

**Comments of Calpine Corporation
On the CAISO's
Flexible Ramping Product
Cost Allocation
Straw Proposal**

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Submitted by	Company	Date Submitted
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Summary

Calpine appreciates the opportunity to comment and generally supports the direction of the CAISO proposal. The proposal attempts, albeit with imperfect data, to allocate the costs of the new Flexible Ramping Product (“FRP”) based on causation. Indeed, the CAISO attempts to allocate costs based not on actual 5 minute RTD deviations, but rather on a proxy that can be used to reflect the true driver of costs – the *expectation* of deviations.

However, as we indicated in earlier comments on FRP, the CAISO should “not allow perfect cost allocation to be the enemy of a good proposal.” All other ancillary services are currently allocated to load and such an allocation has been found repeatedly to be just and reasonable. This option should not be rejected without substantial findings that that cause-based allocation will yield behavior, investment or efficiency benefits.

Cost Causation

Based on the FRP proposal, it is clear that the CAISO will procure – on an hourly basis – an amount of FRP which is related to the CAISO’s *expectation* of possible deviations. Indeed, the fundamental premise of FRP is that the CAISO cannot wait for actual deviations to materialize for the fear that capacity will not be available. Therefore, the CAISO proposes to acquire FRP on a forward basis (some in day-ahead, some in RTPD.)

The CAISO proposes to devise a rather elaborate mechanism (including an obligation for wind units to submit 15 minute estimates of generation) to produce a proxy for their

expectations of deviations. The proposal is to use the proportion of monthly¹ absolute deviations (up and down) that different resources contribute to the system. The theory is that the relative proportions of deviations in a prior month would affect the expectation of deviations in a future month and is therefore a proxy that can be used for allocations. Monthly proportions however are likely to change substantially between months and hours in the day. As such, a monthly statistic is at best a second-order estimate.

Conceptually, Calpine would much prefer that the actual drivers of procurement on a daily basis were used for allocation. While we understand that the actual drivers employ modeling, they also are informed by informed, but subjective judgment.

The Initial Split is Unequal.

In the stakeholder meeting, several parties identified an inequity in the initial split between load and resources. Since the CAISO only has aggregate information on load (total load, not even broken down by LSE), there is substantial netting of positive and negative deviations that tends to reduce the apparent load deviations on the system. Supply, however, was proposed to be allocated based on resource-specific deviations. This inequity, we believe would result in a disproportionate allocation to supply.

From a larger perspective, the absence of granular load data may curse reasonable efforts to accurately reflect cost causation. Calpine cannot offer a magic bullet which solves the rather intractable disparity of having aggregate (and in most cases, monthly profiled) load data and 4-second, or 5 minute dispatch generation data.

Finding A Common Baseline

In its quest for a common baseline, the CAISO has settled on a 15-minute metric. We appreciate the logic of the measure, but remain uncertain if the CAISO can reasonably allocate performance and deviations of the different resource types reasonably to each 15 minute interval.

Most of Calpine's concern is centered on the application of the baseline to loads. Calpine understands that the use of the CAISO RTPD load forecast and actual loads is a substantial improvement over the use of hourly schedules. However, the use of RTPD load forecasts may dramatically understate the amount of FRP procured for load. Take for instance a summer day when the position of the marine layer (fog) is unknown in the DA market. The CAISO may procure substantial amount of FRP up and FRP down to prepare for the fact that there could be large movements of load inside the 15 minute RTPD window. In this example, the expectation of deviations (the cost causer)

¹ Initial settlements will be based on daily deviations, so as to maintain revenue neutrality. Those daily settlements will be reversed at the end of the month and a new charge will be established using the aggregate absolute deviation values.

in the DA market could be dramatically larger than the actualized deviations between RTD intervals.

Portfolio versus Resource-Specific Metrics

Load deviations are aggregated, averaged and netted. Absent more granular and frequent meter data, load deviations will be hidden through diversity. Charging individual supply resources for deviations is inequitable, and offers a false indication of the amount of FRP that an entity is requiring because of the real possibility of offsetting deviations elsewhere. Rather, Calpine supports consideration of the aggregation of resources into portfolios with the net positions forming the basis of any allocations.

Thank You, we look forward to further discussions on this complicated matter.