SAN DIEGO GAS AND ELECTRIC COMMENTS

RELIABILITY MUST-RUN DESIGNATIONS FOR THE YUBA CITY ENERGY CENTER AND THE FEATHER RIVER ENERGY CENTER

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The "Calpine Peaker Retirement Assessment call" raises several concerns. A few years ago, when a similar situation occurred with the Sutter combined cycle plant, the CAISO worked closely with the CPUC and the IOUs to resolve the problem without a reliability-must-run ("RMR") contract. It appears that a much different process is being used for the peaker units Calpine has stated that it intends to retire. SDG&E is concerned that the CAISO is not utilizing the recently-implemented market based Capacity Procurement Mechanism ("CPM") or "Risk of Retirement CPM."

SDG&E believes the CAISO should follow the specific timing requirements established for CPM instead of deciding on a need for a RMR contract prior to the year-ahead showing process. This is especially true given that the CAISO states that it will wait until after the year-ahead showing process to see whether or not the Calpine Peakers received RA contracts. If it is not contracted, then the CAISO has the Tariff authority to initiate the CPM to ensure an adequate supply of dependable capacity for the summer of 2018. SDG&E understands that CPM acceptance by the generator is voluntary while the RMR contract provides the CAISO certainty of the resources remaining online. Nevertheless, the CAISO should not rush into a RMR contract as the Tariff does not require immediate action. Rather, the CAISO should work with the CPUC and stakeholders to consider other available options besides RMR. Without other solutions, it seems the RMR will continue beyond 2018.

SDG&E supports the minimization of RMR contracts and the expanded use of market-based solutions. Accordingly, the CAISO's proposal to side-step the-recently-implemented market-based CPM in favor of an old and troublesome out-of-market RMR solution, appears to signal an unfortunate policy reversal. Since the Resource Adequacy framework was instituted in 2006, the CAISO has dramatically reduced its use of RMR contracts; a reduction which SDG&E believes has been beneficial for consumers. The proposal to place the Calpine peakers under RMR contracts is inconsistent with what SDG&E believes has been a cost-effective means of ensuring grid reliability.

Possibly, the CAISO has concluded that there are no practical alternatives to placing the Calpine peakers under RMR contracts. However, if this is this case, the CAISO has yet to provide information supporting this conclusion. Specifically, SDG&E believes the CAISO needs to describe the alternatives to RMR contracts that were considered and explain why these alternatives were rejected. For example, were mitigation solutions such as remedial action schemes, operating procedures, preferred resources, quickly-implemented batteries, or controlled load-drop considered, and if so, why were such alternatives found less desirable than entering into RMR contracts that would keep otherwise-uneconomic gas-fired generators in operation. The CAISO has not demonstrated that other methods or tools would be less economic, less transparent and/or less competitive ways to solve the identified reliability needs.

The case for placing aging gas-fired generators at the Yuba City Energy Center and the Feather River Energy Center under RMR contracts, has yet to be demonstrated.