Calpine Comments on the February 24 Reliability Services Initiative Workshop

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Calpine appreciates the opportunity to offer these post-workshop comments.

In part, this initiative responds to FERC's directive to implement a "durable, market-based mechanism to provide incentives to ensure that the reliability needs are met."[1] Calpine believes that a full mandatory centralized market would satisfy the directive and are disappointed that it is not under active consideration. A full mandatory market would limit buyer and seller market power and assure reliability and just and reasonable pricing through the application of demand curves and other design features. While we appreciate the CAISO's attempts to develop voluntary and residual markets, such markets may not yield just and reasonable compensation and ensure reliability. Further, it is not obvious that the markets under consideration by the CAISO are obviously better than the current combination of bilateral procurement and an administrative backstop.

Calpine has three general recommendations for how the CAISO should pursue the Reliability Services Initiative (RSI).

First, regardless of whether the CAISO decides to implement capacity markets, it should focus initially on a plan to perpetuate the current administrative backstop or the development of a new administrative backstop. Important design details of market-based alternatives to an administrative backstop and their interaction with CPUC policy may not be resolved before the current administrative backstop expires. For example, flexible RA rules have not been finalized for the 2015 delivery year, and once finalized, they are intended to be interim.[2] In addition, the CPUC only recently opened a proceeding to consider multi-year forward capacity procurement requirements. While these design and policy issues are hashed out, it will be important to have a robust backstop in place.

Further, if the CAISO does not develop markets, the administrative backstop would serve essentially the same function as it does now.[3] Even if the CAISO develops markets, an administrative backstop could serve important functions. For example, PG&E has proposed a voluntary market followed by the application of an administrative backstop in the event that a

[1] ¶2 of http://www.ferc.gov/EventCalendar/Files/20130329165907-ER13-550-000.pdf
[2] See Conclusion of Law 17 of http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M070/K423/70423172.PDF.
[3] The hole that the FLRR mechanism was designed to address would remain, i.e., the CAISO would have no means of ensuring the availability of resources that are required for future reliability. Presumably, this issue will be addressed in the new Joint Reliability Plan proceeding at the CPUC as well as in the second phase of this initiative.

market fails to procure sufficient capacity to satisfy reliability requirements.[4] Similarly, the CAISO has proposed voluntary markets followed by mandatory markets. A new administrative backstop price might serve as a price cap in a mandatory market—just as the current backstop price effectively constitutes a cap on bilateral prices because LSEs generally are not willing to pay more than the backstop price if the alternative is reliance on CAISO backstop procurement.

In addition, Calpine believes that the CAISO should continue to use an administrative price for for "unsystematic" procurement, such as procurement to address significant events or exceptional dispatch. This type of procurement is generally of resources that are scarce in some way—even if only temporarily—either due to location or plant characteristics.[5] A price that is tied to prevailing bilateral RA prices, as suggested by CPUC staff, or a unit's offer in month- or year-ahead auctions as proposed by CAISO staff (and others) would not provide just and reasonable compensation for capacity that is scarce.

Second, the CAISO should consider a floor price for RA, regardless of whether it implements a market. In previous comments, Calpine advocated the development of capacity markets utilizing demand curves. Calpine continues to support such markets but recognizes that developing all of the required parameters of capacity market demand curves is likely to be complex and contentious. A price floor for RA might be a simpler means of achieving some of the benefits of demand curves, i.e., it might maintain the viability of some additional existing resources and enhance current and prospective reliability at reasonable cost. With a price floor, the CAISO would set a price at which any supplier could sell RA to the CAISO even if such sales lead to procurement of more than sufficient capacity to meet LSEs' specific numeric procurement targets. The floor price should be set relatively low to ensure that the cost of the purchases is below the benefit in terms of additional reliability. The cost of any RA procured at the floor in excess of LSEs' specific RA procurement targets could be recovered on a peak load ratio share or other means. On the other hand, if the floor price is too low, it may not provide just and reasonable compensation or support the continued operation of the resources that it is intended to support.

Third, Calpine is opposed to unwarranted restrictions on supplier bids in CAISO-administered capacity markets. For example, PG&E has proposed requiring suppliers to submit bids in year-ahead auctions that would continue to bind for any within the year procurement.[6] Similarly, the CAISO has proposed paying resources their month-ahead bids in the event that they are procured within the month for exceptional dispatch or significant event.[7] Such restrictions fail to recognize the fact that supplier costs can change significantly over a month or year, partly depending on exactly what products a supplier has been able to sell. For example, if a supplier already has sold several months of RA in a given year, then it may be relatively inexpensive for it to sell an incremental month. In contrast, if a supplier has been able to sell no RA for any other month in a year, then it may need to recover the majority of its costs in the single month in which it is procured. Further, bidding restrictions could be self-defeating to the extent that they

[4] See slide 6 of http://www.caiso.com/Documents/PG_EPresentation-ReliabilityServices-WorkingGroupFeb24_2014.pdf.
[5] For example, High Desert recently received an exceptional dispatch designation because it was not subject to some of the same gas supply issues as many other resources in Southern California.
[6] Slide 7 of http://www.caiso.com/Documents/PG_EPresentation-ReliabilityServices-WorkingGroupFeb24_2014.pdf.
[7] Slide 60 of http://www.caiso.com/Documents/Agenda-ReliabilityServices-WorkingGroupFeb24_2014.pdf

discourage bidding. For example, under the CAISO proposal, if a resource does not bid in the month-ahead market but is subsequently needed for “unsystematic” procurement, the CAISO may have no alternative than to pay the resource an administrative price. Suppliers may prefer to preserve the option to sell at an administrative price by not participating in month-ahead markets.