with little benefit. The proposal to include a significantly reduced default rate will essentially require entities to submit unit-by-unit itemized costs.

Additionally, costs of tolling agreements or other generation procurement contracts that are variable in relation to energy production must be recovered in the VOM component. This is appropriate to occur through the Other Maintenance Cost – Variable grouping which would therefore be incorporated into the VOM Adder. Since PPA variable O&M cost would be a direct increase in cost due to increased dispatch, participating units under contract must recover the PPA variable costs clearly. Furthermore, variances in flexibility and categorization of costs between Private, Public and Quasi-Government entities are inconsistent across the utility/energy industry. Requiring all EIM entities to classify costs this way may result in over-recovery for some and under-recovery for others.

APS understands the need for transparency in pricing for DEB. However, the current costing methods are sufficiently accurate to allow for appropriate calculation of the DEB without a complete overhaul to the cost recovery mechanism and considerable burden to EIM participants. APS recommends that the default VOM amount include the other maintenance costs used (over any increment of time) in power production and allow a simple, efficient review process when actual or projected costs are above the standard. MMA and Other Maintenance recovery should be for costs defined by the utility as capital and O&M.

Feedback on structure of this stakeholder initiative and working groups

From the onset, this stakeholder process appears to be considerably rushed considering the immense impact it will have on EIM Entities. It takes time to coordinate all of these internal groups and ensure thoughtful comments are submitted to the ISO. The timeline for comments was far shorter than the typical 2+ weeks allowed, and it will be very difficult for APS to manage this expedited timeline on a moving forward basis. APS suggests that the CAISO take a step back and truly digest the feedback being offered by stakeholders, especially EIM Entities who have a considerable amount to lose if this process achieves an unjust outcome.

Conclusion

APS appreciates the opportunity to provide feedback and looks forward to continued work with the CAISO on this initiative.