Stakeholder Comments Template

Submitted by	**Company**	**Date Submitted**
Mark J Smith (925 557-2231)	Calpine Corporation	February 20, 2018

Summary/Overview:

Calpine recognizes that the RMR provisions of the CAISO tariff are based on a settlement of key California market participants in the late 1990s. In those times there was no nodal market, no Local Resource Adequacy program and, of most direct relevance, no ubiquitous and automated Local Market Power Mitigation program. The RMR provisions in the CAISO tariff were intended to (among other things) mitigate the possible abuse of market power in the energy-only market. And RMR contracts were used extensively for that purpose, with tens of thousands of MW initially under contract.

Nonetheless, the tariff is what it is today, and still retains both broad discretion for the ISO to use RMR to preserve local reliability as well as proforma contracts to establish reasonable compensation and operational obligations. The ISO continues to use RMR provisions to preserve necessary, local resources that otherwise may have become unavailable. While perhaps not the primary original purpose, the RMR provisions preserve an important right of the CAISO – to unilaterally designate resources needed for local reliability. Given all of this, Calpine does not object to revisiting RMR in the overall context of current market dynamics, as is suggested by Phase 2 of this initiative.

More narrowly however, during the CAISO's recent RMR designation in November 2017, several parties suggested that a must offer obligation should be bolted-on to the current RMR obligations. We urge caution.

Calpine believes that reforms to California's capacity procurement regime are substantially overdue. This includes the provisions of the CPUC's RA program, as well as the CAISO's backstop mechanisms (i.e., CPM and RMR). In fact, the comments filed in the first track of a CPUC RA reform docket (Rulemaking 17-09-020) suggest sweeping changes to RA compliance requirements and timelines. As discussed below, we believe that backstop mechanisms and any modifications thereto, should be considered holistically and only in the context of the evolution of the primary procurement vehicle – the Resource Adequacy program.

Comments on phase 1 proposal to make RMR Condition 1 and 2 Units subject to a MOO for Energy and AS

Calpine has no concern with imposing a Must-Offer Obligation (MOO) on Condition 1 RMR units. If an owner selects (as is its unilateral right under the proforma RMR contract) Condition 1, it is voluntarily choosing to recover only a portion[1] of its costs through market transactions. Imposing a market-based bidding requirement on these Condition 1 units only reinforces that which would be a natural outcome of the risk/reward balance that the owner selected. Further, Calpine supports automated bid-insertion if the resource owner does not submit bids.

With respect to the imposition of a MOO on a Condition 2 resource, the owner voluntarily and affirmatively *rejects* the risk of exposure to market revenues and, in fact, credits any marginal economic market rents back to the CAISO/PTO. While the owner of the Condition 2 RMR unit would be largely indifferent to operations (because it is collecting most of its cost-of-service regardless of operation), there are broader market impacts that make the decision to impose a bid obligation, on Condition 2 units more difficult.

In fact, imposing a MOO on a Condition 2 unit changes expected market prices and could affect investment and operational decisions of other market participants. However, the nature of these changes depends on the base assumptions of the analysis.

- One view is that without the RMR designation, the designated unit would be retired / mothballed / unavailable. The absence of the resource would result in a counterfactual condition of higher baseline prices whenever the removed resource would have been at or below the bid price of the marginal resource. With this base assumption, enforcing a MOO suppresses market prices for all other resources whenever the unit is: (1) not needed for local reliability, (2) is infra-marginal, and (3) required to bid. These lower market prices discourage investment or operation of alternatives (including storage, EE, DR and DG) and hasten the financial blight on all other conventional resources. In the long run, it's bad for consumers.

- The opposite view sets a base assumption that the designated resource would have been in the market even without the RMR (implicitly discounting the fact that the resource was uncontracted through the RA program and the owner's assertions that it would be unavailable to the market). With this base assumption, the

[1] Although Calpine does not object to the imposition of a Must-Offer Obligation on Condition 1 RMR units, Calpine does object to the compensation proposal contained in the Issue Paper, at p.7, that Condition 1 RMR units will be paid a "fixed payment contribution … based on a 'net of market' analysis." The percentage of a Condition 1 owner's fixed annual revenue requirement (known as the Fixed Option Payment Factor (FOPF) in the tariff) is a matter for negotiation under the existing pro forma RMR Agreement. The pro forma RMR Agreement provides no method or basis for determining the FOPF, and FERC has never ruled on how the FOPF should be determined in the absence of a negotiated agreement. Calpine believes that this stakeholder process is not the appropriate occasion for the CAISO to propose that the FOPF should be based on an unspecified "net of market" analysis or on any other theory.

counterfactual prices would start out lower as the presence of the resource shifts the supply curve to the right. The absence of a MOO would, therefore, raise prices (the argument supported by DMM, the CPUC and others.)

- Finally, another view is that if consumers pay for the whole resource (meaning the full cost of service, including return of, and on investment), they should get all of its attributes, including a MOO – so that in the short run consumers are better off.

Some might argue that, in theory, the effects of energy price changes on other market units can be mitigated by complementary changes in capacity compensation. With structural changes to Resource Adequacy this theory might be more compelling (e.g., moving the RA demonstration date back 6 months, establishing multi-year requirements, enforcing all sub-area local reliability requirements, and establishing a central buyer of local capacity.)

Bottom line: imposing a must-offer obligation on Condition 2 RMR units may have undesirable consequences that must be carefully reviewed in the light of holistic capacity procurement reforms. These consequences may be favored or disfavored depending on the lenses through which stakeholders view the base assumptions. Calpine recommends that the CAISO, if it chooses, move forward with a must-offer obligation on Condition 1, but postpone decisions on Condition 2 units until more is known in both Track 2 matters in this initiative and possible CPUC RA reforms.

Comments on potential phase 2 items listed in issue paper and straw proposal.

Calpine generally supports the consideration of those items listed in Section 6 of the Issue Paper, generally referred to as "Track 2" items. We do believe, however, that it would assist stakeholders if the CASIO was more specific regarding the components of CPM it seeks to review. For instance, we assume, but do not know, that when the CAISO refers to "CPM", its reference is to the CPM risk-of-retirement provisions. As the CAISO is well-aware, there are several alternatives conditions that could trigger CPM designations and the ISO should limit the scope to those it deems necessary.

With this in mind, the CPUC representative has observed that the CPM Settlement might allow for a broader review and revision to the provisions of CPM. We disagree.

The CPM Settlement contains a trigger for review when "any load serving entity meets more than 50 percent of its annual or monthly resource adequacy obligation for a year or month, respectively, with CPM capacity procured by the CAISO on the load serving entity's behalf." The CPUC asserts that this condition has been triggered. The assertion has been made that since the trigger has been met, *all* components of the CPM settlement should be open for review. We disagree.

The CPM settlement requires only that the CAISO "open a stakeholder initiative to explore whether load serving entities have relied on the CPM, to an unacceptable extent, as a primary means of capacity procurement." Calpine supports this narrow inquiry as opposed to a reconsideration of the hard-fought and consensus-based CPM settlement.

Thank you.