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CALPINE'S COMMENTS
ON THE JULY 9TH, 2005, CAISO STAKEHOLDER MEETING ON THE
RESULTS OF THE CAISO'S ANALYSIS FOR
LOCAL CAPACITY REQUIREMENTS: TECHNICAL ANALYSIS AND PROCUREMENT ISSUES

Calpine Corporation ("Calpine") thanks the California Independent System Operator Corporation ("CAISO") for this opportunity to provide comments on the July 9th, 2005, stakeholder meeting on the preliminary results of the CAISO's analysis for the local capacity requirements. These draft comments are necessarily limited by Calpine's current understanding of the California ISO's local capacity proposal and analysis as it has been articulated by the CAISO to date. Calpine expressly reserves the right to take alternate or contrary positions before any regulatory agency or court and does not waive any of its legal or contractual rights through its comments here.

1. Operating Criteria

The CAISO staff performed an analysis based on their current planning and operating criteria that maintains the reliability of the transmission system. Given the fact that the CAISO has been using these criteria and plans to continue to use these criteria, the local capacity requirements derived from these criteria reflect the amount of local capacity the CAISO needs, both historically and today, to operate the system in a manner that ensures local load pocket reliability. Calpine believes the preliminary capacity requirements shown for the different load pockets reflects the amount of needed capacity necessary for the CAISO to reliably operate the system.

The CAISO should not relax the study's operating and planning criteria without justification under applicable CAISO, WECC and NERC standards. The objective of resource adequacy is to ensure that adequate capacity exists for the CAISO to secure the system. Any decrease in capacity due to the application of less stringent criteria that does not match the CAISO's current criteria defeats the purpose of resource adequacy. The evaluation criteria that the CAISO employed in determining the local area requirements was thoroughly discussed in the stakeholder meetings that were organized by the CAISO, and any criteria related concerns should have been raised in those preliminary stakeholder discussions on the local deliverability study process. Furthermore, at this time, these criteria issues should not be allowed to delay the resource adequacy process. In addition, any further discussions of evaluation criteria should be addressed in a separate forum dedicated to this discussion administered by the CAISO. Without changes to recognized and accepted criteria and standards issued by the various reliability bodies, the CAISO should continue to apply the present criteria in the local deliverability analysis in order to ensure sufficient resources will be secured in order to maintain system reliability.

2. Load Pockets

In its analysis, the CAISO identified a variety of initial load pockets bounded by transmission constraints. The resulting load pockets would likely be refined further as the study progresses into final form. While defining these local load pockets, the CAISO must ensure that these load pockets correlate with the transmission results produced by the other ongoing CRR, LMP and Competitive Path analyses. If the local analyses show specific transmission constraints that result in requiring the commitment of local resources within a specific load pocket, the same constraint should most likely result in congestion between LMP nodes, possible CRR curtailments, and make up a piece of a path undergoing competitive path analysis. The result of the local deliverability study should be correlated to the other completed and ongoing analyses.

3. Reporting

The presentation of the load pocket definitions and results at the Stakeholder meeting was unclear and confusing. While the results presented at the Stakeholder meeting were obviously preliminary, the CAISO needs to produce a final report at the conclusion of the analysis that, at a minimum, contains the following elements and features:

- Organization of the load pockets into separate reporting sections.
- Structuring the results so that each reporting section is similar, starting with a listing of the pocket definition, the limiting constraint and contingency pair, the category of the contingency, the resulting generation commitment for the pocket, the critical generator causing the issue and any other relevant information to the associated pocket.
- Clearly listing and separating the generation requirement for each load pocket into the different generation types shown in the presentation (municipal, QF, etc.) with a relation to the last RMR requirement.

4. Local Capacity Procurement

LSEs should be required to procure all of the needed local capacity via the Resource Adequacy Requirement. But if some needed resources are not captured by RAR then Calpine recommends that a transitional, interim capacity resource tariff be available to critical reliability units that are not captured in an RA contract. Until installed capacity markets become fully functional and comparable State resource adequacy requirements are fully implemented, generation that is providing a critical reliability service, either for system or local reliability needs, should be able to obtain a capacity contract that affords a reasonable opportunity to obtain full capital cost recovery. If critical reliability generation is not able to obtain long-term capacity contracts with either load-serving entities or the CAISO that meet fully functional resource adequacy requirements, such generation should be eligible to submit a transitional, interim or "bridge" capacity resource tariff that recognizes the capacity service provided by the unit when made available to the CAISO to meet system and/or local reliability needs. A product such as the IEP/WPTF proposed Reliability Capacity Service Tariff (RCST) as described in their June 8, 2005 FERC filing could serve this purpose.

Closing

Calpine thanks the CAISO for this opportunity to provide comments and looks forward to further

participation in the market redesign stakeholder process. If you have any further questions, please do not hesitate to contact Linda Y. Sherif, Regulatory Counsel, at SherifL@calpine.com.