

Comments of Calpine Corporation on the Standard Capacity Product II Issue Paper

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) issue paper. The paper raises the prospect of subjecting currently exempt resources, including resources subject to the historical output counting convention (RHOCCs) and demand response (DR), to SCP availability incentive payments in order to comply with the CAISO's interpretation of a FERC order. SCP incentive payments reward and punish resources to the extent that their forced outage rates are below (above) fleet average rates. Calpine does not oppose the CAISO's efforts to subject exempt resources to SCP availability penalties to the extent that it is easy to do so but believes that the reliability benefits of such conformance are unlikely to be material. Calpine prefers to focus on modifications to other aspects of SCP, particularly the scheduled outage replacement convention, which might yield greater benefits if not in terms of reliability then in terms of avoided transaction costs.

Calpine supports the general notion that different resources should provide similar reliability benefits if they are to count equally for resource adequacy (RA) compliance. Calpine notes, however, that the mechanical availability of a resource that is rewarded by SCP incentive payments is not the primary factor that determines a resource's contribution to reliability for the resources that are the subject of the issue paper. As the Market Surveillance Committee noted "A must-offer obligation with the SCP availability standard and performance incentive yields much greater system reliability benefits when it is applied to an in-state fossil-fuel unit versus an intermittent wind or solar energy resource."¹ For example, wind's contribution to reliability is more closely related to the availability of wind, than the mechanical availability that is the basis of the SCP incentive payments.

It is the SCP availability standards in combination with appropriate net qualifying capacity (NQC) counting rules as well as other incentives, including those provided by energy and ancillary services prices, that ensure that a resource's contribution to reliability is measured and rewarded appropriately. Given that NQC counting rules are likely to remain significantly different for different classes of resources, it is unclear that imposing a uniform treatment of resources with respect to SCP availability incentive payments is likely to lead to more uniform counting and compensation of resources. FERC's SCP Order on SCP recognizes this point, noting:

Under the existing CPUC market rules, resources whose qualifying capacity is determined by historical output are penalized for poor performance through a reduction of their qualifying capacity. Therefore, it would be a harsh result to apply the same availability standards, which are designed to penalize poor

¹ <http://www.caiso.com/2376/2376adb86cc82.pdf>

performance, to resources already subject to qualifying capacity adjustments. We find that doing so could potentially result in penalizing such resources twice for the same outage or de-rate. As long as this counting feature of the market continues, we find the proposed exemption to be permissible and not unduly discriminatory.²

Notwithstanding the foregoing, Calpine has no objection to subjecting currently exempt resources to SCP availability incentives to the extent that concomitant changes in NQC counting rules can be effected easily. If the changes are likely to be difficult or contentious then, given the range of issues facing stakeholders at the CAISO and elsewhere, Calpine would prefer to focus effort elsewhere.

As discussed at the December 14, 2009 CPUC workshop on SCP, modifying the NQC of RHOCCs to accommodate SCP may be conceptually simple. The solution requires adjusting upward the historical output of RHOCCs to account for forced outages. This adjustment would be similar to the adjustment for scheduled outages that was approved in D.09-06-028. Some parties have expressed concern about whether sufficiently granular data on both historical production and forced outages are available to make the proposed adjustment. Calpine recommends that the CAISO determine whether the relevant data are available. If they are not, then Calpine recommends that the relevant data be captured on a going forward basis so that RHOCCs may be subject to SCP availability incentive payments in the future.

Subjecting DR to SCP availability incentive payments is likely to be significantly more difficult. The DR analog of a forced outage is unclear and many classes of DR do not participate directly in CAISO markets and/or bid into CAISO markets using resource identifiers for which forced outages could be recorded. For the classes of DR that bid into the CAISO markets using resource IDs—currently Participating Load and soon Proxy Demand Resource—one potential approach is to require a unique mapping between a defined set of MW of DR capacity that count for RA and a resource ID. Because DR is generally a use-limited resource, presumably there would be a use plan corresponding to the resource ID. The use plan would reflect all relevant expected variations in the performance of the resource and would be consistent with the RA counting for the resource. For example, a resource based on air conditioning load drops might provide fewer MW in months with lower expected temperatures. The DR RA MW would then be deemed available from the standpoint of SCP to the extent that the scheduling coordinator for the resource followed the use plan. If the use plan dictated that the resource bid 100 MW into CAISO markets, but the scheduling coordinator were able to bid only 95 MW because of ambient or other conditions that reduce the capacity of the resource below the capacity reflected in the use plan, he would submit an outage reflecting the 5 MW de-rate and the outage would be reflected in his calculated availability.

To the extent that this sort of integration of DR with SCP is warranted and feasible, it should not be implemented before the direct participation of DR in CAISO wholesale markets is resolved more fully in R.07-01-041 and elsewhere. Also, as with RHOCCs, any such changes will require close coordination with the DR equivalents of the NQC counting rules, i.e., the Load Impact protocols. There is a potential to punish DR twice for failing to perform if it is both assessed

² <http://www.caiso.com/23d9/23d9c3c11970.pdf>

SCP availability penalties and its RA capacity is subsequently reduced according to the application of the load impact protocols.

As with RHOCCs, Calpine questions whether it is necessary to apply the same availability penalties to DR and conventional resources to ensure reliability and fair resource counting. At least one other RTO/ISO, New England, maintains different availability standards and incentive payments for DR and conventional resources.³ As its Internal Market Monitor observed, “The performance obligations are similar enough that paying both types of resources the same compensation in the capacity market is appropriate.”⁴

While Calpine recognizes that the scheduled outage replacement rule is outside of the scope of the SCP II issue paper, Calpine believes that, given the broad interest in revising the rule, the CAISO should begin to consider changes in SCP that may be required to implement such a change. A useful starting point is Southern California Edison’s standard RA confirm.⁵ Many parts of the confirm address “availability,” which in this instance is availability for RA compliance demonstrations, i.e., it reflects scheduled outages but not forced outages. Modifying SCP to reflect changes in the scheduled outage replacement convention would involve including elements similar to the elements in the SCE confirm, especially Articles 5 and 7, in the CAISO tariff. Article 5.3 would require modification to indicate that, in the event that an RA supplier fails to replace capacity that is scheduled out in a manner that is inconsistent with the amount of RA sold from a unit, the CAISO would procure replacement capacity, presumably through the successor to ICPM, and allocate its cost to the non-performing supplier. Inclusion of the relevant terms in the tariff would standardize the terms and enable bilateral transactions to reference the tariff rather than relying on a separate contract for each transaction.

Corresponding changes in sections 40.2 and 40.7 of the CAISO tariff would be required to indicate that beyond some initial validation of RA and Supply Plans subsequent mismatches would not constitute compliance violations for LSEs, i.e., once a supplier has agreed to sell capacity from a resource for a month, the purchaser gets to count the capacity regardless of whether its subsequently scheduled out in the month.

³ The performance standards and incentives for DR and conventional generation are compared extensively in section 5.3 of ISO New England’s *Internal Market Monitoring Unit Review of the Forward Capacity Market Auction Results and Design Elements* (http://www.iso-ne.com/markets/mktmonmit/rpts/other/fcm_report_final.pdf)

⁴ *Ibid.*, p. 48.

⁵ http://www.sce.com/nrc/AllSourceRFO/090702_RA_Capacity_Confirm_SCE_Buys.doc