CALPINE CORPORATION

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November 28, 2016

Mr. Steve Berberich
President and Chief Executive Officer
California Independent System Operator
250 Outcropping Rd
Folsom, CA 95630

Dear Mr. Berberich, Steve

After unsuccessful, but diligent efforts to try to sell Capacity and Energy from four of its fast-start peaking plants[1] that come off contract at the end of 2017 ("2017 Peakers"), Calpine has concluded that these units will no longer be economic to operate commencing January 1, 2018. Accordingly, our current plan is to remove these units from the relevant Participating Generator Agreement, Schedule 1, making them unavailable for CAISO dispatch effective January 1, 2018.

In order to facilitate Calpine's operational planning and expenditures, we ask that you direct CAISO staff to undertake the studies necessary to confirm that the absence of these units will not create unacceptable reliability impacts. We ask that the results of that review be communicated to Calpine no later than March 31, 2017, to allow for an orderly and rational cessation of operations on January 1, 2018. Your staff has indicated that completing the necessary analysis within this timeframe is feasible.[2]

Should Calpine not be apprised of a definitive reliability need by March 31, 2017, it will commence specific actions (which may be difficult to reverse) regarding the disposition of the physical assets. Indeed, some of these actions have already commenced or are imminent, for example:

- Calpine is in the process of retaining the engineering and permitting consultants necessary to develop the required permitting, decommissioning or redeployment plans for each of the units.
- Discussions regarding major maintenance expenditures important for operations in 2018 and beyond have commenced and certain projects have been conditionally eliminated.

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1 The four Calpine Peakers are the 47 MW Yuba City Energy Center, 47 MW Feather River Energy Center, 44 MW King City Energy Center and 48 MW Wolfskill Energy Center. The Resource IDs, respectively are YUBACT_6_UNITA1, BOGUE_1_UNITA1, KNGCTY_6_UNITA1 and WOLFSK_1_UNITA1. The four Calpine Peakers are part of an eleven unit portfolio of LM6000 aero-derivative, fast-start, peaking gas turbines with approximately 550 MW of capacity located throughout NP15 that Calpine owns and operates. A contract for the balance of these peaking facilities expires on December 31, 2021.

2 Concurrently, your staff has also requested specific data regarding the 2017 Peakers, which we will be submitting under separate cover pursuant to the confidentiality provisions of the Tariff.

- More generally, by mid-2017, the Calpine budgeting process for 2018 will conclude. This process establishes the operations, maintenance, personnel and/or closure or relocation budgets for each of the units.
- By mid-2017, Calpine will file for approval of a closure plan with the California Energy Commission (CEC) regarding the King City Energy Center. Approval of this closure plan is required to satisfy its CEC license requirements prior to the commencement of decommissioning activities.

These complicated and transformational activities require months to plan and implement, and place a large burden on the commercial, operational, legal and personnel functions at Calpine.[3] We cannot and will not defer these decisions until late 2017. In this regard, we have concluded, based on discussions with your staff, that the provisions of the Capacity Procurement Mechanism (CPM) do not allow a sufficient planning period, or "runway" for such complicated and transformational activities. In fact we conclude, with the concurrence of your staff, that even if the 2017 Peakers are needed for reliability, the CPM risk-of-retirement provisions (§ 43A.2.6) would require them to operate uneconomically into 2018 after their contracts expire, but before the CAISO could designate them as eligible for compensation. We do not view continued operation with unknown compensation as an acceptable business outcome. As such, *we will not pursue such a CPM designation.*

We are aware, however, that if the CAISO determines that all or some of the 2017 Peakers are required for reliability, the CAISO retains the unilateral right to designate those units as Reliability Must Run (RMR) under CAISO Tariff §41. As noted earlier, in order to provide for reasoned planning and coordination of activities, Calpine asks that the CAISO complete any reliability analysis and communicate the results on or before March 31, 2017.

As always, we stand ready to meet with you when further discussions are advisable.

Sincerely,

Mark Smith

Mark Smith
Vice President, Governmental & Regulatory Affairs

cc: Keith Casey, ISO

[3] It is worthy of note that the decommissioning planning and implementation process for combined cycle units (as opposed to the 2017 Peakers), is an even longer process – many CEC licenses require the submission of a decommissioning or closure plan to the CEC for review and approval at least 12 months prior to the commencement of decommissioning activities.