



CALPINE CORPORATION

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BY HAND DELIVERY

President Michael R. Peevey
Commissioner Timothy Alan Simon
Commissioner Mike Florio
Commissioner Mark J. Ferron
Commissioner Catherine J.K. Sandoval

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: February 16, 2012 Business Meeting - Sutter Energy Center

Dear President Peevey and Honorable Commissioners:

I am writing to clarify two issues raised during the discussion of draft Resolution E-4471 at your February 16, 2012 business meeting. Draft Resolution E-4471 would direct California's three large investor-owned utilities (IOUs) to enter into negotiations with Calpine Corporation (Calpine) for a contract with Calpine's Sutter Energy Center (Sutter).

During the discussion of draft Resolution E-4471, certain statements were made that suggested that (1) Calpine has not seriously marketed Sutter's capacity; including bidding Sutter into IOU resource solicitations; and (2) Sutter was not originally built to serve California Independent System Operator (CAISO) load. Both statements are incorrect.

Marketing of Sutter Capacity

Calpine has undertaken significant efforts to market Sutter's capacity to IOUs, publicly-owned utilities (POUs) and Energy Service Providers (ESPs.) These efforts have included bidding into multiple resource solicitations held by Pacific Gas and Electric Company (PG&E), holding a "reverse" request for offers (RFO) for the plant's capacity, and entering into bilateral negotiations with parties. As a result of these efforts, Calpine was able to execute bilateral Resource Adequacy (RA) contracts for Sutter capacity during the 2008-2011 period with more than 10 parties that provided sufficient revenues to support Sutter's going forward operations. Despite recent efforts, Calpine has been unable to secure a contract (or contracts) for Sutter sufficient to support continuing operations for many of the reasons addressed by President Peevey during the discussion of draft Resolution E-4471.

1. PG&E RFOs

In 2008, Sutter bid into PG&E's All-Source Long-Term RFO. Sutter had planned to commit in excess of \$100 million to increase the plant's efficiency, expand the plant's generation capacity, and interconnect directly to PG&E's transmission system rather than that of the Western Area Power Administration (WAPA.) However, because Sutter's bid was associated with an *existing* resource, it was rejected by PG&E as not in accordance with PG&E and CPUC procurement policy, notwithstanding that Sutter may have been able to provide a lower cost for capacity relative to new generation resources. Parenthetically, this policy is currently under review by the Commission in Rulemaking 10-05-006. Calpine strongly urges the Commission to reconsider this policy in light of the fact that the status of the state's generating capacity has changed and, although at one time very effective in getting new generation built, the policy is no longer necessary.

In 2011, Sutter bid into PG&E's 2011 RFO to provide RA capacity from January 2012 through December 2014. PG&E did not select Sutter's bid.

Early in 2012, Calpine also responded to an informal bilateral solicitation from Southern California Edison offering RA capacity from Sutter for the period of March 2012 through December 2013. The utility chose not to pursue the offer at that time.

Consistent with its previous efforts to secure a contract for Sutter's capacity, Calpine is planning to participate in PG&E's recently issued RFO and will submit a bid in the RFO later this month. Calpine's bid will necessarily reflect the cost to support Sutter's going forward operations as addressed in the CAISO's Capacity Procurement Mechanism (CPM) proceeding.

2. Reverse RFO & Bilateral Negotiations

In August 2010, Calpine held a "reverse" RFO - requesting bids from 21 potential counterparties, including PG&E and multiple POUs, for a three year tolling product for Sutter's full capacity. Calpine received six bids - only one of which provided sufficient revenues to support Sutter's ongoing operations. Calpine accepted that bid from the Sacramento Municipal Utility District (SMUD). The original bid contemplated a three year deal for a large portion of the plant but ultimately the counterparties executed a contract whereby Calpine provided a smaller portion of the plant's capacity to SMUD in 2011 only.

In 2011, Sutter received a separate offer from the Sacramento Municipal Utility District to purchase 100 MW of RA capacity from July through September 2012. SMUD's offer, however, would have provided Sutter with less than \$1 million in compensation which is substantially below the amount needed to support Sutter's operations as referenced above.

Sutter was Originally Built to Serve CAISO Load

Sutter, was designed, constructed and financed for the purpose of providing energy, capacity and ancillary services within the CAISO markets. Sutter commenced commercial operations in 2001 and was interconnected with the Western Area Power Administration (WAPA) which was part of the CAISO controlled grid, and which allowed Sutter to directly participate in energy markets operated by the California Power Exchange and, later, the CAISO.

In 2003, only two years after Sutter began commercial operations, WAPA began to take steps to leave the CAISO system over the strong objections of Calpine, Yakout Mansour, Chief Executive Officer of the CAISO, and President Michael Peevey of the CPUC.¹² In January 2005, WAPA left the CAISO system and, as a result, Sutter is now forced to participate in CAISO markets pursuant to a pseudo-tie arrangement.

I trust that the above clarifies that Calpine has undertaken significant efforts to market Sutter's capacity and that the plant was originally developed to participate in the CAISO energy markets.

Regards,



Joseph E. Ronan, Jr.
Senior Vice President, Government & Regulatory Affairs

Cc: Paul Clanon, CPUC Executive Director
Frank Lindh, CPUC General Counsel
R.10-05-006 (2010 Long Term Procurement Plan Proceeding)
R.11-10-023 (Resource Adequacy Program Proceeding)
Current or proposed Community Choice Aggregators

¹ April 5, 2005 President and CEO of CAISO writes to Western, SMUD, the City of Redding, and the Transmission Agency of Northern California expressing concerns regarding the consequences of "plans to move control of a portion of the California-Oregon Intertie (COI), specifically the California-Oregon Transmission Project (COTP), from the [CAISO] Control Area to the SMUD Control Area."

² March 22, 2005, President Michael Peevey of the California Public Utilities Commission writes to the United States Secretary of Energy, Samuel W. Bodman, regarding transmission "seams" created by Western's Control Area Transfer, and using the issues facing Calpine's Sutter plant as a case-in-point for why the Department of Energy should "reconsider allowing WAPA to migrate to the SMUD control area, and instead require them to join the CAISO."