

**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
IN RESPONSE TO ALJ RULING ON WORKSHOP TOPICS**

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In response to the September 14, 2012 *Administrative Law Judge's Ruling Seeking Comment on Workshop Topics ("ALJ Ruling")*, Calpine Corporation ("Calpine") provides the following comments on the questions identified in the *ALJ Ruling*.¹

- 2. What amendments, if any, would be necessary to the most recent long-term Request for Offers issued by Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric (SDG&E), and Southern California Edison (SCE) to ensure that all resources are eligible to compete in meeting future Request for Offers (RFO)? Are there any changes specific to meeting Local Capacity Requirements (LCR)?**

As Calpine has previously described to the Commission, significant reforms to the Commission's long-term procurement planning ("LTTP") and resource adequacy ("RA") programs are necessary to maintain local and system reliability in the most efficient, cost-effective manner as California pursues key environmental objectives. Until these reforms can be implemented, however, at least one fundamental change to the investor-owned utilities' ("IOUs") procurement practices must be made. Specifically, existing resources must be allowed to participate in long-term resource solicitations which, to date, have been limited to new resources or major upgrades to existing resources.

¹The question numbering in Calpine's response is consistent with the question numbering in the *ALJ Ruling*. Calpine has not included questions that it is not addressing in its Comments.

With respect to conventional generation, the most recent long-term RFO issued by PG&E limited bids to new resources and repowered facilities which were defined as the functional equivalent of a new resource:

A repowered facility is a generation facility where substantial replacement of old equipment has occurred, such that the facility's performance and economic life are similar to that of a new facility of like technology. This RFO will consider newly repowered generating facilities.²

While the most recent long-term RFO issued by SDG&E considered both new and existing resources, it did not treat them as comparable products or as potential alternatives to satisfy the same need.³ Such disparate treatment of new and existing generating resources is inconsistent with least-cost/best fit procurement principles and leads to inefficient procurement decisions.

As an initial matter, existing resources have the potential to provide the identical energy, capacity, and flexibility as new resources:

[A] megawatt-hour is a megawatt-hour, and a kilowatt-hour is a kilowatt-hour (green power and Renewables Portfolio Standard issues aside), regardless if it was generated from a 'new' or 'existing' resource.⁴

In light of these similar characteristics, the IOUs should be required to employ non-discriminatory procurement practices that foster competition between new and existing resources of all types. Such non-discriminatory procurement practices will better identify the least-cost/best fit option for meeting particular reliability needs.

² See section II.C of http://www.pge.com/includes/docs/word_xls/b2b/wholesaleelectricssolicitation/2008LTRFO/LTRFO040108.doc.

³ See section 1 of Appendix 1: RFO Package and Solicitation Documents in Prepared Direct Testimony of San Diego Gas & Electric Company In support of Application for Authority to Enter into Purchase Power Agreements with Escondido Energy Center, Pio Pico Energy Center and Quail Brush Power, A.11-05-023. A copy is available at: <http://www.sdge.com/sites/default/files/regulatory/Testimony.pdf>.

⁴ Decision 05-12-022, mimeo at 15.

In addition, current limitations on the participation of existing resources in long-term RFOs constrains contracting opportunities that could support capacity and flexibility upgrades to meet future renewable integration needs but that do not otherwise meet the size and/or asset lifespan thresholds specified in RFO protocols, such as those used in SDG&E's recent resource solicitation. As Calpine noted in its September 7, 2012 workshop presentation, there is significant potential for such upgrades, particularly given the large amount of existing combined cycle gas turbine capacity in the market. Thus, prohibiting upgrades that do not result in a complete repowering of a facility from participating in long-term resource solicitations arbitrarily eliminates a potential least-cost procurement option without any corresponding benefit.

Allowing existing resources to participate in long-term RFOs on a fair and equal basis will require re-defining the actual "need" that is being met through long-term solicitations. Currently, determining long-term need is based, in part, on assumptions regarding the continued operation of existing resources, regardless of whether the resources are under contract or are economically viable under the existing market structure. Assumptions that uncontracted existing resources will remain available in the future simply because they are already built ignores the risk of unexpected economic retirements and places undue reliance on new resources to meet reliability requirements.

Opening long-term RFOs to existing resources and no longer presuming that resources that are not under contract will be available to fulfill future reliability requirements would mean that the relevant "need" to be met through a long-term solicitation would not be the difference between projected reliability requirements and *projections* of the physical resources available to satisfy the requirements; but rather, the difference between projected reliability requirements and

the actual physical resources that are *contractually committed* to satisfy the requirements.

Ultimately, this is the reliability risk the Commission should be most concerned about – the risk that sufficient resources have not been *procured* to ensure local and system reliability.

4. What are the pros and cons of the following procurement methods with regard to: 1) local procurement considered in Track 1 of LTPP, and 2) operational flexibility and general system procurement considered in Track 2 of LTPP?

B. A “portfolio approach” that allocates, based on strategic/portfolio considerations, the total quantity of new flexible resources among various eligible resources (for example, how could/should the allocations be adjusted periodically based on current or expected conditions?).

Calpine recognizes that different resources may have different lead times and commitment terms (*e.g.*, demand response has relatively short lead and commitment terms), and hence all-source solicitations that specify fixed lead times and commitment terms may make it more difficult to identify the least-cost/best fit mix of resources. Nevertheless, a “portfolio approach” that allocates a pre-determined amount of procurement to different resource types undermines overall least cost procurement principles. For example, utility-scale storage has similar development challenges (*e.g.*, interconnection requirements), asset lives and costs as conventional generation, presumably requiring and/or facilitating similar commitment terms. However, a procurement set-aside for storage would prevent any head-to-head comparison with conventional resources to determine the least-cost/best fit to meet a particular reliability need. In contrast, non-discriminatory procurement practices that foster competition between new and existing resources of *all* types will better ensure that least-cost/best fit resources are procured.

- (a) **SCE provided two proposed alternatives to filling any LCR need at the September 7, 2012 workshop, one with flexibility for SCE in procuring resources via two separate tracks, and another approach using an all-source RFO. Is there some way to blend these approaches? If so, how, and should the Commission attempt to do so?**

The record in Track 1 demonstrates that it may be possible to resolve some local reliability issues with transmission upgrades.⁵ For instance, the record demonstrates there are several potentially cost-effective transmission-related alternatives that may reduce or eliminate the need for replacement generation to meet local reliability requirements in the Big Creek/Ventura area.⁶ Similar transmission alternatives may also exist for the Los Angeles Basin. With respect to such transmission related options, however, Calpine agrees with SCE that such options would need to be analyzed and evaluated prior to conducting resource solicitations.⁷ Accordingly, Calpine supports SCE's "flexibility" approach to the extent it would consider transmission alternatives before requesting authorization to procure conventional generation resources.

C. Establishing a set of minimum criteria for operational flexibility characteristics for all acquired resources;

As discussed in Calpine's September 7 workshop presentation, Calpine does not support minimum criteria for operational flexibility characteristics for all acquired resources for, at least, two reasons. First, with respect to system requirements such as those under consideration in Track 2, it is unclear whether there is any need for capacity or flexibility. Second, to the extent that there is a need, it is unclear whether there is a need for additional capacity, additional flexibility, or both. It is possible that the existing fleet (as projected over the planning horizon) is

⁵ See Calpine's Track 1 Opening Brief at 4-9 (September 24, 2012).

⁶ See Calpine's Track 1 Opening Brief at 6-8 (September 24, 2012).

⁷ See SCE/Cushnie, Track 1 Tr. at 750 (August 10, 2012).

more than sufficiently flexible to satisfy future renewable integration needs but that under the most constrained conditions, there is not enough generic capacity to simultaneously serve load and satisfy ancillary service and other flexibility requirements. If this is the case, adding inflexible resources to the system that could free-up existing flexible resources to enable them to satisfy flexibility requirements may be a more cost-effective approach to procurement.⁸

5. **At the September 7th workshop, some parties discussed retrofits to existing generation assets as a potential source of incremental capacity. What, if any, changes would need to be made to the most recent long term RFO issued by PG&E, SDG&E, and SCE to allow for incremental capacity associated with retrofits to existing generation to compete to meet Local Capacity Requirements? Are there any differences in payment streams that should be given for existing capacity, as opposed to upgraded capacity?**

As discussed above, until more permanent reforms can be made to the LTPP and RA programs, existing resources (including upgrades to existing resources) must be allowed to participate in long-term resource solicitations which, to date, have been limited to new resources or *major* upgrades to existing resources. With respect to upgrades to existing resources, these solicitations should consider the total value of the upgraded resource’s capacity and operating characteristics, not just the incremental capacity and flexibility associated with the upgrades. The failure to treat functionally equivalent capacity and operating characteristics equally is

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⁸This point is addressed on slide 73 of the presentation from the September 20 LTPP workshop.

inefficient and can lead to excess procurement of new resources and underinvestment in and/or the premature retirement of potentially lower cost existing resources.

By: /s/ _____

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