

Comments of Calpine Corporation on

Contingency Modeling Enhancements

Second Revised Straw Proposal

Dated: March 13, 2014

Comments Submitted: March 27, 2014

SUMMARY:

Calpine appreciates the ability to submit comments on the latest CME proposal as well as the alternative submitted by SCE.

We look forward to reviewing the CAISO's proof-of-concept numerical results, we do not object to the changes embedded in the new Section 9 but hold ultimate judgment of market power mitigation measures pending a review of numerical examples.

We appreciate any efforts to simplify the systems of the CAISO and in this regard, SCE's alternative to the instant proposal. Indeed, SCE's proposal is similar to Calpine's early assertions that existing products were sufficient, if acquired in larger volume, to meet the corrective capacity needs. We find compelling, however, the CAISO's claim that a dynamic, nodal, capacity-product would ultimately be more effective and more flexible in reducing the frequency of out-of market actions by the CAISO.

Calpine Continues to Support the Resolution of Capacity Constraints Through Market Mechanisms.

The Second Revised Straw Proposal (SRSP) continues to promote an automated, state-based and market-based resolution to dynamic capacity needs. Calpine enthusiastically supports, as we suspect FERC will, a solution that holds the potential to greatly reduce both out of market Exceptional Dispatches and unpriced Minimum Online Capacity commitments.

Calpine Supports the Modest Changes Included in the Second Revision.

The changes to this SRSP are contained in the new Section 9 and address applicability, operational issues and certain presumed, but now stated, settlement matters (e.g., BCR). Calpine does not object to any of these items.

In addition, section 9.9 now reflects changes to the local market power mitigation mechanisms necessary to address concerns with potentially pivotal suppliers. At a conceptual level, Calpine does not object to properly accounting for corrective awards in the dynamic competitive path assessment. However, as with many algorithms, we believe that a numerical example would greatly assist in understanding of the math and figures shown in Section 9.9.

While Calpine Appreciates SCE's Simplifying Proposal, it Suffers the Same Maladies as Calpine's Own Initial Proposal.

Calpine, and others, initially proposed that the CAISO simply purchase incremental spin and non-spinning reserves to cover capacity constraints. SCE's alternative, at its base, is similar and may have the following concerns:

- The SCE deterministic approach to the procurement requirement would systemically under-, or over-procure capacity. The SCE alternative includes an administrative process to evaluate and establish the corrective capacity need well in advance. Studies would require assumptions about system conditions, flows, availability, outages, etc. A fixed hourly target could be set for the amount of corrective capacity needed. This target would always be wrong, as assumptions vary from then-current conditions. Over-procurement might suppress LMPs while under-procurement either threatens reliability, results in out-of-market dispatches, or both. Calpine would expect lively debate over the requirement determination if the SCE proposal were adopted.
- Dynamic locational capacity requirements might run afoul with static "flexibility region" definitions. The CAISO has concluded that a nodal capacity market is needed to respond to the capacity constraints on the grid. Regional flexibility areas may not satisfy the targeted needs as efficiently as being able to select, compensate and dispatch units with the highest effectiveness given then-present system conditions. In addition, success with the limited SOL corrective constraints could lead to expansion of the applicability of this product to other MOC constraints (such as those associated with stability constraints or even, transmission outages) where the regions become smaller and the duration of the constraint could be measured in days or hours. Of course such an evolution to smaller and concentrated flexibility areas creates unresolved market power concerns under the SCE alternative.

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If the SCE Alternative is Further Considered, Procurement of Corrective Capacity in RUC Should be Eliminated.

The SCE alternative proposes that 50 percent of the Corrective Capacity should be procured in the IFM and 50 percent in the RUC process. This portion of the proposal should be flatly rejected as a plain attempt to procure corrective capacity at no cost. In our view corrective capacity (CC) is a fungible reserve product, not dissimilar to other Ancillary Services. Compensation should represent its reliability value to the system and the opportunity cost of not creating energy. Indeed, the SCE proposal would be unjust as compensation for identical products in the same timeframe would be different -- IFM-procured CC would be priced different from RUC-procured CC.

Thanks!