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Comments of Northern California Power Agency
CPM Designation for Sutter Energy Center

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Northern California Power Agency ("NCPA") provides the following comments in response to the CAISO Report on Basis and Need for CPM Designation for Sutter Energy Center ("CAISO Report") posted on December 6, 2011. For the reasons stated below, NCPA opposes designation of the Sutter Energy Center as CPM risk-of-retirement capacity under Section 43.2.6 of the CAISO tariff.

Discussion

The Sutter Energy Center is outside the CAISO Balancing Authority Area ("BAA"), and a risk-of-retirement CPM designation for a unit outside the CAISO BAA sets a particularly bad precedent for CAISO ratepayers, especially given the quantity of generation presently existing and currently slated to come online inside the CAISO BAA. CAISO seeks a waiver to allow it to require CAISO ratepayers to subsidize the Sutter Energy Center (for which no market participant chose to contract) during the 2012 calendar year, to preserve the unit's capacity for future reliability needs based on a host of assumptions. A proposal of this nature deserves a full vetting of the facts that CAISO claims demonstrate that the Sutter Energy Center capacity must be retained. Those facts have not been demonstrated.

The risk-of-retirement designation provisions in Section 43.2.6 of the CAISO tariff, including the five (5) conditions which must be satisfied to qualify for risk-of-retirement procurement, were developed and adopted over significant opposition from numerous market participants. The risk-of-retirement procurement authority should be reserved only for emergency situations where an imminent threat to reliability is identified in the near future. Indeed, CAISO represented to FERC that it intended the risk-of-retirement procurement authority to be used as "a last resort backstop measure, akin to breaking the glass in case of emergency."[1] The Commission relied on that representation in its order accepting the provision, and directed CAISO to add language making clear its

[1] *California Independent System Operator Corp.*, 134 FERC ¶ 61,211, P80 (2011) ("CPM Order").

commitment to use the mechanism only as a limited, last resort.[2] Accordingly, the five (5) requirements stated in Section 43.2.6 should be viewed as the bare minimum criteria for triggering a risk-of-retirement CPM designation. Here, CAISO is proposing[3] to request FERC to grant a waiver from one (1) of the five (5) requirements, specifically, the requirement that risk-of-retirement CPM procurement must address reliability issues for the calendar year following the current RA Compliance Year.

CAISO explains[4] that it has identified some concern that the CAISO BAA may lack sufficient flexible capacity in the 2017/2018 timeframe, some five or more years beyond the next RA Compliance Year. This period of time is clearly outside the time horizon provided under Section 43.2.6. CAISO's assessment is based on a number of assumptions, including the availability of resources projected in the California Public Utilities Commission ("CPUC") Long-Term Procurement Planning assumptions, the CPUC's 33 percent trajectory high load scenario, and the potential retirement of Once Through Cooling resources. NCPA is concerned that the combination of assumptions and scenarios used by CAISO have not been fully vetted and agreed upon by stakeholders. For example, of the seven scenarios studied in the CPUC's Long-Term Procurement Proceeding, only the 33% trajectory high load scenario showed the need the CAISO alleges here. CAISO should justify why it only relied upon this single scenario to support its conclusion.

NCPA is also concerned with the lack of detail regarding the amount of flexible capacity CAISO assumes can be provided by the Sutter Energy Center in the future, and with the amount of backstop compensation that is required to keep the Sutter Energy Center on 'life support'. The CAISO indicates that it will procure the entire capacity available from the facility which is rated at over 500 MW. The Sutter Energy Center is only certified to provide system capacity, which means that CAISO does not regard the unit's energy as necessary to satisfy any location-specific reliability need.[5] This signifies that the energy produced by the facility could be replaced from other system resources in the CAISO BAA or imported from an external BAA.

While the CAISO claims that it seeks access to the Sutter Energy Center's ramping or load-following capability, the CAISO fails to state how much of the plant's over 500 MW capacity can actually provide flexible products such as Regulation and Flexible Ramping. The CAISO's stakeholder process on Flexible Ramping Products is still

[2] *Id.*, P 130.
[3] CAISO Report at 3.
[4] *Id.*, at 7.
Id., at fn.14.

ongoing, but CAISO has already proposed to limit the amount of Flexible Ramping Products that a facility may provide to that facility's 5-minute ramp rate. In other words, the Sutter Energy Center would not, under the CAISO's current proposal, be able to provide over 500 MW of flexible products, but some number significantly less than that. Market Participants, who will be funding the CPM payments, should be informed as to the quantity of flexibility they are actually reserving and for which they are paying. NCPA cannot support CAISO's proposal unless it knows that the amount of flexible capacity that is being preserved is significant enough to justify keeping the Sutter Energy Center in service.

Also, CAISO has not stated how much it will cost to keep the unit on-line. Based on the current price of $55/kW-year in the CAISO tariff,[6] total compensation per year could amount to over $27 million, which is significant. Unless the CAISO can confirm how much it will cost to keep the unit in service, NCPA can only assume the worst, which based on NCPA's allocated share of $27 million, could be substantial. Particularly during this economic time where budgets are tight, all costs imposed on the market must be sufficiently justified and supported by strong evidence to ensure electric customers (who in the end will pay this bill) are protected. NCPA would like to see clear evidence that the amount of compensation provided to the Sutter Energy Center is equal to the minimum requirement necessary to keep the unit on-line. This is a unique situation where load will effectively be subsidizing the Sutter Energy Center; if load is ultimately forced to do so sufficient evidence must be made available to prove that load is not over paying. Stakeholders deserve the opportunity to query the basis for Calpine's claim that it is in financial difficulty and that a retirement decision has been made. When a unit seeks a subsidy from market participants to remain in business, it should not be able to avoid scrutiny of its internal financial situation, in order to test the validity of its claims. The claims are particularly suspect in light of the December 14, 2011 approval by the California Energy Commission of a petition to amend the Sutter Energy Project and a transfer of ownership for the Sutter Project pipeline, to allow the construction of a new pipeline to serve the plant.[7] On the face of it, constructing a new pipeline to serve a plant purportedly on the verge of closure would appear to be a questionable business decision.

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[6] The $55/kw-year price is based on the current level in the tariff. The actual number is expected to be determined by the ongoing settlement discussions in Docket No. ER11-2256-000.

[7] http://www.energy.ca.gov/mobile/m_details.php?eID=1566; http://www.energy.ca.gov/business_meetings/2011_packets/2011-12-14/Item_06_Sutter/Item_06_Proposed_Order_Sutter_Ownership_Change_Combined.pdf; http://www.energy.ca.gov/business_meetings/2011_packets/2011-12-14/Item_06_Sutter/Item_06_Briefing_Outline_Sutter_Amendment_Combined.pdf; http://www.energy.ca.gov/calendar/events/index.php?com=detail&eID=1566&year=2011&month=12

CAISO's proposal has clearly been in the works for some time. During the December 9, 2011, conference call with stakeholders, CAISO stated that it is planning to request a waiver from FERC to execute Section 43.2.6 of the CAISO Tariff. Furthermore, it is clear that CAISO has been considering options available to it to retain the Sutter Energy Center capacity at risk of shut down for over a month, as evidenced by CAISO's notice of ex parte communications with the CPUC dated October 24, 2011. However, CAISO has provided only one week for stakeholders to comment on the CAISO's December 6, 2011 report. This is a far cry from the "robust process that allows for stakeholder discussion of CAISO's finding of need for the resource."[8] Due to the compressed time for review, NCPA has not had sufficient time to review all details associated with CAISO's various assumptions, and reserves the right to raise further issues as they become apparent during the CAISO and FERC processes.

[8] CPM Order, P 112.