

## Stakeholder Comments Template

### Subject: Capacity Procurement Mechanism and Compensation and Bid Mitigation for Exceptional Dispatch

Submitted by	Company	Date Submitted
<i>Mark J Smith</i>	<i>Calpine</i>	<i>September 29, 2010</i>

This template has been created to help stakeholders provide their written comments on the September 15, 2010 “Revised Draft Final Proposal for Capacity Procurement Mechanism and Compensation and Bid Mitigation for Exceptional Dispatch.” Please submit comments in Microsoft Word to [bmcallister@caiso.com](mailto:bmcallister@caiso.com) no later than the close of business September 29, 2010.

This template is structured to assist the ISO in clearly communicating to the ISO Board of Governors your company’s position on each of the elements of the Revised Draft Final Proposal. In particular, the ISO is interested in whether your company generally supports or does not support each element of the proposal and your reasons for those positions. Please provide your comments below.

#### Summary:

Calpine does not support the CPM proposal as currently crafted. As we have said several times in comments, we are disappointed that this proposal, one entirely within the jurisdiction of FERC, provides no investment signal and little incentive to forward contract – or even to avoid backstop procurement.

Aside from the pricing conditions, the final proposal seems to significantly increase the discretion of the CAISO to acquire and commit resources. While Calpine understands reliability-first principles, the proposals embedded within the CPM could result in unwarranted reserve margins and continuation of energy price suppression. If there are inadequacies in RA procurement, they should be resolved in forward markets and in CPUC RA procurement mechanisms, not by expansion of CPM commitments.

Proposal Element	Generally Support	Do not Support
1. File CPM and Exceptional Dispatch tariff provisions with no sunset date.		<p>Calpine believes that the current proposals are flawed and has suggested alternatives which have apparently been rejected.</p> <p>As such, we cannot support indefinite extension of these proposals and will recommend that if Calpine proposals are not adopted, the CAISO status-quo proposal be implemented for a time-limited horizon.</p> <p>The extension of status quo should be only sufficiently long to adopt a market design that encourages investment, encourages forward contracting and discourages reliance on the backstop.</p>
2. Provide that ICPM procurement with a term that extends beyond March 31, 2011 can be carried forward into CPM and paid at CPM rate after March 31 without doing a new CPM procurement.	A CPM designation that extends beyond March 31, 2011 should be honored.	
3. Pro-rate the compensation paid to CPM capacity that later goes out on planned outage after being procured under CPM.		Replacement should be allowed. And units should be chosen initially with eyes wide open. That is, most planned outages are confirmed well in advance of the typical 30 day cycle of CPM.
4. Improve current criteria for selecting from among eligible capacity for CPM procurement by adding a criterion to establish a preference for non-use-limited resources over use-limited resources.	As we have indicated previously, we support this provision.	
5. Improve current criteria for selecting from among eligible capacity for CPM procurement by adding a criterion to establish an ability to select for needed operational characteristics.		We cannot support this condition without much more specificity. Calpine is concerned with any proposal that expands the role of the backstop mechanism.

Proposal Element	Generally Support	Do not Support
<p>6. Procure capacity to allow certain planned transmission or generation maintenance to occur.</p>		<p>Calpine does not support, as this maintenance is assumed in the planning reserves, and RA capacity targets. In addition, Calpine is concerned with any proposal that expands the role of the backstop mechanism.</p>
<p>7. Procure capacity in situations where the output of intermittent Resource Adequacy resources is significantly lower than their RA values.</p>		<p>Calpine does not support this expansion in the discretion of the CAISO to commit capacity. If the counting rules for intermittent generation are overly generous, they should be corrected.</p>
<p>8. Procure capacity that is needed for reliability but is at risk of retirement.</p>		<p>Calpine does not support this expansion of discretion of the CAISO to commit capacity. Retirements should be allowed to occur if generators are paid insufficient revenues for continued operation. Long-standing RMR practices and not CPM should be the vehicle for reasonable compensation.</p>
<p>9. Base compensation paid for CPM on “going-forward fixed costs” plus a 10% adder (\$55/kW-year per CEC report), or higher price filed/approved at FERC.</p>		<p>Calpine does not support a mechanism which only allows recovery of going forward costs, particularly when the CAISO will be facing substantial and pressing needs for investments to increase the flexibility of the generation fleet and conventional generation energy revenues are expected to substantially decline.</p> <p>Calpine has offered administratively simple mechanisms that allow the highly uncommonly-used CPM to transition to net CONE. Such a proposal would allow a deliberate process to a more comprehensive solution, while encouraging forward contracting, encouraging investment and discouraging use of the real-time backstop.</p>

Proposal Element	Generally Support	Do not Support
10. Compensate Exceptional Dispatch at same rate as compensation paid under CPM, or supplemental revenues option.	Calpine supports.	
11. Mitigate bids for Exceptional Dispatches: (1) to mitigate congestion on non-competitive paths, and (2) made under "Delta Dispatch" procedures.		<p>Calpine believes that abuses of market power should be stemmed.</p> <p>However, we do not support the ubiquitous mitigation that can occur today. The CAISO's default designation that virtually all paths are non-competitive exposes all plants, all hours to mitigation.</p> <p>The elimination of ExD bid mitigation in all but verifiable instances of market power (like Delta Dispatch) would create strong incentives to avoid ExD whenever possible, and to encourage proper evaluation of all paths and transmission elements for the presence and possible abuse of market power.</p>

Thank you