

# Comments of Seattle City Light on CAISO Variable Operations and Maintenance Cost Study

Submitted by	Company	Date Submitted
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Seattle City Light (Seattle) is the tenth-largest consumer owned electric utility in the nation, providing electrical service to more than 415,000 residential, commercial, and industrial customers in the City of Seattle, Washington and six adjacent cities. Seattle owns and operates hydroelectric resources with approximately 2,000 MW of flexible, fast-ramping capacity. We regularly transact in the wholesale energy and transmission markets. Seattle executed an Implementation Agreement with the California Independent System Operator (CAISO) and intends to begin participating in the Energy Imbalance Market (EIM) in April 2020. Seattle City Light appreciates the opportunity to comment on CAISO’s Variable Operations and Maintenance (VOM) Cost Study.

## Summary of Comments and Recommendations

Seattle requests that CAISO provide further support for the changes to VOM default adder values, especially for resources that are newly categorized as not eligible for VOM adders in the Nexant report such as hydro resources. Seattle also requests that CAISO engage stakeholders in developing a formal definition of VOM. Seattle’s detailed comments and recommendations follow below.

## Detailed Comments and Recommendations

Every three years the CAISO evaluates the default variable operations and maintenance (VOM) cost adder values used for proxy commitment costs and default energy bids produced under the variable cost option<sup>1</sup> to ensure they accurately reflect a resource’s variable (non-fuel) costs associated with running a generator. In 2018 CAISO engaged Nexant for the current review of VOM. Nexant’s study utilized a different methodology and produced significant changes to the current default VOM values that were developed in the last study by Utilicast.

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<sup>1</sup> Seattle’s understanding is that the default VOM adders are only applicable to default energy bids developed under the variable cost methodology, and VOM adders may be negotiated under the negotiated rate option DEB methodology. However, we believe any changes to the default value for a given resource could also have impacts on what could reasonably be negotiated.

Of particular concern to Seattle is Nexant's determination that certain resources, including hydro generators, are no longer eligible for default VOM adders because these plants do not have variable operation and maintenance costs that meet CAISO's definition of VOM. Nexant characterizes CAISO's definition of VOM as only costs associated with consumables and waste disposal. Examples of such costs include: raw water, waste and wastewater disposal expenses, chemicals, catalysts and gases, ammonia for selective catalytic reduction, lubricants whose use depends upon energy production and consumable materials and supplies. The VOM values do not include any major maintenance costs such as major generator overhauls or other maintenance costs required to keep the unit generating in an efficient and reliable condition.

Nexant refers to CAISO's definition of VOM throughout its report, however, on the January 8 stakeholder call discussing the VOM study, CAISO confirmed that it has not defined VOM in its tariff or business practice manuals. Further, as Nexant acknowledges in its study, there are no standard definitions for what operations and maintenance costs should be considered variable versus what costs should be considered fixed. Nexant states: "In some cases, VOM is defined in the same way that CAISO defines it (consumable and waste related costs) and in other cases, VOM values provided in industry reports include major maintenance or other O&M costs."

Seattle does not yet have a position on whether major maintenance or other O&M costs should be included in the VOM adder. We would like clarity on where these costs would be recovered, if they are not included in the VOM adder. Further, given CAISO's lack of formal definition of VOM, and the varying definitions in industry reports, Seattle believes it would be appropriate for CAISO to engage stakeholders on what the appropriate definition of variable O&M is and what the impacts are to resources of recovering certain categories of cost through a VOM adder versus major maintenance adder/start-up costs, etc. Once a definition for VOM is determined, it should be included in CAISO's tariff and/or business practice manuals.

As discussed above, while the definition of VOM is not clearly or formally defined, both Nexant and the authors of the existing study, Utilicast, define VOM similarly and both did not appear to include major maintenance or other operation and maintenance values in their default VOM adder values.<sup>2</sup> This makes it all the more perplexing that the Nexant study and Utilicast study VOM values differ so much and that a large category of resources, including hydro, no longer qualify for VOM in the Nexant study. Seattle requests CAISO further explain and support why some of the VOM values have changed so drastically, and specifically why it is appropriate for the proposed VOM value for hydro to be zero.

Seattle thanks CAISO for the opportunity to comment. If you have any questions on these comments you may contact Lea Fisher at 206-386-4546.

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<sup>2</sup> Because some of the studies Utilicast relied on included major maintenance in the VOM costs, Utilicast discounted their default VOM adders to eliminate the dollar effect of major maintenance costs. |