

Comments of the California Large Energy Consumers Association on California ISO
Report on Basis and Need for CPM Designation for Sutter Energy Center

December 16, 2011

These comments address the California ISO Report cited above, first issued on December 6, 2011 and discussed on a stakeholder call on December 9, 2011. The California Large Energy Consumers Association (CLECA) is very concerned about this CAISO Report and its conclusions: 1) that there is a clear need for the output of the Sutter plant in 2018, 2) that the CAISO has no option but to file at FERC for a waiver from its tariffs, and 3) that there is an immediate need for a stakeholder process to consider a multi-year forward CPM. We find that none of those conclusions are adequately addressed in the report.

The CAISO claims that, on the basis of the "High Load" scenario presented in the CPUC's Long Term Procurement Planning case (LTPP, R. 10-05-006) there will be a need for the flexible output of the Sutter plant in 2018, after the OTC retirements. We note that the Commission's own staff proposed 4 scenarios for analysis, none of which was the High Load scenario. We also note that the LTPP analysis that was performed only focused on the year 2020, not the year 2018. We note that a settlement, signed by the CAISO and numerous other parties, agreed that the record did not support the need for any new generation capacity based on the 4 CPUC scenarios, even with OTC retirements. For the CAISO to state that in its 2017/2018 assessment concluding a need for Sutter, the assumed availability of resources is "based on the CPUC LTPP planning assumptions", is at best misleading. The ISO chose to use the CPUC planning assumptions for resources but not for the load forecast or other factors.

The "analysis" results for 2017/2018 are not the results of the LTPP process, which focused on the year 2020, period. Unless the CAISO has replicated the countless hours of modeling needed for the year 2020 to assess system conditions in 2018, the so-called results are at best an interpolation. Furthermore, and of more concern, the CAISO is in the midst of an extensive, stakeholder-supported effort to refine the modeling process so that the "results" from the 2011 CPUC proceeding can be expected to change. Indeed, the CAISO supported the performance of additional modeling and an acceleration of the CPUC LTPP process from 2013 to 2012 so that the results of this new modeling effort could be made available and form the basis for a need determination in 2012. The CAISO's decision to use the June 2011 results to determine that there is a need for Sutter at the same time it is in the midst of revising the analytical methodology that produced those results is disturbing and problematic.

The ISO has not yet determined the level of flexibility it needs for either dealing with intermittent renewable generation or load forecasting uncertainty for the next 8-10 years, yet it claims it needs Sutter for flexibility. Furthermore, the CAISO is considering changes to its markets that could reduce the operational impacts of load

forecast errors and renewable generation uncertainty by running its markets closer to the time when the power is needed. Such a change could occur before 2017, yet the “analysis” does not consider it.

The ISO “analysis” of the need for Sutter also ignores other key factors:

1. There is no economic analysis of the cost of paying a CPM price to this plant for 2012 or possibly subsequent years, if it is not needed until 2017/2018.
2. There is no assessment of the reality of the risk that, if the plant is mothballed, it will need new environmental permits that may not be available.
3. There is no assessment of the risk that other generating plants will pursue the same route as Calpine for the Sutter plant and that the costs of giving them CPM status may also be imposed on consumers.
4. If, as claimed in the ISO report, Sutter has an almost 70% capacity factor, there is no assessment of whether a plant that is running so much can provide flexibility when needed, other than in the downward direction. Indeed, if a plant that is expected to operate at a 70% capacity factor cannot generate enough operating profit to support its operations in the market, this suggests that the high reserve margins forecast for the next decade may be depressing market prices below the level required to support new investment. Retaining additional generation is likely to exacerbate this problem, not help.
5. There is a broad claim made in the report that Sutter has valuable flexible ramping capability but there is no quantification of this feature or whether it would be available when needed.

The haste with which the CAISO proposes to act (less than a month after notifying market participants of the Sutter request) is justified on the basis that the CAISO cannot question the assertions made by Calpine in its affidavit. On the stakeholder call, the CAISO said that it performed no economic analysis of the costs or benefits of giving Sutter a CPM designation, nor does it intend to. The DMM stated it was not in a position to evaluate the report. The CAISO said that the information provided by Calpine was confidential. Thus, if parties want to challenge the ISO staff’s proposal to go forward with the tariff waiver, they have no choice but to intervene at FERC. It would be easy to come to the conclusion that the comments being filed today are essentially a futile exercise. However, for parties that do not participate at FERC, they are the only option to express an opinion in California.

In another problematic proposal, the CAISO Report states that the Sutter plant request shows the benefits of developing a capacity procurement mechanism that addresses longer-term system needs than the CAISO’s one-year CPM provisions. The CAISO seems to forget that the CPUC, in its decision rejecting the creation of a capacity markets, rejected such a mechanism.

“These parties argue that it is necessary to modify the program by providing for a multi-year forward commitment of capacity resources. While their

concerns have merit, we conclude that a multi-year forward procurement obligation should not be adopted at this time. We direct our staff to review this issue and report its findings to us as the basis for possible future action.” (D. 10-06-018, p. 2)

If the CAISO were to adopt a multi-year CPM, it would attempt to impose the costs of that mechanism on the customers of the utilities regulated by the CPUC. The CPUC rejected a FERC-jurisdictional procurement mechanism in part in order to retain state jurisdiction over utility procurement. Such an CAISO process would in effect undo the CPUC’s decision and undermine its authority.

Such a mechanism would also intrude into the CPUC’s authority over resource adequacy for the utilities it regulates by effectively increasing the amount of procurement over that needed to meet load over that required by the CPUC’s RA decisions.

For all of these reasons, CLECA opposes the CAISO proposal to seek a waiver from its own tariff to pursue a CPM designation for Sutter, beginning in 2012, when even the CAISO admits there is no need until 2017/2018.