

Comments of Calpine Corporation on

Temporary Shutdown of Resource Operations

Draft Final Proposal

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Summary:

Calpine continues to support the development of a mechanism to allow units that have no must-offer obligation an opportunity to suspend operations. This proposal holds the potential to allow uneconomic resources to shut down in order to save costs, but to operate when system needs and market prices make it efficient to do so. Unfortunately, the Draft Final Proposal ("DFP") frustrates that objective.

I. The DRP Makes a Small, but Significant Change to Resource Obligations

It cannot be restated enough that the resources targeted by this proposal have no obligation to offer into the CAISO markets. Specifically, a resource that has no RA, CPM or RMR contract has no obligation to comply with the CAISO must-offer obligation and may choose to not participate in the market. However, even if those resources do not participate in CAISO bidding, they remain subject to the ISO tariff which includes provisions for Exceptional Dispatch. There is currently no compensation to generators for this obligation. As such, a resource owner must maintain its unit in a state of readiness, including staffing, fuel / materials arrangements, and other potentially avoidable expenses.

The TSRO proposal (as directed by FERC) allows a resource to avoid all dispatch by the CAISO during a temporary suspension of operations, after review of reliability needs, for a limited period. This change, if designed reasonably, could allow resources to operate, for example, seasonally and otherwise avoid costs and exposure to the uncompensated CAISO option of Exceptional Dispatch.

II. Eleventh Hour Approvals and Monthly Term Eliminates Benefits

The DFP suggests that resource owners can only seek monthly shutdowns during summer months (May-October) and that the approval of those monthly suspensions can be transmitted as late as only 8 days prior to the beginning of the month. This proposal eliminates the ability to gain the targeted benefits of a suspension.

First, a 30-day term is insufficient to make any changes in a resource's cost profile. Proper Lay-up or preservation cost-saving steps (e.g., draining HRSGs, moving chemicals offsite, safely locking out equipment, repositioning staff on cross-training assignments – not to mention planning for any major maintenance or capital investments needed for continued operations) cannot be undertaken when an owner only receives 8-days' notice of a 30 day suspension. On the other hand, a resource owner that has reasonable notice of a multi-month suspension can take actions to reduce costs and preserve the resource.

Second, the one-month term is unjust in that it grants the ISO the ability to pick only a single summer month that a resource is needed, forcing a generator to maintain its asset in anticipation of one month of service – for which the generator may only receive 8 days' notice. The compensation for a single month certainly does not cover the annual costs of maintaining the resource.

Third, Calpine has additional significant concerns with the *rationale* for only allowing 8 days of notice. The ISO supports this timeline as sufficient for allowing consideration of late-submitted outages (apparently transmission and generation). This suggests that the ISO is depending on non-RA, non-RMR and non-CPM resources to meet system or local reliability concerns. If so, this is a serious indictment of the RA program, the 15 -17 percent reserve margin and/or the absence of enforcement of sub-area constraints in local areas. In any regard, the ISO should not be depending on Exceptional Dispatch as a reliability tool.

For the reasons above, Calpine suggests that the ISO modify the proposal to allow continuous suspension for multi-month terms. A minimum term of one-month and a maximum term of 5 summer months and 7 non-summer months should be sufficient to allow resources to effectively minimize costs.

In order to minimize any reliability risk of multi-month suspensions, the ISO proposal maintains (and Calpine supports) the ability to seek the voluntary return to service (with compensation) of a suspended resource that's need is created an extreme circumstance.

III. The ISO Should Clarify the Nexus of TSRO and BPM Option 4

Calpine supports the co-existence of TSRO and BPM option 4 (“mothballing”). The DFP discusses each, but the BPM suggests that option 4 is replaced with TSRO. Calpine believes that the two programs address different circumstances and each has value. In any event, more clarity is needed on the interplay between these two processes.

IV. A Unit with no RA, RMR or CPM is in Economic Distress.

Stunningly, some parties suggest that a resource with no capacity compensation must demonstrate economic distress before being allowed to suspend operations. The ISO should not be persuaded to establish a significant administrative barrier to that which is patently obvious – a resource that has no RA contracts, no RMR compensation, and no CPM compensation is economically distressed. We support the ISO’s proposal that an attestation to the absence of compensation is sufficient to establish economic distress.

V. Conditional Support

In addition to the above comments, Calpine conditions any support of this proposal on the continued ability of any resource to eliminate all obligations under the CAISO tariff by unilaterally terminating its PGA or removing resources from Schedule 1 of the PGA. For any number of reasons, the TSRO and/or mothball process may not be sufficient for a resource to remain operational. Generators must continue to be able to rely on their contractual rights to terminate their PGA and take necessary actions to remove their assets from service.

Thanks

