

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

**California Independent System)
Operator Corporation)** **Docket No. ER20-1592-000**

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

The California Independent System Operator Corporation (CAISO)¹ submits this motion for leave to file answer and answer to comments and protest filed in this proceeding.² The CAISO's April 17, 2020, filing (April 17 Filing) proposes three sets of tariff amendments that fill in gaps arising at the intersection between the commitment cost enhancements phase 3 (CCE3) tariff changes the Commission accepted³ and the CAISO's resource adequacy (RA) tariff provisions in section 40. These amendments address how RA resources with operational limitations that do not qualify for an opportunity cost adder meet their RA must-offer obligation and how the RA availability incentive mechanism (RAAIM) affects such resources. The April 17 Filing also proposes minor amendments to the methodology and process for determining how much flexible

¹ Capitalized terms not otherwise defined herein have the meanings set forth in Appendix A to the CAISO tariff.

² The following entities filed motions to intervene in the proceeding: California Department of Water Resources State Water Project; California Public Utilities Commission; Calpine Corporation; Cities of Anaheim, Azusa, Banning, Colton, Pasadena and Riverside, California; City of Santa Clara, California; Modesto Irrigation District; Northern California Power Agency; NRG Power Marketing LLC; Pacific Gas and Electric Company; Powerex Corporation; and Southern California Edison Company.

³ The CAISO filed its CCE3 tariff changes on March 23, 2018, in Docket No. ER18-1169. *Cal. Indep. Sys. Operator Corp.*, 163 FERC ¶ 61,211 (2018).

RA capacity a resource is eligible to provide.

Two parties – Southern California Edison Company (SCE) and Pacific Gas and Electric Company (PG&E) – filed substantive responses to the April 17 Filing. SCE supports the April 17 Filing, stating the proposal improves the RA program and resolves existing issues regarding RAIM exposure for hydroelectric resources.⁴ PG&E, on the other hand, protests the April 17 Filing on three grounds. *First*, PG&E protests the CAISO’s proposal to grant storage-backed hydroelectric resources a RAIM exemption for the balance of 2020 if they limit their shown RA capacity “to reflect historical hydrological conditions or actual hydrological conditions in 2020.”⁵ PG&E claims this proposal is “unnecessary and creates market uncertainty.”⁶ *Second*, PG&E objects to the CAISO’s proposal to remove hydroelectric resources’ default eligibility for the “expected energy” must-offer obligation in CAISO tariff section 40.6.4.1. According to PG&E, this change “will create an operational burden for PG&E and other owners of storage-backed hydroelectric resources, with no demonstrable added value.”⁷ *Third*, PG&E requests that the Commission evaluate the four elements in the April 17 filing separately and disregard the CAISO’s position that the three elements regarding CCE3 and RAIM are interdependent and

⁴ *Motion to Intervene and Comments of Southern California Edison Company*, ER20-1592, May 8, 2020, at 3.

⁵ Revised tariff section 40.9.3.4(d).

⁶ *Pacific Gas and Electric Company’s Protest to the California Independent System Operator Corporation’s Proposed Tariff Amendments to Clarify Resource Adequacy Obligations*, ER20-1592, May 8, 2020, at 1 (PG&E protest).

⁷ *Id.* at 4-5.

interrelated.

PG&E's protest is unfounded and provides no basis for rejecting the April 17 Filing. PG&E's first and second objections reflect a flawed understanding of the CAISO proposal. PG&E's third point reflects a flawed understanding of the CAISO's rights as the filing utility under section 205 of the Federal Power Act.⁸ Accordingly, the Commission should approve all four elements of the April 17 Filing. This will enable the CAISO to move forward with needed enhancements to section 40 of the CAISO tariff.

I. Motion for Leave to File Answer

Under Rules 212 and 213 of the Commission's Rules of Practice and Procedure,⁹ the CAISO respectfully requests waiver of Rule 213(a)(2)¹⁰ to permit it to answer certain issues in the protests filed in this proceeding. Good cause for the waiver exists because this limited answer will aid the Commission in understanding the issues in this proceeding, inform the Commission in the decision-making process, and ensure a complete and accurate record in this proceeding.¹¹

II. Answer

A. The Six-Month Transition Period Provides Optionality and Does Not Create Uncertainty Because Resources Can Choose to Maintain the Status Quo

The April 17 Filing outlined pending proposals at the California Public

⁸ 16 USC § 824d.

⁹ 18 CFR. §§ 385.212, 385.213.

¹⁰ 18 CFR. § 385.213(a)(2).

¹¹ See, e.g., *Equitrans, L.P.*, 134 FERC ¶ 61,250 at P 6 (2011); *Cal. Indep. Sys. Operator Corp.*, 132 FERC ¶ 61,023 at P 16 (2010); *Xcel Energy Servs., Inc.*, 124 FERC ¶ 61,011 at P 20 (2008).

Utilities Commission (CPUC) to provide alternate capacity counting rules for storage-backed hydroelectric resources. The potential alternate counting rules would discount the RA capacity attributed to a hydroelectric resource based on the resource's expected production in years with limited precipitation. Those proposed rule changes, if approved, would be adopted in June 2020 starting for the 2021 RA year. The CAISO proposed in the April 17 Filing that hydroelectric resources using this alternate counting rule would be exempt from RAAIM. PG&E does not oppose this aspect of the April 17 Filing. To provide maximum optionality to hydroelectric resources, the CAISO also proposed that for the balance of 2020, storage-backed hydroelectric resources could begin enjoying this RAAIM exemption if they limited their capacity "to reflect historical hydrological conditions or actual hydrological conditions in 2020," provided that the "limitations based on hydrological conditions [were] mutually agreed upon with the unit's Scheduling Coordinator and the CAISO."¹²

PG&E objects to this latter part of the proposal, claiming that permitting this option for the last six months of 2020 "is unnecessary and would create regulatory uncertainty for market participants."¹³ According to PG&E, it is unnecessary because "the issue is being addressed in a CPUC proceeding and necessary modifications to RA values for storage-backed hydroelectric resources will likely be adopted in June 2020 and implemented for the 2021 RA year."¹⁴

¹² Revised tariff section 40.9.3.4(d).

¹³ PG&E protest at 3.

¹⁴ *Id.*

According to PG&E, it would cause uncertainty for market participants because it is a mid-year change that “may conflict with regulatory and contractual obligations already assumed on behalf of the affected capacity”¹⁵ and because there is no clear standard guiding how the CAISO would review voluntary capacity reductions.¹⁶

PG&E ignores that the CAISO is not unilaterally imposing the proposed change on scheduling coordinators; it is merely providing scheduling coordinators an option they can choose to exercise. If PG&E, or any other scheduling coordinator for a storage-backed hydroelectric resource, does not wish to lower its shown capacity voluntarily to reflect historical or actual hydrological conditions in exchange for a RAIM exemption, then it does not have to do so. Under the CAISO tariff, a generator providing RA capacity is always in control of how much RA capacity it chooses to supply through the RA showings process.¹⁷

Similarly, this proposed change does not override existing bilateral capacity procurement arrangements or obligations. For example, consider a storage-backed hydroelectric resource with a net qualifying capacity of 100 MW that believes it can only provide 80 MW given historical or actual hydrological conditions. If that resource were contractually obligated to provide the full 100 MW to a load serving entity counterparty, it could choose between: (a) showing

¹⁵ *Id.* at 4.

¹⁶ *Id.*

¹⁷ Under section 40.7(b) of the CAISO tariff, if there is an unresolved discrepancy between a resource’s supply plan and a load serving entity’s RA plan, “the CAISO will use the information contained in the Supply Plan to set the obligations of Resource Adequacy Resources”

itself for 100 MW through the RA process and exposing itself to RAAIM charges for the expected 20 MW of unavailable capacity; or (b) derating its capacity to 80 MW and having a RAAIM exemption. The CAISO's proposal does not compel either choice; the generator must choose. It is up to each individual resource to make that choice in light of its existing contractual obligations and any other regulatory mandates.

The CAISO will include the details of how the CAISO would review proposed capacity derates in a business practice manual. The CAISO stands ready to accept any capacity derates that reflect a reasonable application of the expected CPUC methodology. That methodology is straightforward and does not create room for meaningful debate in its application. A resource also could demonstrate to the CAISO that its 2020 hydrological status would permit it to provide more capacity than the amount determined based on historical review. The CAISO understands that hydroelectric resource owners maintain sophisticated models of projected output given current water conditions and the CAISO would reasonably defer to the information provided from those models. However, given the limited precipitation in California thus far in 2020, as compared to 2019, the CAISO expects that few, if any, hydroelectric resources would look to establish a capacity value based on current-year water conditions, as compared to a historical review.

B. Hydroelectric Resources Can Still Qualify for the Expected Energy Must-Offer Obligation But Such Resources Have Never Held an Outage Reporting Waiver

The April 17 Filing explained the CAISO proposal to streamline application of the "expected energy" must-offer obligation in section 40.6.4.1 applied only to

conditionally available resources and run-of-river resources. Other resources types, including storage-backed hydroelectric resources, would lose their default eligibility for this special RA must-offer obligation but would still be eligible if they applied to the CAISO for conditionally available or run-of-river resource status.

PG&E opposes this amendment believing it will impose an operational burden. In PG&E's view, this change will "effectively require Scheduling Coordinators to submit outage cards for all hydroelectric resources to reflect water availability variance over the day"18 PG&E states that submitting such outages or derates to the CAISO "is an onerous process, and one that requires information that PG&E may be unable to obtain from certain resources, such as from qualifying facilities."19

PG&E's concerns about the amendments to section 40.6.4.1 are misguided in two key ways. As the CAISO explained in the April 17 Filing, the first flaw is that the RA must-offer obligation is a wholly separate issue from outage reporting obligations. There, the CAISO stated:

consistent with existing requirements, any resource that holds the expected energy must-offer obligation must report to the CAISO any outage or derate. This generally applicable rule applies irrespective of RA status. Compliance with this outage reporting obligation will help ensure the CAISO knows when a resource subject to the expected energy must-offer obligation will not be capable of performing up to its RA value. Absent a reported outage, the CAISO will assume that the resource is available for its full RA capacity.20

PG&E wrongly claims an amendment to section 40.6.4.1 overrides generally

¹⁸ PG&E protest at 5-6.

¹⁹ *Id.*

²⁰ April 17 Filing, at 8-9 (citing CAISO tariff sections 9.3.2 and 9.3.10.3).

applicable outage reporting rules in section 9 of the tariff.

The second flaw in PG&E's argument is that, assuming the expected energy must-offer obligation conferred an outage reporting exemption, most of the resources that are losing default qualification for the expected energy must-offer obligation could register as a conditionally available resource.²¹ The CAISO explained in the April 17 Filing that "[l]imiting the categories of resources that qualify for this treatment is not necessarily meant to limit the absolute number of resources that qualify for the expected energy must-offer obligation" and that by "having their must-offer obligation set by their registration, rather than their fuel type or inherent operating type, the CAISO will have a clearer picture of which resources operate under a special requirement."²² If there is any new burden, it is only the burden of having to register for conditionally available resource status. Any burden is limited given this is a streamlined one-time process for impacted resources.²³

C. Section 205 of the Federal Power Act Grants the CAISO the Exclusive Right to Define its Proposed Tariff Revisions

The CAISO stated in the April 17 Filing that the three elements of the proposal that expand on issues raised by the CCE3 initiative "are interdependent and address common issues about RAIM and the RA program" and that the "Commission should evaluate the justness and reasonableness of those three

²¹ *Id.*

²² *Id.* at 8.

²³ See CAISO Business Practice Manual for Market Operations, section 2.1.16.

elements as a complete package.”²⁴ PG&E argues the CAISO has not substantiated its claim that these elements are interdependent.²⁵ According to PG&E, absent such justification, “[t]he Commission should not feel bound by the CAISO’s assertions regarding interdependence”²⁶ PG&E argues that the Commission should not reject the run-of-river resource element of the proposal of the April 17 Filing just because PG&E opposes other parts of the filing.²⁷

PG&E’s arguments about severability cannot be squared with section 205 of the Federal Power Act and *NRG Power Marketing, LLC v. FERC*.²⁸ As the court summarized in *NRG*:

Section 205 puts FERC in a passive and reactive role. Under Section 205, FERC reviews the proposed rate scheme filed by a utility or Regional Transmission Organization and determines whether the proposal is just and reasonable. FERC may accept or reject the proposal. But as this Court has held, Section 205 does not authorize FERC to impose a new rate scheme of its own making without the consent of the utility or Regional Transmission Organization that made the original proposal.²⁹

In this docket, the CAISO has proposed an amended rate scheme. The Commission’s role is to review that proposal to determine if it is just and reasonable. The April 17 Filing presents various amendments that simultaneously grant and remove RAAIM exemptions on a permanent basis. They largely function together as an integrated package to mitigate degradation

²⁴ April 17 Filing, at 1-2.

²⁵ PG&E protest at 6.

²⁶ *Id.*

²⁷ *Id.*

²⁸ 862 F.3d 108 (D.C. Cir. 2017).

²⁹ *Id.* at 114 (internal citations and quotation marks omitted).

of the incentives RAIM exists to create. In addition to these permanent measures, the CAISO also proposed one interim and minor revision applicable only for the balance of 2020 – its proposal, discussed above in section II.A, to grant a RAIM exemption to storage-backed hydroelectric resources that voluntarily derate their capacity to reflect historical or current-year hydrological conditions.

After consideration, the CAISO believes this interim and voluntary measure is severable from the balance of the proposals. It merely provides an option for the remainder of 2020, and as such is an interim, voluntary change and not part of the package of proposed permanent changes. By this proposal, the CAISO was merely attempting to find a way to accommodate storage-backed hydroelectric resources on an interim basis until the permanent measures become effective on January 1, 2021. The interim measures involve CAISO review of scheduling coordinator submissions as opposed to the permanent features that are intended to effectuate changes to the QC methodology adopted by the CPUC or another local regulatory authority. Thus, if the Commission were to modify the optionality created by the proposed interim mechanism, which is a secondary and minor element of the CAISO's filing, or find it to be unjust and unreasonable, it would not affect the justness and reasonableness or integrated nature of the remaining (and different) package of changes, which are intended to be permanent features of the tariff. This aspect of the April 17 Filing is severable from the balance of the filing. However, if the Commission were to follow PG&E's suggestion and permit the run-of-river RAIM exemption, but

reject the other permanent aspects of the filing, then the Commission would disrupt the balance of competing factors that support the overall filing that the CAISO submitted as, and intended to be, an integrated package. In that case, the Commission would be imposing its own rate scheme without the CAISO's consent. Such an action would contravene section 205 and the guidance provided in *NRG*.

III. Conclusion

PG&E's protest does nothing to challenge the just and reasonable nature of the April 17 Filing. The CAISO proposal represents reasonable and appropriate enhancements to the RA program and the CAISO tariff. The Commission should accept these tariff revisions without condition or modification.

Respectfully submitted,

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Dated: May 26, 2020

CERTIFICATE OF SERVICE

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

Dated at Folsom, California, this 26th day of May, 2020.

/s/ Anna Pascuzzo
Anna Pascuzzo