

**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 ENERGY DIVISION STRAW PROPOSAL**

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Pursuant to the *Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge* (“Scoping Memo”) issued May 17, 2012, Calpine Corporation (“Calpine”) provides these comments on the *2012 Energy Division Straw Proposal on LTTP Planning Standards* (“Straw Proposal”). The Straw Proposal addresses a broad array of issues and assumptions related to the planning standards, scenarios, and modeling to be used in this proceeding. Calpine’s comments are limited to the treatment of existing generation, the use of net qualifying capacity (“NQC”) counting rules, and assumptions about imports in the Straw Proposal. In particular, the planning standards, scenarios, and modeling approach adopted at the outset must properly account for existing generation resources and ensure that the “assumptions” regarding such resources are reliable and realistic.

I. SCENARIOS MUST LOOK BEYOND THE NEED FOR NEW INFRASTRUCTURE

The Straw Proposal begins with the proposition that scenarios should be developed to answer the question: “What *new* infrastructure needs to be constructed to ensure adequate reliability, both for local areas and the system generally, during the planning horizon?”¹ This question, however, is founded on a flawed premise that de-emphasizes the value and capabilities of existing generation resources and places too much emphasis on new infrastructure.

¹ Straw Proposal, at vi (emphasis added).

The fundamental purpose of all the scenarios modeled in this proceeding should be to identify and develop estimates of the volume and types of resources needed to maintain the reliability of the California bulk power system – in other words, system needs. Once system needs are identified, the Commission should then look at the best, most cost-effective, and efficient way to satisfy these needs. At this point in the process, it is simply impossible to determine whether new infrastructure would be the most efficient and cost-effective means for meeting future reliability requirements. While maintaining reliability *may* require some new infrastructure, it will also require maintaining existing infrastructure and/or utilizing existing infrastructure more efficiently.

In the order instituting this proceeding, the Commission acknowledged that “long-term resource planning [must] take into consideration emerging policy discussions related to the retention of existing flexible capacity resources at risk of retirement due to current market conditions.”² Thus, it is critical that the scenarios adopted at the front end of this proceeding neither prejudice the outcome of the modeling efforts nor perpetuate the current discriminatory and inefficient procurement policies that favor the development of new resources under long-term contracts, without affording existing resources the opportunity to compete to fulfill long-term reliability needs.

II. SUPPLY SIDE ASSUMPTIONS RELATED TO RESOURCES SHOULD NOT RELY SOLELY ON NQC COUNTING RULES

The Straw Proposal proposes that “[r]esources should be accounted for in terms of their most current net qualifying capacity.”³ However, as demonstrated in some of the renewable integration analysis performed jointly by E3 and the California Independent System Operator (“CAISO”), current NQC counting rules may not accurately reflect the performance of

² Order Instituting Rulemaking (R. 12-03-014), at 8.

³ Straw Proposal, at xv.

renewable resources under conditions in which capacity is likely to be scarce in the future. Prudent planning must be based on assumptions that realistically reflect the actual or expected performance of resources during periods in which capacity is scarce. Thus, it is important that the modeling performed in this proceeding shows how resources actually will perform as system conditions change, as opposed to how they are assumed to perform under current conditions. Accordingly, supply side assumptions should not rely solely on current NQC counting rules.

III. SUPPLY SIDE ASSUMPTIONS RELATED TO IMPORTS SHOULD REFLECT ACTUAL PERFORMANCE

The Straw Proposal proposes that “[i]mports should be based on the maximum import capability of transmission into the California ISO, as used in the Resource Adequacy program, including expansions identified in the TPP.”⁴ Energy Division should clarify whether it is proposing assumptions about import capacity or the volume of imports that are likely to flow during peak conditions for the purposes of calculating a load and resource balance. If the proposal is the latter, then it does not accurately reflect the fact that the use of imports for Resource Adequacy (“RA”) compliance is typically significantly below the maximum import capability of transmission into the CAISO.

The amount of imports available to serve California load depends not only on the available transmission capacity, but also on the actual resources that are available behind the transmission. The California Energy Commission (“CEC”) has a reasonable way of calculating the level of imports on which California can rely during summer peak conditions based on an analysis of supply and demand fundamentals in the Pacific Northwest and Desert Southwest. Using this approach, the CEC has calculated an import estimate for the CAISO which is close to historically observed imports and significantly below the aggregate transmission capacity into the CAISO.

⁴ Straw Proposal, at xv.

Further, from the standpoint of the renewable integration modeling, it is unclear that import assumptions are actually required. The renewable integration modeling involves a production cost simulation of the entire Western Electricity Coordinating Council of which imports are a result not an assumption.

IV. SUPPLY SIDE ASSUMPTIONS REGARDING ECONOMIC RETIREMENTS SHOULD NOT BE USED TO SUPPORT THE POTENTIAL NEED FOR NEW INFRASTRUCTURE

The Straw Proposal proposes that “given recent uncertainties in the continuance of existing generation due to financial uncertainties, staff proposes high, middle, and low retirement rate scenarios.”⁵ The Straw Proposal further notes that “[m]ore aggressive retirements can be considered a proxy to reflect retirements due to economic, rather than lifespan, considerations.”⁶ Calpine is encouraged that the Straw Proposal acknowledges that it is incorrect to assume that existing generation resources will continue to operate under current market and procurement policies. However, the primary response to this realization should be to correct the underlying market and policy flaws that may lead to economic retirements not, as the Straw Proposal suggests, to potentially support the need for new infrastructure.

As recent experience with Calpine’s Sutter plant demonstrates, existing procurement policies threaten the economic viability of even relatively new gas-fired generation. Failing to address the fundamental causes of potential economic retirements, even if only for “planning” as opposed to “procurement”—a distinction articulated by Energy Division staff at the May 17

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⁵ Straw Proposal, at xxi.

⁶ Straw Proposal, at xxi-xxii.

workshop, perpetuates the flawed procurement policies that have undermined the economic viability of existing generation in the first place.

By: _____ /s/
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