

187 FERC ¶ 61,032
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

April 25, 2024

In Reply Refer To:
California Independent System
Operator Corporation
Docket No. ER24-1225-000

California Independent System
Operator Corporation
250 Outcropping Way
Folsom, CA 95630

Attention: Marissa Nava

Dear Ms. Nava:

1. On February 9, 2024, pursuant to section 205 of the Federal Power Act,¹ the California Independent System Operator Corporation (CAISO) submitted revisions to its Open Access Transmission Tariff (Tariff) to update the level of its capacity procurement mechanism (CPM) soft offer cap, as required by the Tariff. CAISO proposes to increase the CPM soft offer cap from \$6.31/kW-month to \$7.34/kW-month, stating that the updated price will better reflect inflation, labor rates, and higher bilateral capacity prices, and will better position CAISO to maintain reliable grid operations in the upcoming summer.²
2. CAISO explains that its Tariff includes resource adequacy requirements to ensure that load serving entities procure capacity to meet their forecasted peak load plus a reserve margin, as established by their local regulatory authority. CAISO states that, to remedy unresolved resource adequacy deficiencies and/or meet specified reliability needs, its Tariff provides the authority to designate backstop capacity under its CPM and reliability must-run mechanisms.³

¹ 16 U.S.C. § 824d.

² Transmittal at 1.

³ *Id.* at 2.

3. CAISO states that, under the CPM Tariff provisions,⁴ resource owners submit bids in a competitive solicitation process. Based on the bids submitted, CAISO offers CPM designations to address one of the circumstances specified in the Tariff.⁵ CAISO explains that its Tariff provides two options for the compensation of CPM resources. CAISO states that under the first option a resource can bid into the competitive solicitation process and receive compensation based on its capacity bid price up to the CPM soft offer cap, which is currently set at \$6.31/kw-month. CAISO states the CPM soft offer cap is based on the going-forward costs (i.e., fixed operations and maintenance costs, ad valorem taxes, and insurance costs) of a reference unit, plus a 20% adder to that total cost. CAISO states that the second option is for the CPM resource to offer capacity into the competitive solicitation process at a cost above the soft offer cap and to cost-justify that offer by making a filing with the Commission based on the resource's going-forward fixed costs, using the same cost categories used to establish the CPM soft offer cap.⁶

4. CAISO states that the reference unit used to set the soft offer cap is a merchant constructed mid-cost, 550 MW combined cycle unit with duct firing, or similar advanced combined cycle resource, based on costs reported in the California Energy Commission (CEC) Cost of Generation Study and Model (CEC Study). CAISO notes that the CEC Study examines both new generation costs in California and data on the going-forward fixed costs (i.e., ad valorem costs, insurance, and fixed O&M costs) associated with existing generation.

5. CAISO states that its Tariff requires CAISO to conduct a stakeholder process at least every four years to evaluate whether to update the level of the CPM soft offer cap. CAISO states that this process begins with the CEC's publication of a new draft of the CEC Study that sets forth estimates for the levelized going-forward fixed costs of the

⁴ CAISO, CAISO eTariff, § 43A (Capacity Procurement Mechanism) (0.0.0).

⁵ Transmittal at 2-3. CAISO notes that its Tariff specifies it may designate CPM capacity to address one of the following specified circumstances: (1) insufficient local capacity area resources in an annual or monthly resource adequacy plan; (2) collective deficiency in local capacity area resources; (3) insufficient resource adequacy resources in a load-serving entity's annual or monthly resource adequacy plan; (4) a CPM significant event; (5) a reliability operational need for an exceptional dispatch CPM; and (6) a cumulative deficiency in the total flexible resource adequacy capacity in the annual or monthly flexible resource adequacy capacity plans, or in a flexible capacity category in the monthly flexible resource adequacy capacity plans. CAISO, CAISO eTariff, § 43A.2 (Capacity Procurement Mechanism Designation) (2.0.0).

⁶ Transmittal at 4.

reference resource.⁷ CAISO explains that, in May 2023, the CEC provided CAISO with the updated CEC Study⁸ upon which CAISO proposes to update the level of the CPM soft offer cap.

6. CAISO explains that the 2023 CEC Study included start year, inflation figures, and labor rates, and demonstrated that the levelized going-forward fixed costs for a 550 MW combined cycle resource with duct firing in 2023 are equal to \$73.41/kW-year. CAISO then states that it multiplied this by 120%, resulting in \$88.09kW-year, or \$7.34/kW-month. Thus, CAISO asserts the existing soft offer cap of \$6.31/kW-year does not adequately reflect 120% of the levelized going-forward fixed costs of the reference resource and proposes to increase it to \$7.34/kW-month.⁹

7. CAISO asserts that the proposed soft offer cap is just and reasonable and will better reflect inflation, labor rates, and higher bilateral capacity prices in recent years. CAISO contends that the proposed soft offer cap is also high enough to ensure contributions to fixed cost recovery and low enough to provide appropriate market power mitigation. CAISO adds that the proposed soft offer cap will create greater incentives for resources to accept voluntary CPM designations.¹⁰

8. CAISO also proposes to remove certain language defining “CPM Soft Offer Cap” in section 43A.4.1.1 of the Tariff, stating that it is already a defined term in Appendix A and the language is therefore unnecessary.¹¹

9. CAISO states that it intends to implement the proposed Tariff revisions by the start of summer 2024. Accordingly, CAISO requests that the Commission issue an order by May 1, 2024, accepting the proposed revisions to be effective in early June 2024.

⁷ CAISO notes that its Tariff does not require CAISO to update the CPM soft offer cap, but only to assess the existing price. *Id.* at 5.

⁸ *Id.* (citing *Cost of Generation Model: Fixed Costs Study for CAISO’s CPM Soft Offer Cap* (May 2023 Update), available at <http://www.aiso.com/InitiativeDocuments/Presentation-Capacity-Procurement-Mechanism-Enhancements-May112023.pdf>).

⁹ *Id.* at 7 (citing CAISO, CAISO eTariff, app. A (Definitions) (0.0.0), “Capacity Procurement Mechanism (CPM)” definition (4.0.0)).

¹⁰ *Id.*

¹¹ *Id.* (citing CAISO, CAISO eTariff, § 43A.4.1 (Offer Rules to the CSPs) (3.0.0), § 43A.4.1.1 (Price Component of a CSP Offer)).

CAISO requests authorization to notify the Commission of the actual effective date of the Tariff changes within five days of implementation.¹²

10. Notice of CAISO's filing was published in the *Federal Register*, 89 Fed. Reg. 11,826 (Feb. 15, 2024), with interventions and protests due on or before March 1, 2024. Timely motions to intervene were filed by Public Citizen, Inc.; Calpine Corporation; Pacific Gas and Electric Company; the California Department of Water Resources State Water Project; the City of Santa Clara, California; and Northern California Power Agency. The CAISO Department of Market Monitoring filed a timely motion to intervene and supportive comments.

11. We accept CAISO's proposed Tariff revisions to be effective on CAISO's actual implementation date, as requested, subject to CAISO filing a notice with the Commission of the actual effective date of the Tariff revisions within five business days of their implementation. We find that the proposed Tariff revisions are just and reasonable. We find that CAISO's update accounts for inflation, and reflects labor rates and higher bilateral capacity prices in recent years, and thus is a reasonable price signal that can incentivize resources to accept voluntary CPM designations to preserve reliability. Finally, we accept CAISO's revision to remove the specific value of "CPM Soft Offer Cap" in section 43A.4.1.1 as it is already defined in the Tariff definitions in Appendix A.

By direction of the Commission.

Debbie-Anne A. Reese,
Acting Secretary.

¹² *Id.* at 8.