

## Calpine Comments on the March 27 Reliability Services Initiative Working Group Meeting

Submitted by	Company	Date Submitted
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Calpine appreciates the opportunity to offer these post-working group meeting comments.

The CAISO now proposes to move forward with either (1) a “split” auction in which a “voluntary” auction to fulfill normal RA procurement requirements would be followed by a “mandatory” auction to fulfill any remaining needs for backstop procurement or (2) a voluntary auction followed by backstop procurement at prices that are somehow derived from the voluntary auction. Participation in voluntary auctions would be voluntary for both supply and demand. Participation in mandatory auctions would be voluntary for supply but mandatory for demand in the sense that the demand to fulfill any backstop need in the auction would be completely inelastic. In either case, the CAISO envisions that, at least initially, the auctions would be limited to backstop and “residual” procurement. Residual procurement is defined to include up to 10% of system RA requirements for the five summer months, up to 100% of the system RA requirement for the non-summer months, and up to 10% of the flexible RA requirements for every month. In addition, volumes associated with load migration within the year might be considered residual. Because procurement of local RA is likely to fulfill significant fractions of system and flexible RA requirements, the amount of residual procurement that could take place through CAISO markets may be more limited than these percentages might suggest.

Calpine has the following general comments on the CAISO's most recent proposal:

First, the scope of the auctions should not be artificially limited to “residual” procurement. Instead, the auctions should be residual in the sense that they should complement load-serving entities’ bilateral procurement. For the IOUs, the balance of bilateral and auction-based procurement should be subject to CPUC oversight through the CPUC’s review of the IOUs’ bundled procurement plans. Just as the IOUs today procure partly from bilateral and CAISO energy markets, the appropriate balance of bilateral and auction-based procurement of capacity should be determined rather than assumed.

If the motivation for limiting reliance on CAISO capacity markets is fear that FERC could interfere with important elements of CPUC procurement policy through its oversight of CAISO capacity markets, it is unclear that limiting the scope of CAISO capacity markets to “residual” procurement actually would achieve the objective, especially given that the markets presumably would be designed to trade *exactly* the same wholesale products that load-serving entities will procure outside of the markets, i.e., FERC might be able to assert authority over at least pricing in bilateral markets for capacity as well. Rather than limiting CAISO-mediated capacity markets

to “residual” procurement, the jurisdictional issues associated with CAISO capacity markets should be resolved, presumably in the new Joint Reliability Plan proceeding, before CAISO capacity markets are implemented. If the CPUC’s concerns about CAISO capacity markets can be addressed, the scope of the CAISO capacity markets should not be artificially limited. If the CPUC’s concerns cannot be addressed, it is unclear that the CPUC would allow its jurisdictional LSEs to participate in residual CAISO capacity markets, no matter how small. Consequently, to the extent that the CAISO continues to develop market designs before the jurisdictional issues are settled, Calpine recommends that the CAISO develop markets without artificial limits on their scope.

Second, as articulated in our comments on the February 24 working group meeting, Calpine believes that the CAISO will continue to require an administrative price for backstop procurement. Given the limited scope of the auctions now contemplated by the CAISO, an administrative price for backstop procurement may be even more important. It is unclear how appropriate prices for backstop procurement will be derived from limited residual auctions that may not even occur in the relevant time frames. For example, the CAISO is proposing initially to develop only a year-ahead auction. It is not clear that such an auction can or will yield appropriate prices for backstop procurement for every month and type of backstop procurement. Especially given that a significant fraction of backstop procurement historically has been to address local reliability issues, it is unclear how an auction which excludes local RA will yield an appropriate price for backstop procurement to address local reliability concerns.

Calpine believes that the current CPM price is appropriate for the contexts in which it is applied and encourages the CAISO to extend its use until more robust market-based alternatives are developed.

Calpine offer the following additional comments on the CAISO’s presentation from the March 27 working group meeting:

First, Calpine requests clarification of the argument on slides 58 and 59 that the aggregate volume of procurement that might be considered residual for a month could increase between the year-ahead and month-ahead time frames. It is Calpine’s understanding that individual LSE’s RA procurement obligations may change within the year due to load migration but that aggregate requirements do not change.

Second, Calpine requests clarification of the proposed supply bidding rules on slide 65. In particular, is the CAISO contemplating that flexible capacity could be sold separately from the associated generic capacity? Would such sales be consistent with bundling rules proposed by the CPUC, i.e., would the CAISO market enforce the proposed rule that “A megawatt may be sold only once as either flexible or inflexible”<sup>1</sup>?

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<sup>1</sup> *Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework* at 9.