

January 31, 2012

VIA ELECTRONIC MAIL and U.S. MAIL

Honesto Gatchalian
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

VIA ELECTRONIC MAIL

Robert Strauss
Nathaniel Skinner
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Draft Resolution E-4471
Comments of the California Independent System Operator Corporation

On February 16, 2012, the California Public Utilities Commission (Commission) issued Draft Resolution E-4471. If adopted, the Draft Resolution would direct Pacific Gas & Electric (PG&E), Southern California Edison (SCE) and San Diego Gas & Electric (SDG&E) to enter into a contract with Calpine's Sutter Energy Center (Sutter) to end no later than December 31, 2012.

The ISO appreciates the Commission's efforts to ensure that the Sutter plant is under contract during 2012 and does not retire from service. As the Commission is aware, on January 26, 2012, the ISO filed a Petition for Waiver of Tariff Provisions and Request for Confidential Treatment in FERC Docket No. ER12-897-000 (Waiver Petition) seeking the authority to procure the Sutter plant during 2012 pursuant to the risk of retirement tariff provisions of its Capacity Procurement Mechanism (CPM). The principle drivers behind this filing were the ISO's determination that the Sutter plant is needed for reliability by the end of 2017 and Calpine's submission of a sworn affidavit to the ISO stating that, absent designation of the Sutter plant as capacity at risk of retirement pursuant to the ISO's CPM tariff provisions, it intends to retire the plant as soon as May 2012.¹

¹ A copy of the ISO's Waiver Petition can be found at the following Web site:
http://www.caiso.com/Documents/2012-01-26_ER12-897_Sutter_Pet_TariffWaiver.pdf

The Draft Resolution recognizes that “the CAISO may issue a CPM designation for capacity at risk of retirement”. By design, the ISO’s Capacity Procurement Mechanism process is intended to be supportive of and complementary to the CPUC’s procurement processes. For example, the CPM tariff provisions provide an opportunity for load serving entities to procure needed capacity before the ISO steps in and designates such capacity. In other words, the purpose of the CPM risk of retirement category is to allow the ISO to procure needed capacity in the event state or local procurement does not meet the ISO’s operational and reliability needs.

As the ISO discussed in its Waiver Petition, the Sutter plant needs to be procured, either by the ISO or by load serving entities, no later than April 1, 2012 so that Calpine can secure the necessary equipment and materials and undertake necessary maintenance for the plant in a timely manner. In the event that load serving entities procure Sutter after the ISO has already designated the plant as CPM capacity, the ISO tariff provides that the ISO will rescind the CPM designation for any month in which the resource is under contract with a load serving entity to provide resource adequacy capacity. Further, as the Draft Resolution correctly recognizes, “if the Sutter plant comes under contract from a LSE, then the FERC process would come to a halt, since the resource would have come under contract”. Under these circumstances, the ISO’s CPM tariff procedures ensure that Sutter will not receive any duplicate capacity payments.

The ISO also offers the following comments on the Draft Resolution.

In commenting on the need for the Sutter plant, the Draft Resolution states on page 6 that the parties to the settlement agreement in the Long Term Procurement Plan proceeding in Docket No. R.10-05-006 (LTPP Settlement Agreement) “agreed that no new resources were needed for system reliability.” The ISO notes that page 4, the LTPP Settlement Agreement states that the ISO’s study results showed that for four of the scenarios studied, there is no need to *add* capacity for renewable integration purposes above the capacity available, but that the fifth scenario studied by the ISO did show a need. Similarly, at pages 4-5, the LTPP Settlement Agreement states that the results of the Investor Owned Utilities’ modeling shows need for *additional* capacity to support renewable integration under certain circumstances. Thus, the LTPP Settlement Agreement merely recognized that there was no need for *additional* capacity in four of the scenarios, but that the ISO and the IOUs found a need for *new* capacity under other scenarios. The Sutter plant is not a new resource; it is an existing facility. As such, the LTPP Settlement Agreement does not on its face support a finding that the Sutter plant is not needed. Rather, all scenarios assumed that the Sutter facility continued to be operational.

The Draft Resolution also states that the ISO’s reliability studies did not take into account more recently available information which shows that additional generation resources might be available. As the ISO discussed in its Waiver Petition, such “new” generation is, *inter alia*, either (1) offset by the loss of other generating units which were previously assumed to be available in 2018, (2) capacity that will not be available until after 2018, or (3) capacity that does not have Commission-approved contracts or siting authority and, therefore, do not satisfy the criteria established in the Long Term Procurement Plan proceeding for inclusion in the ISO’s study.² In other words, the additional capacity anticipated from “new” generation is more than offset by the increased amounts of generation that were included in the Scoping Memo in the Long Term

² Waiver Petition at 31-32.

Procurement Plan proceeding but are now expected to be unavailable by 2018. For example, the 623 MW of capacity associated with the Oakley generation plant which has recently been approved by the Commission would not be sufficient to eliminate the need for Sutter based on the observed shortfalls in the 2018 scenario. Specifically, the Scoping Memo assumed the additions of the Avenal Unit (600 MW) and potentially the Victorville Hybrid unit (563 MW)), both of which subsequently have been determined to be unavailable in 2018.

As discussed in greater detail in its Waiver Petition,³ the ISO submits that the scenario it relied upon to determine a need for the Sutter Plant is the most appropriate scenario to use for operations planning purposes. This operations planning scenario identifies a reasonable and plausible set of load outcomes and assumptions which a prudent utility would assume to assess operational reliability needs several years into the future. Other scenarios specified in the LTPP proceeding were based on assumptions that new demand response and energy efficiency programs not yet in development would be successfully implemented. The ISO supports the objectives of these programs but believes that it is more prudent to plan on these measures not materializing to the levels specified in the other scenarios, which results in higher expected demand and generation needs. The consequences of having insufficient resources to operate the grid reliably are much more significant than the consequences of over-procuring the Sutter plant. In addition to severe economic consequences, electricity outages caused by a shortage of flexible resources needed to reliably operate the grid would put renewable goals themselves at risk.⁴

Based on the foregoing discussion, the ISO suggests that the following changes be made to the draft resolution:

1) Page 6:

The Commission has not made a final need determination in R.10-05-006.

In order to grant approval to close a generating facility, the Commission must determine that there is no need for the facility. We have not issued a decision on system need in R. 10-05-006, but both Calpine and the CAISO have signed a settlement agreement filed in that proceeding.⁵ In the settlement the parties agreed that no new resources were needed for system reliability in the four scenarios studied by the CAISO, but that additional system resources were needed in the fifth scenario, namely the 33% RPS Trajectory Study at high load. Additionally, the parties to the settlement agreement, including Calpine and the CAISO, presented evidence that resources without long-term contracts, assumed to be existing in the CAISO's studies, created a reliability risk if those resources retired prior to 2020

³ *Id.* at 4-5; 13-26.

⁴ *Id.* at 6, 21-24.

⁵ Motion for approval of Settlement Agreement. <http://docs.cpuc.ca.gov/efile/MOTION/140823.pdf>

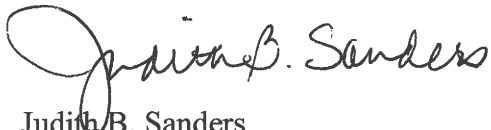
2) Page 9:

Findings of Fact

11. The CAISO report did not identify needs that required additional generation under the four mid load scenarios or the low load sensitivity in R.10-05-006. However, the report concluded that new resources were the Sutter plant was needed by 2017 under a high load sensitivity. The CAISO also provided evidence that existing resources such as the Sutter plant were assumed to be available as part of the fleet and would be needed for reliability purposes in 2020 and as early as 2017.

The ISO appreciates this opportunity to comment on the Draft Resolution.

Respectfully submitted,



Judith B. Sanders
Senior Counsel
California Independent System Operator Corporation
250 Outcropping Way
Folsom, California 95630
Tel. (916) 608-7143
Fax (916) 608-7222
Email jsanders@caiso.com

cc:

Honorable Michael R. Peevey, President
Honorable Timothy Alan Simon, Commissioner
Honorable Michael Peter Florio, Commissioner
Honorable Catherine J.K. Sandoval, Commissioner
Honorable Mark J. Ferron, Commissioner
Mr. Paul Clanon, Executive Director
Mr. Edward Randolph, Director of the Energy Division
Honorable Karen Clopton, Chief Administrative Law Judge
Frank Lindh, Esq., General Counsel

Service Lists in the following proceedings

R.10-05-0006
R.11-10-023

CERTIFICATE OF SERVICE

I hereby certify that I served, on Honesto Gatchalian, Energy Division, by electronic and United States mail, and on all individuals listed on the letter and on all parties on the Service Lists for Proceedings R.10-05-006 and R.11-10-023 by electronic mail a copy of the foregoing: *COMMENTS OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION TO DRAFT RESOLUTION E-4771*.

Anna Pascuzzo

Anna Pascuzzo,
An employee of the California
Independent System Operator

Executed on January 31, 2012,
at Folsom, California