Comments of Calpine Corporation on

RMR Designation for the Metcalf Energy Center

Comments Submitted: October 6, 2017

Summary:

Calpine supports the CAISO's findings regarding the reliability need for Metcalf for the year 2018. The CAISO Staff's analysis of the sub-area need speaks for itself, and Calpine does not have any additional information to provide regarding the local reliability need at this time.

Calpine also strongly supports securing Metcalf for 2018 under the CAISO's RMR authority. The use of the backstop procurement authority under the RMR provisions of the CAISO tariff is the most appropriate mechanism to secure the ongoing operation of Metcalf at this time. Alternative mechanisms suggested by other stakeholders, such as the CAISO's Capacity Procurement Mechanism (CPM), do not adequately address the planning, budgetary, and maintenance needs of units such as Metcalf.

In particular, as Calpine previously explained in a number of public proceedings,[1] and as we informed the CAISO in our June 2, 2017 letter, the timing constraints associated with the CPM process are inapposite to the orderly, prudent, and normal planning processes for the operations of large combined-cycle facilities, such as Metcalf. While changes to the CAISO tariff and Business Practice Manuals currently being considered hold the promise for marginal improvements in CPM, the current tariff also allows for the designation of Metcalf as a RMR unit for deliveries commencing January 1, 2018, and that designation is proper and necessary.

The following supports our position and addresses some of the issues raised by stakeholders on the CAISO call of September 26.

[1] See for example, Calpine's comments and presentation in the ongoing CPM RoR reform initiative at: http://www.caiso.com/informed/Pages/StakeholderProcesses/CapacityProcurementMechanismRisk-of-RetirementProcessEnhancements.aspx

Letter to CAISO

In our June 2, 2017 letter we informed the CAISO that Calpine was assessing a decision to make the Metcalf facility unavailable for CAISO dispatch in 2018.[2] Metcalf lacked any form of capacity contract in 2018 or beyond, and faced a cyclical major maintenance project with a budget in excess of $20 million. In light of those circumstances, we asked that the CAISO make a determination of whether the local-area resource would be needed in 2018. The CAISO Staff's analysis confirmed that Metcalf was needed to ensure reliability.

Calpine's letter sought an early indication of whether there was a reliability need for Metcalf so that we could (1) prepare for continued operation, including major cyclical maintenance, and confirm reasonable compensation, or in the alternative, (2) prepare for the multifaceted processes (staffing, budgeting, permitting, etc.) associated with shutting down a large generation facility.[3] The CAISO Staff's findings for Metcalf have allowed for such planning to begin.

The CPM Is Inappropriate For Metcalf

Certain stakeholders have voiced concern that the CAISO should have considered a CPM designation for Metcalf, as opposed to the current RMR designation. However, the CPM provisions in the CAISO tariff do not work for the Metcalf situation. As such, Calpine was clear in its communication to the CAISO that we were not pursuing a CPM designation.

Most simply put, CPM allows no runway for the complicated and time-consuming decisions required for asset disposition. Calpine has been consistent in its view that the timing limitations associated with the CPM provisions both in connection with these particular asset disposition decisions and more generally, do not allow generators to perform normal planning in advance of the delivery year. Pursuant to the tariff, CPM designations would likely occur, at the earliest, only a few weeks (mid-December) before the anticipated availability date. That gives the generator owner no time to prepare for the disposition of an asset or for the going forward operation of an asset that may be, as is the case with Metcalf, entering a cyclical major maintenance period.

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[2] While the mechanisms to make a resource "unavailable for dispatch" are undergoing change, the options that were, and remain available, are either the "mothballing" option of the BPM for Generation Management, or the termination of the Participating Generator Agreement. Exercising either option would have resulted in the unit being "unavailable for dispatch."

[3] For example, earlier in 2017 CAISO Staff determined that two of Calpine's fast-start peaking units (Wolfskill and King City Energy Centers) were not needed for reliability and Calpine has issued notices to the CAISO that such units will be mothballed commencing January 1, 2017, and, with respect to King City Energy Center, has submitted a proposed closure plan to the California Energy Commission. The most striking learning from that prior request is that more time, not less is necessary for reasoned planning and execution.

There are several other aspects of CPM that made it unworkable in the context of the decisions we face with Metcalf. First, the current CPM tariff provisions grant the CAISO discretion in both designation term (i.e., one to twelve months) and quantity (entire plant or a portion thereof) – leaving a generator without any certainty of its ability to cover total costs, including major maintenance, in the service year.[4] A partial designation – in term or capacity – leaves significant costs associated with the balance of the plant at the risk of the resource owner – a risk Calpine is unwilling to accept. A resource needed for reliability, but otherwise unable to obtain reasonable compensation, cannot be sustained under a program which covers only a portion of its costs for only a portion of the year.

Finally, the CPM tariff provisions do not explicitly contemplate the recovery of incremental capital investments made on maintenance or other agreed-to improvements that may be required to keep a resource reliable and operating. There is no mechanism in CPM to address additional capital expenditures, yet the premise of the CPM designation is that the generator would be available to operate. To the contrary, RMR has explicit provisions for the recovery of additional capital expenditures.[5]

It is no wonder, in light of all of the above, that CPM is voluntary[6] for the resource owner and Calpine's letter explicitly rejected the use and consideration of CPM. Calpine continues to believe that a better functioning local resource procurement framework is needed, including a mechanism that takes account of the CAISO's local resource needs many years in advance and seeks to secure local units (or affirmatively not secure units, e.g., allow for the retirement/mothballing) for a term that corresponds to the reasonably anticipated reliability need. And, of course, the procurement mechanism should retain the needed local resource at a compensation level that is just and reasonable and that facilitates on-going capital investments when necessary. We look forward to working with stakeholders on future improvements to the resource procurement mechanisms.

However, considering the limitations set forth above, the CAISO Staff's designation of Metcalf for an annual RMR agreement is necessary and appropriate. This locationally important unit is needed on January 1, 2018, and RMR is the tool that the CAISO has to ensure such availability.

Thank you for the opportunity to comment.

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[4] We acknowledge that these narrow issues are the subject of modifications and clarifications now underway in a CPM stakeholder process.

[5] Calpine is negotiating the cost of the 2018 major maintenance with PG&E and the CAISO under RMR provisions. Constructive discussions will facilitate contract execution immediately after Board action on November 1.

[6] The voluntary nature of CPM RoR was a key consideration in Calpine's support for the 2015 settlement establishing the most recent changes to the CPM tariff. Calpine supported and continues to support the use of CPM for purposes other than determining whether an asset can or should retire.