

**Comments of CalPeak Power, LLC on CAISO's
Commitment Cost Enhancements Revised Straw Proposal, dated June 10, 2014**

CalPeak Power, LLC ("CalPeak") appreciates this opportunity to provide comments on the CAISO's *Commitment Cost Enhancements Revised Straw Proposal*, dated June 10, 2014. CalPeak's subsidiaries, CalPeak Power – Border LLC, CalPeak Power – Enterprise LLC, CalPeak Power – Panoche LLC and CalPeak Power – Vaca Dixon LLC (CalPeak and its four subsidiaries are collectively referred to herein as the "CalPeak Companies"), operate four substantially identical peaker plants. Two of them, CalPeak Power Border Unit 1 ("Border") and CalPeak Power Enterprise Unit 1 ("Enterprise"), are located in SDG&E's electric and gas service territories. The other two, CalPeak Power Panoche Unit 1 ("Panoche") and CalPeak Power Vaca Dixon Unit 1 ("Vaca Dixon" and collectively with Border, Enterprise and Panoche, the "CalPeak Units"), are in PG&E's electric and gas service territories. All four utilize Pratt & Whitney, Model FT8 (DLN), Twin-Pac gas turbine engines, in which each unit is comprised of two combustion turbines that, singly or together, turn a single generator. In a 2-in-1 configuration, i.e., with both CTs operating at each unit, the minimum generation (PMin) in this configuration for each power plant is 44 MW and the PMax values range between 48 and 52 MW, depending on the unit.

The CalPeak Units have relatively high heat rates, in the range of 10,588-12,370, again depending on the unit. As a result they are seldom called upon to run by the CAISO. Because CalPeak only operates peakers, the natural gas used to run its power plants is generally purchased on the spot market.¹

CalPeak has in the past attempted to have the units classified as "Use-Limited Resources." The CAISO's Use-Limited Resource Guidebook suggests that resources like the CalPeak power plants may be eligible since they have air permits which limit start time and run hours.² CalPeak has been informed by the CAISO, however, that none of the four units would be considered "Use-Limited Resources."³

A. General Comments

CalPeak believes that major changes must be made to the CAISO's proposal since it would not ensure that generators like the CalPeak Companies will receive adequate compensation for their costs in generating energy at their power plants. CalPeak's key objections to CAISO's proposal are:

- (1) The proxy price would still almost always be based on the natural gas price two days before the day of the actual burn, which is virtually always lower than the price purchased closer to time of actual use. Since the CalPeak Companies, and other generators like them, have limited hedging opportunities and must purchase on the spot market, their actual costs will almost always be more than the proxy cost.

¹ Unlike many other generators in California, CalPeak also has no affiliates that operate natural gas-fired power plants in California or purchase significant quantities of natural gas, so it is not in a position to share natural gas supplies with its affiliates.

² Available at: <http://www.caiso.com/Documents/Use-LimitedResourceGuideBook.pdf>

³ The CAISO has explained why its power plants do not qualify as Use-Limited Resources in emails. For example, e-mails from CAISO Hui Yuan, to Jeff Malone RE: Use Limited Status PNCHPP_1_PL1X2 dated Friday, March 05, 2010 and Thursday, March 11, 2010: "...The cutoff/limit used for ULR (Use Limited Resource) is not in the Tariff however it is a practice we use for ULR registration eligibility. The cutoff/limit of 25% of 8,760 (2,190 hours) is calculated as follows: for a unit that can run 8 hours a day and 5 days a week, its annual run hour equals 2,190 hours, which is 25% of 8,760 hours (a year). Any resource whose annual use limitation is less than this value may be qualified for ULR. For the ULRs approved by CAISO, their average annual run hour is less than this cutoff value..." "...The cutoff annual run hour value for Use Limited Resources (ULRs) is 25% of 8760 hours or 2190 hours/year. For the ULRs approved by CAISO, their average annual run hour use limitation is 15.52% of 8760 hours or 1360 hours/year. Under specific circumstances there may be few exceptions to this criterion..." Although the CAISO at one time viewed Panoche and Vaca Dixon as use-limited resources, that is no longer the case.

- (2) A bid-adder for Use-Limited Resources does not solve the problem for generators like the CalPeak Companies. Even though all of the CalPeak Units have air permits with start-up and run-time restrictions, the CAISO has indicated that these units are not considered use-limited resources because of the criteria it uses to define such resources.
- (3) The use of an adder is merely a band aid -- a partial one at that -- which does not go to the heart of the problem. Rather than an adder for Use-Limited Resources, the CAISO should allow market participants to bid their units -- including at minimum load -- to account for the actual costs of their resources. This should be part of a broader approach that allows all market participants to bid across the full range of output, including minimum load, up to an appropriate bid cap, which should be higher than the proposed 125% of the proxy cost. This would allow generators like the CalPeak Companies, as well as Use-Limited Resources to account for such things as higher than average natural gas costs and opportunity costs.
- (4) The CAISO's proposal for addressing spikes in natural gas prices does not provide adequate assurance that the CAISO will compensate the CalPeak Companies for their actual costs. CalPeak favors the addition of tariff provisions which make it clear that in the event of natural gas price volatility and abnormal market outcomes seen on February 6, 2014, generators will be compensated for the actual costs they incur, including all costs of responding to gas utility operational flow orders. Indeed, when there are gas utility operational flow orders or other system emergencies, the CalPeak Companies suggest that the CAISO implement tariff changes that would allow market participants to receive their actual costs.

B. Specific Responses to CAISO Questions

The responses of CalPeak to the Questions posed by the CAISO on page 27 of its proposal are set forth below.

- *What were the intra-day gas prices and costs incurred by units that had a real-time-related commitment (e.g., real-time only commitment to minimum load or real-time exceptional dispatch) versus the gas price index? Note the ISO is seeking actual costs incurred versus simply the intra-day gas prices. We prefer the data to be provided for at least a year to analyze trends and overall impact to the resource.*

CalPeak provided intra-day gas price and cost information to the CAISO on February 6, 2014, through the settlement dispute resolution process. See Case No. 00143490. CalPeak is willing to provide more cost information relating to the CalPeak Units upon execution of a non-disclosure agreement.

- *How would the increased bid cap be considered with out-of-market intra-day gas cost recovery? For example, should the proxy cap be reduced to 100% for any resource that also receives this type of cost recovery? The ISO would also propose that the costs be considered in bid cost recovery.*

The CalPeak Units have used the Registered Cost option, which the CAISO intends to abandon under its proposal. While CalPeak understands that the use of only the proxy cost methodology may make the settlement process easier, CalPeak believes that the way the CAISO proposes to calculate proxy costs will continue to put the CalPeak Units at material risk of under-recovery of costs, sometimes substantial under-recovery (as occurred on February 6, 2014). Particularly for periods of time where the CAISO market and/or the natural gas market are not functioning normally, CalPeak supports recovery of actual costs incurred for natural gas, including any out-of-market intra-day costs, rather than proxy costs. If actual costs are recovered for such periods of time, there will be no need to make adjustments to the proxy costs. There is no reason why such adjustments cannot be made after the fact when settling the markets.

- *What happens when natural gas prices are lower in the intra-day than day-ahead?*

Generators like the CalPeak Units will virtually never see a lower intra-day price than a day-ahead price. Since they purchase natural gas on the spot market when they are asked to run, they virtually always pay a premium for natural gas compared to the day-ahead price. Indeed, given their high heat rates, whenever system conditions warrant dispatch of the CalPeak Units, there will be upward pressure on natural gas prices because all the units with lower heat rates have already been dispatched. Nonetheless, if there is a concern that the proxy price should reflect decreases in overall natural gas prices, for the day ahead market it should be possible to set both an upward and downward tolerance band for when changes to the natural gas prices require re-submission of bids. So, while the current version of the CAISO's proposal would require resubmission of bids in the day-ahead market if there is a significant natural gas price *increase*, the CAISO could also propose that bids will be resubmitted if there is a significant price *decrease*

Another way to address this issue is to provide greater flexibility for generators to adjust bids. Generation resources should be able to adjust their bids between the Day Ahead, Fifteen Minute, and Real Time Markets to more accurately reflect their anticipated cost of production (day-ahead verses intra-day and day-after gas purchases) as well as their opportunity costs. This is especially the case for low capacity factor resources such as peakers like the CalPeak Units, that typically operate (whether by virtue of their location and/or heat rate) significantly less than less than 25% of the time.

- *Who would be responsible for validating out-of-market intra-day gas costs? Aside from real-time-related commitments, when else would recovery of out-of-market intra-day gas costs be allowed or under what specific conditions?*

The CAISO should be responsible for validating out-of-market intra-day gas cost, but it may need to work with the natural gas marketers and suppliers as well as utilities to validate some costs. It is very often the case that gas is not able to be purchased even intra-day (especially in the San Diego area since there is no access to storage). Historically, the CalPeak Units have been dispatched by CAISO late in the afternoon or evening, well after the last cycle for scheduling flowing gas has closed. Even if some marketer was willing to sell spot gas, there is no way to schedule it until a subsequent day. In some cases, the balancing rules offer flexibility to buy "makeup gas" on subsequent days although during the winter months, this flexibility is limited.

As noted above, peakers already face higher gas prices because they only run when all the other more efficient gas-fired units are also running and procuring additional gas. This also places peakers with must-offer obligations at extreme risk for balancing charges by the local gas utility. For example, SDG&E has Winter Delivery Requirements in its Gas Rules that require customers to deliver a certain percentage of their burn within a specified period depending on the amount of gas in SoCal Gas' total storage inventory. Beginning November 1st, customers are required to deliver a minimum of 50% of their burn, over a 5-day period. As SoCal Gas' total storage inventory declines, the delivery requirements may increase to 70% of burn on a daily basis (i.e., 70% daily balancing regime) and then 90% of burn on a daily basis (i.e., 90% daily balancing regime), depending on how low the inventory becomes. Customers who deliver volumes less than the minimum delivery requirements will be charged for purchasing the amount "under-delivered" at the Daily Balancing Standby Rate (see Utilities Gas Rule No. 30 and Schedule No. G-IMB).

Aside from real-time related commitments, the CAISO should pay the actual costs of natural gas supply, including any out-of-market intraday costs and any other costs attributable to securing natural gas supplies. For instance, for units that have been called upon to run, the costs should include all costs attributable to receiving countervailing instructions from the CAISO to cease generating to preserve natural gas supplies in

the area, such as costs attributable to balancing requirements and mandatory “buy-back” at rates below the purchase price.

- *Would recovery of out-of-market intra-day gas costs discourage hedging (either financial or physical)?*

Hedging is not feasible for resources such as the CalPeak Units since the units run very infrequently, and it is not possible to accurately predict when the units will be called upon to run. Moreover, physical hedging is precluded by natural gas pipeline company balancing requirements.

- *Would the overall FERC effort to align the electric and natural gas days help to alleviate the stakeholder concerns about intra-day gas price volatility and illiquidity?*

It appears likely that FERC’s efforts to align the electric and natural gas days has the potential to help, but it is far too early to know what the new requirements will be. The natural gas supply situation, particularly in the San Diego area, is already tenuous in light of increased demand for natural gas attributable to the shut-down of SONGS. The CalPeak Companies, and other similar San Diego generators, need for the CAISO to put in place as soon as possible, but no later than November 1, tariff language that adequately protects them from losses resulting from inaccurate price proxies adopted by CAISO in the face of wild gas market swings.