Comments of Calpine Corporation on

California ISO
GMC Charge Code 4537 – Market Usage Forward Energy
Discussion Paper of August 3, 2009

August 10, 2009

Calpine appreciates the opportunity to comment on the calculation methodology embedded in the "Charge Code 4537 Discussion Paper" of the CAISO. Of the options recommended by the CAISO, Calpine strongly prefers Option 2. If Option 2 is not selected, Calpine recommends consideration of additional alternatives or in the absence of such, no change to the calculation methodology. Calpine cannot support Option 1.

Calpine appreciates the focus that the CAISO has placed on reform of this Charge Code, and appreciates the substantial reduction in this rate that became effective on August 1 due to overcollections.

Simply put, Calpine believes that Option 2 best meets the objective of the charge-type which is succinctly described at page 5 of the discussion draft[1] as:

"…to reflect a market participant's impact in the maintenance, monitoring, operation, and performance of the Forward Energy and Real-Time markets."

Calpine understands that Option 2 eliminates the netting of loads and generation[2], as well as eliminates netting for ISTs. Calpine believes that the netting conditions, unless modified as proposed in Option 2, violate cost-causation principles, will continue to unfairly shift GMC costs to generators and results in unintended consequences such as the encouragement of self-scheduling.

[1] The purpose is more fully defined in the BPM as follows. "In order to reflect a participant's impact on the maintenance, monitoring, operation, and performance of the Forward Energy and Real-Time markets, the Market Usage (MU) Forward Energy Charge Code is calculated based on the net Energy purchases and sales in the Day Ahead Market (DAM). This charge will settle based on the net energy for each Scheduling Coordinator by Trading Hour. "

[2] While we generally refer to only "loads and generation", we acknowledge that imports and exports are also included in the CC4537 proposals.

Option 1 Is Inconsistent with Cost Causation

The costs that result from the "maintenance, monitoring, operation and performance" of the markets are entirely unaffected by the fact that a market participant could submit a balanced generation and load schedule. Indeed, these costs are driven by the individual energy submissions, not by the presence or absence of a net position.

For instance, under Option 1 a market participant that submits a balanced 100 MWh generation and load schedule will pay nothing. However, those balanced energy schedules would still be subject to all of the same market monitoring screens, congestion management routines, load distribution mechanisms, etc. as would two unbalanced 100MWh energy schedules from two unrelated market participants. However, Option 1 would charge the first market participant *nothing* for CC4537 but charge the second pair of market participants for a total of 200 MWh of transactions.

Option 2, on the other hand would charge these participants in relation to the gross (not net) energy generated and consumed. On a per-MWh basis, each of the participants in this example would be charged precisely the same. This is much more consistent with cost causation.

Option 1 Inappropriately Shifts Costs to Generators

Since some market participants have an inherent ability to net generation and load (because of for instance, regulatory requirements to contract for capacity or regulatory incentives to own generation), Option 1 would allow them to avoid CC 4537 costs and effectively shift costs – in direct proportion to their netting position – to other entities, primarily generators, who do not have the same inherent generation and load balance.

Option 1 Inappropriately Encourages Submission of Balanced Schedules

One of the key changes of the LMP market is the elimination of the balanced schedule requirement of the former market. Indeed, the submission of unmatched generation and load bids is not only allowed, but in large measure, necessary for the optimization of the system.

Unfortunately, Option 1 would have the unintended consequence of encouraging balanced schedules as a strategy to avoid a possibly substantial GMC charge.

Option 1 Inappropriately Encourages Self-Scheduling

The CAISO has confirmed that it has been plagued by an over-abundance of self-schedules. These untouchable schedules seem to create a very thin imbalance market which contributes greatly to RT price volatility. This effect of self-scheduling, particularly in the presence of penalty pricing which is triggered when self-schedules must be cut has driven to very large, and often irrational interval-to-interval price changes.

If netting of generation and load is allowed as in Option 1, market participants will be encouraged to self-schedule as a means of "protecting" their netted position. Even if that incentive is slight, as some may argue, the negative consequences of self-scheduling should be enough incentive for the CAISO to drop all consideration of Option 1.

Option 2, on the other hand, creates no incentives to submit balanced schedules or self-schedule.

Option 1 Frustrates the Ability to Forecast Costs

For market participants that do submit economic bids, the cost of the GMC charges under Option 1 cannot be known until after the market closes and the net position is determined. Given that the total cost is uncertain, this risk will be priced into offers. This uncertainty is avoided under Option 2 wherein the charges are known in advance of market submissions.

Option 2 Meets Cost Causation Principles and Avoids Unintended Consequences

Option 2 allocates costs to each and every Mwh that flows through the CAISO forward markets. This is appropriate because each Mwh is subjected to the full array of CAISO systems, from market power mitigation to final pricing. All load, generation, imports and exports contribute to the costs associated with the "maintenance, monitoring, operation, and performance" of CAISO systems. All Mwh should therefore pay a portion of those costs. Netting of generation and load has no affect on the incurrence of costs that therefore should have no affect on the allocation of the resultant costs.

Charging all Mwh for these services encourages, rather than discourages supply and demand-side bidding. It reduces the incentive to self-schedule by giving no advantage to balanced schedules.

Thanks.