

CME

Third Revised Straw Proposal

Dated: November 20, 2015
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Summary:

Calpine supports the continued development of CME as a replacement for the unjust and unreasonable effects of Minimum Online Commitment Constraints and Exceptional Dispatches. The ISO should summarily reject the calls by some parties that CME is an unnecessary complication to the markets. CME reasonably compensates resources for capacity held to accommodate multiple contingency circumstances – an objective clearly articulated in the Price Formation Order recently issued by FERC. And the logical framework of CME could be expanded to any capacity constraint that can be quantified (e.g., voltage or stability constraints).

Calpine comments on only three items – the interplay with Ancillary Services, the problems of CRR revenue adequacy, and the procurement of virtual corrective capacity.

First, Calpine has long held that Preventative Corrective Capacity is a direct substitute for Spin and Non Spin and therefore, should be bid and settled in a very similar fashion. Nonetheless, the CAISO still clings to the no-bid proposal for PCC, a condition which will always result in PCC being awarded prior to any non-zero bids for spin or non-spin. The ISO should reconsider its ban on bidding PCC capacity, as it is a significantly undifferentiated reserve product.

Also, in section 11 of the Straw Proposal, the CAISO clarifies that not only can Ancillary Services overlap with PCC, but the same capacity can apparently be reserved for both A/S and for PCC procurement objectives. We believe this is neither appropriate nor compliant with reliability standards – or ask for the ISO to explain how it can meet simultaneous requirements with the same capacity.

Second, the CAISO has now identified a problem with CRR revenue adequacy. The solution discussed by the ISO would be to ask market participants to estimate the value of both the point-to-point CRR across a transmission path limited by an N-1-1, SOL or IROL *as well as* the CCRR (counterflow obligation) frequency and magnitude. This seems to greatly increase the complexity of

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estimating the value/cost of a CRR, which in turn disproportionately disadvantages parties who must bid for CRRs (like Calpine) compared to parties who receive no-cost allocations of CRRs. As such, Calpine does not support the “integrated bid approach”.

Another option discussed is to simply model the strong corrective constraint (N-2) in the CRR model thereby offering a conservatively low amount of CRRs (but also avoiding the revenue inadequacy concerns.) This solution has the important disadvantage of limiting the ability to hedge congestion costs across some of the most critical and liquid paths in the ISO footprint. However, prior to dismissing this convenient and simple solution, Calpine asks that the CAISO estimate the current and strong corrective CRR quantities for the paths targeted for the initial application of CME.

Also, as discussed at the MSC meeting, the CAISO could create separate markets and auctions for CRRs and the counter flow equivalent CCRRs. Estimation complexity persists with this solution.

Finally, given the highly infrequent expectation of multiple contingencies, the ISO could simply ignore, as it does today, SOL and IROL limits and identify and procure CRRs based on N-1 contingencies. Simulations could be used to quantify the potential for and magnitude of CRR revenue inadequacy.

Third, Calpine agrees with the consensus that virtual bids should not be eligible for preventative corrective capacity. In fact, there is no capacity resident in a virtual energy bid as it simply liquidates at the 15-minute price. Only physical resources (of any nature, generation, storage, demand side, etc) should be eligible for nodal capacity payments or potential dispatch via CME.

Thanks