

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

Order Instituting Rulemaking to Oversee the
Resource Adequacy Program, Consider
Program Refinements, and Establish Annual
Local Procurement Obligations.

Rulemaking 11-10-023
(Filed October 20, 2011)

REPLY COMMENTS OF CALPINE CORPORATION

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Pursuant to the March 11, 2013 *Administrative Law Judge's Ruling Resetting Schedule for Comments on Phase 2 Resource Adequacy Issues and Scheduling a Prehearing Conference* ("March 11, 2013 ALJ Ruling"), Calpine Corporation ("Calpine") submits this reply to opening comments addressing flexible capacity procurement issues.

In its opening comments, Calpine stated its strong support for the implementation of flexible capacity procurement requirements and related modifications to the resource adequacy ("RA") program to preserve the availability of resources that possess the operational flexibility needed to satisfy future reliability requirements and integrate intermittent renewable generation. However, in order to provide the time necessary to refine flexible resource counting rules and develop needed uniform must-offer requirements, Calpine requested a delay in the implementation of flexible capacity procurement requirements.

The opening comments reflect a broad consensus for delaying the implementation of flexible capacity procurement requirements. Numerous parties support deferral of implementation beyond the 2014 RA delivery year,¹ while others support the implementation of

¹ See e.g., Post-Workshop Comments of The Utility Reform Network On Flexible Capacity Proposals at 1-2; Comments of the California Large Energy Consumers Association in Response to the Administrative Law Judge's Ruling of March 11, 2013 at 3-4; Sierra Club Opening Comments on Joint Party and Energy Division Flexible Capacity Procurement Proposals at 1.

a limited/pilot program for the 2014 RA delivery year.² Only PG&E supports the implementation of binding flexible capacity procurement obligations in 2014. For the reasons discussed below, Calpine opposes PG&E proposed implementation plan.

In addition to opposing PG&E's proposed implementation plan, Calpine supports the proposal of the Division of Ratepayer Advocates ("DRA") for further analysis of flexibility requirements; supports the recommendation of the Center for Energy Efficiency and Renewable Technologies ("CEERT") to study flexibility enhancements to existing conventional generation and develop intermediate-term contracting opportunities for existing and upgraded resources; and opposes recommendations to limit the discretion of suppliers to sell the flexibility associated with specific capacity.

I. PG&E'S PROPOSED PLAN FOR IMPLEMENTING FLEXIBLE RA PROCUREMENT REQUIREMENTS IN 2014 IS INCOMPLETE

PG&E proposes a detailed plan for implementing flexible RA procurement requirements in 2014.³ Despite the detail, the proposal is incomplete in at least three significant respects.

First, it is unclear how scheduled outages would be handled under the PG&E proposal.

Specifically, PG&E recommends that "[t]he replacement rule for scheduled outages applicable to generic RA capacity should not be extended to cover flexible capacity."⁴ PG&E, however, does not specify what, if any, replacement obligation should be associated with the sale/procurement of flexible RA. For instance, under the PG&E proposal, could resources procured as flexible RA be scheduled out indefinitely and still count towards flexible RA requirements? Alternatively, would the California Independent System Operator ("CAISO") ensure the availability of

² See e.g., Southern California Edison Company's (U 338-E) Post-Workshop Comments at 4; Opening Comments of San Diego Gas & Electric Company (U 902-E) on Phase 2 Resource Adequacy Issues at 2; Comments of the Division of Ratepayer Advocates on Flexible Capacity Procurement Workshop Issues at 14-15.

³ See Comments of Pacific Gas and Electric Company (U 39 E) on Workshops and Proposals ("PG&E Comments") at 11-17.

⁴ PG&E Comments at x.

sufficient flexible RA resources by deciding whether or not to grant scheduled outages? The treatment of scheduled outages is a critical component of a flexible RA procurement requirement and must be resolved prior to implementing such a requirement.

Second, PG&E opposes compliance penalties in 2014 for load serving entities (“LSEs”) that fail to procure sufficient flexible capacity.⁵ In the absence of compliance penalties, it is not evident what, if any, incentives LSEs will have to satisfy flexible capacity procurement obligations. If PG&E proposes, for example, that the CAISO should be responsible for curing deficiencies in flexible capacity procurement through backstop mechanisms such as its Capacity Procurement Mechanism and assign the costs of such procurement directly to deficient LSEs, then such proposal should be specifically identified and discussed as part of this proceeding.

Third, PG&E suggests that use-limited resources besides hydroelectric resources should be eligible to provide flexible RA until their use limits are exceeded.⁶ While, as a general matter, Calpine does not oppose this approach, the same approach should be applied to hydroelectric resources as well – rather than having separate rules for hydroelectric resources, as PG&E has proposed.⁷

To address the above gaps in PG&E’s proposal, as well as for the other reasons identified in Calpine’s opening comments, the implementation of flexible RA procurement requirements should be delayed until important aspects associated with implementation are clarified.

II. CALPINE SUPPORTS DRA’S PROPOSAL FOR FURTHER ANALYSIS OF FLEXIBILITY REQUIREMENTS AND THE COUNTING OF FLEXIBLE RESOURCES

Calpine supports DRA’s recommendation for a counter-factual analysis using “modified 2014 RA filings” to determine how flexible resources might have been committed and

⁵ PG&E Comments at 18.

⁶ PG&E Comments at 22-23.

⁷ PG&E Comments at 21-23.

dispatched had their full flexibility been offered to the CAISO in 2014.⁸ Among other benefits, Calpine expects that such an analysis will confirm that many combined cycle gas turbine facilities are routinely available to meet ramps by starting “warm” or “hot” as opposed to “cold,” and support Calpine’s recommendation to base the Effective Flexible Capacity of such resources on their “warm” or “hot” rather than their “cold” start times.⁹

III. CALPINE SUPPORTS CEERT’S RECOMMENDATION TO STUDY FLEXIBILITY ENHANCEMENTS TO EXISTING CONVENTIONAL GENERATION AND DEVELOP INTERMEDIATE-TERM CONTRACTING OPPORTUNITIES FOR EXISTING AND UPGRADED RESOURCES

Calpine supports CEERT’s recommendation that:

[i]n collaboration with the CAISO and [California Energy Commission], the Commission should commit to the evaluation of the feasibility and cost-effectiveness of retrofits to improve flexibility of that portion of the current fleet of natural gas plants that were designed, permitted, and built for baseload operation to lower minimum load, reduce start time, increase ramp rate, and reduce ‘forbidden zones’ that inhibit dispatchability.¹⁰

In addition, to better ensure the benefits of potential upgrades and retrofits are preserved, Calpine further supports CEERT’s recommendation for “[a]n additional payment not to exceed five years” to support “cost effective capital investment designed to either lower start up time, reduce minimum load level, increase ramp rate, relax use limited constraints or some combination of the above.”¹¹ The details of such payments (e.g., contracting and cost allocation issues) would be best addressed in a new phase of this proceeding, as requested in the still-pending PG&E motion to move consideration of the multi-year forward procurement of capacity

⁸ Comments of the Division of Ratepayer Advocates on Flexible Capacity Procurement Workshop Issues at 16-17.

⁹ See Comments of Calpine Corporation at 5-6.

¹⁰ Comments of the Center for Energy Efficiency and Renewable Technologies on Resource Adequacy Flexible Capacity Procurement (“CEERT Opening Comments”) at 8.

¹¹ CEERT Opening Comments at 17.

from the long-term procurement proceeding (“LTPP”) to the RA proceeding, or in the LTPP.

Regardless of the proceeding, Calpine supports the prompt consideration of these issues.¹²

IV. CALPINE OPPOSES RECOMMENDATIONS TO LIMIT THE DISCRETION OF SUPPLIERS TO SELL GENERIC RA CAPACITY FROM FLEXIBLE RESOURCES

Southern California Edison Company (“SCE”) and San Diego Gas & Electric Company (“SDG&E”) assert that a supplier should not have the ability to sell a flexible “resource’s entire capacity as generic capacity”¹³ (i.e., not sell the resource’s flexible capability). According to SCE and SDG&E, allowing a supplier to not sell a resource’s flexible capability “will have the potential to cause detrimental market power impacts.”¹⁴ Adoption of the SCE/SDG&E recommendation, however, will likely increase costs for generic RA capacity.

As an initial matter, given that the inventory of potentially flexible capacity is approximately three times the need for such capacity in the highest need month, the “market power impacts” raised by SCE and SDG&E are misplaced and do not support their proposed restrictions on suppliers.¹⁵ The sale of flexible capacity will entail an enhanced must-offer obligation, which potentially entails higher costs. Thus, limiting a supplier’s ability to sell a flexible resource’s entire capacity as generic capacity would unnecessarily force additional costs on the supplier that would not otherwise be incurred by the sale of generic RA capacity. This, in turn, would increase procurement costs for generic RA capacity because buyers will, in effect, be

¹² See also Comments of the California Energy Storage Alliance in Response to Administrative Law Judge’s Ruling Resetting Schedule for Comments on Phase 2 Resource Adequacy Issues and Scheduling a Prehearing Conference at 6-7 (“CESA could just as readily support addressing multi-year procurement in the LTPP proceeding, but the point is that the docket chosen is unimportant, provided that the Commission conveys a sense of urgency in addressing the subject of multi-year contracting for flexible RA capacity to stakeholders.”)

¹³ Southern California Edison Company’s (U 338-E) Post-Workshop Comments (“SCE Opening Comments”) at 8; Opening Comments of San Diego Gas & Electric Company (U 902-E) on Phase 2 Resource Adequacy Issues (“SDG&E Opening Comments”) at 7-8.

¹⁴ SCE Opening Comments at 8; SDG&E Opening Comments at 7-8.

¹⁵ See California Independent System Operator Corporation Initial Comments on Workshop Issues at 20 (finding a total calculated effective flexible capacity in the system between about 28,000 MW and 31,000 MW depending on the month); compare *id.* at 18, Table 2 (showing the highest monthly need of 9,892 MW).

forced to pay for flexible RA (i.e., a more costly premium product) in order to obtain generic RA. As SCE itself acknowledges, suppliers should have the ability “to not sell all attributes of RA (system, local, and flexibility) . . . if those attributes represent different risks to the offering party.”¹⁶

V. CONCLUSION

As Calpine stated in its opening comments, Calpine is encouraged by the progress made in this proceeding towards the development of flexible capacity procurement requirements. However, because no proposal currently under consideration includes fair and accurate resource counting rules and uniform performance requirements, Calpine does not support implementation of flexible capacity procurement obligations for the 2014 delivery year. Accordingly, for the reasons described above and in its opening comments, the Commission should only adopt flexible capacity procurement requirements that treat resources equitably with respect to both how these resources are counted and their performance obligations.

Respectfully submitted,

/s/

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¹⁶ SCE Opening Comments at 8.