

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

Submitted by	Company or Entity	Date Submitted
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Calpine appreciates the opportunity to comment on the CAISO's Standard Capacity Product II (SCP II) draft final proposal. We limit our comments to the CAISO's proposal to modify the replacement rule for scheduled outages. Calpine cannot support the modifications to the replacement rule in the draft final proposal because they impose a significant new obligation on RA suppliers. Southern California Edison (SCE) recently introduced an approach that would achieve many of the simplifications to RA compliance and trading that Calpine has sought without imposing new obligations on suppliers. The SCE approach is potentially promising but not fully developed. Given the problems with the CAISO's proposal and the incompleteness of the SCE proposal, Calpine recommends that the replacement rule be given further consideration before proposed modifications are brought to the CAISO Board and eventually FERC or implemented in CPUC rules.

Calpine maintains two overriding and closely related objectives with respect to changes in the replacement rule: First, changes in the replacement rule should facilitate compliance for load-serving entities. Second, the changes should standardize performance obligations and hence facilitate the trading of RA capacity. In our January 11, 2010 proposal in R.09-10-032, we suggested an approach that would achieve these two objectives and preserve most salient features of the current RA rules by moving provisions governing replacement from bilateral contracts to the CAISO tariff.

The CAISO has proposed a broadly similar approach with one important distinction: it seeks to introduce a new obligation to replace local RA that is scheduled out with equivalent local RA. Such an obligation does not and cannot exist under the current program, which mandates procurement based on August peak loads. If suppliers were mandated year-round to make available resources necessary to meet peak conditions, then, in local areas with resources that are just sufficient to meet peak conditions, no resource ever could take a planned outage without potential exposure to penalties.

The CAISO proposes to allow generators some flexibility to replace local RA that is scheduled out with system RA, suggesting that a "supplier must make a best effort to replace the resource with a non-RA resource in the same local area. If the SC for the supplier is unable to obtain local capacity in the same local area, a resource elsewhere within the ISO area must be offered." In the event that a supplier exercises the option of replacing local with system RA, however, the CAISO would expose suppliers to the risk of cost responsibility for ICPM procurement in the event that, subsequent to approving a planned outage for a local RA resource and the associated unit substitution, it decided that it required additional resources in the same local area. If the

CAISO continues to insist that local resources that are scheduled out must be replaced, then once the planned outage of a local RA resource and associated unit substitution are accepted by the CAISO, it should not expose a supplier to ICPM procurement costs associated with procuring additional resources in the same local area.

The SCE proposal provides a promising but incomplete alternative to the CAISO's proposal. Calpine looks forward to learning more about the proposal in the event that the timing of the SCP II stakeholder process and the parallel process in R.09-10-032 is extended, as we recommend. Two potential areas of concern are the monthly shaping of the procurement obligation and cross-subsidies from suppliers who require relatively few planned outages to those who require more extensive planned outages.

With respect to the monthly shaping of procurement obligations, given that the SCE proposal requires modifications of the current procurement obligations, Calpine believes that the harmonization of procurement obligations with the procurement obligations that are likely to emerge from whatever long-term RA structure is approved in R.05-12-013 should be considered in order to avoid multiple changes to procurement obligations within a relatively short time span. It is possible if not likely that the product that is traded pursuant to a decision in R.05-12-013 will be annual. Consequently, it may make sense to consider an annual obligation, which would have many of the features of SCE's proposed monthly obligations, including providing the CAISO with sufficient resources in shoulder months to allow for planned outages. Further, the specification of an annual obligation will obviate the need to develop the specific monthly procurement targets envisioned in the SCE proposal.

With respect to cross-subsidization, unlike the CAISO and Calpine proposals, the SCE proposal, as we understand it, removes any responsibility to replace RA capacity that is scheduled out. This raises the prospect that RA resources could take excessive planned outages without consequence and that the CAISO would lean on other resources to maintain reliability. Even if the SCE proposal is adopted and the formal replacement rule is removed, standards that limit excessive outages should remain in CPUC rules and/or the CAISO tariff.¹

¹ For example, some of PJM's restrictions on Planned and Maintenance Outages are described in PJM's *Manual 10: Pre-Scheduling Operations* (<http://www.pjm.com/~media/documents/manuals/m10.ashx>)