Comments of Calpine Corporation
On the CAISO's
GMC Grandfathering Proposal

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Submitted by	Company	Date Submitted
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General Comments

On a conference call Tuesday, February 8, 2011, the CAISO proposed a grandfathering of certain contracts in order to mitigate the substantial bill impacts of its primary proposal to reform the GMC cost allocation. Calpine supports the grandfathering in both concept and implementation.

CAISO Proposal

The CAISO has proposed that certain pre-existing contracts pay a reduced GMC for the remaining term of the contract. Specifically, the CAISO limits the contracts to those with the following characteristics:

1. remaining terms of 3 years or longer on 1/1/11
2. the generator is the SC, and
3. where an officer of the Company will attest to the inability to recover incremental GMC costs.

The Proposed Criteria are Appropriately Narrow

The criteria proposed by the CAISO narrowly circumscribe the pre-existing contracts that will be most directly impacted by the GMC cost allocation change. Indeed, the criteria identify contracts in which the GMC charge increases would be "trapped" with the supplier. Based on the CAISO's analysis, there are only 5 contracts that would qualify for the exemption.

The Rate Impacts of the Proposal are not Material on Others

Given the narrowly prescribed exemption, it appears that between 3 and 7 Twh (1.5 percent) of energy will be grandfathered. This will cause a slight reallocation of costs which in which all transactions share, including non-grandfathered transactions by the SC representing the grandfathered contracts.

The GMC Costs of Grandfathered Contracts Still Increase Substantially

The grandfathered contracts will still be obligated to pay the Market Service rate on all volumes. Calpine estimates that these charges, alone, will double the exposure to GMC costs for the grandfathered contracts when compared with actual GMC costs today.

The Impact of the GMC Change was Not Reasonably Foreseeable

Calpine agrees that by negotiating term contracts, parties must envision and assume reasonable risk. Small changes in assumptions can be and are reasonably foreseen and included in commercial trade. However, in the case of GMC, no reasonable party would have expected the dramatic shift in cost allocation proposed by the CAISO, a shift that increases exposure to some contracts by as much as 1000 percent.

Thank You