UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	))	**Docket No. ER24-1225**

MOTION TO INTERVENE AND COMMENTS OF THE DEPARTMENT OF MARKET MONITORING OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

Pursuant to Rules 212 and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("FERC" or "Commission"), 18 C.F.R. §§385.212, 385.214, the Department of Market Monitoring ("DMM"), acting in its capacity as the Independent Market Monitor for the California Independent System Operator Corporation ("CAISO"), submits this motion to intervene and comment in the above-captioned proceeding.

I. SUMMARY

In this filing, CAISO proposes a single tariff revision to increase the monthly soft offer cap of the Capacity Procurement Mechanism (CPM). The CPM allows the CAISO to procure resource adequacy (RA) resources in the circumstance that load serving entities do not provide adequate or sufficient capacity to fulfill the CAISO's operational needs or meet realiablity criteria.

Since the CPM soft offer cap was established in 2014, the CAISO's policy has been to set the cap based in part on an estimate of the annual going forward fixed costs of a typical new gas-fired unit plus a 20 percent adder. This annual cost estimate is then divided by 12 to get a monthly value used as the soft cap for monthly CPM designations.

DMM supports the proposed tariff revision to better position the CAISO to maintain reliable grid operations, and increase incentives for resources to accept voluntary CPM designations. In addition, accepting the ammendments will allow for the CAISO and its stakeholders to focus on a more comprehensive set of changes needed in the overall CPM and resource adequacy framework.

II. COMMENTS

Background

As background, all CPM designations have been paid at or just below the monthly soft offer cap. Units receiving these CPM payments also keep all net revenues earned from operating in the market. The CAISO set the current soft offer cap using estimates of annual going forward fixed costs for a 550 MW combined cycle unit derived from reports issued by the California Energy Commission (CEC) in 2018/2019. The CAISO tariff requires that the CAISO open a stakeholder initiative every four years (at the latest) to examine the cap and consider whether it needs to be changed. In this initiative, the CAISO proposes to meet this tariff obligation by increasing the cap by about 16 percent (from $6.31/kw-month to $7.34/kw-month) to reflect assumed increases in labor costs and inflation of other cost components.

Since the CPM was established, the amount of capacity procured under this backstop procurement mechanism has remained relatively low, and almost all CPM designations have been for only one to two peak summer months of the year. However, it is generally agreed that the level of the soft offer cap often has a significant impact on prices for resource adequacy capacity in the bilateral market, since this is the price at which the CAISO may procure any additional capacity needed for reliability that is not procured through the state's RA process.

DMM supports the proposed tariff revision as it will allow the CAISO to focus on a more comprehensive set of changes needed in the overall CPM and resource adequacy framework

DMM continues to believe that the annual cost estimates in the CEC's 2018/2019 reports are significantly greater than the actual going forward fixed costs of gas-fired resources.[1] Nevertheless, DMM supports the proposed 16 percent increase in the current monthly CPM soft cap for several reasons.

First, while DMM believes the CPM soft cap is based on a significantly inflated estimate of annual fixed going forward costs, this annual fixed cost estimate is then divided by 12 to set the soft cap for monthly CPM designations. In practice, almost all units receive CPM designations for only one to two peak summer months of the year – when there is limited or no excess supply available and bilateral capacity prices are highest. Thus, the current methodology of dividing annual costs by 12 to determine monthly payments does not accurately reflect actual market conditions and how the CPM is used. In effect, this inaccuracy essentially offsets much of the impact of inaccurately high estimates of annual fixed costs.

Second, when originally developed, the CPM mechanism was expected to play an important role in mitigating local market power with areas in which one or two major

[1] *Comments on the Capacity Procurement Mechanism Enhancements Track 2 – Final Proposal*, Department of Market Monitoring, August 31, 2023: https://www.caiso.com/Documents/DMM-Comments-on-CPM-Final-Proposal-Aug-31-2023.pdf

Detailed documentation of DMM's review of going forward fixed costs provided in DMM's Answer to the ISO's February 2020 CPM tariff filing: https://www.caiso.com/Documents/AnswerandMotionforLeavetoAnswer-DMMCommentsonCPMTariffFilingER20-1075-Apr32020.pdf suppliers were pivotal in terms of the supply of capacity needed to meet local requirements. In recent years, however, the amount of capacity procured under the CPM has been relatively low and almost all of this capacity has been for system needs rather than for local requirements. From 2020 to 2023, almost all (99 percent) of capacity procured under the CPM has been for system capacity.

Third, the soft cap (plus the proposed 16 percent increase) now represents a value for short term monthly capacity payments that is supported by a broad consensus of stakeholders – including suppliers and load serving entities. Most stakeholders appear to generally agree that the proposed soft cap represents a reasonable cap for the peak summer months under current market and system conditions in the CAISO balancing area and the broader Western regional market.

Finally, numerous stakeholders have requested that the CAISO explore CPM-related changes beyond the monthly soft offer cap and in the context of California's resource adequacy program. The CAISO has committed to working with stakeholders in 2024 on broader reforms to the CPM in the context of California's resource adequacy program in the RA modeling and program design working group. DMM strongly supports this approach, as it will allow the CAISO and stakeholders to focus on a more comprehensive set of changes needed in the overall CPM and resource adequacy framework.

III. MOTION TO INTERVENE

DMM respectfully requests that the Commission afford due consideration to these comments and motion to intervene, and afford DMM full rights as a party to this proceeding. Pursuant to the Commission's Order 719, the CAISO tariff states "DMM shall review existing and proposed market rules, tariff provisions, and market design elements and recommend proposed rule and tariff changes to the CAISO, the CAISO Governing Board, FERC staff, the California Public Utilities Commission, Market Participants, and other interested entities."[2] As this proceeding involves CAISO tariff provisions that would affect the efficiency of CAISO markets, it implicates matters within DMM's purview.

IV. CONCLUSION

DMM respectfully requests that the Commission afford due consideration to these comments as it evaluates the proposed tariff provisions before it.

Respectfully submitted,

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Dated: March 1, 2024

[2] CAISO Tariff Appendix P, Section 5.1.

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the above-referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California, this 1st day of March, 2024.

/s/ Aprille Girardot
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