

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**

Order Instituting Rulemaking to Oversee the
Resource Adequacy Program, Consider
Program Refinements, and Establish Annual
Local Procurement Obligations.

Rulemaking 11-10-023
(Filed October 20, 2011)

**COMMENTS OF CALPINE CORPORATION
ON ORDER INSTITUTING RULEMAKING**

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Pursuant to Rule 6.2 of the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure, Calpine Corporation (“Calpine”) submits these comments on the Order Instituting Rulemaking (“OIR”) to consider refinements to the Commission’s current resource adequacy (“RA”) program and establish annual local procurement obligations.

I. INTRODUCTION

Calpine is an independent generator in California with approximately 5,700 MW of geothermal and natural gas fired generation in operation and an additional 740 MW under active development. With this generation portfolio, Calpine actively participates in the state’s RA markets through bilateral transactions for RA capacity and through other transactions, such as tolling agreements, for bundles of products, including RA. Accordingly, Calpine has a direct interest in refinements the Commission may make to the current RA program and the annual local procurement obligations that will be applicable to load serving entities in 2013 and 2014. Calpine does not object to the categorization of this proceeding as a ratesetting proceeding.

II. ISSUES TO BE CONSIDERED

There has been a tendency in recent RA proceedings for the Commission to focus on relatively narrow, near-term “tweaks” to the existing RA program and defer more significant changes to subsequent proceedings. Calpine believes that significant reforms to the RA program

are now necessary to ensure the continued availability of existing resources required to maintain reliability going forward. In particular, the RA program must be modified to preserve the availability of resources that possess the operational flexibility needed to satisfy future reliability requirements and integrate intermittent renewable generation. Accordingly, it is important that the following issues be addressed in Phase 1 of this proceeding.

A. Multi-Year RA Procurement Requirement

A multi-year RA procurement requirement will facilitate the retention of existing resources that are necessary to meet reliability needs several years in the future. The current RA program focuses on annual procurement to meet reliability needs one year in advance. Consequently, RA procurement undertaken in any given year does not address reliability needs beyond the next year. Such year-to-year procurement can put future reliability (*i.e.*, beyond one year) at risk because, among other reasons, it does not account for the adverse impact that near-term market conditions can have on existing resources that will be needed in the future.

In its recently issued Renewable Integration Market Vision and Roadmap, the California Independent System Operator (“CAISO”) identified the critical need for a forward procurement mechanism:

As recently presented to the Board, ISO renewable integration studies make clear that to accommodate increased variable energy resources with increased intermittency, the ISO requires flexible resources be available in the real-time market. The ISO’s research also indicates conventional, thermal resources will see a decrease in energy market revenues at the same time they will see an increase in the number of start-ups. The mandated elimination of once-through-cooling resources will require many conventional thermal plants to either repower or retire. If conventional, thermal resources retire due to insufficient revenues, the ISO will be left with limited flexible capacity to address future dynamic supply and demand conditions.

It is imperative that a forward procurement mechanism be developed to ensure sufficient flexible capacity is available to

maintain grid reliability in a more dynamic operating environment.¹

The Commission has previously acknowledged the benefits of multi-year forward procurement of RA. Specifically, in Decision (“D.”) 10-06-018 the Commission found that:

A multi-year forward commitment has the potential to provide important reliability benefits. It would provide advance knowledge of impending reliability problems, years ahead of delivery, allowing planners to address those problems in a timely, cost effective manner. Additionally, a multi-year forward commitment would be expected to stimulate merchant generator investment, supporting our policy not to rely solely on Commission-directed forward procurement by IOUs to provide the investment needed for new generation. Further, as the CAISO points out, a multi-year forward commitment would promote competition between new and existing resources as well as competition between transmission upgrades and generation supply additions. Such competition could yield more cost-effective outcomes. Having generation investment commitments made years in advance should also promote more cost-effective backstop procurement decisions. Finally, as CUE notes, a multi-year forward RA commitment applicable to all LSEs could be an effective way to ensure that all market participants shoulder the burden of promoting investment, which in turn would help to achieve the equitable allocation objective.²

Notwithstanding the benefits identified by the Commission in D.10-06-018, the Commission determined that additional study was necessary before it could adopt a multi-year forward procurement requirement:

While a multi-year forward procurement obligation could improve upon the current program in certain respects, we are not ready to implement such a feature at this time. Thus, we direct Energy Division and other appropriate Commission staff to study the potential of a forward procurement obligation and report its findings to the Commission. Upon receipt of staff’s findings, the Commission may choose to include in an appropriate proceeding

¹ California ISO, *Renewable Integration Market Vision and Roadmap* at 11 (Oct. 11, 2011). A copy of the report is available at: <http://www.caiso.com/Documents/RenewablesIntegrationMarket-ProductReviewPhase2Vision-Roadmap.pdf>.

² D.10-06-018, mimeo at 32-33.

consideration of the issue of whether and how to implement such a forward procurement obligation upon all LSEs.³

The instant RA proceeding is the appropriate proceeding for the Commission to revisit a multi-year forward RA procurement requirement and the consideration of this issue should be included in Phase 1 of this proceeding.

B. Non-Generic Capacity Procurement

In Rulemaking 09-10-032, the CAISO proposed a Non-Generic Capacity Procurement (“NGCP”) process under which RA procurement would include the procurement of capacity with the specific operating characteristics that the CAISO identified as needed for reliability in addition to the procurement of generic capacity. The CAISO’s NGCP proposal is identified by the Commission’s Energy Division as a “candidate issue” in this proceeding and Calpine supports the inclusion of this issue in Phase 1.⁴

III. CONCLUSION

Calpine believes that reforms to the current RA program are needed and that, to accomplish these reforms, it is critical that the issues identified above be included in the issues to be addressed in Phase 1 of this proceeding.

Respectfully submitted,
/s/

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Dated: November 7, 2011

³ D.10-06-018, mimeo at 68.

⁴ See OIR at Appendix A.

VERIFICATION

I am the attorney for Calpine Corporation, and I have been authorized to make this verification on the behalf of Calpine Corporation. Said party is located outside of the County of San Francisco, where I have my office, and I make this verification for said party for that reason.

I have read the foregoing document and based on information and belief, believe the matters in the application to be true.

I declare under penalty of perjury that the foregoing is true and correct and executed on November 7, 2011, at San Francisco, California.

/s/
Jeffrey P. Gray