Diamond Generating Corporation

March 14, 2016

Mr. Neil Millar
Executive Director
Market and Infrastructure Development Division
California Independent System Operator

Sent via email

Re: Diamond Generating Company Comments on the 2016 – 2017 Transmission Planning Process Study Plan.

Dear Mr. Millar,

Diamond Generating Corporation ("Diamond") provides the following comments on the CAISO's 2016-2017 Transmission Planning Process Study Plan ("Study Plan") and the proposed development of new scenarios to study risks of firm capacity resources retiring early. Diamond supports a special study on early retirement risks and the CAISO's efforts to proactively address a potentially significant risk to system reliability and flexibility.

The Study Plan uses a standard assumption that conventional resources will be retired at the end of a 40-year life cycle unless the generator has announced an earlier date.[1] The "40-year" assumption does not account for the risk that fast-starting gas resources ("firm capacity resources") may retire earlier than an assumed 40-year useful economic life. During the 10-year planning horizon of the 2016-2017 TPP, numerous firm-capacity resources will come off their existing contracts and the CAISO short-term market prices will not support the continued availability of firm capacity resources. There is also no adequate price signal through CAISO market prices or its other procurement mechanisms to maintain and invest in firm capacity resources absent a multi-year commercial arrangement. Put simply, there is a risk of premature retirement of firm capacity resources that are within their ordinary operational life but for the absence of a regularized pathway for re-contracting.

[1] See CAISO Draft 2016-2017 TPP Study Plan at p. 19, available at: http://www.caiso.com/Documents/Draft20162017StudyPlan.pdf

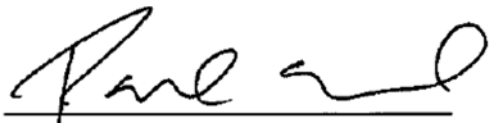
In both the LTPP[2] and this proceeding, the CAISO has wisely recognized the magnitude of these risks by proposing a new sensitivity study:

> There is a potential for the economic early retirement of gas generation as a result of the increasing levels of renewable generation interconnecting to the electrical grid. The special study will develop a methodology for developing potential early retirement scenarios and assess the early retirement scenarios to identify if there are any reliability impacts associated with the early retirement of gas generation on the ISO controlled grid.[3]

The brevity of Appendix A-3 (presumed retirements) highlights the potential value of this sensitivity. Appendix A-3 contains a mere fraction of the universe of conventional resources in Appendix A-1. Appendix A-3 only includes those resources that have previously announced retirement or reach age 40 within the TPP's 10-year planning horizon. Many of these retirements have already been planned around (e.g., SONGS) and the overall impact of Appendix A-3 on the 2016-2017 study results will probably be negligible. By studying a new sensitivity, the CAISO will provide greater public, aggregated information on the timing, quantity and general types of firm capacity resources without ongoing commercial commitments to the CAISO market. Diamond strongly supports the CAISO's efforts to develop this critical data set for both the CAISO and other entities with planning responsibilities.

Diamond appreciates the opportunity to submit these comments on the Draft 2016 – 2017 Study Plan and looks forward to participating in this year's planning process.

Sincerely,



Paul Shepard
VP – Portfolio & Asset Management
Diamond Generating Corporation

[2] See CAISO Reply Comments in R.13-12-010 (Feb. 29, 2016) at pp. 5-6.

[3] *Id.* at p. 51.