

February 25, 2020

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: California Independent System Operator Corporation
Docket No. ER20 - _____-000**

**Tariff Amendment to Enhance the
Capacity Procurement Mechanism**

Dear Secretary Bose:

The California Independent System Operator Corporation (CAISO) submits this tariff amendment to enhance certain aspects of its capacity procurement mechanism (CPM).¹ Specifically, the CAISO proposes to: (1) revise the compensation for CPM resources with cost offers above the CPM soft offer cap; and (2) make two minor clarifications to the CPM tariff provisions.

As directed by its Board of Governors, the CAISO is filing alternative tariff sheets, reflecting two mutually exclusive proposals regarding compensation for CPM resources with offers above the CPM soft offer cap. The CAISO requests that the Commission consider them in sequential order – the preferred approach first and then the alternative approach only if the Commission rejects the preferred approach. Both approaches are just and reasonable, but the Commission should accept the CAISO's preferred proposal, which permits a resource with an above-cap offer to file for compensation based on its resource-specific going-forward fixed costs, plus a 20 percent cost adder. Only if the Commission rejects the preferred approach would the CAISO then request that the Commission consider and accept the alternative tariff revisions in this filing.

¹ The CAISO submits this filing pursuant to section 205 of the Federal Power Act (FPA), 16 U.S.C. § 824d. References in this transmittal letter to section numbers are references to sections of the CAISO tariff unless otherwise stated, and capitalized terms not otherwise defined herein have the meanings specified in the CAISO tariff.

The alternative tariff sheets permit a resource with an above-cap offer to file for compensation based on its resource-specific going-forward fixed costs with no adder.

The Commission also should accept the two additional tariff revisions, which merely clarify the timing of the CAISO's CPM designation reports and the applicability of provisions in tariff section 40.9 to CPM resources. These minor clarifications were not opposed by any stakeholder during the underlying stakeholder process. The three sets of proposed tariff revisions are individually severable and unrelated.

The CAISO requests that the Commission issue an order by May 28, 2020, accepting the tariff revisions in this filing effective June 1, 2020.

I. EXECUTIVE SUMMARY

In the past two years, the CAISO has conducted two stakeholder processes that considered potential modifications to the CPM – the RMR-CPM Enhancements initiative and the CPM Soft Offer Cap initiative. The CAISO has completed both initiatives, and the tariff revisions the CAISO proposes herein reflect all of the remaining CPM changes arising from these initiatives the CAISO proposes to make.

The primary focus of the RMR-CPM Enhancements stakeholder initiative, which resulted in a tariff amendment filing on April 22, 2019, was modernizing the reliability must-run (RMR) construct, better distinguishing the use of the CAISO's RMR versus CPM procurement authority, and addressing backstop procurement associated with resource retirement (including incorporating the CPM risk of retirement concept into RMR). During that stakeholder process, the CAISO also identified one CPM enhancement and two minor clarifications not directly related to RMR and the risk of retirement framework. Following that stakeholder process, the CAISO submitted proposed tariff amendments to modify RMR, modify the retirement and mothball notification framework, and eliminate the risk of retirement CPM tariff provisions.² The CAISO determined at that time it was inappropriate to submit the non-retirement-related CPM enhancement and clarifications in that tariff amendment. Rather, the CAISO determined they should be included in a separate tariff amendment filing along

² The CAISO filed the tariff amendment in Docket No. ER19-1641-000 on April 22, 2019 (April 22 Tariff Amendment). The Commission approved the tariff amendment filing, subject to a compliance filing, on September 27, 2019. *Calif. Indep. Sys. Operator Corp.*, 168 FERC ¶ 61,199 (2019) (2019 RMR Order). The Commission accepted the CAISO's subsequent compliance filing in a letter order issued on December 30, 2019.

with any CPM-related tariff amendments that might arise from the CPM Soft Offer Cap initiative.

At the conclusion of the CPM Soft Offer Cap initiative, the CAISO determined that no additional modifications to the CPM, and in particular no changes to the CPM soft offer cap, were necessary or warranted. Thus, this tariff amendment filing reflects the remaining enhancements and clarifications arising from the RMR-CPM Enhancements stakeholder process and all of the CPM revisions that the CAISO proposes to make.

Most notably, the CAISO proposes to change the methodology for compensating CPM resources with bids above the CPM soft offer cap. Today such resources must cost-justify a resource specific price based on the methodology for determining the Annual Fixed Cost Revenue Requirement (AFFR) of an RMR unit in schedule F of the *pro forma* RMR contract. The AFFR methodology compensates a resource based on its full annual cost of service. Further, under a separate tariff section, CPM resources retain all market revenues they receive. There was broad stakeholder support for the position that it is not just and reasonable to pay a CPM resource its full annual cost of service and also allow it to retain all market revenues it earns. The CAISO also concluded that changing the above-cap pricing formula was necessary to further distinguish the voluntary CPM program from the mandatory retirement-driven RMR program, which is consistent with Commission findings that different pricing schemes are appropriate for mandatory versus voluntary backstop procurement. Stakeholders disagreed on the appropriate replacement formula for above-cap CPM pricing.

As directed by the CAISO Board of Governors, the CAISO is proposing two mutually exclusive alternatives for offers above the CPM soft offer cap. The CAISO submits that both alternatives are just and reasonable and have support in prior Commission findings and statements. The CAISO requests the Commission address them in sequential order so the Commission should consider the CAISO's preferred approach first and only consider the alternative approach if it rejects the preferred approach. This filing contains tariff sheets for both the preferred approach and the alternative approach.

The CAISO's preferred approach allows a resource owner with an accepted bid above the CPM soft offer cap to file at the Commission based on the resource's going-forward fixed costs using the same cost categories (*i.e.*, ad valorem costs, insurance, and fixed operation and maintenance (O&M) costs) and same cost adder (20 percent) used to establish the existing CPM soft offer cap.

If the Commission rejects the CAISO's preferred approach, then the CAISO requests that the Commission consider and accept the alternative tariff revisions

submitted in this filing as just and reasonable. Under this alternative approach, a resource owner with an accepted bid above the CPM soft offer cap would file at the Commission based on its unit-specific going-forward fixed costs using the same cost categories (*i.e.*, ad valorem costs, insurance, and fixed operation and maintenance costs), but it would receive no adder. Neither the preferred nor the alternative approach includes a proposal to change the longstanding tariff provision allowing all CPM resources, (*i.e.*, those paid below and above the soft offer cap) to keep all market rents earned.

The CAISO's preferred approach for pricing resource-specific offers above the CPM soft offer cap (1) aligns with how the existing CPM soft offer cap is derived, (2) is consistent with prior Commission guidance to the CAISO that CPM compensation should allow for some meaningful contribution to fixed cost recovery and provide incentives for resources to undertake necessary upgrades and long-term maintenance, (3) recognizes that acceptance of CPM designations is voluntary, not mandatory, and (4) reflects the tariff formula for above-cap CPM pricing in effect before the settlement the CAISO submitted with its Section 205 tariff amendment filing in Docket No. ER15-1783.

The CAISO's alternative approach is supported by prior Commission statements involving other Independent System Operators (ISOs) and Regional Transmission Organizations (RTOs) that backstop procurement mechanisms that are voluntary – like CPM – need only provide for the recovery of going-forward costs at a minimum. However, the alternative approach does not reflect the Commission's specific guidance to the CAISO that CPM should provide a meaningful contribution toward fixed cost recovery.

During the stakeholder process, commenters also identified two beneficial clarifications to the existing CPM tariff provisions concerning the applicability of certain provisions applicable to resource adequacy (RA) resources, CPM resources, and the timing for posting CPM designation reports. No stakeholder opposed these clarifications.

II. BACKGROUND

A. The Role of CPM Under the CAISO Tariff

The CAISO tariff includes RA provisions to ensure sufficient resources are available when and where needed to serve load, meet reserve requirements, and support reliable operation of the CAISO controlled grid.³ There nevertheless may be circumstances in which the RA capacity shown by load-serving entities is inadequate or insufficient to fulfill the CAISO's operational needs and enable it to meet reliability criteria.⁴ The CAISO tariff provides the CAISO with authority to designate backstop capacity to meet reliability needs under its CPM and RMR mechanisms.

The RMR mechanism authorizes the CAISO to procure as an RMR unit a retiring or mothballing generating unit needed to ensure compliance with Reliability Criteria. Once so designated, participation as an RMR unit is mandatory. The RMR unit owner and the CAISO contract for the provision of RMR service based on the *pro forma* RMR contract in the CAISO tariff.⁵ RMR procurement is used to address resource retirement and mothball notifications, allowing the CAISO to retain resources it needs for reliability.

CPM, on the other hand, is the mechanism for procuring backstop capacity if load serving entities are deficient in meeting their RA requirements or when RA capacity cannot meet an unforeseen, immediate, or impending reliability need. The effective CPM provisions are in section 43A of the CAISO tariff.⁶ The CPM allows the CAISO to select bids voluntarily submitted by resource owners in a competitive solicitation "to procure capacity to address a deficiency or supplement resource adequacy procurement by load-serving

³ Tariff section 40, *et seq.*

⁴ After the monthly and annual RA showings, the CAISO notifies deficient load serving entities and provides them with an opportunity to cure their deficiencies.

⁵ Tariff section 41, *et seq.*; tariff appendix G (containing *pro forma* RMR contract).

⁶ The currently effective CPM provisions in Section 43A apply to all designations of Eligible Capacity to provide CPM Capacity services under the CPM that commence on or after November 1, 2016. Section 43 applied to all designations of Eligible Capacity to provide CPM Capacity services under the CPM that commenced prior to November 1, 2016. The previously-effective CPM provisions, first approved in 2011, replaced the Interim Capacity Procurement Mechanism (ICPM) formerly found in tariff section 43. *See Cal. Indep. Sys. Operator Corp.*, 134 FERC ¶ 61,211 (2011) (order conditionally accepting tariff provisions included in the previous CPM) (2011 CPM Order), *order approving uncontested settlement*, 138 FERC ¶ 61,112 (2012) (2012 CPM Order); *Cal. Indep. Sys. Operator Corp.*, 153 FERC ¶ 61,001 (2015) (order accepting tariff provisions included in the currently effective CPM) (2015 CPM Order), *order granting clarification*, 154 FERC ¶ 61,034 (2016).

entities, as needed, to maintain grid reliability.”⁷ The CAISO may designate capacity under the CPM only to address one of these specified circumstances:

- (1) Insufficient local capacity area resources in an annual or monthly RA plan;⁸
- (2) Collective deficiency in local capacity area resources;⁹
- (3) Insufficient RA resources in a load-serving entity’s annual or monthly RA plan;¹⁰
- (4) A CPM significant event;¹¹
- (5) A reliability or operational need for an exceptional dispatch CPM;¹²
and
- (6) A cumulative deficiency in the total flexible RA capacity in the annual or monthly flexible RA capacity plans, or in a flexible capacity category in the monthly flexible RA capacity plans.¹³

⁷ 2015 CPM Order at P 2.

⁸ Tariff sections 43A.2.1.1 and 43A.2.1.2, respectively.

⁹ Tariff section 43A.2.2.

¹⁰ Tariff section 43A.2.3.

¹¹ Tariff section 43A.2.4. As defined in the CAISO tariff, a Significant Event is a “substantial event, or a combination of events, that is determined by the CAISO to either result in a material difference from what was assumed in the resource adequacy program for purposes of determining the Resource Adequacy Capacity requirements, or produce a material change in system conditions or in CAISO Controlled Grid operations, that causes, or threatens to cause, a failure to meet Reliability Criteria absent the recurring use of a non-Resource Adequacy Resource(s) on a prospective basis.” Tariff appendix A (definition of “CPM Significant Event”).

¹² Tariff section 43A.2.5. An Exceptional Dispatch CPM Non-System Reliability Need is the “existence of a reliability issue where resolution depends on a resource in a specific geographic area within the CAISO Balancing Authority, which may include, but is not limited to, a local reliability area, zone, or region.” Tariff appendix A (definition of “Exceptional Dispatch CPM Non-System Reliability Need”). An Exceptional Dispatch CPM System Reliability Need is the “existence of a reliability issue where resolution does not require a resource to be in a specific geographic area within the CAISO Balancing Authority Area, which may include, but is not limited to, a forced outage of a major transmission line or a forced outage of a large generating unit.” Tariff appendix A (definitions of “Exceptional Dispatch CPM System Reliability Need”). To be eligible for an Exceptional Dispatch CPM, capacity cannot be RA, and cannot be the subject of a self-schedule or market-based commitment during the time covered by the Exceptional Dispatch. Tariff section 43A.2.5.2.1.

¹³ Tariff section 43A.2.7.

When the CAISO procures a resource under the CPM, the CAISO must post a CPM designation report to its website and provide a market notice of the availability of the report within the earlier of 30 days after procuring the resource or 10 days after the end of the month.¹⁴

There are two options for a resource submitting CPM offers into a CPM competitive solicitation process to receive compensation. The first option is for the resource to receive compensation based on its offer (*i.e.*, bid) of capacity into the competitive solicitation at a price at or below the CPM soft offer cap, which is set at \$6.31/kW-month (\$75.68/kW-year).¹⁵ The CPM soft offer cap is based on the going-forward fixed costs (*i.e.*, fixed operations and maintenance costs, ad valorem taxes, and insurance costs) of a reference unit – a merchant-constructed, mid-cost, 550 MW combined cycle resource with duct firing, plus a 20 percent adder to that cost total.¹⁶

The second option is for the CPM resource to offer capacity into the competitive solicitation at a price above the CPM soft offer cap and to cost-justify that offer by making a filing with the Commission based on the AFRR formula in schedule F of the *pro forma* RMR contract.¹⁷ The AFRR formula compensates a resource based on its full annual cost of service (including return on and of capital) for its net plant at the time of the contract. For all CPM designations, the resource will receive the price that the Commission finds to be just and reasonable for the remainder of the calendar year in which it is approved and for the next two calendar years, unless superseded by a subsequent Commission-approved CPM capacity price during that period or it offers a lower bid in any subsequent CPM competitive solicitation.¹⁸

¹⁴ Tariff section 43A.6.2.

¹⁵ Tariff section 43A.4.1.1.

¹⁶ See tariff section 43A.4.1.1.2. The costs used to determine the CPM soft offer cap were based on a cost of service study conducted by the California Energy Commission. See transmittal letter for Tariff Amendment and Offer of Settlement Regarding Capacity Procurement Mechanism Revisions and Request for Waiver of Notice Requirement, Docket No. ER15-1783-000, at 15 (May 26, 2015).

¹⁷ Tariff section 43A.4.1.1.1. The resource may not propose – and will not be compensated based upon – an offer price higher than the price submitted in its bid in the competitive solicitation. *Id.*

¹⁸ *Id.* Resources are not required to submit bids into a CPM competitive solicitation. If there is insufficient capacity offered into the competitive solicitation to meet the minimum designation criteria, the CAISO shall evaluate whether any eligible capacity not offered into the competitive solicitation would allow the CAISO to meet the minimum designation criteria. Tariff section 43A.4.2.1. If the CAISO must designate such “non-offered” capacity, the CAISO will consider the offer price for such capacity to be the CPM soft offer cap. *Id.* A resource whose

No matter which option the CPM resource chooses, it retains all revenues it earns in the CAISO markets.¹⁹ However, a CPM resource required to participate in the residual unit commitment (RUC) process is optimized using a zero-dollar RUC availability bid and is not eligible to receive additional compensation through the RUC process.²⁰

A resource designated under the CPM is treated like an RA resource, and has the same must-offer obligations to bid into the CAISO markets.²¹ Like an RA resource, a CPM resource is also subject to the resource adequacy availability incentive mechanism (RAAIM) set forth in the RA tariff provisions.²² Under the RAAIM, RA capacity is eligible for potential incentive payments or may face charges for sub-par performance over a month, depending on the extent to which the resource bids in its RA capacity to satisfy its must-offer obligations.²³ The RAAIM price applicable to a CPM resource is the higher of its CPM price or the RAAIM price applicable to RA resources.²⁴

In contrast with the mandatory resource participation applicable to RMR units, CPM participation is voluntary. The CAISO does not require resources to submit bids into a CPM competitive solicitation. However, if a resource does submit a bid, and the CAISO accepts the bid, the resource must accept the CPM designation. If a resource does not submit a bid into a CPM competitive solicitation, and the CAISO offers the resource a CPM designation, the resource may decline the CPM designation.²⁵

capacity was not offered into the competitive solicitation that is deemed necessary to meet the minimum designation criteria also has the option to request from the Commission a resource-specific CPM capacity price under tariff section 43A.4.1.1.1. *Id.*

¹⁹ Tariff section 43A.7.3.

²⁰ *Id.* This treatment under RUC is generally applicable to resources proving RA capacity.

²¹ Tariff section 43A.5.1.

²² Tariff section 43A.5.4.

²³ Tariff section 40.9, *et seq.*

²⁴ Tariff section 43A.5.4.

²⁵ Tariff sections 43A.5.1 – 43A.5.2. If capacity that was not offered into the Intra-monthly Competitive Solicitation Process (CSP) is offered an Exceptional Dispatch CPM designation and declines the designation, then the resource will be compensated based on supplemental revenues under Tariff sections 39.10 and 11.5.6.7. This essentially allows the resource to be paid, during the period it otherwise would have been designated as CPM, the higher of its energy bid price or the LMP, even if it otherwise would be subject to mitigation measures. In other words, the resource would not be mitigated for an exceptional dispatch that would otherwise be mitigated.

Resources designated as CPM to fill an annual RA deficiency or Collective Deficiency can have a term up to 12 months depending on the term of the overall shortage (the term cannot extend into the next RA Compliance Year).²⁶ Resources designated as CPM to fill a monthly RA deficiency have a term of one month.²⁷ The term for an Exceptional Dispatch CPM System Reliability Need is 30 days, and the term for an Exceptional Dispatch CPM Non-System Reliability Need is sixty days.²⁸ The term for a Significant Event CPM is 30 days, which the CAISO can extend by 60 days if the Significant Event is expected to continue.²⁹ If the Significant Event will extend beyond 90 days, the CAISO will consider alternatives to CPM designations with its stakeholders, and the CAISO can extend the CPM designation for the expected duration of the Significant Event if there are no effective alternatives.³⁰

B. Development of CPM Enhancements

In 2018 and 2019, the CAISO conducted two initiatives that addressed possible revisions to the CPM tariff: (1) the RMR-CPM Enhancements initiative that addressed changes to the risk of retirement CPM and pricing for offers above the CPM soft offer cap; and (2) the CPM Soft Offer Cap initiative to explore possible changes to the CPM soft offer cap and other CPM modifications.

1. RMR-CPM Enhancements Initiative

The CAISO's April 22 Tariff Amendment filing describes the history of the RMR-CPM Enhancements stakeholder initiative.³¹ The CAISO filed the April 22 Tariff Amendment to implement numerous revisions to improve its RMR program and better distinguish RMR and CPM by clarifying when RMR and CPM procurement mechanisms will be used. The Commission approved the proposed tariff revisions on September 27, 2019 in its 2019 RMR Order. Under the tariff provisions approved by the Commission, the CAISO now uses RMR procurement to address resource retirement and mothball notifications. The CAISO incorporated the CPM risk of retirement concept into RMR and removed

²⁶ Tariff sections 43A.3.1, 43A.3.3, and 43A.3.4.

²⁷ Tariff section 43A.3.2.

²⁸ Tariff section 43A.3.6.

²⁹ *Id.*

³⁰ *Id.*

³¹ Transmittal letter for April 22 Tariff Amendment filing at 28-32, available at <http://www.caiso.com/Documents/Apr22-2019-TariffAmendment-RMR-CPMEnhancements-ER19-1641.pdf>.

the CPM risk of retirement provisions from CAISO tariff section 43A. Thus, all retirement-related backstop now occurs under RMR. The Commission approved tariff revisions that also updated the 20-year-old *pro forma* RMR contract and other RMR tariff provisions to better align them with the CAISO's current operating framework and needs.

In the stakeholder process that resulted in the April 22 Tariff Amendment, the CAISO and stakeholders also discussed the tariff revisions proposed in this filing, including changes to the pricing of offers above the CPM soft offer cap, and reviewed drafts of those tariff revisions.³² The CAISO Board of Governors directed the CAISO to file alternative tariff sheets regarding pricing of offers above the CPM soft offer cap for Commission consideration, *i.e.*, a preferred proposal and an alternative proposal for the Commission to consider only if it rejects the CAISO's preferred proposal.³³ The preferred and alternative proposals are discussed in greater detail *infra*.

Before submitting the April 22 Tariff Amendment, the CAISO recognized that certain CPM enhancements developed through the stakeholder process were separate and distinct from – and wholly unrelated to – the RMR and risk of retirement CPM reforms and decided to separately submit a tariff amendment containing those tariff revisions. Consequently, the CAISO explained in the April 22 Tariff Amendment that the only CPM-related tariff changes proposed therein involved removing the risk of retirement CPM provisions from tariff section 43A. The CAISO also committed to submit separately a targeted tariff filing to revise the provisions on compensation for CPM resources with cost offers above the CPM soft offer cap and to clarify certain CPM provisions in the tariff.³⁴ A further consideration was that, consistent with prior Commission guidance, the CAISO

³² The draft tariff revisions and other materials are available on the CAISO website page dedicated to the stakeholder process to enhance the RMR and CPM mechanisms (RMR-CPM Stakeholder Process), http://www.caiso.com/informed/Pages/StakeholderProcesses/ReliabilityMust-Run_CapacityProcurementMechanismEnhancements.aspx.

³³ March 20, 2019 Memorandum from Keith Casey, Vice President, Market & Infrastructure Development to CAISO Board of Governors at 10-11, available at <http://www.caiso.com/Documents/Decision-ReliabilityMust-Run-CapacityProcurementMechanismEnhancementsProposal-Memo-Mar2019.pdf> and CAISO Board of Governors Decision on Reliability Must Run and Capacity Procurement Mechanism Enhancements Proposal, available at <http://www.caiso.com/Documents/Decision-ReliabilityMust-Run-CapacityProcurementMechanismEnhancementsProposal-Motion-Mar2019.pdf>.

³⁴ Transmittal letter for April 22 Tariff Amendment at 31 n.82 and 119 n.324. The CAISO noted in that same discussion that the revisions in the separate targeted tariff filing would stand alone from the RMR and risk of retirement CPM changes proposed in the April 22 Tariff Amendment. This filing is the separate tariff amendment filing referenced in the April 22 Tariff Amendment.

did not want to make piecemeal changes to the CPM.³⁵ At that time, the CAISO had commenced another stakeholder initiative addressing potential CPM-related tariff changes, *i.e.*, the CPM Soft Offer Cap initiative. Because the CAISO decided not to make any additional CPM tariff changes in the CPM Soft Offer Cap initiative, the tariff revisions arising from the RMR-CPM Enhancements initiative are the only CPM-related tariff changes the CAISO proposes to make in this filing.³⁶

³⁵ See *Cal. Indep. Sys. Operator Corp.*, 163 FERC ¶ 61,023, at P 48 (2019).

³⁶ In the RMR-CPM Enhancements initiative, the CAISO also discussed with stakeholders the circumstances surrounding the annual CPM designations issued to the Encina units for 2018 to address deficiencies in annual RA showings for local capacity and collective local deficiencies. In that regard, the CAISO's May 26, 2015 CPM tariff amendment filing in Docket No. ER15-1783 included an offer of settlement between the CAISO and stakeholders regarding all aspects of the filing. The offer of settlement included two separate triggers to assess whether load serving entities might be using the CPM for primary capacity procurement: (1) within a rolling 24-month period, the same load serving entity twice relies on the CPM to meet any RA deficiency; or (2) any load serving entity meets more than 50 percent of its annual or monthly obligation for a year or month, respectively, with CPM capacity procured by the CAISO on the load serving entity's behalf. The offer of settlement provided that the first time the trigger is met, the CAISO would open a stakeholder initiative to explore whether load serving entities have relied on the CPM to an unacceptable extent, as the primary means of capacity procurement. It also provided that the stakeholder process may consider prospectively applicable remedial measures designed to avoid load serving entity reliance on the CPM. The Commission approved the tariff amendment filing as just and reasonable but found that the offer of settlement was not a settlement filed under Rule 602 of the Commission's Rules of Practice and Procedure. Rather, the Commission treated the offer of settlement component of the CAISO's filing "as record evidence in support of the CAISO's Federal Power Act Section 205 filing." 2015 CPM Order at PP 2 and 8 n.53. In December 2017, the CAISO made an annual RA deficiency and Collective Deficiency CPM designation in the San Diego area that met the second trigger. The CAISO honored its commitment under the settlement and, in the RMR-CPM Enhancement stakeholder initiative, the CAISO evaluated whether load serving entities were using the CPM as their primary capacity procurement. The CAISO discussed this issue at a May 30, 2018 working group meeting and at stakeholder meetings, sought stakeholder comment on the issue, and addressed the matter in its straw proposals. The CAISO concluded that the December 2017 designations were driven by circumstances unrelated to the design of CPM. *Review of Reliability Must Run and Capacity Procurement Mechanism, Stakeholder Working Group Meeting, May 30, 2018, slides 12-23; Revised Straw Proposal at 37-38; Second Revised Straw Proposal at 37-38; Draft Final Proposal at 44* (all of these cited materials are available on the CAISO website page for the RMR-CPM Stakeholder Process listed above). In particular, load serving entities were prohibited from contracting with generation resources for deliveries beyond their once-through cooling compliance dates, even if such resources received compliance extensions to continue operating. That was the case with certain once-through cooling resources in the San Diego area. No stakeholder submitted written comments opposing the CAISO's conclusions. The CAISO expressed its commitment to continue monitoring future CPM procurement. In an unrelated proceeding, the Commission agreed with the CAISO that the Encina (and Moss Landing) CPM designations for 2018 were "unique and transitional in nature." *CXA La Paloma, LLC v. Cal. Indep. Sys. Operator Corp.*, 165 FERC ¶ 61,148, at P 75 (2018). There were no annual CPM designations for 2019 and 2020.

2. CPM Soft Offer Cap Initiative

The California Energy Commission (CEC) issued its *Estimated Cost of New Utility-Scale Generation in California: 2018 Update* in May 2019.³⁷ Under CAISO tariff section 43A.4.1.1, the CAISO commenced the CPM Soft Offer Cap initiative on May 30 2019 by posting an issue paper. Among other matters, the initiative discussed the CEC cost study, explored whether changes to the CPM soft offer cap were warranted, and explored other potential changes to the CPM. The CAISO issued a straw proposal on July 24, 2019 and a draft final proposal on January 6, 2020. The January 6, 2020 posting also included draft tariff language regarding the proposals in this tariff amendment filing, which the CAISO Board of Governors authorized in connection with the RMR-CPM Enhancements initiative.³⁸ The CAISO held stakeholder calls on June 7, 2019, August 6, 2019, and January 9, 2020. The CAISO also provided stakeholders the opportunity to submit written comments on each of the posted documents. There was wide disparity among stakeholders on the issues discussed and no prognosis for consensus. The CAISO ultimately determined that changes to the existing CPM soft offer cap level were unwarranted at this time, and no other CPM modifications were necessary.

The only CPM tariff revisions the CAISO is pursuing in this filing are those its Board of Governors approved for filing in connection with the RMR-CPM Enhancements initiative.

III. PROPOSED TARIFF REVISIONS

A. Compensation Above the CPM Soft Offer Cap

1. Reasons for Revising the Current Compensation Methodology

As explained above, a resource can submit a resource-specific cost offer above the CPM soft offer cap and cost-justify such an offer by making a filing with the Commission based on the AFRR formula set forth in the *pro forma* RMR contract. This formula allows resources to recover their full annual cost of service. In addition, under a different, longstanding tariff provision, CPM resources retain all market revenues.

³⁷ <https://ww2.energy.ca.gov/2019publications/CEC-200-2019-005/CEC-200-2019-005.pdf>.

³⁸ The CAISO also had previously discussed these tariff changes with stakeholders during the course of the RMR-CPM Enhancements initiative.

In 2018, the CAISO submitted a tariff amendment in Docket No. ER18-641 proposing certain changes to the CPM risk of retirement construct. The CAISO retained the existing cost-based compensation methodology that allowed resources to make a Section 205 filing to justify a resource-specific price based on the AFRR methodology in the *pro forma* RMR contract. The CAISO's Department of Market Monitoring (DMM), the California Public Utilities Commission (CPUC), and several other stakeholders objected to applying the existing cost-based compensation scheme. They argued that the Commission should not compensate CPM resources their full annual cost of service given they retain all market revenues they earn.³⁹ The Commission rejected the tariff amendment filing, recognizing the compensation concerns, and "strongly encourage[d]" the CAISO and stakeholders to address issues in the then-ongoing RMR-CPM Stakeholder Process that included "revisiting the issue of the adequacy of CPM . . . compensation."⁴⁰

In the RMR-CPM Enhancements initiative, stakeholders in the RMR-CPM Enhancements initiative again voiced objections regarding the existing tariff formula for compensating resources with offers above the CPM soft offer cap. Specifically, they argued that paying CPM resources with annual CPM designations a resource-specific, cost-based rate using the AFRR methodology, which is based on a resource's full annual cost of service, would not only guarantee such CPM resources recovery of their annual cost of service, but they would also retain all market revenues. Stakeholders argued that the CAISO should revise the pricing formula for resource-specific, cost-based offers above the CPM soft offer cap and adopt a going-forward cost framework to prevent the "double recovery" of costs. The CAISO agreed with these stakeholders that the above-cap CPM pricing formula should be revised so CPM resources retaining all market revenues, which has been a longstanding foundational element of the CPM and its predecessors, are not also paid their resource-specific, full annual cost of service.

In the 2019 RMR Order, the Commission recognized the benefit of eliminating the risk of retirement CPM "under which resources would have earned full cost recovery and retained market revenues."⁴¹ The CAISO's proposal herein similarly eliminates that possibility for resources receiving annual CPM designations.

³⁹ See *Cal. Indep. Sys. Operator Corp.*, 163 FERC ¶ 61,023, at PP 34-36.

⁴⁰ *Id.* at PP 43-48.

⁴¹ 2019 RMR Order at P 56.

In the underlying RMR-CPM Enhancements initiative, the CAISO also concluded that changing the above-cap CPM pricing formula, which is based on RMR pricing, was necessary and appropriate for all categories of CPM designations to distinguish the RMR and CPM backstop procurement mechanisms, their respective compensation schemes, and the purposes for which they are used.⁴² This would also ensure a consistent pricing formula for above-cap offers is applied to all categories of CPM designations.

One of the primary purposes of the RMR-CPM Enhancements initiative was to clearly delineate the different purposes for which RMR and CPM are used and recognize that accepting a CPM designation is voluntary, whereas, accepting an RMR contract is mandatory.⁴³ The Commission has recognized that different pricing formulas can apply to backstop procurement depending on whether the procurement is mandatory or voluntary. Specifically, the Commission has found that full cost of service recovery is required only when the backstop procurement mechanism is mandatory, and that lesser cost compensation is permissible when the backstop procurement mechanism is voluntary. For example, in an order addressing the provision of RMR services in the markets operated by the New York Independent System Operator, Inc. (NYISO), the Commission explained that it:

believes that NYISO's RMR compensation provisions should reflect the nature of NYISO's RMR proposal. That is, should NYISO choose an exclusively voluntary RMR regime, . . . compensation to an RMR generator must at a minimum allow for the recovery of the generator's going-forward costs . . . Alternatively, should NYISO choose an exclusively mandatory RMR regime, . . . NYISO's proposal should provide for compensation at a full cost-of-service rate.⁴⁴

⁴² As the CAISO indicated in its April 22 Tariff Amendment, the CAISO and stakeholders sought a greater degree of distinction between RMR and CPM. Transmittal letter for April 22 Tariff Amendment at 1-3, 28, 37-41.

⁴³ The Commission recognized that because CPM designations are voluntary and RMR procurement authority is mandatory, the two mechanisms are not redundant. 2019 RMR Order at P32. RMR applies when a resource submits a retirement or mothball notice, and CAISO studies determine that the resource is needed to ensure compliance with specified reliability criteria. An RMR resource executes an annual contract. In contrast, CPM is used to "fill" RA deficiencies and immediate, short-term needs for capacity that cannot be met by available RA resources at the time of the designation. CPM is solely tariff-based, and there is no written contract. The Commission recognized that RMR is not used to backstop RA deficiencies. 2019 RMR Order at P 32.

⁴⁴ *N.Y. Indep. Sys. Operator Corp.*, 150 FERC ¶ 61,116, at P 17 (2015). See also *Midcontinent Indep. Sys. Operator, Inc.*, 148 FERC ¶ 61,057, at P 84 (2014) (explaining that "it is unjust and unreasonable not to allow SSRs [System Support Resource units, *i.e.*, RMR units]

The current above-cap pricing formula, which guarantees full annual cost of service recovery is required for a mandatory backstop procurement mechanism like RMR, but is not necessary for a voluntary backstop procurement mechanism like CPM, particularly given that CPM resources retain all market revenues.

As discussed below, stakeholders generally agreed that the above-the-CPM-soft-offer-cap pricing formula should be modified, but they vigorously disagreed amongst themselves as to what replacement compensation scheme the CAISO should implement.

2. Revisions to the Current Methodology

The CAISO proposes to revise tariff section 43A.4.1.1.1 to replace the existing formula with a new formula for pricing offers above the CPM soft offer cap. Specifically, the CAISO offers a sequenced approach for the Commission to consider two alternate, mutually exclusive proposals for pricing offers above the CPM soft offer cap: a preferred approach (Option A) and a less preferred alternative approach (Option B).⁴⁵ The Commission has chosen between alternative options proposed in Section 205 filings for revising ISO and RTO tariff provisions in other proceedings.⁴⁶

to receive compensation for the fixed costs of existing plant given MISO's authority under its Tariff to unilaterally require a generator . . . to remain online in order to address reliability concerns," but that [w]hen a generator . . . is operating voluntarily in a competitive marketplace... the Commission need only provide the generator with the opportunity to recover its costs . . . via market-based rates").

⁴⁵ CAISO management, in its memorandum to the CAISO Governing Board requesting approval of the proposals reflected in the April 22 Tariff Amendment and in this CPM tariff amendment, noted that it "propose[d] to file two alternative proposals with FERC to change the current [CPM above-cap compensation] approach." Memorandum from Keith Casey, Vice President, Market & Infrastructure Development to CAISO Governing Board, at 10-11 (Mar. 20, 2019), available at <http://www.caiso.com/Documents/Decision-ReliabilityMust-Run-CapacityProcurementMechanismEnhancementsProposal-Memo-Mar2019.pdf>. The CAISO Governing Board gave its unanimous approval at its meeting held on March 27, 2019. See <http://www.caiso.com/Documents/Decision-ReliabilityMust-Run-CapacityProcurementMechanismEnhancementsProposal-Motion-Mar2019.pdf>.

⁴⁶ For example, in one proceeding ISO New England Inc. (ISO-NE) and the New England Power Pool Participants Committee jointly submitted two alternative sets of proposed revisions to Market Rule 1 of the ISO-NE tariff. The central difference between the alternative sets of tariff revisions was that all of the day-ahead market processes would occur one hour earlier under the first alternative set as compared with the timing of the day-ahead market processes under the second alternative set. The Commission found that it should accept the second alternative set of tariff revisions rather than the first. *ISO New Eng. Inc. & New Eng. Power Pool*, 143 FERC ¶ 61,065, at PP 1, 35-36 (2013).

The CAISO prefers Option A rather than Option B; however, each alternative constitutes a just and reasonable means of pricing voluntary, above-cap CPM offers. The CAISO asks the Commission to consider its preferred alternative (Option A) first, and to consider the less preferred alternative (Option B) only if it rejects the CAISO's preferred approach.⁴⁷ The CAISO's Board of Governors directed the CAISO to file alternative tariff sheets in this manner.

a. Option A: The CAISO's Preferred Approach

Under the CAISO's preferred approach, the price above the CPM soft offer cap for a CPM resource is based on the resource's going-forward fixed costs using the same cost categories (*i.e.*, fixed operation and maintenance costs, plus ad valorem taxes, plus insurance) and the same cost adder (20 percent) used to establish the existing, Commission-approved CPM soft offer cap.⁴⁸ The CAISO retains an existing, separate tariff provision that allows all CPM resources to keep all market revenues earned.⁴⁹

The Option A preferred approach for pricing offers above the CPM soft offer cap (1) aligns with how the existing CPM soft offer cap is derived, (2) is consistent with prior Commission guidance to the CAISO that CPM compensation should allow for some meaningful contribution to re fixed cost recovery and provide incentives for resources to facilitate undertake necessary upgrades and long-term maintenance, (3) reflects the voluntary nature of CPM designations, and (4) tracks the formula in effect before the 2015 CPM Order. The CAISO's Option A preferred approach would also make the general formulas for determining the CPM soft offer cap and pricing resource-specific offers above the cap consistent. Currently, they are inconsistent.

Further, the preferred approach recognizes the guidance the Commission provided in the 2011 and 2015 CPM Orders, *i.e.*, the CPM should provide some meaningful contribution toward fixed cost recovery. In the 2011 CPM Order, the Commission rejected a CAISO proposal to establish pricing under the then-

⁴⁷ The Commission considered sequenced alternatives proposed by PJM Interconnection, L.L.C. (PJM) to revise its tariff. Although the Commission rejected both proposals on substantive grounds, it considered the proposals in the sequenced manner requested by PJM. *Calpine Corp., et al. v. PJM Interconnection, LLC, et al.*, 163 FERC ¶ 61,236, at PP 32, 34, 63-73, 100-06 (2018).

⁴⁸ See tariff section 43A.4.1.1.2. The clean tariff sheets for the CAISO's Option A are contained in Attachment A-1, and redline tariff sheets showing the Option A revisions are contained in Attachment A-2.

⁴⁹ See tariff section 43A.7.3.

effective set of CPM tariff provisions based on going-forward fixed costs plus only a 10 percent adder.⁵⁰ The Commission found that such a proposal “may . . . deny resources a reasonable opportunity to recover fixed costs.”⁵¹ The Commission stated that CPM compensation must provide “at a minimum, a meaningful opportunity for CPM resources to recover additional fixed costs.”⁵² Following issuance of the 2011 CPM Order, the parties reached a settlement to establish compensation under the CPM, which the Commission accepted in the 2012 CPM Order.⁵³ As a result, CPM resources were paid an administrative price determined based on the going-forward costs (fixed O&M, insurance, and ad valorem taxes) of a reference unit, plus a 20 percent adder. Resources seeking a price above the CPM administrative price were required to cost-justify a resource-specific price based on the resource’s going-forward costs (*i.e.*, fixed O&M, insurance, and ad valorem taxes), plus a 20 percent adder. Thus, both the CPM administrative price and any resource-specific, cost-justified price above the CPM administrative price were based on the same pricing formula that included a 20 percent adder. In the 2015 CPM Order, the Commission found that implementing a soft offer cap based on going-forward costs plus a 20 percent adder was just and reasonable and “should allow sufficient recovery of fixed costs plus return on capital to facilitate incremental upgrades and improvement by resources.”⁵⁴ Applying this formula to above-cap offers likewise would provide for “sufficient recovery of fixed costs,” particularly given the voluntary nature of the CPM procurement framework.

The CAISO’s Option A preferred approach to modifying CPM compensation above the CPM soft offer cap, is also consistent with Commission orders, described *supra*, regarding the pricing of voluntary backstop procurement mechanisms (as opposed to mandatory backstop procurement mechanisms). Both of the CAISO’s proposals, Option A and Option B, follow prior Commission directives. Participation in the CPM is voluntary; whereas, RMR, which provides for full annual cost of service compensation, is mandatory. Thus, it is just and reasonable to compensate a CPM resource with an offer

⁵⁰ 2011 CPM Order at PP 57-59. The existing compensation scheme at the time of the 2011 CPM tariff amendment filing was a single administrative price (based on the going-forward costs of a reference resource plus a 10 percent adder), and there was no competitive solicitation as there is today. *Id.* at PP 5, 16, citing *Cal. Indep. Sys. Operator Corp.*, 125 FERC ¶ 61,053, at P 15 (2008). Further, resource owners with resources whose going-forward costs exceeded the administrative price could cost-justify a resource specific price based on the resource’s going-forward costs (*i.e.*, fixed O&M, ad valorem taxes, and insurance) plus a 10 percent adder.

⁵¹ 2011 CPM Order at P 57.

⁵² *Id.* at P 59.

⁵³ This is the same formula for above-cap pricing that the CAISO proposes in this filing.

⁵⁴ 2015 CPM Order at P 29. The Commission also approved the existing above-cap CPM pricing formula.

above the CPM soft offer cap based on its going-forward fixed costs plus a reasonable adder, rather than paying the unit's full annual cost of service compensation, which is appropriate for RMR units whose participation is mandatory.

Resources can always decline a CPM designation and instead receive Supplemental Revenues, as described *supra*. Further, resources declining a CPM designation can submit a retirement/mothball notification, and if CAISO studies show the resource is needed to ensure compliance with reliability criteria, the CAISO can offer the resource an RMR contract, which entitles it to full annual cost of service compensation. The CAISO's proposed above-cap CPM compensation proposal further distinguishes the separate and distinct voluntary CPM regime from the mandatory RMR regime.

b. Option B: The CAISO's Alternative Approach

Only if the Commission does not accept the CAISO's preferred approach, then the CAISO requests that the Commission accept the Option B alternative approach proposed in this filing as just and reasonable. Under the alternative approach, a CPM resource with an offer above the CPM soft offer cap would file at the Commission based on its unit-specific going-forward fixed costs using the same cost categories (*i.e.*, fixed operation and maintenance costs, plus ad valorem taxes, plus insurance) that are used to establish the CPM soft offer cap, but the CPM resource would receive no adder.⁵⁵ The absence of the adder is the only difference from the CAISO's preferred approach. Under both approaches, the CPM resource would continue to retain all market revenues it earns.

The CAISO believes its preferred approach that includes a 20 percent adder is more consistent with prior Commission guidance to the CAISO in the 2011 CPM Order and the 2015 CPM Order that CPM pricing must provide a reasonable opportunity to recover fixed costs. The Option B approach, which provides only for going-forward cost recovery and market revenue retention, is consistent with general Commission statements addressing the backstop procurement mechanisms of other ISOs and RTOs, in particular the pricing of voluntary (as opposed to mandatory) backstop mechanisms. These orders merely require going-forward cost recovery, at a minimum, for voluntary backstop procurement, and cost of service recovery for mandatory backstop procurement.

⁵⁵ The clean tariff sheets for the CAISO's less preferred Option B are contained in Attachment B-1, and redline tariff sheets showing the Option B revisions are contained in Attachment B-2.

3. Responses to Stakeholder Comments

Some stakeholders suggested that pricing above the CPM soft offer cap should be based on a resource's specific going-forward fixed costs plus an adder of less than 20 percent (although they did not recommend a specific level).⁵⁶ These stakeholders fail to consider that, in the 2011 CPM Order, the Commission rejected as inadequate the CAISO's proposal for pricing CPM designations (both at and above the CPM administrative price) based on a resource's going-forward fixed costs plus a 10 percent adder. Thus, any adder would presumably need to be greater than 10 percent. In the 2015 CPM Order the Commission found a 20 percent adder to be just and reasonable for purposes of establishing the CPM soft offer cap, and the CAISO now proposes the same adder for pricing offers above the cap. The CAISO is not required to demonstrate that a 20 percent adder is more just and reasonable than an adder in the 11-19 percent range.⁵⁷ The CAISO tariff already reflects that a 20 percent adder for purposes of establishing the CPM soft offer cap is just and reasonable.⁵⁸ It should be equally just and reasonable for establishing a resource-specific price above the soft offer cap.

DMM suggested that, instead of employing a 20 percent adder (or no adder at all), the CAISO should instead allow a resource seeking compensation above the CPM soft offer cap to demonstrate its "actual costs" incurred for "long-term maintenance" and "environmental upgrades."⁵⁹

⁵⁶ A summary of the stakeholders' comments on this CPM proposal is provided at pages 10-12 of the comments matrix issued on March 20, 2019, which is available at <http://www.caiso.com/Documents/Decision-ReliabilityMust-Run-CapacityProcurementMechanismEnhancementsProposal-StakeholderMatrix-Mar2019.pdf>.

⁵⁷ See, e.g., *City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984) (when determining whether a proposed rate was just and reasonable, as required by the FPA, the Commission properly did not consider "whether a proposed rate schedule was more or less reasonable than the alternative rate designs"); *ISO New Eng., Inc.*, 162 FERC ¶ 61,206, at P 33 (2018) ("[T]he question before the Commission . . . is whether ISO-NE has demonstrated that its [proposals] are just and reasonable, not whether ISO-NE's proposal is more or less just and reasonable than protester's proposed alternatives."); *Louisville Gas & Elec. Co.*, 114 FERC ¶ 61,282, at P 29 (2016) (finding that the "just and reasonable standard under the FPA is not so rigid as to limit rates to a 'best rate' or the 'most efficient rate' standard").

⁵⁸ Tariff section 43A.4.1.1.2.

⁵⁹ DMM Comments on Decision on Reliability Must-Run and Capacity Procurement Mechanism Enhancements Proposal at 5 (Mar. 20, 2019), available at <http://www.caiso.com/Documents/Decision-ReliabilityMust-Run-CapacityProcurementMechanismEnhancementsProposal-DMMComments-Mar2019.pdf>.

The Commission should not adopt DMM's proposal, which constitutes a material modification to the CAISO's proposal. A resource that believes accepting a CPM designation is insufficient to recover its costs, including long-term maintenance and upgrade costs, is likely no longer viable in the market and can submit a retirement or mothball notice and request an RMR designation, which expressly provides a means for recovering actual costs in these areas.⁶⁰ The RMR process provides a mechanism for robust advance CAISO review and approval of proposed capital additions, upgrades, and repair costs to ensure that such costs are prudent and needed for RMR service.⁶¹ There is no need to transform CPM into an "RMR-light" mechanism. The CAISO is seeking to further distinguish RMR and CPM, not blur the lines between the two. DMM's proposal is contrary to that effort. As the Commission recognized regarding the ICPM, which was the predecessor to CPM and also voluntary:

because acceptance of ICPM designations is voluntary, resources are free to decline an ICPM designation and pursue other avenues of recovering their fixed costs. Thus, we disagree with commenters that argue the ICPM fails to provide appropriate compensation.⁶²

Unlike RMR, the voluntary CPM framework has no contractual provisions (protections) to discourage toggling between CPM procurement and market procurement. The Commission has previously expressed concern with resources recovering their actual upgrade and/or repair costs via a cost-based backstop procurement mechanism and then switching back to market-based cost recovery without consequence.⁶³ DMM's proposal would allow a CPM resource with an above-cap offer to recover the actual costs of its upgrades and major maintenance with no contractual anti-toggling protections like those contained in the *pro forma* RMR contract and without RMR's mandatory procurement framework. Nor are they workable under the CAISO's voluntary CPM framework. For example, unlike RMR, once a CPM term ends, the CAISO cannot require a resource owner to accept a subsequent CPM designation(s) to meet a need. And doing so would make CPM mandatory and more like RMR. The bottom line is that RMR is designed to accommodate the recovery of these types of actual costs, but CPM is not.

⁶⁰ The requested RMR designation, if granted, would thereby require mandatory participation in the RMR program.

⁶¹ See *pro forma* RMR contract, sections 7.4 and 7.6.

⁶² *Cal. Indep. Sys. Operator, Inc.*, 125 FERC ¶ 61,053, at P 41.

⁶³ 2019 RMR Order at P 54; *N.Y. Indep. Sys. Operator, Inc.*, 150 FERC ¶ 61,116, at P 19, *order on compliance*, 155 FERC ¶ 61,076, at PP 122-28 (2016); *Constellation Mystic Power, LLC*, 165 FERC ¶ 61,267, at P 208 (2019).

DMM's proposal ignores that the CPM, which is voluntary, was primarily designed as a tariff-based mechanism, not a contract-based mechanism, to promote a more streamlined approach to backstop procurement and minimize the potential for protracted litigation regarding a unit's compensation. Further, most CPM designations are for one- or two-month terms and/or are for only a portion of the capacity of a resource.⁶⁴ It is unclear how recovery of actually incurred major maintenance and environmental upgrade costs, which can be millions and millions of dollars, would be accommodated – or even whether they should be accommodated – under a framework of short-term and partial unit procurement. For example, does a CPM designation for 1/10th of a unit's capacity for a one-month term warrant compensating a resource for its entire, actual upgrade or major maintenance costs? Further, at the time of any CPM designation, the actual costs of any future upgrades or major maintenance may not be known. Should resources be permitted to recover the actual costs of upgrades that occur after the CPM designation has long ended and are unrelated to the CPM designation and unnecessary to perform CPM obligations? Should resources be permitted to recover the actual costs of upgrades or major maintenance incurred well before any CPM designation (and possibly after some depreciation has occurred) and that were incurred for reasons unrelated to the CPM designation (e.g., to perform prior RA obligations)?

Mandatory RMR is much better suited than voluntary CPM to address recovery of these fixed costs – it provides for recovery of net plant at the time of the RMR contract and includes specific provisions for handling capital upgrades and repairs.⁶⁵ Recovery of actual capital additions and related costs should occur through RMR, particularly because the *pro forma* RMR contract includes anti-toggling provisions.⁶⁶ If CPM compensation is inadequate, resource owners can file the requisite retirement/mothball notification and potentially receive an RMR designation if they are needed to ensure compliance with reliability criteria.

DMM would also limit cost recovery to actual “long term maintenance or environmental upgrades.” However, the Commission's prior CPM orders did not limit the additional revenues to covering only these costs. The 2015 CPM Order recognized that such additional revenues could facilitate the recovery of “fixed

⁶⁴ Most CPM designations are Exceptional Dispatch CPM designations that have one- or two-month terms depending on whether the need is system-based or more localized. Tariff section 43A.3.6. Significant Event CPM designations are only for 30 days but can be automatically extended for 60 days, if still needed. Tariff section 43A.3.5.

⁶⁵ See tariff appendix G, *pro forma* RMR contract, article 7.

⁶⁶ *Id.*, section 3.2(e).

costs plus return on capital.”⁶⁷ The 2011 CPM Order desired these additional revenues to “provide, at a minimum, a meaningful opportunity for CPM resources to recover additional fixed costs.”⁶⁸ Allowing recovery only for only a limited subset of fixed costs (*i.e.*, only long-term maintenance and environmental upgrade costs) appears to be inconsistent with the Commission’s prior orders.

Using an “addier” best addresses the Commission’s directive and the unique circumstances associated with CPM designations, while maintaining a clear and fundamental delineation between RMR and CPM. Including a 20 percent adder, as the CAISO proposes, provides a meaningful contribution toward a resource’s fixed costs. Both the CPM and its predecessor, the ICPM, use Commission-approved adders as a component of the formula for determining resource-specific pricing, not the costs of actual upgrades and additions. There are no changed circumstances that warrant a finding that using adders has now become unjust and unreasonable, and that the CPM must now account for actual long-term maintenance or environmental upgrade costs. In any event, DMM’s proposed additional recovery ignores the Commission’s guidance that CPM pricing “should allow sufficient recovery of fixed costs plus return on capital to facilitate incremental upgrades and improvements by resources.”⁶⁹

There also was some discussion during the stakeholder process about pricing above-cap CPM offers based on a resource’s full annual cost of service, with all market revenues being clawed back, and only one stakeholder submitted comments supporting such a framework. This approach is fundamentally at odds with and would undo the longstanding CPM compensation framework. CPM and its predecessors have always allowed designated resources to retain the market revenues they earn. This stakeholder’s proposal, which constitutes a material change to the CAISO’s proposal, would make above-cap CPM pricing like RMR pricing, which is inappropriate and unwarranted.⁷⁰ The stakeholder’s proposal also ignores that

⁶⁷ 2015 CPM Order at P 29.

⁶⁸ 2011 CPM Order at PP 57-59.

⁶⁹ 2015 CPM Order at P 29.

⁷⁰ The CAISO notes that parties previously recommended RMR pricing for CPM’s predecessor, the ICPM, which was also a voluntary backstop procurement framework, and the Commission declined to adopt such pricing. *Cal. Indep. Sys. Operator Corp.*, 125 FERC ¶ 61,053, at PP 36-37. Also, the stakeholder’s proposal is contrary to the CAISO’s efforts to further differentiate RMR from CPM. Unlike RMR resources, CPM resources have not submitted retirement or mothball notices indicating they are no longer economic to continue operating in the market. Also, CPM is different from RMR and is used for different purposes, including to cure monthly and annual resource adequacy deficiencies or address a same-day or short-term need because sufficient RA resources are unavailable at that specific point in time, typically due

CPM designations, unlike RMR designations, often are only for part of a resource's total capacity and only for a term of one to two months. Clawing back market revenues, in conjunction with full cost of service pricing is both unwarranted and more complicated than necessary for the purposes of CPM, where resources continue to compete in the market and have not provided notice they are retiring or mothballing because they are not economically viable.⁷¹

B. Clarification of the Applicability of Certain RAIM Provisions to CPM Resources

The CAISO's intent and practice has always been to treat CPM resources like RA resources. Tariff section 43A.5.1 states that the availability, dispatch, testing, reporting, verification and other applicable requirements imposed by the RA provisions in tariff sections 40.6 and 40.10 also apply to CPM resources.

Further, tariff section 43A.5.4 states that the RAIM provisions under tariff section 40.9.6 apply to CPM resources, which face a resource-specific price based on the higher of their CPM price or the RAIM rate applicable to RA resources. The RAIM tariff provisions in section 40.9 include several provisions regarding outages and substitution for RA resources. To provide greater clarity, the CAISO proposes to amend tariff section 43A.5.4 to expressly state that RAIM tariff provisions applicable to RA resources also apply to CPM resources. The CAISO notes that in the April 22 Tariff Amendment approved by the Commission, the CAISO added a comparable sentence to CAISO tariff section 41.7 applicable to RMR resources.

These tariff clarifications are severable from the other elements of this filing. Action on these provisions will not affect the justness and reasonableness of the other proposed revisions and vice-versa.

to an unexpected outage or other unforeseen circumstance. As the Commission has previously recognized, CPM "is, in part, designed to fill a gap between resource adequacy and actual reliability needs." 2011 CPM Order at P 189. On the other hand, RMR units that would otherwise retire or mothball are needed to ensure compliance with Reliability Criteria (as opposed to merely filling RA deficiencies that may not be related to Reliability Criteria) and generally are needed for a longer period of time, typically until new transmission or replacement resources can be completed.

⁷¹ Implementing the stakeholder's suggestion to price above-cap CPM offers based on a resource's full cost of service and clawing back market revenues would also create implementation challenges and require arbitrary delineations of a resource's capacity because partial CPM resources may also have RA capacity, RA substitute capacity, and/or market-based capacity, including residual unit capacity commitments. The CAISO would require a complex set of business rules and algorithms to successfully claw back only the market revenues associated with the full cost of service CPM capacity.

C. Clarification of the Timing for Posting CPM Designation Reports

Two stakeholders raised questions regarding the deadlines for the CAISO to post CPM designation reports under tariff section 43A.6.2 if the CAISO indicates in the current month its intent to designate a resource as CPM effective the first day of the following month. The CAISO's practice has been to base the report posting date on the effective date of the CPM, as opposed to the date the CAISO indicated its intent to designate a specific resource. The CAISO has often issued designation reports before this deadline. The two stakeholders recommended that the CAISO issue certain reports earlier based on when the CAISO indicated its intent to designate a unit as CPM.

To address the stakeholders' request, the CAISO proposes to add a clarifying provision to tariff section 43A.6.2 stating that, where the CAISO makes a CPM designation (other than an Exceptional Dispatch CPM designation) that takes effect on the first day of the succeeding month, the CAISO will post the designation report by the earlier of 30 days after it selects the resource it will be designating or the tenth day of the month in which the designation takes effect. For example, under existing tariff section 43A.6.2, the CAISO indicated on August 29, 2018, that it was issuing Significant Event CPM designations effective September 1, 2018. Under the existing tariff language in Section 43A.6.2 and the CAISO's historic practice, the CAISO would have had until October 1, 2018 to issue the CPM designation report. The CAISO actually issued its CPM designation report on September 18, 2018. Under the revised tariff language, the designation report would have been due on September 10, 2018 (*i.e.*, the tenth day of the month), not October 1, 2018 (*i.e.*, 30 days after the significant event designation occurred).

The clarifying language will not apply to Exceptional Dispatch CPM designations.⁷² Unlike decisions to address RA deficiencies or make CPM designations following a Significant Event, Exceptional Dispatch CPM designations typically result from day-of decisions by CAISO operators and require additional coordination and review before issuing the CPM designation report. The CAISO needs sufficient time to undertake that effort without facing a potential tariff violation for missing a reporting deadline.

⁷² The clarifying language also does not reference designations for capacity at risk of retirement and needed for reliability. This is because, pursuant to the April 22 Tariff Amendment, the CAISO deleted all of the CPM provisions addressing such designations. See transmittal letter for April 22 Tariff Amendment at 37 and n.101.

These tariff clarifications are severable from the other elements of this filing. Action on these provisions will not affect the justness and reasonableness of the other proposed revisions and vice-versa.

IV. EFFECTIVE DATE

The CAISO requests that the Commission issue an order by May 28, 2020 accepting the tariff revisions in this filing effective June 1, 2020.

V. COMMUNICATIONS

In accordance with the Commission's regulations,⁷³ please place the names of the individuals listed below on the official service list established by the Commission regarding this filing, and serve the listed individuals with correspondence and other communications regarding this filing:

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VI. SERVICE

The CAISO has served copies of this filing on the CPUC, the CEC, and all parties with Scheduling Coordinator Agreements under the CAISO tariff. In addition, the CAISO has posted a copy of the filing on the CAISO website.

VII. CONTENTS OF FILING

Besides this transmittal letter, this filing includes these attachments:

Attachment A-1	Clean CAISO tariff sheets incorporating the revisions proposed in this tariff amendment, including the CAISO's preferred approach for compensating resources above the CPM soft offer cap under tariff section 43A.4.1.1.1 ⁷⁴
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⁷³ 18 C.F.R. § 385.203(b)(3).

⁷⁴ See *supra* section III.A of this transmittal letter.

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| Attachment A-2 | Red-lined document showing the revisions in Attachment A-1 |
| Attachment B-1 | Clean CAISO tariff sheets incorporating the revisions proposed in this tariff amendment, including the CAISO's alternative approach (but not its preferred approach) for compensating resources above the CPM soft offer cap under tariff section 43A.4.1.1.1 ⁷⁵ |
| Attachment B-2 | Red-lined document showing the revisions in Attachment B-1 |

VIII. CONCLUSION

For the reasons set forth in this filing, the CAISO requests that the Commission issue an order accepting the tariff revisions in this filing by May 28, 2020, with an effective date of June 1, 2020.

Respectfully submitted,

By: Anthony Ivancovich

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⁷⁵ See *id.* There are no differences between Attachments A-1 and B-1 hereto other than the differing revisions to tariff section 43A.4.1.1.1 that reflect the CAISO's more preferred approach (Attachment A-1) and its less preferred approach (Attachment B-1).

Attachment A-1 – Clean Tariff
Tariff Amendment to Enhance the Capacity Procurement Mechanism
California Independent System Operator Corporation
February 25, 2020

CPM Soft Offer Cap Initiative

Section 43A

43A.4.1.1.1 Exceeding CPM Soft Offer Cap through a Resource-Specific Cost Filing with FERC

A Scheduling Coordinator for a resource may offer a price in excess of the CPM Soft Offer Cap. The resource owner whose capacity is offered in excess of the CPM Soft Offer Cap must justify in a filing to FERC a price above the CPM Soft Offer Cap, which shall be determined in accordance with the following formula: fixed operation & maintenance costs, plus ad valorem taxes, plus insurance, plus 20 percent (20%) of the sum of the foregoing amounts, provided such costs will be converted to a fixed \$/kW-year amount. For a resource whose sales are under FERC jurisdiction that is providing CPM Capacity to be compensated at a rate higher than the CPM Soft Offer Cap, the resource owner must make a limited resource-specific filing before FERC to determine the just and reasonable capacity price for the resource as calculated under this formula. The resource owner must serve its filing on the CAISO within five business days of submitting its filing to FERC.

If the sales from the resource are not under the jurisdiction of FERC, the resource owner shall make a non-jurisdictional filing with FERC to determine the just and reasonable capacity price for the going forward costs for the resource as calculated in accordance with the following formula: fixed operation and maintenance costs, plus ad valorem taxes, plus insurance, plus 20 percent (20%) of the sum of the foregoing amounts, provided such costs will be converted to a fixed \$/kW-year amount. The resource owner must serve its filing on the CAISO within five business days of submitting its filing to FERC.

A resource owner may make a cost justification filing at FERC either before it offers a resource into the competitive solicitation process or after having capacity designated as CPM Capacity. If the resource owner has not made the cost justification filing before the capacity was designated as CPM Capacity, then the resource owner must make its cost justification filing with FERC within 30 days of the CPM designation. If the resource owner fails to make such cost justification filing within 30 days, then the CAISO shall deem the effective CPM Capacity price for the resource to be the CPM Soft Offer Cap. The resource owner may not propose – and shall not be compensated based upon – an offer price higher than the price submitted in its bid to the CAISO for the designated capacity.

A FERC-approved resource-specific CPM Capacity price shall remain in effect for the remainder of the

calendar year in which it is approved and for the subsequent two calendar years, unless superseded by a subsequent FERC-approved CPM Capacity price during that period. Although a FERC-approved resource-specific CPM Capacity price will be denoted in units of \$/kW-year, that \$/kW-year figure will be divided by 12 so that compensation will be in terms of \$/kW-month.

A resource that has obtained the appropriate FERC authorization in response to the cost justification filing described in this Section 43A.4.1.1.1 for a rate higher than the CPM Soft Offer Cap is not precluded from submitting a bid into the competitive solicitation process that is below the FERC-authorized rate and, if selected pursuant to such a bid, will be compensated based on that lower bid.

43A.5.4 Individualized Non-Availability Charges and Availability Incentive Payments

The provisions of Section 40.9 applicable to Resource Adequacy Resources apply to CPM Capacity. Capacity accepting a designation as CPM Capacity will face a resource-specific Availability Incentive Mechanism Price under section 40.9.6. The resource-specific price will be the higher of: (a) the price that the resource was paid by the CAISO (\$/kW-month) as a result of receiving the designation; and (b) the RA Availability Incentive Mechanism rate. Availability Incentive Mechanism payments to a resource designated under the CPM will be capped at the general Availability Incentive Mechanism rate. For a resource requesting a resource-specific CPM Capacity price pursuant to Section 43A.4.1.1.1, the CAISO shall use that resource-specific CPM capacity price for calculating the Availability Incentive Mechanism only if that resource-specific CPM capacity price has been approved in time for inclusion on the Recalculation Settlement Statement T+55B. Otherwise, for resources that have sought a resource-specific CPM Capacity price pursuant to Section 43A.4.1.1.1, the CAISO shall use the CPM Soft Offer Cap price for calculating the Availability Incentive Mechanism price.

43A.6.2 Designation of a Resource Under the CPM

The CAISO shall post a designation report to the CAISO Website and provide a Market Notice of the availability of the report within the earlier of thirty (30) days of procuring a resource under Sections

43A.2.1 through 43A.2.6 or ten (10) days after the end of the month; provided that if the CAISO makes a CPM designation under Sections 43A.2.1.1, 43A.2.1.2, 43A.2.2.2, 43A.2.3, 43A.2.4 or 43A.2.7 that takes effect on the first day of the succeeding month, the CAISO will post the designation report by the earlier of 30 days after the CAISO selects the resource it will be designating or the tenth day of the month in which the designation takes effect. The designation report shall include the following information:

- (1) A description of the reason for the designation (LSE procurement shortfall, Local Capacity Area Resource effectiveness deficiency, or CPM Significant Event), and an explanation of why it was necessary for the CAISO to utilize the CPM authority);
- (2) The following information would be reported for all backstop designations:
 - (a) the resource name;
 - (b) the amount of CPM Capacity or Flexible Capacity CPM designated (MW),
 - (c) an explanation of why that amount of CPM Capacity or Flexible Capacity CPM was designated,
 - (d) the date CPM Capacity was designated,
 - (e) the duration of the designation; and
 - (f) the accepted offer price of the resource, or if the resource has a request pending with FERC to exceed the CPM Soft Offer Cap, then the CPM Soft Offer Cap along with a notation that the resource has a pending request with FERC to be compensated above the CPM Soft Offer Cap.
- (3) If the reason for the designation is a CPM Significant Event, the CAISO will also include:
 - (a) a discussion of the event or events that have occurred, why the CAISO has procured CPM Capacity, and how much has been procured;
 - (b) an assessment of the expected duration of the CPM Significant Event;
 - (c) the duration of the initial designation (thirty (30) days); and

- (d) a statement as to whether the initial designation has been extended (such that the backstop procurement is now for more than thirty (30) days), and, if it has been extended, the length of the extension.
- (4) If the reason for the designation is Exceptional Dispatch CPM Capacity, the CAISO will also include additional information about the CAISO's determination of the quantity and term of the designation, which supplements the information included in the market notice issued pursuant to Section 43A.6.1.

Attachment A-2 – Marked Tariff
Tariff Amendment to Enhance the Capacity Procurement Mechanism
California Independent System Operator Corporation
February 25, 2020

CPM Soft Offer Cap Initiative

Section 43A

43A.4.1.1.1 Exceeding CPM Soft Offer Cap through a Resource-Specific Cost Filing with FERC

A Scheduling Coordinator for a resource may offer a price in excess of the CPM Soft Offer Cap. The resource owner whose capacity is offered in excess of the CPM Soft Offer Cap must justify in a filing to FERC a price above the CPM Soft Offer Cap, which shall be determined in accordance with the following formula: fixed operation & maintenance costs, plus ad valorem taxes, plus insurance, plus 20 percent (20%) of the sum of the foregoing amounts, provided such costs will be converted to a fixed \$/kW-year amount. methodology for determining the Annual Fixed Revenue Requirement of an RMR unit as set forth in Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff. For a resource whose sales are under FERC jurisdiction that is providing CPM Capacity to be compensated at a rate higher than the CPM Soft Offer Cap, the resource owner must make a limited resource-specific filing before FERC to determine the just and reasonable capacity price for the resource as calculated under this formula. per Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff. The resource owner must serve its filing on the CAISO within five business days of submitting its filing to FERC.

If the sales from the resource are not under the jurisdiction of FERC, the resource owner shall make a non-jurisdictional filing with FERC to determine the just and reasonable capacity price for the going forward costs for the resource as calculated in accordance with the following formula: fixed operation and maintenance costs, plus ad valorem taxes, plus insurance, plus 20 percent (20%) of the sum of the foregoing amounts, provided such costs will be converted to a fixed \$/kW-year amount. per Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff. The resource owner must serve its filing on the CAISO within five business days of submitting its filing to FERC.

A resource owner may make a cost justification filing at FERC either before it offers a resource into the competitive solicitation process or after having capacity designated as CPM Capacity. If the resource owner has not made the cost justification filing before the capacity was designated as CPM Capacity, then the resource owner must make its cost justification filing with FERC within 30 days of the CPM designation. If the resource owner fails to make such cost justification filing within 30 days, then the

CAISO shall deem the effective CPM Capacity price for the resource to be the CPM Soft Offer Cap. The resource owner may not propose – and shall not be compensated based upon – an offer price higher than the price submitted in its bid to the CAISO for the designated capacity.

A FERC-approved resource-specific CPM Capacity price shall remain in effect for the remainder of the calendar year in which it is approved and for the subsequent two calendar years, unless superseded by a subsequent FERC-approved CPM Capacity price during that period. Although a FERC-approved resource-specific CPM Capacity price will be denoted in units of \$/kW-year, that \$/kW-year figure will be divided by 12 so that compensation will be in terms of \$/kW-month.

A resource that has obtained the appropriate FERC authorization in response to the cost justification filing described in this Section 43A.4.1.1.1 for a rate higher than the CPM Soft Offer Cap is not precluded from submitting a bid into the competitive solicitation process that is below the FERC-authorized rate and, if selected pursuant to such a bid, will be compensated based on that lower bid.

43A.5.4 Individualized Non-Availability Charges and Availability Incentive Payments

The provisions of Section 40.9 applicable to Resource Adequacy Resources apply to CPM Capacity.

Capacity accepting a designation as CPM Capacity will face a resource-specific Availability Incentive Mechanism Price under section 40.9.6. The resource-specific price will be the higher of: (a) the price that the resource was paid by the CAISO (\$/kW-month) as a result of receiving the designation; and (b) the RA Availability Incentive Mechanism rate. Availability Incentive Mechanism payments to a resource designated under the CPM will be capped at the general Availability Incentive Mechanism rate.

For a resource requesting a resource-specific CPM Capacity price pursuant to Section 43A.4.1.1.1, the CAISO shall use that resource-specific CPM capacity price for calculating the Availability Incentive Mechanism only if that resource-specific CPM capacity price has been approved in time for inclusion on the Recalculation Settlement Statement T+55B. Otherwise, for resources that have sought a resource-specific CPM Capacity price pursuant to Section 43A.4.1.1.1, the CAISO shall use the CPM Soft Offer Cap price for calculating the Availability Incentive Mechanism price.

43A.6.2 Designation of a Resource Under the CPM

The CAISO shall post a designation report to the CAISO Website and provide a Market Notice of the availability of the report within the earlier of thirty (30) days of procuring a resource under Sections 43A.2.1 through 43A.2.6 or ten (10) days after the end of the month; provided that if the CAISO makes a CPM designation under Sections 43A.2.1.1, 43A.2.1.2, 43A.2.2.2, 43A.2.3, 43A.2.4 or 43A.2.7 that takes effect on the first day of the succeeding month, the CAISO will post the designation report by the earlier of 30 days after the CAISO selects the resource it will be designating or the tenth day of the month in which the designation takes effect. The designation report shall include the following information:

- (1) A description of the reason for the designation (LSE procurement shortfall, Local Capacity Area Resource effectiveness deficiency, or CPM Significant Event), and an explanation of why it was necessary for the CAISO to utilize the CPM authority);
- (2) The following information would be reported for all backstop designations:
 - (a) the resource name;
 - (b) the amount of CPM Capacity or Flexible Capacity CPM designated (MW),
 - (c) an explanation of why that amount of CPM Capacity or Flexible Capacity CPM was designated,
 - (d) the date CPM Capacity was designated,
 - (e) the duration of the designation; and
 - (f) the accepted offer price of the resource, or if the resource has a request pending with FERC to exceed the CPM Soft Offer Cap, then the CPM Soft Offer Cap along with a notation that the resource has a pending request with FERC to be compensated above the CPM Soft Offer Cap.
- (3) If the reason for the designation is a CPM Significant Event, the CAISO will also include:

- (a) a discussion of the event or events that have occurred, why the CAISO has procured CPM Capacity, and how much has been procured;
 - (b) an assessment of the expected duration of the CPM Significant Event;
 - (c) the duration of the initial designation (thirty (30) days); and
 - (d) a statement as to whether the initial designation has been extended (such that the backstop procurement is now for more than thirty (30) days), and, if it has been extended, the length of the extension.
- (4) If the reason for the designation is Exceptional Dispatch CPM Capacity, the CAISO will also include additional information about the CAISO's determination of the quantity and term of the designation, which supplements the information included in the market notice issued pursuant to Section 43A.6.1.

Attachment B-1 – Clean Tariff
Tariff Amendment to Enhance the Capacity Procurement Mechanism
California Independent System Operator Corporation
February 25, 2020

CPM Soft Offer Cap Initiative

Section 43A

43A.4.1.1.1 Exceeding CPM Soft Offer Cap through a Resource-Specific Cost Filing with FERC

A Scheduling Coordinator for a resource may offer a price in excess of the CPM Soft Offer Cap. The resource owner whose capacity is offered in excess of the CPM Soft Offer Cap must justify in a filing to FERC a price above the CPM Soft Offer Cap, which shall be determined in accordance with the following formula: fixed operation & maintenance costs, plus ad valorem taxes, plus insurance, provided such costs will be converted to a fixed \$/kW-year amount. For a resource whose sales are under FERC jurisdiction that is providing CPM Capacity to be compensated at a rate higher than the CPM Soft Offer Cap, the resource owner must make a limited resource-specific filing before FERC to determine the just and reasonable capacity price for the resource as calculated under this formula. The resource owner must serve its filing on the CAISO within five business days of submitting its filing to FERC.

If the sales from the resource are not under the jurisdiction of FERC, the resource owner shall make a non-jurisdictional filing with FERC to determine the just and reasonable capacity price for the going forward costs for the resource as calculated in accordance with the following formula: fixed operation and maintenance costs, plus ad valorem taxes, plus insurance, provided such costs will be converted to a fixed \$/kW-year amount. The resource owner must serve its filing on the CAISO within five business days of submitting its filing to FERC.

A resource owner may make a cost justification filing at FERC either before it offers a resource into the competitive solicitation process or after having capacity designated as CPM Capacity. If the resource owner has not made the cost justification filing before the capacity was designated as CPM Capacity, then the resource owner must make its cost justification filing with FERC within 30 days of the CPM designation. If the resource owner fails to make such cost justification filing within 30 days, then the CAISO shall deem the effective CPM Capacity price for the resource to be the CPM Soft Offer Cap. The resource owner may not propose – and shall not be compensated based upon – an offer price higher than the price submitted in its bid to the CAISO for the designated capacity.

A FERC-approved resource-specific CPM Capacity price shall remain in effect for the remainder of the

calendar year in which it is approved and for the subsequent two calendar years, unless superseded by a subsequent FERC-approved CPM Capacity price during that period. Although a FERC-approved resource-specific CPM Capacity price will be denoted in units of \$/kW-year, that \$/kW-year figure will be divided by 12 so that compensation will be in terms of \$/kW-month.

A resource that has obtained the appropriate FERC authorization in response to the cost justification filing described in this Section 43A.4.1.1.1 for a rate higher than the CPM Soft Offer Cap is not precluded from submitting a bid into the competitive solicitation process that is below the FERC-authorized rate and, if selected pursuant to such a bid, will be compensated based on that lower bid.

43A.5.4 Individualized Non-Availability Charges and Availability Incentive Payments

The provisions of Section 40.9 applicable to Resource Adequacy Resources apply to CPM Capacity. Capacity accepting a designation as CPM Capacity will face a resource-specific Availability Incentive Mechanism Price under section 40.9.6. The resource-specific price will be the higher of: (a) the price that the resource was paid by the CAISO (\$/kW-month) as a result of receiving the designation; and (b) the RA Availability Incentive Mechanism rate. Availability Incentive Mechanism payments to a resource designated under the CPM will be capped at the general Availability Incentive Mechanism rate.

For a resource requesting a resource-specific CPM Capacity price pursuant to Section 43A.4.1.1.1, the CAISO shall use that resource-specific CPM capacity price for calculating the Availability Incentive Mechanism only if that resource-specific CPM capacity price has been approved in time for inclusion on the Recalculation Settlement Statement T+55B. Otherwise, for resources that have sought a resource-specific CPM Capacity price pursuant to Section 43A.4.1.1.1, the CAISO shall use the CPM Soft Offer Cap price for calculating the Availability Incentive Mechanism price.

43A.6.2 Designation of a Resource Under the CPM

The CAISO shall post a designation report to the CAISO Website and provide a Market Notice of the availability of the report within the earlier of thirty (30) days of procuring a resource under Sections 43A.2.1 through 43A.2.6 or ten (10) days after the end of the month; provided that if the CAISO makes a CPM designation under Sections 43A.2.1.1, 43A.2.1.2, 43A.2.2.2, 43A.2.3, 43A.2.4 or 43A.2.7 that takes effect on the first day of the succeeding month, the CAISO will post the designation report by the earlier of 30 days after the CAISO selects the resource it will be designating or the tenth day of the month in which the designation takes effect. The designation report shall include the following information:

- (1) A description of the reason for the designation (LSE procurement shortfall, Local Capacity Area Resource effectiveness deficiency, or CPM Significant Event), and an explanation of why it was necessary for the CAISO to utilize the CPM authority);
- (2) The following information would be reported for all backstop designations:
 - (a) the resource name;
 - (b) the amount of CPM Capacity or Flexible Capacity CPM designated (MW),
 - (c) an explanation of why that amount of CPM Capacity or Flexible Capacity CPM was designated,
 - (d) the date CPM Capacity was designated,
 - (e) the duration of the designation; and
 - (f) the accepted offer price of the resource, or if the resource has a request pending with FERC to exceed the CPM Soft Offer Cap, then the CPM Soft Offer Cap along with a notation that the resource has a pending request with FERC to be compensated above the CPM Soft Offer Cap.
- (3) If the reason for the designation is a CPM Significant Event, the CAISO will also include:
 - (a) a discussion of the event or events that have occurred, why the CAISO has procured CPM Capacity, and how much has been procured;

- (b) an assessment of the expected duration of the CPM Significant Event;
 - (c) the duration of the initial designation (thirty (30) days); and
 - (d) a statement as to whether the initial designation has been extended (such that the backstop procurement is now for more than thirty (30) days), and, if it has been extended, the length of the extension.
- (4) If the reason for the designation is Exceptional Dispatch CPM Capacity, the CAISO will also include additional information about the CAISO's determination of the quantity and term of the designation, which supplements the information included in the market notice issued pursuant to Section 43A.6.1.

Attachment B-2 – Marked Tariff
Tariff Amendment to Enhance the Capacity Procurement Mechanism
California Independent System Operator Corporation
February 25, 2020

CPM Soft Offer Cap Initiative

Section 43A

43A.4.1.1.1 Exceeding CPM Soft Offer Cap through a Resource-Specific Cost Filing with FERC

A Scheduling Coordinator for a resource may offer a price in excess of the CPM Soft Offer Cap. The resource owner whose capacity is offered in excess of the CPM Soft Offer Cap must justify in a filing to FERC a price above the CPM Soft Offer Cap, which shall be determined in accordance with the following formula: fixed operation & maintenance costs, plus ad valorem taxes, plus insurance, provided such costs will be converted to a fixed \$/kW-year amount. methodology for determining the Annual Fixed Revenue Requirement of an RMR unit as set forth in Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff. For a resource whose sales are under FERC jurisdiction that is providing CPM Capacity to be compensated at a rate higher than the CPM Soft Offer Cap, the resource owner must make a limited resource-specific filing before FERC to determine the just and reasonable capacity price for the resource as calculated under this formula. per Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff. The resource owner must serve its filing on the CAISO within five business days of submitting its filing to FERC.

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CAISO shall deem the effective CPM Capacity price for the resource to be the CPM Soft Offer Cap. The resource owner may not propose – and shall not be compensated based upon – an offer price higher than the price submitted in its bid to the CAISO for the designated capacity.

A FERC-approved resource-specific CPM Capacity price shall remain in effect for the remainder of the calendar year in which it is approved and for the subsequent two calendar years, unless superseded by a subsequent FERC-approved CPM Capacity price during that period. Although a FERC-approved resource-specific CPM Capacity price will be denoted in units of \$/kW-year, that \$/kW-year figure will be divided by 12 so that compensation will be in terms of \$/kW-month.

A resource that has obtained the appropriate FERC authorization in response to the cost justification filing described in this Section 43A.4.1.1.1 for a rate higher than the CPM Soft Offer Cap is not precluded from submitting a bid into the competitive solicitation process that is below the FERC-authorized rate and, if selected pursuant to such a bid, will be compensated based on that lower bid.

43A.5.4 Individualized Non-Availability Charges and Availability Incentive Payments

The provisions of Section 40.9 applicable to Resource Adequacy Resources apply to CPM Capacity.

Capacity accepting a designation as CPM Capacity will face a resource-specific Availability Incentive Mechanism Price under section 40.9.6. The resource-specific price will be the higher of: (a) the price that the resource was paid by the CAISO (\$/kW-month) as a result of receiving the designation; and (b) the RA Availability Incentive Mechanism rate. Availability Incentive Mechanism payments to a resource designated under the CPM will be capped at the general Availability Incentive Mechanism rate.

For a resource requesting a resource-specific CPM Capacity price pursuant to Section 43A.4.1.1.1, the CAISO shall use that resource-specific CPM capacity price for calculating the Availability Incentive Mechanism only if that resource-specific CPM capacity price has been approved in time for inclusion on the Recalculation Settlement Statement T+55B. Otherwise, for resources that have sought a resource-specific CPM Capacity price pursuant to Section 43A.4.1.1.1, the CAISO shall use the CPM Soft Offer Cap price for calculating the Availability Incentive Mechanism price.

43A.6.2 Designation of a Resource Under the CPM

The CAISO shall post a designation report to the CAISO Website and provide a Market Notice of the availability of the report within the earlier of thirty (30) days of procuring a resource under Sections 43A.2.1 through 43A.2.6 or ten (10) days after the end of the month; provided that if the CAISO makes a CPM designation under Sections 43A.2.1.1, 43A.2.1.2, 43A.2.2.2, 43A.2.3, 43A.2.4 or 43A.2.7 that takes effect on the first day of the succeeding month, the CAISO will post the designation report by the earlier of 30 days after the CAISO selects the resource it will be designating or the tenth day of the month in which the designation takes effect. - The designation report shall include the following information:

- (1) A description of the reason for the designation (LSE procurement shortfall, Local Capacity Area Resource effectiveness deficiency, or CPM Significant Event), and an explanation of why it was necessary for the CAISO to utilize the CPM authority);
- (2) The following information would be reported for all backstop designations:
 - (a) the resource name;
 - (b) the amount of CPM Capacity or Flexible Capacity CPM designated (MW),
 - (c) an explanation of why that amount of CPM Capacity or Flexible Capacity CPM was designated,
 - (d) the date CPM Capacity was designated,
 - (e) the duration of the designation; and
 - (f) the accepted offer price of the resource, or if the resource has a request pending with FERC to exceed the CPM Soft Offer Cap, then the CPM Soft Offer Cap along with a notation that the resource has a pending request with FERC to be compensated above the CPM Soft Offer Cap.
- (3) If the reason for the designation is a CPM Significant Event, the CAISO will also include:

- (a) a discussion of the event or events that have occurred, why the CAISO has procured CPM Capacity, and how much has been procured;
 - (b) an assessment of the expected duration of the CPM Significant Event;
 - (c) the duration of the initial designation (thirty (30) days); and
 - (d) a statement as to whether the initial designation has been extended (such that the backstop procurement is now for more than thirty (30) days), and, if it has been extended, the length of the extension.
- (4) If the reason for the designation is Exceptional Dispatch CPM Capacity, the CAISO will also include additional information about the CAISO's determination of the quantity and term of the designation, which supplements the information included in the market notice issued pursuant to Section 43A.6.1.