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Calif. PUC delays Sutter plant decision

The president and a second member of the California Public Utilities Commission on Feb. 16 indicated they favored approving a short-term arrangement to have the state's three largest investor-owned utilities make capacity payments to Calpine Corp. to keep its Sutter Energy Center in Yuba City, Calif., operating this year, but one other member was opposed and the remaining two were undecided.

The commissioners did not make a decision because Commissioner Michel Florio held up a vote until March 8, but PUC President Michael Peevey and Commissioner Timothy Simon said they supported the proposed resolution for Pacific Gas and Electric Co., Southern California Edison Co. and San Diego Gas & Electric Co. to negotiate to enter into a contract and institute a nonbypassable charge to pay for the cost of the contract, not to exceed $17.4 million for the rest of 2012.

Calpine said it would have to close the 572-MW, combined-cycle gas turbine plant this year unless a revenue stream could be arranged to cover its costs of keeping the plant available.

The Sutter plant began operating in 2001 during the height of the California energy crisis, but Calpine notified the commission in November 2011 that it could no longer keep it running without a contract.

Peevey said the question was whether the commission would allow "a short-term market failure" to force the retirement of a clean, flexible relatively new plant while older, less efficient plants would continue running. Peevey noted the state has a policy of retiring older plants with once-through cooling systems that hurt marine life, and the Sutter plant is air-cooled.

He said if the plant is allowed to close, Calpine will not reopen it because it would come under new air standards that would require expensive retrofitting. Instead, Calpine would cannibalize the plant for parts.

Peevey held out hope that the PUC will fix capacity markets so that plants like Sutter can be paid for standing by to serve peak needs and to balance intermittent renewable resources.

However, Florio said the short-term Sutter proposal would have far greater impact than the limited fix would suggest. "It is a small manifestation of a much larger problem," Florio said. More than 6,000 MW of capacity in California do not have contracts or have contracts that will expire by 2015, he said. "Sutter is just the tip of the proverbial iceberg," he continued. "It is entirely predictable they will also come to this commission. We have to decide whether this commission stands for competitive markets or ratepayer welfare for generators."

He also said California is building too much capacity because load is not growing as much as had earlier been forecast, plants are still being built under earlier approved contracts, and energy efficiency and an increased renewable energy mandate have dampened need for conventional generation.

Florio said he wanted to hold off the vote because PG&E has just launched its annual request for offers for summer capacity and by the end of this month the commission should know whether Calpine wins a contract.

Simon said he would rather err on the side of caution because surplus, flexible capacity may be needed to firm and shape increasing amounts of renewable energy, including distributed generation. "I would rather have some unused capacity than to have to deal with rolling blackouts," he said.

Commissioner Catherine Sandoval questioned why the commission allows utilities to sign energy contracts of 10 years to 30 years while capacity contracts are only allowed for a year or less. Also, utilities can only sign long-term contracts for new facilities. "Why are we limiting long-term procurement only to new plants and not allowing existing generation to participate in the long-term market?" she asked. "We need to deal with the bigger problem and I'd like in the resolution a commitment for structuring the long-term procurement market."

Peevey responded that the reason the limit was put in place was to encourage new construction, and long-term contracts provided developers the incentive and security to build.

"It may be time to look anew at this, but we must be careful as to how we describe resource adequacy," he said, noting utilities do not like 20-year contracts, but favor 30-year amortization periods for their own resources.

Sandoval said she would be less likely to vote to help keep Sutter going if Calpine did not make an offer in PG&E's summer capacity solicitation.

Commissioner Mark Ferron said he was glad he did not have to vote on the issue right away. "I look at this situation as … we will pay a certain insurance premium short term to tide us over," Ferron said. "Is it the appropriate insurance premium or is it better to let the market decide?"