

Comments of Calpine Corporation on the Standard Capacity Product II Straw Proposal

Submitted by	Company or Entity	Date Submitted
Matt Barmack barmackm@calpine.com	Calpine Corporation	February 2, 2010

Calpine appreciates the opportunity to comment on the CAISO's Standard Capacity Product II (SCP II) straw proposal. Calpine limits its comments to the CAISO's proposal to address the potential elimination of the "replacement rule" by the CPUC.

As indicated in comments on the SCP II issue paper and in R.09-10-032, numerous parties support shifting terms related to the replacement rule from bilateral contracts to the CAISO tariff so that the terms can be standardized, compliance simplified, and the tradability of RA facilitated. Calpine applauds the CAISO for addressing this issue at the request of stakeholders, especially given that the issue was not originally within the scope of the SCP II initiative. Section 4.3 of the straw proposal provides the outline of an acceptable approach to addressing the replacement rule in the CAISO tariff. Calpine has two main concerns about the proposal: First, it potentially changes the nature of replacement for local RA from the status quo reflected in CPUC and CAISO rules. Second, it lacks many important details. These points are discussed below.

The nature of replacement for local RA

As discussed in section 13 of the CPUC's current RA Guide,¹ the replacement rule does not apply currently to local RA. In contrast, the straw proposal suggests that a rule similar to the unit substitution rule that currently applies to SCP availability penalties would also apply to the CAISO's implementation of the replacement rule, i.e., it potentially would require the replacement of local RA resources with "electrically equivalent" resources. The straw proposal elaborates:

The supplier will have the opportunity to replace the RA resource during the planned outage period with a non-RA resource in accordance with the same substitution rules already approved for unit substitution under SCP. If the substitute capacity submitted by the supplier is acceptable to the ISO then the supplier will have met its replacement requirement for that particular planned outage. If, however, the supplier does not offer acceptable replacement capacity to the ISO, the ISO may, based on anticipated system conditions or other operational considerations, (1) deny or reschedule the requested planned outage, (2) approve the requested outage and procure additional replacement capacity through the ICPM or whatever mechanism may replace ICPM in the future, or (3) approve the requested outage and not procure additional replacement capacity. If the ISO operators determine that (2) is the appropriate action for the situation,

¹ <http://www.cpuc.ca.gov/NR/rdonlyres/14DFD39E-40C6-4FAF-8C36-38F8708BC23A/0/RAGuide2010.doc>

either in advance of or during the operating month, the ISO will allocate the cost of the replacement capacity to the supplier of the RA capacity on the planned outage.

On the one hand, the straw proposal may make the replacement rule more onerous by requiring the replacement of local resources whose replacement is not currently mandated. On the other hand, given that the CAISO plans to retain the discretion to allow planned outages of system and local RA resources without requiring replacement, the straw proposal may formalize the status quo for outages of local RA resources, i.e., it may limit the planned outages of local RA resources to periods during which they do not require replacement. Alternatively, the straw proposal may allow more flexibility than the status quo by allowing suppliers to schedule planned outages that would be denied under the current rules by providing replacement capacity or agreeing to bear the cost of the CAISO's backstop procurement of replacement capacity.

Calpine looks forward to the CAISO's clarification of its implementation of the replacement rule. In order to understand the CAISO's proposal, it would be helpful to have specific examples of how planned outage requests would be treated under both current rules and the CAISO's proposed future rules. For example, would a planned outage request that would require replacement under the CAISO's proposal be denied under the current rules? Conversely, under the CAISO's proposal are planned outages of local RA resources that are approved under the current rules likely to trigger replacement requirements under the CAISO's proposal?

Additional details

In addition to its treatment of replacement of local RA resources, the CAISO's proposal is unclear or incomplete with respect to several other items.

CPUC replacement rule

The CAISO proposal does not refer explicitly to the CPUC replacement rule in section 13 of the 2010 RA Guide (among other places). Given that the CAISO proposes to allow itself significant discretion to require replacement or not, does it intend to enforce the current replacement rule, e.g., would the straw proposal potentially allow resources that are scheduled out for more than 25 percent of the days in a summer month to count towards RA compliance for that month in the absence of replacement? If the CAISO plans to enforce the CPUC replacement rule, what penalties would it assess for failures to replace? Would penalties be assessed even in instances in which the CAISO determines that it is not necessary to procure replacement capacity?

LSE compliance

One key benefit of shifting the enforcement of the replacement rule to the CAISO tariff is the simplification of compliance for LSEs. Calpine believes that the shift of the replacement rule to the CAISO tariff should eventually obviate the requirement for the cross-validation of RA and Supply Plans. It would be helpful to understand how the CAISO believes that LSE compliance is likely to change under its straw proposal.

Grandfathering

As indicated in Calpine's proposal in R.09-10-032,² the proposal by the CAISO to enforce the replacement rule through the CAISO tariff has the potential to introduce penalties that duplicate the penalties in existing bilateral contracts. To avoid such duplication, another round of grandfathering, similar to the grandfathering that preceded the introduction of SCP may be warranted. Calpine asks that the CAISO's proposal incorporate explicit grandfathering provisions.

² <http://www.cpuc.ca.gov/EFILE/MISC/112354.pdf>