

## Calpine Road Map Comments – 4/18/08

Calpine appreciates this opportunity to comment on the prioritization of certain initiatives that the CAISO is considering pursuing. Calpine understands, and is very sympathetic regarding, the heavy work load and multiple demands that the CAISO faces, particularly during this critical period of the MRTU roll out. That said, for the reasons set forth below, Calpine again requests that the CAISO immediately commence a stakeholder proceeding to finalize the qualification criteria and performance obligations of resources providing capacity commitments.

As the CAISO is aware, Calpine has devoted considerable resources – both internal and external – to develop a proposal for a simplified and more effective basis for resources to make capacity commitments to provide reliability benefits for the system. Significantly, as the CAISO is also aware, this proposal has received very broad support, including from load serving entities, other generators, marketers, electric service providers, electric consumer advocates and CPUC staff. However, at this point, the ability to move forward with the development and implementation of the proposal is effectively stalled by the lack of CAISO participation in this effort.

In brief, the standard capacity product proposal contemplates that the generator performance obligations would be set forth in the CAISO tariff, as opposed to being articulated in separate, bilateral contracts as is currently the case for Resource Adequacy contracting. Calpine and the other proponents believe that this proposal has three significant benefits.

First, other than the ability of the load serving entity to satisfy certain capacity procurement to its local regulatory authority, the resource's commitment under the bilateral RA contracts currently used is largely for the benefit of a third party – the CAISO – rather than the party contracting for the service. This raises important questions regarding whether the nature of the commitment is suitable for the CAISO's needs, as well as the effectiveness of enforcement of the contracted-for performance obligations. Finalizing the necessary tariff language will address those issues head on. With greater clarity of performance obligations, contracting parties are more confident in the benefits exchanged and therefore can more accurately price such commitments and reduce the need to adjust pricing or performance criteria to address ex post regulatory change. In addition, all stakeholders benefit from having a "touch stone" or "gravity point" with which to assess other market design elements, including: recent proposals by the CAISO to include within RA commitments the obligations of resources to bid capacity into ancillary services markets in addition to the day ahead energy market, the need for exceptional dispatch, and the integration or interplay between these RA commitments and the CAISO's backstop procurement mechanism, as well as other programs.

Second, by setting forth the resource's performance obligations in the CAISO tariff, both the transactions between resources and load serving entities and the administration of the load serving entities' regulatory obligations by the local regulatory authority will be

greatly simplified. Currently, transacting parties spend often unproductive time trying to reconcile CPUC requirements and CAISO tariff requirements, as well as balance commercial risks, to agree to obligations that one party will perform for a party outside the contracting arrangement. As the CAISO has rightly pointed out, by shifting the performance obligations from bilateral contracts to the CAISO tariff, the CAISO would then be the entity responsible for enforcing the resource performance. However, as said above, because it is the CAISO that is the beneficiary of the performance requirements of such capacity commitments, this is a role that the CAISO should welcome.

Third, the proponents believe that proposed structure will lead to greater transparency and likely greater liquidity, which will facilitate the development of a market for capacity, whether through a centralized capacity market or a bilateral market or both.

As a great deal of work has already been done in this area, and given the broad degree of consensus, Calpine does not believe that the CAISO's resource commitment will be either too burdensome or detract from other important efforts under way. The agenda for such stakeholder meeting is straightforward, and if the overall structure of the proposal is adopted (i.e. capacity tag with performance obligations in the CAISO tariff) the stakeholders will need to finalize agreement on three points:

- How the Net Qualifying Capacity of a resource will be determined?
- What are the performance obligations of the resources?
- What are the appropriate remedies/penalties for resource non-performance?

Again, Calpine asks that the CAISO make this an immediate priority and institute a stakeholder process as soon as possible. This "low hanging fruit" promises a very satisfying return on investment.