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)

REPLY COMMENTS OF CALPINE CORPORATION ON TRACK III RULES ISSUES

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Pursuant to the March 21, 2013 *Administrative Law Judge's Ruling Seeking Comment on Track III Rules Issues* ("March 21 Ruling"),[1] Calpine Corporation ("Calpine") submits the following reply to the comments regarding Track III Procurement Rules. As discussed below, the Track III comments demonstrate support for the California Public Utilities Commission ("Commission") to correct two chronic flaws in existing procurement rules and practices.

A. Multi-year forward procurement requirement

As Pacific Gas and Electric Company ("PG&E") notes, "there is a growing consensus that one-year forward [resource adequacy] procurement requirement applicable to all load serving entities ("LSEs") should be extended to a multi-year timeframe."[2] The Western Power Trading Forum ("WPTF") similarly supports a multi-year forward capacity procurement applicable to all LSEs that should be "enforced through a centralized capacity market."[3]

As Calpine has previously described, a multi-year forward procurement requirement will better ensure the retention of *cost-effective* existing resources by providing existing resources that are not under long-term contracts with reasonable opportunities to obtain sufficient and stable revenue streams to recover going-forward costs (including major maintenance costs).[4] A

[1] *See March 21 Ruling*. On March 28, 2013, ALJ Gamson granted the request of the Division of Ratepayer Advocates to extend the reply comment dates for Track III Rules issues from April 26 to May 10, 2013.
[2] PG&E Comments on Track III Rules Issues (April 26, 2013) at 3.
[3] Track III Comments of the WPTF at 16. *See also* Comments of NRG Energy, Inc. on March 21 Ruling ("the Commission should increase the forward capacity procurement obligation from one year to five years.").
[4] *See* Comments of Calpine Corporation on Track 3 Procurement Rules (November 2, 2012) at 4.

multi-year forward procurement requirement would also provide necessary incentives and signals to generators to improve the performance of existing resources through additional capital investment.

Further, if implemented through a centralized capacity market, the benefits of a forward procurement requirement would include:

- Leveling the competitive playing field among all capacity resources by assuring that all suppliers are providing exactly the same product at the same time (*e.g.*, a one-year capacity commitment on a 3-year forward basis).
- Increasing the scope of cost allocation to potentially include non-Commission jurisdictional entities, such as municipal utilities and exporters.
- Helping to limit credit and collateral requirements for non-IOU LSEs.
- Increasing the efficiency of capacity procurement, particularly as capacity procurement requirements are differentiated with respect to operating characteristics.
- Creating a clearing price market that could be more easily monitored and mitigated, and that would yield more transparent and rational pricing for capacity.[5]

For the above reasons and the reasons described in the Track III comments, it is critical that the Commission move forward in its consideration of a multi-year forward procurement requirement in general and its evaluation of a centralized capacity market in particular.

B. Eliminating discrimination between different vintages of capacity

A diverse cross-section of parties that includes environmental groups,[6] independent power producers,[7] and an investor-owned utility ("IOU"),[8] either support, or have affirmatively stated that they do not oppose, allowing existing generation to participate in the IOUs' long-term

[5] *See* Comments of Calpine Corporation on Track III Rules Issues (April 26, 2013) at 5 ("Calpine Opening Comments").
[6] *See* e.g., Comments of the Green Power Institute on Track III Rules Issues (April 26, 2013) ("GPI Opening Comments"); Opening Comments of Sierra Club California on Track III Rules Issues (April 26, 2013).
[7] *See* e.g., Comments of the Independent Energy Producers Association on Track III Rules Issues (April 26, 2013) at 3-4; Comments of Competitive Power Ventures, Power Development Inc. on Track III Rules Issues (April 26, 2013) ("CPV Opening Comments"); Calpine Opening Comments.
[8] *See* Comments of San Diego Gas & Electric Company in Response to Ruling Seeking Comment on Track III Rules Issues (April 26, 2013) at 7 ("SDG&E Comments") ("SDG&E does not object to allowing existing facilities to bid upgrades or repowers into new-generation RFOs.").

resource solicitations. Reforming long-term procurement rules to eliminate existing discrimination between different vintages of capacity will better ensure reliability needs are satisfied with a least-cost/best-fit mix of resources by fostering competition between new and existing resources of all types. As the Green Power Institute ("GPI") explains:

> [T]he Commission's singular goal in this particular kind of [long-term] solicitation should be in procuring the lowest-cost energy possible. This means that the offers need to be refocused from their present orientation to the machinery that produces the needed product [whether from new generation or existing generation], to instead focus squarely on the needed products themselves, regardless of how they are produced.[9]

Reforming long-term procurement rules to eliminate existing discrimination between different vintages of capacity should also yield appropriate incentives for investment in cost-effective upgrades to existing resources that could lengthen a resource's useful life and/or improve efficiency.[10] As a result, procurement rules that abandon artificial distinctions between existing resources, upgrades to existing resources, and new resources are likely to yield the most cost-effective mix of resources and should be adopted by the Commission.

In stark contrast, PG&E supports procurement rules that preclude capacity from both existing resources and existing resources upgraded to provide *incremental* capacity from participating in long-term resource solicitations.[11] According to PG&E, allowing upgrades to participate in such solicitations would: (1) lead to over-procurement by requiring IOUs to secure existing resources that the IOUs might not need; (2) raise customer costs by forcing the IOUs to pay more than they might pay otherwise for existing resources; and (3) undermine environmental

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[9] GPI Opening Comments at 1. *See also* CPV Opening Comments at 4 ("The Commission should require that IOU solicitations be open to both existing and new generation to ensure that the broadest range of projects are afforded available commercial opportunities.") .
[10] *See* SDG&E Comments at 7.
[11] PG&E Opening Comments at 9.

goals by prolonging the operation of less-efficient existing resources.[12] PG&E's position can be easily dismissed.

Contrary to PG&E's assertion, it is the current procurement rules that are likely to lead to over-procurement because, under the current rules, the procurement of new and existing resources is not coordinated. For instance, the procurement of new resources is based on *assumptions* about which existing resources are expected to continue to operate rather than on any actual contractual or other binding commitments for resources to continue operations. A non-discriminatory and competitive procurement process that is open to both new and existing resources is better equipped to identify the least cost means of satisfying reliability requirements which, in turn, may actually allow for the addition of more expensive new resources to be deferred.

With regard to cost implications, discriminatory procurement policies that exclude existing resources from long-term resource solicitations are inefficient and ultimately raise customer costs.[13] Head-to-head competition between new and existing resources will better allow the IOUs to identify and procure the lowest-cost mix of resources to meet reliability needs.[14] Indeed, even if direct competition between new and existing resources results in the prices paid for existing resources increasing (as PG&E suggests), such competition may lead to better coordination between the procurement of new and existing resources and, as a result, lower the actual volumes of procurement. The net impact would be lower overall costs to ratepayers.

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[12] PG&E Opening Comments at 9-10.
[13] Calpine Opening Comments at 9.
[14] The Brattle Group. *Resource Adequacy in California, Options for Improving Efficiency and Effectiveness* ("*Brattle Group Whitepaper*")(October 2012) at 46. The Brattle Group Whitepaper was attached as Appendix A to the Comments of Calpine Corporation on Track 3 Procurement Rules (filed November 2, 2012).

Lastly, PG&E's suggestion that direct competition between new and existing resources will encourage inefficient resources with comparatively high emissions to continue operating ignores that the IOUs' valuation methodologies consider the variable cost of emissions associated with resources of different efficiencies. As suppliers of less efficient resources require higher capacity compensation to recover their emissions costs, the market will determine whether capacity offered at such higher prices is needed. As a result, no resource will have its operation artificially prolonged as PG&E suggests.

By: /s/

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