

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System) Docket No. ER20-1075-000
Operator Corporation)

**MOTION FOR LEAVE TO ANSWER AND ANSWER OF THE CALIFORNIA
INDEPENDENT SYSTEM OPERATOR CORPORATION**

The California Independent System Operator Corporation (CAISO) respectfully submits this motion for leave to answer and answer to the Department of Market Monitoring's (DMM) answer filed in this proceeding on April 3, 2020 (DMM Answer) and the answer of Powerex Corp (Powerex) filed on April 7, 2020 (Powerex Answer). The CAISO's answer is limited to responding to new arguments not raised in the initial comments and proposals that are beyond the scope of the CAISO's targeted tariff amendment filing.

I. MOTION FOR LEAVE TO ANSWER DMM'S AND POWEREX'S ANSWERS

The CAISO respectfully requests authorization to respond to the DMM and Powerex Answers filed in response to the Answer to Comments and Protest filed by the CAISO on April 1, 2020 in this proceeding (April1 Answer). Notwithstanding the Commission's general policy in Rule 213(a)(2),¹ the Commission has accepted answers that assist the Commission's understanding and resolution of the issues raised in the pleadings,² address new arguments, clarify matters under consideration,³ or materially

¹ 18 C.F.R. § 385.213(a)(2).

² *Sw. Power Pool, Inc.*, 89 FERC ¶ 61,284, at 61,888 (1999).

³ *Ariz. Pub. Serv. Co.*, 82 FERC ¶ 61,132 (1998); *Tenn. Gas Pipeline Co.*, 82 FERC ¶ 61,045 (1998).

aid the Commission's disposition of a matter.⁴ The CAISO's answer responds to new and out-of-scope arguments raised by DMM and Powerex. The CAISO's brief answer will clarify matters under consideration, aid the Commission's understanding and resolution of the issues, and help the Commission to achieve a more accurate and complete record.⁵

II. ANSWER

A. DMM's New Information Does not Support Significantly Lowering the Soft Offer Cap, An Issue That Is Beyond the Scope of this Proceeding In any Event

To support its claim that the California Energy Commission (CEC) cost of generation study considered by the CAISO in setting the Capacity Procurement Mechanism (CPM) soft offer cap overstates units' fixed O&M costs, DMM refers to the costs of Calpine's Metcalf combined cycle generating unit that received a Reliability Must Run (RMR) designation for 2018. DMM states that Metcalf's fixed O&M costs as shown in its RMR contract proceeding were \$23.51/kW-year.⁶ DMM contrasts this amount to the fixed O&M costs reflected in the CEC's 2018 cost of generation study (\$41.77/kW-year).⁷ In addition, in Attachment 1 to the DMM Answer, DMM highlights the fixed O&M cost estimates from the other cost studies DMM listed in its initial comments.⁸ DMM states that the fixed O&M costs for a combined cycle unit reflected in the CEC cost study are higher than the corresponding fixed O&M costs reflected in studies assessing generation costs in other states, as contained in Attachment 1. DMM

⁴ *El Paso Natural Gas Co.*, 82 FERC ¶ 61,052 (1998).

⁵ *N. Border Pipeline Co.*, 81 FERC ¶ 61,402 (1997); *Hopkinton LNG Corp.*, 81 FERC ¶ 61,291 (1997).

⁶ DMM Answer at 5.

⁷ *Id.* at 4.

⁸ *Id.* at Attachment 1.

claims that the RMR and other cost data are evidence that the CEC has overstated the actual fixed O&M costs of combined cycle units in California.

As discussed in the CAISO's April 1 Answer, DMM's arguments seeking to drastically lower the CPM soft offer cap are beyond the scope of this proceeding because the CAISO does not propose to change the level of the cap or any cost component used to establish that cap. Further, the DMM Answer does not acknowledge that the CAISO's Commission-approved tariff already directs the CAISO to use the CEC study in its periodic review of the CPM soft offer cap.⁹

Assuming the Commission nevertheless considers the substance of DMM's filing, the fact that Metcalf's fixed O&M costs were \$23.51/kW-year does not support DMM's argument that the CPM soft offer cap is too low or that the CEC cost study is systematically flawed. Although Metcalf's \$23.51/kW-year fixed O&M costs are below the level of fixed O&M costs in the reference resource used to derive the soft offer cap, they are at least two times – and in some cases almost four times – greater than the fixed O&M costs reflected in the non-California cost studies, which DMM cites in Attachment 1 to the DMM Answer. The specific stated amounts highlighted in DMM's Attachment 1 range from \$5.10/kW-year to \$11.53/kW-year. Thus, Metcalf's fixed O&M costs are a stark indication that the extremely low fixed O&M cost estimates in the non-California cost studies are not reliable for purposes of determining the costs of actual units in California. Indeed, as the CAISO stated in its April 1 Answer, the CEC has recognized this very problem with such non-California studies.¹⁰ On the other hand,

⁹ CAISO Tariff Section 43A.4.1.1.2.

¹⁰ CAISO April 1 Answer at 56-57, citing *Estimated Cost of New Renewable Generation in California*, Cal. Energy Comm'n Draft Staff Report, p.15, May 2014 (2014 CEC Cost Study).

the CEC study used data obtained from actual surveys of real power plants in California.¹¹

Contrary to DMM's belief, the fact that Metcalf's fixed O&M costs are below the level of fixed O&M costs in the reference combined cycle unit used to help establish the existing CPM soft offer cap is unremarkable and does not support any change to the cap. Although DMM's own documentation shows this,¹² DMM ignores that the CEC cost of generation studies calculate low, mid, and high cost cases for units in California.¹³ That Metcalf's lower fixed O&M costs fall closer to the CEC's low-cost case does not mean that relying on the CEC study is flawed. That is, Metcalf's costs are consistent with the CEC's study results. However, the CPM soft offer cap approved by the Commission as just and reasonable is based on the costs of a **mid-cost**, merchant-built, 550 MW combined cycle unit, **not a low cost-unit based on the CEC's low cost case.**¹⁴ Further, CAISO Section 43A.4.1.1.2 expressly provides that the reference resource to be used in any updating of the CPM soft offer cap "**shall be** a merchant-constructed, **mid-cost**, 550 MW combined cycle unit with duct firing or similar advanced combined cycle unit" (emphasis added).

Using the CEC's low-cost case to determine the CPM soft offer cap level would violate several fundamental, Commission-established principles. These include: (1) the CPM soft offer cap should not encourage reliance/leaning on CPM by load serving

¹¹ *Id.*; see also 2014 CEC Cost Study at 133.

¹² DMM Answer, Attachment 1 at 14-15.

¹³ Because "costs can vary across the state," the CEC "use[d] a three-scenario approach to create a bracket of possible costs. The CEC constructed a mid-cost case "using the best current estimate for costs that are applicable across the state for all factors involved in estimating the future costs." Around that mid-cost case, the CEC constructed a high-cost and a low-cost case using highest cost and lowest cost factors. CEC 2014 Cost Study, Executive Summary at 1-2.

¹⁴ *Cal. Indep. Sys. Operator Corp.*, 153 FERC ¶ 61,001 at P 13, n.27 (2015) (2015 CPM Order).

entities; (2) the CPM soft offer cap should provide reasonable room for prices to fluctuate as market conditions change, e.g., reflect shortages of supply; (3) a cap should not artificially suppress prices below reasonable costs; (4) a cap should not be so low as to discourage higher cost resources from participating in the competitive solicitation; (5) the CPM soft offer cap should not force a large number of resources to have to submit resource-specific cost justification filings with the Commission, thus undermining CPM's role as a streamlined backstop procurement mechanism, increasing transaction costs and fomenting litigation; and (6) a cap should sufficiently compensate resources for their service.¹⁵

Finally, DMM appears to misunderstand the purpose of the CAISO's backstop procurement mechanism. DMM seems to prefer that CPM (at least for annual designations) be a precise, cost-based, RMR-like mechanism, which it is not and was never intended to be. The Commission's 2011 and 2015 CPM orders make clear that CPM, as a limited, backstop procurement tool, must be more market-based to discourage inappropriate leaning by load serving entities (LSEs) and allow prices to fluctuate as market conditions change.¹⁶ The existing CPM soft offer cap, which is derived considering a mid-cost, combined cycle unit and set at the higher end of resource adequacy (RA) prices, has satisfied these conditions. This is a primary reason the CAISO determined that no changes to the CPM soft offer cap were justified or

¹⁵ See CAISO April 1 answer at 61., *citing Offer Caps in Markets Operated by Regional Transmission Organizations and Independent System Operators*, Order No. 831, 157 FERC ¶ 61,115 (2016) and *Settlement Intervals and Shortage Pricing in Markets Operated by Regional Transmission Organizations and Independent System Operators*, Order No. 825, 155 FERC ¶ 61,276 (2016).

¹⁶ Cal. Indep. Sys. Operator Corp., 134 FERC ¶ 61,211 at PP 57-59 (2011); 2015 CPM Order at P 29.

necessary at this time. There has been no LSE leaning on the CPM, CPM prices have ranged from \$2.00/kW-year to \$6.31/kW-year, there are RA prices above the cap, there is a broad range of RA prices below the cap, and there is no evidence of significant reference resource cost changes. Thus, the existing CPM soft offer cap is working as intended. Dramatically lowering the soft offer cap as recommended by DMM would inappropriately undermine the principles underpinning CPM.

B. Powerex’s Proposals Are Far Beyond the Scope of This Proceeding and “Supported” Only by Conclusory and Speculative Claims

In its Answer, Powerex continues to push for a complete overhaul of the CPM framework: making CPM a forward procurement mechanism; significantly increasing the length of CPM designations; and pricing CPM designations in relation to the cost of new entry. These proposals obviously are far beyond the scope of, and wholly unrelated to, the CAISO’s Section 205 filing, which seeks three targeted tariff revisions that do not implicate any of the fundamental design issues raised by Powerex.¹⁷ Powerex recognizes this fact, but persists in pursuing its arguments anyway. In that regard, at page 2 of its answer Powerex states “Powerex is not protesting the CAISO’s proposed tariff amendments in this proceeding, nor is it making a request for specific Commission action in response to CAISO’s filing in this docket.” Thus, the Commission should reject Powerex’s extraneous arguments as beyond scope and inconsistent with the guidance

¹⁷ For example, Powerex complains about the CAISO’s RA maximum import capability (MIC) process, which is not even contained in the CPM tariff provisions. Powerex answer at 10-11. Powerex fails to mention that the CAISO already is addressing MIC issues in an ongoing stakeholder process. See <http://www.caiso.com/StakeholderProcesses/Maximum-import-capability-stabilization-multi-year-allocation>.

provided in NRG.¹⁸ The CAISO also notes that the “support” Powerex provides for its proposals consists mainly of conclusory, unsubstantiated, and speculative allegations, and no unit cost information. Far more than that would be needed to support the significant changes to the CPM it seeks.¹⁹

As the CAISO indicated in its April 1 Answer, the CAISO is required under its tariff to commence a new CPM initiative in 2023 and is willing to commence such initiative sooner after the conclusion of the CAISO’s RA Enhancements Initiative and the California Public Utilities Commission’s RA reform proceeding, which potentially could be some time in 2022. Consideration of any broader changes to the CPM should occur only after the future scope and framework of California’s RA program is decided, not while those initiatives are ongoing. Simply said, “the cart should not be put before the horse.”

¹⁸ *NRG Power Mktg., LLC v. FERC*, 862 F3d 108 (D.C. Cir. 2017).

¹⁹ For example, Powerex claims that “The ISO’s answer also asserts that there is no evidence the low CPM soft offer cap is resulting in LSEs electing to fail to meet their RA requirements. Powerex Answer at 8. Powerex misstates the CAISO’s comments. The CAISO’s exact comment was “there is no evidence whatsoever that LSEs have been leaning on the CPM.” CAISO April 1 Answer at 74. Powerex offers no evidence showing that LSEs have been leaning on the CPM and its directly responsive comment has nothing to do with CPM procurement. Rather, Powerex points to a CPUC report that shows some CPUC-jurisdictional LSEs were short on some initial RA showings in 2019. Powerex Answer at 8. Powerex ignores that (1) LSEs are permitted to cure initial RA showing deficiencies, and the CPUC report on which Powerex relies states as such, and (2) CPM procurement is based on there being an overall net deficiency based on all RA showings from all LSEs, not merely on a few LSEs being individually deficient. CAISO tariff section 43A.2.3. Based on the aggregate showings following the applicable cure periods, the CAISO did not procure any CPM capacity.

III. CONCLUSION

Intervenors in this proceeding have raised several issues that are well-beyond the scope of the CAISO's tariff amendments. Such extraneous topics have unduly obfuscated the real issues in the proceeding and should be rejected. The Commission should accept without modification the three targeted tariff revisions the CAISO proposes, two of which no party opposes. Regarding the pricing of offers above the CPM soft offer cap, only Calpine opposes the options proffered by the CAISO as incremental enhancements to the CPM and, as discussed in the CAISO's April 1 answer, Calpine failed to show why such options are unjust and unreasonable for a voluntary CPM. Finally, for the reasons set forth herein and in the transmittal letter, the Commission should dismiss summarily DMM's comments to change the CPM soft offer cap and Powerex's comments seeking a complete overhaul of the CPM framework, both of which are beyond the scope of this proceeding.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each party listed on the official service list for this proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010 (2013)).

Dated at Folsom on this 9th day of April, 2020.

/s/ *Martha Sedgley*
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