

**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 ON PROPOSED DECISION

Jeffrey P. Gray
Vidhya Prabhakaran
Davis Wright Tremaine LLP
Suite 800
505 Montgomery Street
San Francisco, CA 94111-6533
Tel. (415) 276-6500
Fax. (415) 276-6599
Email: jeffgray@dwt.com
Email: vidhyaprabhakaran@dwt.com

June 24, 2013

Attorneys for Calpine Corporation

**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 ON PROPOSED DECISION

Pursuant to Rule 14.3 of the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure, Calpine Corporation (“Calpine”) submits this reply to comments on the proposed decision (“Proposed Decision”) adopting local procurement obligations for 2014, establishing a flexible capacity framework, and implementing further refinements to the Commission’s Resource Adequacy (“RA”) program.

I. CALPINE IS ENCOURAGED BY COMMENTS THAT RECOGNIZE THE NEED FOR NEW POLICES AND MARKET STRUCTURES

A. Upgrades to existing resources will be encouraged by appropriate counting rules and changes in market structure

Calpine supports the modification to the Proposed Decision recommended by the Center for Energy Efficiency and Renewable Technologies (“CEERT”) to “require and facilitate cost effective retrofits to enhance flexible attributes of existing resources relied upon to meet RA need.”¹ Consistent with Calpine’s position in this and other proceedings,² CEERT acknowledges the potential for retrofits to cost-effectively “lower minimum loads, reduce start times, improve

¹ CEERT Comments at 9-10.

² See e.g., April 5, 2013 Comments of Calpine Corporation (R.11-10-023) at 4-5 (describing potential upgrades to improve the performance of existing resources) (“*Calpine April 5, 2013 Comments*”).

ramp rates and shrink forbidden zones.”³ Implementing CEERT’s recommendation will require changes to both flexible capacity counting rules and market structure.

Calpine has previously discussed its concern regarding the treatment of combined cycle gas turbines (“CCGT”) in the proposals prepared by the Joint Parties⁴ and Energy Division⁵ (collectively the “JP/ED Proposals”).⁶ Specifically, flexible capacity counting rules that rely on arbitrary start-time thresholds, such as a 90 minute cold start time limit, may discourage generators to undertake cost effective investments that, although they may not result in cold start times below 90 minutes, still reduce start times and, thus, increase flexibility. Examples of such retrofits/upgrades include the addition of steam turbine blankets and auxiliary boilers that can keep elements of the steam cycle warmer for longer periods after a CCGT shuts down.⁷ As a result, subsequent starts would more likely be shorter because they would be from “warm” conditions - as opposed to “cold.”

In addition to the modification of flexible capacity counting rules, upgrades/retrofits to existing resources require the support of appropriate market structures—in particular more forward procurement requirements and greater opportunities to enter into contracts with multi-year terms. Given current market conditions⁸ and existing RA procurement obligations that extend only one year in advance, the introduction of a flexible capacity procurement requirements is, by itself, unlikely to result in sufficient revenues to support even modest

³ CEERT Comments at 9.

⁴ The Joint Parties Proposal was jointly sponsored by the California Independent System Operator, Southern California Edison Company, and San Diego Gas & Electric Company. The Joint Parties Proposal is attached to the *Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge* at Attachment A (December 6, 2012).

⁵ The Energy Division Proposal is attached to the *Administrative Law Judge’s Ruling Resetting Schedule for Comments on Phase 2 Resource Adequacy Issues and Scheduling a Prehearing Conference* (March 11, 2013).

⁶ See e.g., *Calpine April 5, 2013 Comments* at 4-6.

⁷ See Attachment to *Calpine April 5, 2013 Comments* for a discussion of the constraints that currently exist on a typical CCGT facility and some possible modifications and upgrades to enhance flexibility.

⁸ See e.g., CAISO March 20, 2013 workshop presentation, *Methodology for Determining Flexible Capacity Procurement Requirements* at slide 19. The CAISO workshop presentation can be found at: http://www.caiso.com/Documents/Presentation-CPUCFlexibleResourceAdequacyWorkshopMar20_2013.pdf.

upgrades to existing resources. A multi-year forward flexible capacity procurement requirement and the associated term contracting opportunities that likely would follow from the introduction of such a requirement, however, would provide the type of multi-year revenue certainty needed to support capital investment to increase and/or improve flexibility by facilitating the amortization of such investment over multiple years.

B. The allocation of flexible capacity requirements should consider the contribution to flexible capacity need

Calpine agrees with the Concentrating Solar Power Alliance (“CSPA”) that, as a general matter, the allocation of flexible capacity requirements amongst load serving entities (“LSEs”) should consider each LSE’s “contribution to net load ramps and the flexible capacity need.”⁹ For example, an LSE with a portfolio of renewable generation resources that consists largely of geothermal and/or solar thermal may contribute less to flexible capacity requirements than a peak load allocation might suggest. Accounting for resource specific impacts on flexibility requirements should help LSEs identify the most efficient and cost-effective resources to meet overall system reliability needs. Accordingly, Calpine supports the Commission’s further examination of the appropriate cost allocation methodologies for flexible capacity in this proceeding and in the complementary CAISO stakeholder processes.

II. THE COMMISSION SHOULD REJECT RECOMMENDATIONS TO LIMIT THE ABILITY OF A GENERATOR TO SELL A RESOURCE’S FLEXIBLE CAPACITY AS GENERIC CAPACITY

Southern California Edison (“SCE”) recommends that the Proposed Decision should be revised to clarify that “flexible capacity cannot be sold at generic capacity”¹⁰ and that “[a] generator should only be allowed to sell the inflexible portion of the unit (below Pmin) as

⁹ CSPA Comments at 9-10.

¹⁰ SCE Comments at 4

generic capacity, **not** the flexible portion.”¹¹ As Calpine has previously described, limiting a generator’s ability to sell a resource’s flexible capacity as generic capacity could unnecessarily force additional costs on the generator to account for enhanced must-offer obligations, which potentially entail higher costs that would not otherwise be incurred by the sale of generic RA capacity.¹² As a result, procurement costs for generic RA capacity would likely increase.

Furthermore, the CAISO has determined that the inventory of potentially flexible capacity is approximately three times greater than the expected need for such capacity in the highest need month.¹³ Thus, potential concerns related to market power impacts do not support SCE’s proposed restrictions on the sale of flexible capacity as generic capacity. SCE’s proposal is inconsistent with the intent of the Energy Division Proposal and is unnecessary to address concerns related to the unbundling of generic and flexible capacity.¹⁴

III. LSEs SHOULD NOT BE REQUIRED TO SUBMIT ECONOMIC BIDS FOR CAPACITY THAT IS BEING CLAIMED FOR FLEXIBLE RA IN 2014

In its comments regarding economic bidding requirements, Pacific Gas and Electric Company (“PG&E”) recommends that LSEs “make a ‘good-faith effort’” to submit economic bids for capacity that is being claimed for flexible RA in 2014, notwithstanding that the Proposed Decision “recognizes that such bidding requirements would not be binding.”¹⁵ Calpine opposes PG&E’s recommendation to the extent it would impose a bidding requirement on LSEs or the resources that they have procured as RA capacity in 2014. The Proposed Decision appropriately finds that the implementation of flexible capacity procurement requirements should be deferred until the 2015 RA delivery year. Consistent with this deferral, there should be no economic

¹¹ SCE Comments at 5 (emphasis in original).

¹² See April 15, 2013 Reply Comments of Calpine Corporation (R.11-10-023) at 5-6 (“*Calpine April 15, 2013 Reply Comments*”) (describing Calpine’s opposition to recommendations to limit the discretion of suppliers to sell generic RA capacity from flexible resources).

¹³ See *Calpine April 15, 2013 Reply Comments* at 5 (citing CAISO Initial Comments on Workshop Issues at 20).

¹⁴ Calpine Comments at 4-5.

¹⁵ PG&E Comments at 3.

bidding obligations for a resource in 2014, regardless of whether an LSE has included the resource in its (non-binding) flexible capacity showings.

Respectfully submitted,

/s/

Jeffrey P. Gray
Vidhya Prabhakaran
Davis Wright Tremaine LLP
Suite 800
505 Montgomery Street
San Francisco, CA 94111-6533
Tel. (415) 276-6500
Fax. (415) 276-6599
Email: jeffgray@dwt.com
Email: vidhyaprabhakaran@dwt.com

Dated: June 24, 2013

Attorneys for Calpine Corporation