

**Comments of CalPeak Power, LLC and Malaga Power, LLC on CAISO's
Bidding Rules Enhancements Straw Proposal, dated April 22, 2015**

Submitted May 13, 2015

CalPeak Power, LLC ("CalPeak") and its affiliate Malaga Power, LLC ("Malaga Power") (hereinafter collectively "CalPeak Affiliates") appreciate this opportunity to provide comments on the CAISO's *Bidding Rules Enhancements Straw Proposal*, dated April 22, 2015 ("Straw Proposal"). The CalPeak Affiliates previously submitted comments with respect to questions relating to implementation of FERC Order 809. These comments relate to other portions of the Straw Proposal.

A. Background

CalPeak's subsidiaries, CalPeak Power – Border LLC, CalPeak Power – Enterprise LLC, CalPeak Power – Panoche LLC and CalPeak Power – Vaca Dixon LLC (CalPeak and its four subsidiaries are collectively referred to herein as the "CalPeak Companies"), operate four substantially identical peaker plants. Two of them, CalPeak Power Border Unit 1 ("Border") and CalPeak Power Enterprise Unit 1 ("Enterprise"), are located in SDG&E's electric and gas service territories. The other two, CalPeak Power Panoche Unit 1 ("Panoche") and CalPeak Power Vaca Dixon Unit 1 ("Vaca Dixon" and collectively with Border, Enterprise and Panoche, the "CalPeak Units"), are in PG&E's electric and gas service territories. All four utilize Pratt & Whitney, Model FT8-2 TWINPAC. The Pratt & Whitney, Model FT8-2 TWINPAC utilizes a Dry Low NOx combustor technology that can achieve lower emissions without using water or steam to reduce combustion temperature. Each TWINPAC is comprised of two combustion turbines ("CT") that, singly or together (a multi-stage generator or MSG), turn a single Brush Synchronous Machine, Model BDAX7-290ER, rated at 71,176 kVA, 3,600 RPM, 13.8-kV, and 2,977.8 Amps. In a 2-on-1 configuration, *i.e.*, with both CTs operating at each unit, the minimum generation ("PMin") in this configuration for each power plant is 44 MW and the maximum generation ("PMax") values range between 48 and 52 megawatts ("MW"), depending on the unit. In a 1-on-1 configuration, *i.e.*, with one CTs operating at each unit, the PMin in this configuration for each power plant is 44 MW and the PMax values range between 48 and 52 MW, depending on the unit. The CalPeak Units have heat rates, in the range of 10,588-12,370, again depending on the unit's MSG configuration.

In addition to their real power generating capability, each TWINPAC is designed as a dual-mode capable generator/synchronous condenser. Each resource is nominally rated at 50 MW real power generating, 60 megavar reactive power producing ("MVAR") and 19.5 MVAR reactive power absorbing. The TWINPAC's industrial aeroderivative combustion turbine generator packages enable them to be used not only as generators, but also as synchronous condensers to provide voltage support (including reactive power and active power control). It needs to be pointed out that no fuel or water is consumed by these resources while they are operating in synchronous condenser mode.¹

¹ See CalPeak's comments in the CAISO's Reactive Power for Asynchronous Resources Issue Paper and Straw Proposal, available at http://www.caiso.com/Documents/CalPeakPowerComments_ReactivePowerRequirements_AsynchronousResources_IssuePaper_StrawProposal.pdf

Name of Facility (Including Unit Number)	CAISO Resource ID	Generator Mode Net Qualifying Capacity MW	Generator Mode Overexcited (Lagging) "+" MVAR Capability @ 15 deg C	Generator Mode Underexcited (Leading) "-" MVAR Capability @ 15 deg C	Synchronous Condenser Mode Overexcited (Lagging) "+" MVAR Capability @ 15 deg C	Synchronous Condenser Mode Underexcited (Leading) "-" MVAR Capability @ 15 deg C
CalPeak Power Border Unit 1	BORDER_6_UNITA1	48	16	-16	60.5	-19.5
CalPeak Power Enterprise Unit 1	ESCNDO_6_UNITB1	48	16	-16	63.5	-19.5
CalPeak Power Panoche Unit 1	PNOCHE_1_UNITA1	48	16	-16	60.5	-19.5
CalPeak Power Vaca Dixon Unit 1	VACADX_1_UNITA1	48	16	-16	60.5	-19.5

CalPeak's affiliate, Malaga Power, LLC, acquired title to the Malaga Power Plant on April 14, 2015. This is a 98 MW peaker located near Fresno, California, in PG&E's service territory. This power plant was previously owned by Kings River Conservation District and operated under contract with the Department of Water Resources. The power plant is now a merchant participating generator in the CAISO.

Because the CalPeak Affiliates only operate peakers, the natural gas used to run its power plants is generally purchased only after its peakers are selected by the CAISO to run. If units are selected to run in the day-ahead market, arrangements to ensure an adequate of natural gas are generally made the day before the unit is to run. If the units are not selected to run in the CAISO day-ahead market, but are committed in the fifteen-minute market or real-time market, natural gas is often purchased for same-day delivery. Since the CalPeak units are all relatively dispersed small to moderate-sized peakers, natural gas is purchased for each peaker separately - the CalPeak Affiliates have little to no capability to aggregate natural gas procurement and it is not typically possible to resell or reallocate natural gas to an affiliate. Due to the inherent variability of the schedule on which peakers run, it is not feasible to hedge natural gas price risks.

B. General Comments

The CalPeak Affiliates believe that major changes are needed to the CAISO's bidding practices and is encouraged that the CAISO has opened this proceeding to consider major changes. The CalPeak Affiliates are concerned, however, that the CAISO only appears to be contemplating very minor improvements to its bidding practices and has not yet put forward any proposal for modifications to its market power mitigation rules.

As a general matter, the CalPeak Affiliates believe that the CAISO bidding rules should be reformed to give generators as much flexibility as possible since flexibility is critical to ensuring efficient market outcomes. Unfortunately, the CAISO's bidding rules are not as flexible as they can be and not as flexible as the bidding rules in other organized markets. Yet, the specific proposals put forward would only make minor improvements.

The CalPeak Affiliates are particularly concerned that the CAISO does not appear to be considering a key improvement to bidding flexibility - removal of bid caps for the commitment cost bidding process. The CAISO's own review of ISO-RTO commitment cost bidding rules shows that the CAISO is the only organized market that severely limits bidding flexibility by imposing bid caps. Straw Proposal at 11.

The CalPeak Affiliates believe that it is unnecessary to interfere with market outcomes by imposing bid caps. The CAISO ignores the fact that generators must bid competitively or they will have no revenue, so the

prices they bid must be reasonable. The CalPeak Affiliates are not alone in taking this position. In fact, PJM recently filed comments at FERC in which it took the position that for cost-based offers FERC should eliminate its wholesale market offer cap of \$1000/MWh.² PJM also took the position that for market-based offers the offer cap should be increased from \$1000/MWh to “some percentage above the highest cost-based offer from previous Delivery Years” which PJM suggested in the PJM’s market could be \$2700 per MW/h.³

The CalPeak Affiliates, understand, of course, that the CAISO uses bid caps to limit possible market power, but bid caps are not the best way to limit possible market power. Unfortunately, as the CAISO’s Straw Proposal explains, the CAISO’s use of a dynamic structural test for mitigation of market power is also out of step with what is done in most organized markets. Straw Proposal at 7. Most organized markets use a conduct and impact test to prevent market abuse. The CalPeak Affiliates hope that in this stakeholder proceeding the CAISO will put substantial effort into making improvements to its market power mitigation rules.

As the CalPeak Affiliates have learned, between bid caps and the CAISO’s market power mitigation rules it often is not possible to cover costs when operating in the CAISO, particularly for fuel.

C. Response to Specific CAISO Proposals

1. Proposal in Section 6.3.2 - Allowing Resources Without a Day-Ahead Schedule to Re-Bid Commitment Costs

The CAISO has indicated that it:

proposes that any resource that did not receive a day-ahead schedule or residual unit commitment be allowed to rebid commitment costs into the real-time market. Currently the short-term unit commitment cannot accept minimum load or start-up costs that differ across the hours in real-time time. Therefore, the rebidding opportunity would need to occur at T-75 at the latest.

Straw Proposal at 17. The CalPeak Affiliates agree that the resources that do not have a day-ahead schedule should be allowed to re-bid commitment costs.

The CalPeak Affiliates believe, however, that the CAISO’s proposed change does not go far enough. Other ISOs already allow significantly more bidding flexibility than the CAISO. In 2013 ISO New England submitted a number of changes to its tariff to improve bidding flexibility.⁴ As FERC explained:

The Offer Flexibility Changes will allow market participants to, among other things, modify the cost-related parameters of a supply offer up to 30 minutes prior to the hour during the operating day and submit cost-related parameters of a supply offer that may vary by hour, rather than with the same parameters for all hours of an operating day.

² See Comments of PJM Interconnection, LLC in FERC Docket AD 14-14-000, “Price Formation in Energy and Ancillary Services Markets Operated by Regional Transmission Organizations and Independent System Operators,” March 5, 2015 at 3 (“PJM believes it is appropriate to eliminate the cap on cost-based offers. Resources should be allowed to recover their costs of providing energy and not be limited by any arbitrary cap. Not allowing resources that provide energy the opportunity to recover their costs of operating would result in unjust, unreasonable, and likely confiscatory rates.”)

³ *Id.* at 4.

⁴ See filing of ISO New England ISO in FERC Docket No. ER13-1877, accepted for filing in 145 FERC ¶ 61,014 (October 3, 2013) and 147 FERC ¶ 61,073 (April 29, 2014).

ISO New England, FERC Docket No. ER13-1877, 147 FERC ¶ 61,073, at ¶ 3. The ISO New England also proposed an associated tariff change to allow generators to request fuel price adjustments to the reference levels used for market mitigation purposes. *Id.* at ¶ 4.

PJM has also recently instituted changes in its market which give generators greater bidding flexibility. Specifically, generators that do not have day-ahead market awards are permitted to provide intraday natural gas cost updates in the real-time market.⁵

Finally, as the Straw Proposal notes, the New York ISO already allows real-time updates to fuel prices used as reference levels. Straw Proposal at 10. In addition, under some circumstances the New York ISO will increase reference levels to reflect the actual costs incurred for gas balancing penalties and compliance with operational flow orders. New York ISO, Market Administration and Control Services Tariff, Attachment H, § 23.3.3.3.2.

Overall, the CAISO should give generators significantly greater bidding flexibility to make sure they can cover their costs. At a minimum, the CAISO should allow generators that do not have a day-ahead schedule to rebid commitment costs in the real-time market.

2. Proposal in Section 6.3.3 - Compensation for Natural Gas Costs Above the Index Cost

A. Compensation for Units that Run

The CAISO has indicated that:

Should the ISO not adopt a more flexible bidding policy with its accompanying market power mitigation methodology, the ISO proposes to allow for real-time consideration of gas purchases above the gas price index used in the real-time market.

Straw Proposal at 18.

The CalPeak Affiliates agree that the CAISO should provide compensation for natural gas costs above the index costs. The CalPeak Affiliates believe, however, that the best way for the CAISO to insure that this happens is to allow a more flexible bidding policy which will make it easier for generators to change their bids to reflect natural gas price increases above the gas price index.

If the CAISO does not provide generators adequate bidding flexibility it will be necessary for the CAISO to have in place a mechanism for payment of costs incurred above the gas price index in the real-time market. The CalPeak Affiliates believe that the mechanism that PJM recently implemented to provide compensation for gas natural gas costs above index costs is a good starting point for rules for the CAISO.⁶

⁵ The Straw Proposal indicates that PJM has “considering” an allowance for intra-day gas volatility. Straw Proposal at 10. This information is out-of-date. *See* PJM, Manual 11: Energy & Ancillary Services Market Operations, dated April 5, 2015, Section 2.3.3 Market Sellers (“When a generation resource is not scheduled in the Day-Ahead Energy Market or the Reserve Adequacy Commitment (RAC) by PJM, the Market Seller may update the cost-based schedules availability hourly three hours prior to the operating hour. The cost-based schedule made available must follow the Generation Owner’s fuel cost policy as defined in PJM Manual 15: Cost Development Guidelines. A generation resource may not change schedule availability once it has been committed by PJM for the hours in which it is committed.”). *See also* power point entitled “Gas Unit Commitment Coordination Intraday Cost Schedule Update Functionality Review and Q&A Session” available at: <http://www.pjm.com/~media/committees-groups/committees/oc/20150204-gas/20150204-gucc-session.ashx>.

⁶ These rules are available at PJM, Manual 11: Energy & Ancillary Services Market Operations, Appendix C: PJM Procedure for Cost Adjustment. *See also* PJM Manual 15: Cost Development Guidelines, Section 1.8: Cost Methodology and Approval Process.

B. Compensation for Units Forced Off-Line

The CAISO further indicates:

Additionally, the ISO may consider reimbursement for gas procured to operate a resource but the resource was exceptionally dispatched off. The ISO seeks feedback on how to account for the net cost of the gas purchase if any amount was sold.

Straw Proposal at 18. The CalPeak Affiliates believe that if the CAISO has scheduled a unit to run in the day-ahead or real-time market and then uses its exceptional dispatch authority to order the unit off line, it should compensate the generator for the “net cost of the gas purchase,” *i.e.* the difference between what the generator paid for the natural gas it purchased to run and what the gas was worth immediately after it was exceptionally dispatched off.

During the February 6, 2014, natural gas emergency some of the CalPeak units that had been scheduled to run in the day-ahead market were ordered off-line by the CAISO, forcing CalPeak to sell natural gas at a substantial loss. It appears likely that this will happen to generators again since effective February 27, 2015, the CAISO amended its Operating Procedure 4120, Gas Transmission Pipeline Derates or Outages, to expressly indicate for the first time that in the event of a natural gas emergency the CAISO can shut down units to make gas available to other units. Specifically, the Operating Procedure provides:

Note: The CAISO Generation Dispatcher may issue Exceptional Dispatch to shut down units if shutting down individual units may provide gas availability to units that are more effective for maintaining reliability.

Id. at 7 (emphasis in original). Given the change in the Operating Procedure, in future natural gas emergencies generators may well hesitate to procure natural gas supply unless the CAISO has made it clear that it will provide compensation for the net cost of gas purchases.

It appears that several major national electric and natural trade associations would agree that the CAISO must provide compensation for the net cost of gas purchases. The Edison Electric Institute, the Electric Power Supply Association, the Natural Gas Supply Association, the Nuclear Energy Institute, and America’s Natural Gas Alliance collaborated on a document titled “Principles for Energy Market Price Reforms” which they recently filed at FERC. The principles include:

(1) **Dispatch-Based Pricing** – Wholesale energy markets should provide accurate Day Ahead and Real Time price signals in order to promote efficient operation and resource adequacy. This includes observing the principles of dispatch-based pricing so that the cleared LMP is as consistent as possible with the marginal cost of operating the system, which includes the following:

* * *

- *Recover all reasonable and supportable costs incurred in unexpected circumstances, particularly when such costs are incurred in response to operator directives.*

Letter from Edison Electric Institute, the Electric Power Supply Association, the Natural Gas Supply Association, the Nuclear Energy Institute, and America’s Natural Gas Alliance, filed in FERC Docket AD14-14, March 6, 2015, at 2 (italics added).

D. Generators Should Be Compensated for Total Fuel Costs

In Section 6.2.2 of the Straw Proposal titled “Capacity Versus Marginal Fuel Costs” the CAISO included an excerpt from comments it recently made to FERC:

Resources critical to the reliability in the CAISO’s system receive compensation for capacity obligations under resource adequacy provisions. These capacity obligations include fuel costs associated with the resources’ obligations to ensure they have fuel and are available to the market as required by resource adequacy obligations. The CAISO believes, if it were to provide reimbursement for fuel costs above the bid cap, these costs should only include incremental fuel costs supporting the resource’s offer as opposed to other costs related to a resource’s capacity obligation such as natural gas pooling arrangement costs, imbalance penalties, or risk premiums to cover the cost of selling natural gas at a loss when a resource procures gas and then is not dispatched by the CAISO. The CAISO believes these costs are more appropriately recovered through compensation the resource receives for providing capacity as a resource adequacy resource as opposed to through the CAISO’s energy markets.

Straw Proposal at 13, quoting from “Comments of the California Independent System Operator Corporation on Technical Workshops,” Price Formation in Energy and Ancillary Services Markets Operated by Regional Transmission Organizations and Independent System Operators, FERC Docket No. AD14-14 (hereinafter Comments of the CAISO”) at pages 5-6.

It is not entirely clear why the CAISO has included this comment in the Straw Proposal, but inclusion of this language suggests that, although the CAISO is contemplating making changes needed to ensure that generators are compensated for natural gas costs, it does not intend to provide compensation for all natural gas costs. Thus, the CalPeak Affiliates point out that the CAISO’s comment to FERC is erroneous and should not be used as the basis for determining compensation for natural gas costs.

The comment is erroneous since it misconstrues what is bought and sold in agreements to purchase resource adequacy benefits. The utilities have developed standard forms for purposes of buying resource adequacy benefits and, while there are differences among them, the agreements are the same with respect to the core concept that the utilities only buy “capacity attributes” from generators which do not include any natural gas costs. For example, last year PG&E issued a request for offers for resource adequacy benefits and as a part of that effort issued a standard form RA confirm.⁷ That form makes it clear that the product PG&E is purchasing are “capacity attributes” which are defined as “resource adequacy attributes, as may be identified by the CPUC, CAISO or other Governmental Body having jurisdiction, that can be counted toward RAR.” See Standard RA Confirm at §§1.6 and 3.1. The generator’s key obligations under the agreement are: (1) to provide the supply plans to PG&E, *id.* at § 3.5, and (2) to “bid and/or schedule with, or make available to, the CAISO the Unit Contract Quantity,” *id.* at § 3.6. If a generator cannot provide capacity attributes it can instead supply substitute capacity attributes from another source. *Id.* at 3.9. Significantly, the agreement provides that sellers are to pay all costs:

Seller shall retain any revenues it may receive from and pay all costs charged by, the CAISO or any other third party with respect to any Unit including those charged to Buyer for (i) start-up, shutdown, and minimum load costs, (ii) capacity revenue for ancillary services, (iii) energy sales, and (iv) any revenues for black start or reactive power services.

Id. at § 4.3(a) (emphasis added).

⁷ The form is available on PG&E’s website at:
http://www.pge.com/en/b2b/energysupply/wholesaleelectricssuppliersolicitation/2014_RA_ImportEnergy_RFO/index.page

Given the nature of RA agreements, it is difficult to understand why the CAISO has taken the position before FERC that: “Resources critical to the reliability in the CAISO’s system receive compensation for capacity obligations under resource adequacy provisions. *These capacity obligations include fuel costs* associated with the resources’ obligations to ensure they have fuel and are available to the market as required by resource adequacy obligations.” Comments of the CAISO at 5. Generators do not receive compensation for any fuel costs under resource adequacy agreements, including the types of costs which the CAISO lists in its comments to FERC - “natural gas pooling arrangement costs, imbalance penalties, or risk premiums to cover the cost of selling natural gas at a loss when a resource procures gas and then is not dispatched by the CAISO which is responsible for paying all fuel costs.” Comments of the CAISO at 5. Under a resource adequacy agreement, all that generators are compensated for is making “capacity attributes” available to the CAISO - there is no compensation paid for any fuel cost. In fact, generators are paid the same amount for the capacity attributes of their units regardless of whether or not the CAISO calls upon the units to run.

It is clear that in other RTOs and ISO, generators receive compensation for total fuel costs. For instance, PJM has extensive “Cost Development Guidelines” in which PJM makes it clear that generators are to provide the information needed to assess total fuel costs. *See generally* PJM Manual 15, Cost Development Guidelines at § 2.3. Similarly, the CAISO should provide compensation for total fuel costs.

E. Request for More Information to Address Questions Regarding Calculation of the Energy Price Index

The CalPeak Affiliates would like to be able to address the questions that the CAISO has included in Section 7.4 of the Straw Proposal entitled “Improvements to the Energy Price Index Calculation.” *See* Straw Proposal at 23. Thus, the CalPeak Affiliates have asked their Scheduling Coordinator to obtain historical data regarding how the Energy Price Index was calculated for its units. Unfortunately, however, the efforts of the Scheduling Coordinator have not been successful.

Although the Straw Proposal indicates that resource-specific information is available by contacting the CAISO, the Scheduling Coordinator was informed that such information is not currently available. The Scheduling Coordinator was also informed, however, that the Energy Price Index is provided to CAISO by a third party, Potomac Economics, on a daily basis and the CAISO plans to publish this data as part of the Fall 2015 Release. The CalPeak Affiliates request that the CAISO make historical information regarding how the Energy Price Index was calculated for its units available to the CalPeak Affiliates so that they can provide better informed responses to the questions that the CAISO has included in the Straw Proposal regarding how the Energy Price Index should be calculated. If the CAISO is willing to provide this information please contact Jeff Malone at 619-229-3770 x367 or by email at JeffMalone@Cogentrix.com.