From: Cherry, Brian K
Sent: 10/24/2011 11:42:53 AM
To: 'pac@cpuc.ca.gov' (pac@cpuc.ca.gov)
Cc:
Bcc:
Subject: Fw: Discussion with Todd Strauss

Context on Sutter et al.

From: Joseph Ronan [mailto:Joseph.Ronan@calpine.com]
Sent: Monday, October 24, 2011 11:17 AM
To: Cherry, Brian K
Subject: FW: Discussion with Todd Strauss

FYI

From: Matthew Barmack
Sent: Monday, October 24, 2011 10:56 AM
To: Alex Makler; Avis Kowalewski; Mark J. Smith; Joseph Ronan
Subject: Discussion with Todd Strauss

All,

I was able to talk to Todd about the proposal that we shared with Fong a few weeks ago. Todd seemed confused about whether we were proposing a comprehensive change to market design/procurement rules or a particular commercial transaction. Once I clarified that we were proposing a specific commercial transaction, the details largely fell into place for Todd. I am attaching his characterization of our proposal based on the clarifications that I provided this AM.

In the process of walking through the proposal with him, I realized that there are at least two elements of the proposal about which I am unsure. First, when we propose that the Baseline Capability Product contract will be "superseded by forward capability market," do we mean that the contract would terminate at the initiation of the market? Probably makes more sense to let the contract run its course but allow it to count towards forward capability procurement requirements when and if they are specified. Second, how are we conceptualizing the timing of the option to procure the Enhanced Capability Product? Could the option be struck at any time during the term of the Baseline Capability Product contract? Once it is struck, how soon would we have to ensure that the procured enhanced capabilities are available?

Let me know if you have any thoughts on these potential ambiguities in our proposal and/or Todd's characterization of our proposal. I owe Todd feedback on his characterization of our proposal before he moves our proposal forward with Fong and others at PG&E.

Best,

Matt

Matthew Barmack

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From: Strauss, Todd [mailto:TxSq@pge.com]
Sent: Monday, October 24, 2011 10:12 AM
To: Matthew Barmack
Subject: proposal

Matt --

It was good to connect this morning to discuss the proposal (attached) previously sent by Calpine to PG&E.

Based on our discussion, here is my understanding of what Calpine is proposing and how Calpine views this proposal. Please review and confirm or correct my understanding.

Thanks very much.

Context

- This is not a market design proposal. It is a specific commercial proposal for particular generating units.
- The focus is on "merchant" existing combined cycles (CCs) such as Sutter and Metcalf.
- Calpine is looking for revenue certainty from these generating units.
- With capital upgrades, these generating units can provide incremental operating flexibility that the system may need and that is likely to be cost-effective.
- The intent of the commercial proposal is to provide additional compensation to these generating units until uncertainty on system need for operating flexibility is resolved.
- Furthermore, in the case of Sutter, without additional compensation, the generating unit will go away, and so will the existing operating flexibility.
- The commercial proposal may fit well with the way the market design is evolving.
- The commercial proposal may be seen as a hedge against future costs for procuring flexible capacity.
- The proposal may not be needed to satisfy the near-term procurements requirement of LSEs.

The commercial proposal

- PG&E and Calpine enter into a contract for the specified generating unit.
- PG&E gets system RA from the generating unit.
- Calpine commits to particular master file values for startup time, etc.

- No self-scheduling is allowed for the generating unit.

- No CPM is allowed for the generating unit.

- Calpine commits to "adequate" maintenance the details of which are to be specified in the contract.

- Calpine is willing to provide an option for peak energy rent reduction.

- Calpine is willing to provide an option to provide incremental operating flexibility. PG&E can strike at some specified later time, pay the strike price, and Calpine would provide the incremental operating flexibility, presumably (but not necessarily) by doing capital upgrades.

Todd Strauss

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