

Comments of Calpine Corporation on the Standard Capacity Product II Draft Final Proposal

Submitted by	Company or Entity	Date Submitted
Matt Barmack barmackm@calpine.com	Calpine Corporation	April 1, 2010

Calpine appreciates the opportunity to comment on the CAISO's *Alternative Options for the Availability Standard and Replacement Rule*. In these comments, we largely repeat the reply comments that we filed in R.09-10-032 last week.

Calpine does not support the CAISO's proposal to incorporate energy deliveries into the calculation of availability for currently exempt resources. In addition, while the most recent modifications to the CAISO's proposal to shift the obligation to replace resource adequacy (RA) capacity that is scheduled out to suppliers represent improvements, Calpine still cannot support the proposal and recommends that the CAISO not implement associated changes to the tariff until consensus can be reached with the CPUC on an appropriate alternative. Calpine was troubled by the suggestion on the CAISO's March 24 SCP II conference call that the CAISO might develop its own replacement rules regardless of modifications to CPUC RA rules. CPUC and CAISO rules with respect to RA work in close concert. Consequently, unilateral modifications to one set of rules or the other are unlikely to lead to good policy.

I. Availability incentives for currently exempt resources

In its February 19, 2010 draft final proposal, the CAISO proposed to calculate the physical availability of currently exempt resources on a pro-rata basis, i.e., for a resource whose net qualifying capacity (NQC) is significantly below its nameplate capacity, its physical availability would be calculated by applying the fraction of its nameplate capacity that is in service to its NQC. Availability incentives would then be based on the difference between a unit's physical availability and the quantity of RA sold from the unit. Calpine supports this approach.

In its March 18 proposed modifications, the CAISO suggested that a currently exempt resource's availability might be calculated based on the maximum of its availability calculated using the pro-rata approach and its actual deliveries of energy. This approach confuses capacity and energy and blurs the incentives provided by distinct parts of the RA program. From the initial design of the SCP availability incentive structure, the clear intent of the incentives has been to encourage owners and operators of RA resources to maintain the mechanical availability of their resources. For currently exempt resources, variations in availability that are related to the availability of energy, such as variations in wind, are eventually reflected and rewarded in adjustments to NQCs. Modifying the calculation of availability to reflect actual energy production, which is generally beyond the control of owners and operators, blunts the incentive to maintain mechanical availability.

In addition, the modification has the potential to overcompensate owners and operators of currently exempt resources. In one of the CAISO's own examples, the modification raises the calculated availability of a unit from 75 percent to 90 percent because the actual generation (9 MW for an hour) exceeds the available capacity calculated using the pro-rata approach (7.5 MW) and hence enables the unit to avoid penalties proportionate to the change in its calculated availability. In the same example, an equally large reduction in generation below the available capacity calculated using the pro-rata approach, i.e., generation of 6 MWh, would leave the calculated availability unchanged. Essentially, the modification allows currently exempt resources to benefit asymmetrically from the elements of availability that are beyond their control. If the wind blows when a unit is not mechanically available, it may avoid penalties. On the other hand, if the wind does not blow when a unit is mechanically available, it still gets paid based on its mechanical availability.

II. Replacement rule

As discussed in our opening comments and July 11, 2010 proposal in R.09-10-032, Calpine supports an approach that maintains virtually all of the elements of the current RA program but shifts and standardizes terms governing replacement obligations to the CAISO tariff. Calpine also may be amenable to a more radical overhaul of RA program rules along the lines proposed by SCE. We do not support an approach which places significant new performance requirements and associated risks on generators without any clear provision for appropriate compensation.

Calpine's primary concern with the CAISO's previous proposal was that it mandated the replacement of local RA resources on planned outages with equivalent local RA, a clear expansion of the replacement requirements in current RA rules. To the extent that existing contracts might not have been grandfathered or grandfathered incompletely, this proposal would have exposed units under existing RA contracts to significant new performance requirements without any means of recovering the associated costs. In addition, given the current local RA waiver price, it might have prevented local RA units from recovering the cost of complying with the performance requirement on a going-forward basis.

The current proposal replaces the mandate to replace local RA resources that are planned out with CAISO discretion or rules yet to be developed. In addition, it perpetuates a particularly burdensome element of the previous proposal, i.e., the fact that a generator may not know whether he is responsible for the costs of ICPM procurement to replace the capacity that he has planned out until after he has committed to take a planned outage. If the CAISO continues to refine its own proposal, at a minimum, it should provide ex ante certainty with respect to the allocation of ICPM costs. If a determination is made that no concomitant ICPM procurement is required when a planned outage is accepted in the month-ahead time frame, then any subsequent ICPM procurement in the month should be allocated to load and not to the generator whose planned outage was accepted. Alternatively, the CAISO should only allow planned outages in periods in which there is virtually no risk of after the fact ICPM procurement.

III. Coordination

At the end of the CAISO's March 24 conference call to discuss the most recent modifications to the SCP II Draft Final Proposal, the CAISO suggested that it might develop its own replacement rules regardless of modifications to CPUC RA rules. Calpine strongly encourages continued coordination between the CAISO and the CPUC. Lack of coordination exposes all market participants to potentially inconsistent and duplicative rules and regulatory mandates. Many of these inconsistencies, such as the potential for duplicative availability penalties, inconsistencies between NQC counting rules and availability calculations, and local RA obligations tied to annual peak loads combined with potentially restrictive substitution rules for local RA resources on planned outages, have been highlighted in the SCP II process and R.09-10-032. We have made good progress on many of these issues and Calpine hopes to continue to make further progress.