

Comments of Calpine Corporation

**Flexible Ramping Products
Final Draft Proposal**

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Submitted by	Company	Date Submitted
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Summary

Calpine continues to support the implementation of the Flexible Ramping Product (“FRP”), but suggests that the cost allocation proposal requires significantly more discussion. If the CAISO moves forward to the Board and to FERC, Calpine suggests that the cost of FRP capacity be allocated as are other ancillary services.

Cost Allocation:

An efficient cost allocation is a laudable goal, as it may encourage reductions in deviations and may allow further transparency of the integration costs of competing technologies. But good intentions matched with a bad design would simply be an unjust wealth transfer from supply to load.

At the meeting last week there was significant discussion and controversy focused on cost allocation. If the CAISO holds to its proposed allocation, several issues must be addressed prior to submission to the Board, and particularly to FERC. Indeed, the allocation of capacity costs related to integration of renewable energy is a live and unresolved issue at FERC – through an NOI (RM-10-11). This could be a case of first impression at FERC and should be subjected to uncommon diligence. The possible outcome of less diligence would be delays in approval of an otherwise beneficial proposal.

Several issues deserve further discussion and analysis. Some of them include:

- The CAISO’s proposal uses entirely new metrics (absolute deviations) which are a second-best alternative for the actual *a priori* procurement decisions. The CAISO has presented no back cast of that data to support its assertion that absolute deviations *of energy* is a reasonable proxy for its near-real-time *capacity* needs.

- There is no recognition in the proposal (as pointed out by solar advocates) that deviations might be assisting, rather than harming, system reliability. A deviation-based allocation that charges entities when they are helping grid reliability is wrongheaded.
- The force-fitting of all data into a common 15 minute frequency is both controversial and substantially misleading. For example, while the CAISO proposes to use actual resource-specific data for generation deviations, load data is aggregated across the entire system. Substantial deviations in load (which will drive FRP procurement) will be masked by this aggregation.
- Renewable resources will be held accountable ONLY for deviations within the 15-minute RTPD window. While this metric may represent the *dispatch* of FRP energy, it does not reasonably represent the *procurement* of FRP capacity. Indeed, it is well known that output-forecast certainty improves greatly as one gets closer to real-time. DA decisions to procure FRP, when forecast error is much greater, will be informed by possible and very uncertain future conditions rather than by perfect (or nearly perfect) proposed forecasts in real time.
- Some parties claim that certain resources should be exempt from charges due to pre-existing contracts. Grandfathering, if any, should be discussed in depth and approved only after the results of such grandfathering on other resources can be estimated.

As it did in its initial November comments, Calpine suggests that the CAISO not let a perfect allocation be the enemy of a good product design. We encourage expedited consideration of these issues and implementation of the new product. Alternatively, if the CAISO does move this proposal to the Board, it do so with an allocation like all other A/S (to load and exports) pending further analysis and a revised allocation method (a year or two later.)

Product Design Issues

Calpine continues to support the fundamental premise of the product design – a bid-based, co-optimized product procured in both DA and RT markets. However, we have several concerns voiced our March comments that were not modified in the latest proposal. In addition, the CAISO has introduced a new regional design concept that introduces many questions.

- Regional Procurement and Cost Allocation – The CAISO proposal, until the most recent draft, was designed as a system-wide product. The implications of a sub-system (or regional) procurement multiply our concerns over the cost allocation. How would the CAISO, for instance, separate load information? How would it allocate the costs of imports? How would it treat economic FRP generation in

one region that would be used for real time ramping capacity in another?
Calpine sees possible value in more granular procurement, but seeks much further discussion prior to implementation.

- Capacity Payment in Real Time – Calpine continues to believe that FRP and non-contingent spinning reserves are close substitutes. As such, they should be compensated identically. FRP capacity selected in RTPD and in RTD should be paid for its capacity value, whether or not it is converted to energy.
- Requirement Relaxation – The CAISO proposal to relax the FRP procurement obligation suggests that the FRP is not solely a reliability requirement, but rather, as clearly recognized by DMM, as a price management tool. Indeed, since the implementation of the Flexible Ramping Constraint, the power balance constraint, and its \$1000 RT energy cost, has not been binding in any (or dramatically fewer) cases. The absence of the power balance violations has drawn DA and RT prices closer and has resulted in dramatically lower RTEIO costs, directly benefitting load. With these facts in light, the CAISO has two choices, neither of which should allow substantial relaxation below \$1000:
 - If FRP is truly a reliability product, there should be no such relaxation allowed.
 - If the CAISO views this as reliability insurance that also serves a role to avoid the impacts of violating the power balance constraint, the relaxation parameters should allow reduced procurement only as the clearing prices (marginal bid plus opportunity cost) approach \$1000.

Thank You