

# INDEPENDENT ENERGY PRODUCERS

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December 16, 2011

Phil Pettingill  
CAISO

RE: CAISO Report on Basis and Need for CPM Designation for Sutter Energy Center  
(December 6, 2011)

Dear Mr. Pettingill:

On December 6, 2011, the CAISO issued a “Report on Basis and Need for CPM Designation for the Sutter Energy Center.” The Report addresses the basis and need for the CAISO to designate, at the request of Calpine, the Sutter Energy Center (“Sutter plant”) as capacity at risk of retirement pursuant to the provisions of the CAISO Tariff regarding the Capacity Procurement Mechanism (CPM). In response to the Calpine Request, the CAISO has determined that (a) the Sutter plant will be needed for reliability purposes for its [Sutter’s] operational characteristics in the 2017/2018 timeframe, and (b) the Sutter plant will not be available to meet reliability needs in the CAISO balancing authority area in the 2017/2018 timeframe without CPM designation. Furthermore, the CAISO determined that it must take immediate action to avoid these reliability and operational issues in the future.

To accomplish this, the CAISO has proposed to take two actions. First, the CAISO proposes to make a filing at the Federal Energy Regulatory Commission (“FERC”) requesting a waiver of existing tariff provisions that currently limit the procurement of capacity at risk of retirement to cases in which the capacity is needed the next resource adequacy compliance year. If the waiver is granted, the CAISO proposes to procure Sutter plant capacity for the remainder of 2012 based on the CAISO’s determination of need for the end of 2017. Second, the CAISO proposes to initiate in January 2012 a stakeholder process to develop a longer-term mechanism for procuring needed capacity to meet expected reliability and/or operational needs of the system.

The CAISO’s proposal is indicative of a problem in the California energy markets that has persisted too long. Specifically, load-serving entities (LSEs) subject to the jurisdiction of the California Public Utilities Commission (CPUC) have no incentives to acquire capacity with the operational characteristics needed to sustain grid reliability over a mid-term planning horizon. Under the current procurement paradigm, LSEs are required to make a showing that they have procured needed capacity for the upcoming calendar year under the Resource Adequacy (“RA”) program. On the other hand, commitments to procure capacity on a longer basis are typically made to fill a load/resource imbalance forecast on a 10-year time horizon; or, they are designed to meet public policy requirements (e.g. RPS resources). The CPUC has failed so far to facilitate the means by which LSEs may secure cost-effective, capacity of any vintage resource needed to meet current and mid-term reliability and operational needs. As a result, in anticipation of

capacity and operational needs in the interim 1-10 year planning horizon, the CAISO is left to exercise its “backstop” CPM Designation authority to secure the availability of such resources. This disconnect in procurement reflects a serious flaw in the CPUC’s procurement paradigm.

We view the CAISO’s proposed CPM designation for the Sutter Plant as a temporary backstop mechanism until such time as the CPUC resolves this procurement gap or, alternatively, until the CAISO creates a tariff mechanism to accomplish such outcomes through the marketplace. As an overarching procurement goal, the resources needed for their capacity and/or operational characteristics over the next 1-10 years ought to be procured by the appropriate LSEs benefiting from their operational characteristics; they ought to be procured in light of other reliability and public policy needs within a 10-year planning horizon; and, the CAISO should exercise its authorities to procure such resources solely as a backstop mechanism.

We look forward to working with the CAISO on resolving this procurement “portfolio gap.” More importantly, we recommend that the CAISO fully engage the CPUC on how to fill this portfolio gap through LSE procurement via competitive markets. Any decision on this matter should be readily achievable by the end of 2012 at the latest. The CAISO should not be placed in a position of exercising backstop procurement authority for these types of capacity resources in the future.

Respectfully submitted,

A handwritten signature in black ink that reads "Steven Kelly". The signature is written in a cursive, flowing style with a large, sweeping flourish at the end.

Steven Kelly  
Policy Director