

February 6, 2012

VIA EMAIL and US MAIL

Honesto Gatchalian
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Email: jnj@cpuc.ca.gov

Re: Reply Comments of Calpine Corporation on Draft Resolution E-4471

Dear Mr. Gatchalian:

Pursuant to the January 17, 2012 letter accompanying Draft Resolution E-4471 (“Draft Resolution”), Calpine Corporation (“Calpine”) submits the following reply comments.

The comments on the Draft Resolution demonstrate that a diverse cross section of parties consisting of investor-owned utilities,¹ independent generators,² electric service providers³ and end-use customers⁴ agree that there are fundamental problems with California’s energy markets that need to be fixed. Calpine agrees that fundamental market problems exist and that, to effectively address these problems, changes to current procurement policies and practices are necessary.

¹ See e.g., Comments of Southern California Edison at 2 (“Because there is no regulatory requirement to procure capacity needed beyond the current Resource Adequacy (RA) year, plants like Sutter may shut down and be unavailable in the future when they may be needed. A systematic and market-based mechanism that is consistent with the overall market design needs to be established to address this issue.”)

² See e.g., Comments of Independent Energy Producers Association, at 2. (“The circumstances that led to the draft resolution are manifestations of fundamental problems with California’s energy markets.”)

³ See e.g., Joint Comments of Energy Users Forum, Alliance for Retail Energy Markets, Direct Access Customer Coalition, Retail Energy Supply Association; Marin Energy Authority, and Shell Energy North America, L.P.

at 4 (“[T]he Commission should evaluate whether an IOU's application for a new plant, such as the Oakley plant, should be approved, or whether it is more cost efficient for an IOU to issue an RFP for new RA capacity as an alternative. Under an RFP, Sutter and other non-RA contracted capacity would be able to bid to provide capacity.”)

⁴ See e.g., Comments of California Large Energy Consumers Association at 2 (“The second [possible reason] is that there is a problem with the market structure.”)

Specific changes to procurement policies and practices include:

- (1) adopting a multi-year forward procurement obligation - something the Commission has previously acknowledged “could potentially benefit the RA program with respect to the reliability, cost, and equitable allocation objectives;”⁵
- (2) ending policies and practices that exclude existing generation resources from participating in long-term resource solicitations; and
- (3) establishing “attribute” based procurement requirements that will provide reliable investment signals to the market and help ensure long-term renewable integration needs are met.

It is important to California’s energy future that current market problems are fixed. Calpine is committed to working with the Commission, the California Independent System Operator, and other parties to develop workable solutions to existing flaws in the market that will better ensure that resources are available when they are needed to meet reliability needs. Even under the most optimistic scenarios, however, the time necessary to develop and implement such solutions does not address the near-term needs of the Sutter Energy Center.

Sincerely,

Davis Wright Tremaine LLP

/s/

Jeffrey P. Gray

⁵ Decision 10-06-018, mimeo at 33.

Honesto Gatchalian

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cc: President Michael R. Peevey (Via Email mp1@cpuc.ca.gov and US Mail)
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CERTIFICATE OF SERVICE

I, Judy Pau, certify:

I am employed in the City and County of San Francisco, California, am over eighteen years of age and am not a party to the within entitled cause. My business address is 505 Montgomery Street, Suite 800, San Francisco, California 94111.

I hereby certify that I have this day served a copy of **REPLY COMMENTS OF CALPINE CORPORATION ON DRAFT RESOLUTION E-4471** via electronic mail to all parties on the service lists of Draft Resolution E-4471, R.11-10-023 and R.10-05-006 who have provided the Commission with an electronic mail address and by First class mail on the parties listed as “Parties” and “State Service” who have not provided an electronic mail address.

Executed on February 6, 2012 at San Francisco, California

_____/s/
Judy Pau

VIA EMAIL AND US MAIL

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