

# Temporary Suspension of Resource Operations

## *Issue Paper*

Dated: May 10, 2017  
Comments Submitted: June 2, 2017

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### **Summary:**

Calpine appreciates the CAISO's commitment to address an issue that we assert has created an unjust and unreasonable "call option" on uncontracted Participating Generators.

As discussed below, secular changes in the generation fleet are increasingly exposing resources to uneconomic operation during low-net-load periods of the year. Unfortunately, the tariff unavoidably obligates uncontracted and uneconomic Participating Generators to respond to (and therefore bear the costs of) Dispatch Instructions and Operating Orders every minute of every day in which a Participating Generator Agreement is in effect. For uncontracted resources, this obligation is forcing generators to provide capacity support to the system without compensation – in essence an uncompensated call-option on the facility.

The CAISO proposes a complicated process to evaluate a request from an uncontracted Participating Generator to suspend operations. The proposal invokes many questions of overlap with other CAISO processes and places much of the discretion associated with asset disposition in the hands of the CAISO.

Rather, we suggest a much simpler approach – one which relieves the uncontracted Participating Generator (specifically, those not "shown" in an RA Supply Plan) of the obligation to respond to Dispatch Instructions or Operating Orders<sup>1</sup>.

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<sup>1</sup> Of course, some assets may be contracted, but not "shown" in an RA Supply Plan. Those assets would be contractually obligated to meet the must-offer or operational conditions of the contract.

**I. The Key Driver: The PGA Binds a Generator to the CAISO Tariff, which Creates a Continuous Response Obligation**

The execution of a Participating Generator Agreement (PGA) by itself obligates a Participating Generator to comply with all portions of CAISO tariff (Section 4.2).

**4.2 Agreement Subject to CAISO Tariff.** The Parties will comply with all applicable provisions of the CAISO Tariff. This Agreement shall be subject to the CAISO Tariff which shall be deemed to be incorporated herein.

The “applicable provisions” include, among other things, an obligation to continuously “Comply With Dispatch Instructions and Operating Orders” unless the resource is *physically* unable to do so (Tariff 4.2). In addition, such a resource is subject to Exceptional Dispatch (Tariff 34.11) and a Rule of Conduct requiring it to comply with operating orders (Tariff 37.2.1.1).

Importantly, this obligation exists *whether or not* the unit has Resource Adequacy capacity contracts and the resultant must offer obligations. As such, the resource owner must be continuously staffed, and physically prepared to respond to CAISO Dispatch Instructions, whether or not the resource is receiving *any* – or adequate – revenues for standing ready to respond to CAISO dispatch.

Uncontracted resources seeking to avoid CAISO dispatch can do so largely, but not entirely, by not submitting bids to the market. However, regardless of whether the unit submits a bid or not, the CAISO has unfettered discretion to reach out to the resource and issue an Exceptional Dispatch Instruction. As exposed by the La Paloma filing, the only path to complete avoidance of Dispatch Instructions – and therefore avoidance of Rules of Conduct violations -- today is to terminate the PGA entirely.

**II. The Tariff Grants the CAISO an Unjust and Unreasonable “Call Option”**

A long-standing and often controversial provision intertwined within the tariff is the CAISO’s discretionary use of Exceptional Dispatches. The CAISO has conditioned participation in the market (through the PGA and its obligations to follow the tariff) upon the ability to call upon any resource at any time, but it has done so without any reasonable compensation. In its essence, an Exceptional Dispatch is an uncompensated call-option on the capacity of a resource.

In the power marketing context, a call option grants one party the right to call upon (i.e., dispatch) a resource at the buyer’s discretion, but with appropriate compensation to the resource owner for this optionality. The compensation is

provided *ex ante* and the payment for the transfer of dispatch rights is paid regardless of whether or not the capacity is ultimately called to operate (i.e., dispatched).

In the CAISO tariff, this (Exceptional) call option is real and present, but not compensated unless called upon. That is, the only time a resource is compensated is when the non-RA resource receives a Dispatch Instruction and it is paid *ex post* through the provisions of section 43A of the tariff (CPM) – and then payment is only for that particular dispatch, without compensation for the time period in which the resource stood ready to receive the call. Thus, the resource owner receives no compensation for the option it is providing to the CAISO.

Calpine believes that the secular shifts in resource technologies that have occurred over the last several years have amplified the unjust and unreasonable aspects of this uncompensated call option. We appreciate the CAISO's efforts to remedy this injustice.

### **III. Two Paths to Relief; One Complicated, One Simple**

The CAISO could address this uncompensated call by creating new complicated administrative processes (as proposed in the Issue Paper) or by simply exempting resources that are not shown in an RA supply plan from the response obligation.

In its Issue Paper, the CAISO posits a detailed submission, then review, and subsequent possible compensation, process for evaluating units that seek a temporary suspension of operations – in effect an administrative vehicle to avoid the uncompensated call option of the CAISO. In the jargon of the La Paloma case, this was patterned as an “economic outage”. In this proposal, the unit would be unavailable for CAISO dispatch, just like a unit undergoing a planned or forced outage<sup>2</sup>. In the CAISO's proposal, presumably, the unit would be unable to submit bids or operate – even if market conditions suggest that voluntary bidding would be optimal.

This process is wrought with unexplored details some of which are included in the Issue Paper (addressed below) and some of which were identified in the workshop, such as:

- What reliability studies would be made?
- What assumptions should be made in those studies?
- How and when would requests be clustered when several resources seek suspension at the same time?
- Which resources would be allowed to cease operation and which ones would be required to remain operational?

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<sup>2</sup> The Issue Paper attempts to distance the “suspension of operations” from an outage in a way, and for a purpose, that is not entirely clear.

- Should responses to Exceptional Dispatch for resources on suspension be “best efforts”?
- Should a resource be able to toggle between operating and not operating for the specified term of an economic outage, or once the resource decides to operate, need it reapply to go back on economic outage again?
- If resources on economic outage are allowed to operate, would suspensions (“economic outages”) have to be tracked differently from other outages because OMS currently tracks only those resources are *physically* unavailable to operate?

These and other questions raise challenging process, implementation and timing issues that make the proposed process fraught with potential challenges.

The other, much simpler path would be to eliminate the Dispatch Instruction “response obligation” for resources that are not a part of the RA Supply showings (which, of course, include a planning reserve margin) or not otherwise contracted for operation. These resources would then be able to suspend operations in whole or in part without fear of non-compliance.

Beneficially, they would be able to bid and operate when and if the resource owner, alone, concludes that market conditions make operation optimal but importantly, they would no longer be generally available to the CAISO. Of course, under these conditions, these resources would be required to respond to Dispatch Instructions that resulted from their voluntarily submitted bids.

#### **IV. Units Not Included in RA Supply Plans Should Not be Depended Upon in Reliability Planning**

Of the outstanding matters that came up on the stakeholder call, however, one seems clear to Calpine. That is, units that do not have bilateral or CAISO contracts – should not be relied upon in planning or managing the reliability of the CAISO grid. Specifically, in planning for fires, wires down and other routine contingencies, the CASIO should not depend upon uncontracted or more specifically, uncompensated resources.

#### **V. Issue Paper Questions and Responses:**

1. Whether the CAISO may allow a Participating Generator to temporarily suspend operation of its Generating Unit for economic reasons, and the conditions under which the CAISO would grant that request.

Calpine Response: Yes, the ISO should allow units to temporarily suspend operations. As suggested above, uncompensated and uncontracted resources should be released from the tariff obligation to respond to Dispatch Instructions and Operating Orders.

2. If the CAISO may [sic] allow a Participating Generator to temporarily suspend operation of its Generating Unit, the form of compensation, if any, the CAISO would provide the Participating Generator if the CAISO denies the Participating Generator's request to take the Generating Unit out of service.

Calpine Response: We see no reason why the CPM price is not appropriate for a unit denied a suspension (and therefore deemed needed for reliability), but is otherwise uncontracted. The term of that designation should be no less than the term sought in the suspension request.

3. The CAISO may want to establish a limit on the minimum amount of time that a Generating Unit can suspend its operations, and perhaps a maximum amount of time. Note that under the current BPM for Generator Management if the Generating Unit does not operate at the end of the three year period it loses its Deliverability. Further, the CAISO only allows a Generating Unit to not generate for one year before the CAISO requires the Participating Generator to determine a plan. Another consideration is whether the amount of time for suspension might be tied to the next resource adequacy procurement cycle and the Participating Generator would need to reapply.

Calpine Response: We do not have a view on whether or how long a suspension might be allowed. This is only one of several complications that are eliminated by simply exempting uncontracted resources from the mandatory Dispatch response. In fact, Calpine's proposed simple solution allows the resource owner the discretion to operate when and if it deems it appropriate with the understanding of other BPM / deliverability / retirement conditions.

4. The CAISO will need to establish a specific timeline for requesting suspended resource operation allowing for appropriate operations planning time and notification of approval and denial.

Calpine Response: Agreed, a timeline for clustering suspension requests would likely be necessary. Also, the ISO would have to establish detailed, transparent decision making guidelines for how it might reject the suspension request from one of several generators in a given local area, or class of resources. Again, this would be unneeded if the "response obligation" is eliminated for uncontracted resources.

5. Is there a level of “return-ability” that would need to be maintained while the Generating Unit is in suspension?

Calpine Response: No. As we understand it, “return-ability” or “recall” rights granted to the ISO would place resource owners in no different position than the existing provisions of the tariff – imposing uncompensated costs on the resource owner. Rather, if the simple approach is taken and the response obligation is eliminated, resource owners could bid and operate when and if it deemed appropriate while also responding with good faith efforts (rather than an iron-clad obligation) to requests from the ISO for compensated operations.

6. If a Participating Generator has temporarily suspended operation of its Generating Unit, it seems that during that time period the Generating Unit should not be eligible to be used as a resource adequacy resource in a resource adequacy showing.

Calpine Response: Certainly, no third-party should be able to “show” a supply resource that is not contracted and whose operations have been suspended. That said, the process envisioned by the CASIO must allow a new procedure for terminating the suspension (an off-ramp) if in fact a contract develops. Again, the simple approach needs no off ramp, as a resource can contract at any point, assume the must-offer obligation and the sell right to be “shown” in a supply plan.

7. A Generating Unit that has suspended operations in one balancing authority area and is now operating in an adjacent balancing authority area should not be able to be counted as a resource adequacy resource in the balancing authority area for which it has suspended operation during the time period for which it has suspended operations.

Calpine Response: We agree that the capacity from a single resource cannot be “counted” in multiple balancing authority areas.