Comments of Calpine Corporation on

CPM RoR
Draft Final Proposal

Comments Submitted: 10/4/2017

Summary:

While some resource owners may find the ISO's reformulated Risk-of-Retirement (RoR) modifications workable, Calpine does not. Calpine appreciates that the ISO has made several helpful clarifications which improve the mechanism, but unfortunately, the Draft Final Proposal (DFP) continues to impose unreasonable risks on the resource owner and provides an insufficient runway for reasoned decision-making. Thus, while Calpine does not object to the proposal, it finds it increasingly unlikely that the RoR will be able to be used in any meaningful way by resources making rational business planning decisions.

I. <u>Late Notification Continues to Frustrate Reasoned Business Planning</u>

All attempts to improve the timing of the CPM designation process have been frustrated by those who seek to impose the divergent timing restrictions of the Resource Adequacy program onto the CPM RoR process. Specifically, parties seek to avoid "front-running" the RA program by ensuring that cost-recovery certainty only occurs after multiple opportunities for the LSEs to buy the capacity. In the end, the DFP only allows contract certainty, quite literally, 10 days before the beginning of the resource commitment period.

Also, given that the proposal now requires all requests for compensation be submitted to and litigated at FERC, it is quite likely – almost certain -- that resources would not know their actual level of cost recovery until well into the CPM contract term. Specifically, FERC may justifiably declare cost-of-service filing "unripe" unless there is an accompanying CPM designation. It is irrational for a generator to take on an availability obligation without knowing the specific level of compensation.

Maybe most damning is the observation that any required incremental capital expenditures required to meet the CPM availability obligations would almost certainly have to be expended *before* the level of cost recovery is established. Unlike RMR contracts, which have explicit provisions for the recovery of incremental capital (RMR Schedule L), CPM has no provision for the recovery of new capital. It is irrational for a business to invest capital with uncertain expectations of capital recovery. Moreover, many cyclical major maintenance cycles require significant advance planning (e.g., months), including contractual commitments, labor allocations, and parts procurement. The compressed time period for the RoR process now leaves no time for planning such activities, let alone implementing them in anticipation of any RoR designation, if necessary.

All in all, in constraining the DFP because of fears of "front-running" the RA program, the modifications are unsuccessful in resolving the fatal flaws associated with resource-owner decision-making and risk.

II. Modifications to the RA program, not CPM is the Solution

This review of CPM and its provisions to managing unit retirements has highlighted one key and immutable fact – that the RA program must be modified first, then and only then will a backstop mechanism become efficient. The RA program, which gives resource owners only weeks to plan for an upcoming year, is simply insufficient to accommodate longer term decisions on the allocation of capital and disposition of assets. The time-crunch imposed on resources is only exacerbated when one imposes a "no front-running" ban on backstop procurement. This timing dissonance is evidence not only through the RoR process at issue here, but within the BPM mothball process, the temporary shutdown of resource operations process, and even the current RMR designation process.

Early evaluation of the resources needed for reliability and forward commitments of resources (measured in years, not weeks) would allow resource owners sufficient time to manage availability, evaluate compensation and, if the resource is unneeded, facilitate the orderly retirement of an uneconomic resource.

III. Some Beneficial Changes Have Been Included

The CAISO has made some beneficial clarifications in the DFP that Calpine supports. Revised language that allows for a CPM designation "for the balance of the calendar year", clearly presents the intent of the designation. Calpine supports striking the tariff language that allows the discretion to designate resources from "one to twelve" months. In addition, the CAISO has proposed appropriate modifications to the determination of the price that would be paid to a designated resource.

IV. Submission of a CPM RoR Request Must Remain Voluntary

Calpine continues to support CPM RoR as an optional and voluntary mechanism. For innumerable reasons, including those highlighted above, resources that wish to participate in the CPM RoR process must do so at their own will, and must continue to have their contractual rights to simply submit a notice of PGA termination to the CAISO in order to make asset decisions regarding uneconomic resources.

Thanks