



CALPINE Corporation
3875 HOPYARD ROAD, STE 345
PLEASANTON, CA 94588
PHONE: (925) 479-6696
FAX: (925) 479-7300

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Comments of Calpine Corporation
on the CAISO Department of Market Monitoring's White Paper
"Competitive Path Assessment – Second Set of Preliminary Results"

Calpine Corporation ("Calpine") thanks the CAISO Department of Market Monitoring ("DMM") for this opportunity to provide comments on the White Paper, "Competitive Path Assessment – Second Set of Preliminary Results" (the "White Paper").

Calpine is concerned that the CAISO continues to state that there will be no seasonal designation of competitive paths, at least for the first year 2008. An annual designation is unwarranted given the many paths that are only (minimally) congested in certain seasons and not at all congested in other seasons. An annual designation will add unnecessary complication and cost to operating the CAISO energy and A/S markets and, given that at least in some seasons there is no congestion on certain paths, provides no benefit or purpose to anyone. In addition, moving from annual to seasonal designation should be a simple "toggle" and not require extensive labor, time, or expense to the CAISO prior to MRTU start up. As such, there is no real obstacle to fixing this problem in time for MRTU start up in 2008.

Moreover, the study has some inherent methodological flaws that need to be improved upon. Specifically:

Arbitrary Mix of Historical and Forecast Data. One component of the study is the forecast of market and physical system outcomes for 2008. In doing this, the CAISO CRR model was used to represent transmission system conditions. However, many other key assumptions in the model, including load and hydro conditions, were based on historical data. Similarly, 2006-2007 historical gas prices were assumed in the study. In short, the study used a mixture of historical data as well as forecasts of system conditions that cannot be reasonably expected to yield a realistic forecast of future market conditions.

And in fact, the test results are very different from projections we would expect to see based on historical data. For example, since most of the assumptions are based on 2006-2007 historical data, we would expect to see results similar to what actually occurred in 2006. However, the study shows that the most constrained path -- "Tesla to Pittsburg" -- will be congested for 1866 hours (only 4.9% of all hours studied), even with cases in which many suppliers are removed from the market (which would make serving load even more difficult). Curiously, many other uncompetitive paths were found to have less than 1000 hours of congestion, which is only 2.6% of all hours studied. Some discussion of this is warranted at the next stakeholder meeting or in the next version of the White Paper.

Pivotal Supplier Test Flawed. In the pivotal supplier test, "the FI values are calculated for candidate paths for all combinations of up to three of these six suppliers, where the capacity of the supplier combinations is removed from the simulation model either individually or jointly." The CAISO stated that the capacity of selected suppliers was completely removed from the model. So for example, given that S1 (supplier 1) has a capacity of 4933 MW, in scenarios where S1 is selected, that 4933MW capacity will be removed from the model. Similarly, when S2 is selected, 3990MW is taken out. The natural results of the unrealistic removal of these large amounts of capacity will be to create reliability problems and path congestion. However, it is very unrealistic to assume that under current market conditions, given bilateral contracts for energy, RA, etc., as well as CPUC and CAISO regulations over outages and maintenance, etc., that any supplier in the market can withhold a significant amount of capacity, let alone four to five thousand megawatts.

500-hour cutoff. The study set 500 hours of congestion as a minimum cut-off to identify candidate competitive paths. Any paths congested less than 500 hours less in a full year, are by default considered competitive and not studied. 500 hours is about 5.7% of all hours in a year (8760 hours). In another word, paths congested less than 5.7% are assumed competitive. However, at the end of the study, those candidate paths with congestion, for even an hour in all cases, were designated as non-competitive. In fact, 9 of the 25 candidate paths were congested for less than 100 hours, which is only 0.3% of 38016 hours studied. There is a huge and unexplained gap between the tolerance criterion used to initialize the study and to conclude the study.

Net Buyers Omitted. The study failed to include all market participants that may have local market power by not studying net buyers. The CAISO stated that "Note that net buyers in the CAISO control area are excluded from consideration as potentially pivotal suppliers since they are less likely to benefit from increasing prices through withholding supply." This omission is flawed, because any market participant with a large amount of capacity will potentially have local market power in a local area and should be studied, including both net-sellers and net-buyers. A net-buyer may benefit from local market power by driving up local prices if their generators are paid the injection point LMP while their loads pay the LAP zonal prices; or they may benefit by creating congestion to make a supplier less competitive in order to improve its negotiation position in a bilateral negotiation, especially if the net buyer has CRRs; or to transfer quantities purchased among different CAISO energy and A/S markets; or for many other non-competitive reasons.

Calpine thanks the CAISO for this opportunity to provide comments and looks forward to further participation in the stakeholder process.