

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

Order Instituting Rulemaking to Integrate and
Refine Procurement Policies and Consider
Long-Term Procurement Plans.

R. 12-03-014
(Filed March 22, 2012)

**COMMENTS OF CALPINE CORPORATION
ON PRELIMINARY SCOPING MEMO**

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Pursuant to the March 22, 2012 Order Instituting Rulemaking (“OIR”) and Rule 6.2 of the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure, Calpine Corporation (“Calpine”) submits these comments on the Preliminary Scoping Memo.¹

The Preliminary Scoping Memo identifies several issues related to long-term system and local reliability planning that Calpine believes must be addressed to correct structural flaws affecting capacity and energy markets, and ensure the continued availability of existing resources necessary to meet future reliability needs. In particular, the Preliminary Scoping Memo addresses the need to consider policies “related to the retention of existing flexible capacity resources at risk of retirement due to current market conditions”² and “new rules for forward procurement of flexible resources to support grid reliability.”³ Calpine strongly supports consideration of these issues in the initial phase of this proceeding.

I. BACKGROUND

Currently, the lack of a functioning capacity market, the exclusion of existing resources from long-term resource solicitations, and various other procurement policies and market rules have effectively prevented the creation of a truly compensatory wholesale power market. The

¹ The Preliminary Scoping Memo is addressed in Section 5 of the OIR.

² OIR at 8.

³ OIR at 9.

net effect is that California has reached a tipping point with respect to the near term economic viability of uncontracted existing resources.⁴

Although some uncertainty may exist with respect to the need for additional *new* resources in the near term, the Commission has historically assumed that existing resources will remain available to meet future reliability needs. As addressed in the predecessor to this proceeding (R.10-05-006), however, there are relatively new, efficient generation resources that are at risk for economic retirement because they do not receive sufficient and stable compensation from the market. As a result, historically applied assumptions regarding the future availability of existing resources may no longer be valid.

The record in R.10-05-006 demonstrated that, under multiple scenarios, new “replacement” resources will be needed at a significant cost to ratepayers if existing resources assumed to be available shut down. Thus, the consequences from flawed procurement policies and practices are considerable and should be addressed by the Commission in this proceeding.

II. PROCUREMENT POLICIES AND PRACTICES SHOULD ENSURE THE CONTINUED AVAILABILITY OF EXISTING RESOURCES

Consistent with the issues identified in the Preliminary Scoping Memo, Calpine urges the Commission to expeditiously consider and adopt changes to existing procurement policies and practices to ensure the continued availability of existing resources. At a minimum, such changes should include the following elements:

Adoption of attribute based procurement targets. A primary goal for procurement policies and practices should be to secure resources that, in combination with resources already under contract, provide sufficient capacity and flexibility to meet future reliability needs on a multi-year forward basis. As an initial step, Calpine believes the Commission should take action

⁴ “Uncontracted existing resources” refers to existing resources that are not under contracts to, or owned by, load serving entities (“LSEs”) during the planning period.

in this proceeding to ensure that the amount of procured capacity and flexibility for 2017 (and beyond)⁵ is at least equivalent to that of the existing fleet, net of planned retirements. Absent such action, resources assumed by the Commission to be available to satisfy future reliability needs may not be available.

Adoption of attribute metrics. To effectively address reliability needs on a multi-year forward basis, it is necessary to establish a framework to identify and account for resource attributes to determine how individual resources may help meet capacity and flexibility needs. Both Energy Division and the California Independent System Operator (“CAISO”) have put forward proposals related to this issue in other proceedings. Calpine believes these proposals may serve as useful starting points as the Commission considers changes to existing procurement policies and practices.

Adequate compensation. To ensure the availability of resources needed to satisfy reliability requirements on a multi-year forward basis, compensation must be sufficient and stable enough to recover going forward costs, including costs associated with major maintenance, flexibility upgrades, and/or environmental requirements.

Expansion of RFO eligibility rules. Compensation from markets currently available to uncontracted existing resources has been declining and is expected to drop even further as more renewable resources come on-line. The adverse impacts from declining market revenues are exacerbated by the fact that current procurement policies and practices exclude existing resources from participating in long-term resource solicitations. Ending policies and practices that exclude existing generation resources from participating in long-term resource solicitations should help ensure future reliability and reduce costs to ratepayers.

⁵ 2017 is an appropriate timeframe because it roughly coincides with or follows the once-through-cooling (“OTC”) compliance dates for a significant amount of OTC capacity.

These proposals provide a simple and straightforward approach to better ensure the continued availability of existing flexible capacity resources necessary to meet future reliability needs.

III. TIMING

The changes to existing procurement policies and practices that are necessary to ensure the availability of existing resources need to be developed and implemented this year. Taking such action will help obviate the need for the Commission and/or CAISO to employ less efficient backstop procurement mechanisms to meet future reliability needs.

IV. CONCLUSION

Calpine appreciates the opportunity to provide these comments on the Preliminary Scoping Memo and looks forward to working with the Commission and other parties to improve the long-term procurement process.

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