

CRR Analysis

Working Group

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Summary:

Calpine supports the continued investigation of the root causes of revenue insufficiency created through the CRRs auctioned by the CASIO, as discussed in the workshop.

Based on the results of a diligent study of the drivers to insufficiency, Calpine is open to behavioral rules or structural modifications that may address identified shortcomings. We do not agree with the DMM that we must throw out the baby with the bathwater. Nor do we agree that a liquid bi-lateral swap market could or would develop to replace the CRR auction.

Calpine uses CRRs from the auction to hedge the cost of congestion between its generation resources and the trading hubs. Having a known price for congestion allows confident access to multiple buyers in multiple markets (financial, physical, day-ahead and term).

Calpine believes that CRR auctions are a critical component of open access to the transmission grid. Without the ability to hedge congestion, Calpine sees further declines in trading liquidity and access to counterparties and as mentioned in the workshop, an increase buy-side market power as buyers gain a strangle-hold on all financial rights through the allocation. In fact if we were forced to sell output only at the resource locations and accept congestion to trade hubs, we would have to raise offer prices to reflect the higher risk of absorbing unknowable congestion. A very small change in a \$10 billion market could have a significant and unnecessary impact on ratepayers.

This hedge is particularly important to manage our Geysers geothermal assets, which hold long-term contracts for energy deliveries at the hub.

Thanks