



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

Order Instituting Rulemaking to Establish
Policies, Processes, and Rules to Ensure
Reliable Electric Service in California in the
Event of an Extreme Weather Event in 2021

Rulemaking 20-11-003
(November 19, 2020)

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**COMMENTS OF CALPINE CORPORATION
ON ADMINISTRATIVE LAW JUDGE'S RULING**

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Pursuant to the December 11, 2020, *Administrative Law Judge’s E-Mail Ruling Directing Parties to Serve and File Responses to Proposals and Questions Regarding Emergency Capacity Procurement by the Summer of 2021* (“Ruling”), Calpine Corporation (“Calpine”) offers the following comments.

Calpine appreciates the urgency with which the Commission is evaluating procurement to address reliability for next summer and beyond. As Calpine explained in its opening comments on the OIR, it has identified a series of upgrades that can be performed at its existing gas-fired generating units to improve their efficiency and increase their available capacity while not increasing related emissions. These upgrades are a highly-viable option to get more capacity on the grid by next summer. But time is of the essence due to the need to order parts, complete permitting modifications and/or analyses, and schedule outages now for upgrades to be available by next summer.¹ Immediate direction from the Commission regarding the procurement strategy and cost recovery for these upgrades is critical.

¹ Comments of Calpine Corporation on Order Instituting Rulemaking (“Calpine Comments”), at 1-2

The Commission should remain focused on how best to maintain reliability next summer in a way that is both cost effective and consistent with the state’s environmental goals. The Integrated Resource Planning (“IRP”) process, consistent with the other state agencies planning processes, has already determined that a substantial portion of California’s existing, efficient gas generation fleet will be in service to support reliability through the balance of the decade.² Investing in upgrading and maintaining these existing gas units is important for reliability, and also has positive environmental and climate benefits through improved efficiency. For all of the near-term upgrades that Calpine is contemplating, estimated emissions for the upgraded units would still remain within the current limits of the units’ air permits.

Consistent with the direction indicated in the Ruling, Calpine believes that the most feasible near-term procurement path for gas upgrades is for the Commission to order bilateral procurement by the investor owned utilities (“IOUs”), with recovery of such procurement costs through the cost allocation mechanism (“CAM”). However, to ensure the cost effectiveness of these gas upgrades, the Commission must explicitly encourage the IOUs to focus on contracting for such upgrades at a reasonable volume (in MW) over a multi-year term.

Calpine responds below to the many of specific questions set forth in the Ruling.

² See e.g., CPUC Energy Division, *2019-20 IRP: Proposed Reference System Plan* (November 6, 2019), at 79, https://www.cpuc.ca.gov/uploadedFiles/CPUCWebsite/Content/UtilitiesIndustries/Energy/EnergyPrograms/ElectPowerProcurementGeneration/irp/2018/2019%20IRP%20Proposed%20Reference%20System%20Plan_20191106.pdf; see also California Energy Commission, *SB 100 Draft Results Presentation* (September 2, 2020), at 26, <https://efiling.energy.ca.gov/getdocument.aspx?tn=234549>; California Energy Commission, California Public Utilities Commission, and California Air Resources Board, *DRAFT 2021 SB 100 Joint Agency Report* (December 2020), <https://efiling.energy.ca.gov/getdocument.aspx?tn=235848>.

Questions Regarding Procurement Type:

1. In considering incremental authorization for procurement, what parameters should the Commission place on contracts regarding pricing, contract term, and operational characteristics?

Before investing in capacity upgrades, Calpine needs to ensure that a sufficient volume of the existing capacity of the underlying units is also contracted for the same term as the upgrades (e.g., for a 400 MW generator, an incremental 10 MW contract has very limited value unless the 400 MW of exiting capacity are also contracted). It is not practical to ask existing generators to make significant capital investments to add incremental capacity if they have no assurances that the existing capacity will be contracted. Accordingly, the Commission should strongly encourage the IOUs to procure a sufficient volume of capacity from existing resources beyond the incremental MWs that are made available as a result of the upgrades.

With respect to pricing, it would be most reasonable to compare the cost of gas upgrades to the cost of other similar recent procurement of new resources. The newest gas units of which Calpine is aware are the Stanton Peak and the Alamitos and Huntington Beach combined cycle gas turbines that Southern California Edison Company (“SCE”) procured through its Local Capacity Requirements request for offers (“RFO”) process.³ The pricing of these procurements would be a good benchmark for the IOUs to use when considering incremental capacity procurement from existing gas resources.

Calpine notes that the upgrades it is contemplating generally will only add capacity in the critical summer months.⁴ However, concentrating all of the cost recovery for the upgrades in

³ See D.15-11-041, at 23; see also D.16-05-050.

⁴ It is conceivable that the upgrades eventually would allow Calpine to provide additional capacity outside of the summer with expanded interconnections. Without expanded interconnections, the main impact of

just a few summer months would unfairly skew the \$/MWh cost of such upgrades. To make an accurate comparison among resource options, it would be appropriate to compare costs on an annual rather than a monthly basis. In addition, to the extent that market prices for RA are actually above new build costs for next few years, the Commission should consider those prices in determining the cost-effectiveness of any incremental capacity associated with upgrades.

The price of existing MW from the same underlying resources (as opposed to the pricing for just the incremental capacity) could be compared to prevailing prices for local and system RA. Relevant pricing benchmarks should be for comparable products (*e.g.*, RA-only contracts should be compared to RA-only contracts for similar prices).

With respect to the length of contracts, the procurement should be on terms comparable to those for new resources.⁵ CAM cost recovery, as anticipated in this proposal, has generally been limited to contracts of ten years for new resources, although the Commission has approved CAM recovery of longer-term contracts as well.⁶ A ten-year term would allow for reasonable amortization of the costs of upgrades. Calpine is also willing to consider shorter-term contracts, with the recognition that shorter contract terms will require higher contract prices (in \$/kW-year or \$/kW-month) to recover the upgrade costs over a shorter timeframe. As the Commission has recognized, it is critical that needed capacity resources be secured on a sufficient term-length to

the upgrades will be to allow the upgraded plants to produce up to their interconnection limits in the hottest summer conditions, (*i.e.*, to obviate the impact of ambient de-rates).

⁵ CAM has historically been applied to situations where “[t]he Commission designated IOUs to procure [] new generation through long-term PPAs, and the rights to the capacity were allocated among all LSEs in the IOU’s service territory.” D.14-02-040, at 45.

⁶ In D.06-07-029, the Commission established that CAM treatment of contracts last no more than ten years. In 2009, the Legislature passed Senate Bill 695, which codified the CAM and confirmed its application to all bundled service customers, Direct Access customers, and CCA customers. In D.11-05-005, the Commission extended CAM treatment to match the duration of the contract, beyond the original ten-year limit. In D.16-05-050, the Commission approved CAM recovery for a 20 year, 262 MW RA agreement between SCE and the Puente Project.

avoid a “cliff” where resources would drop out of contracts in a few years and create another system reliability challenge.⁷

In light of the reliability concerns that are emerging on the CAISO grid, procurement should focus on resources that are capable of serving load at both the gross peak as well as into the net peak evening hours. Calpine notes that while limited duration storage may be able to meet those requirements, California has no experience with reliance on GW-scale storage to meet such requirements. Because the bulk of procurement to meet the IRP-related mandate in D.19-11-016 is storage, it would be prudent to focus any additional procurement for summer 2021 on other technologies.

2. Should the Commission limit the total volume of incremental procurement authorized?

The reality is that it may be difficult to find significant additional supply for next summer. Nevertheless, a reasonable upper bound on procurement could be the 3.3 GW of incremental capacity that CAISO has identified as needed to address next summer’s net peak requirements.⁸ Alternatively, the Commission might limit procurement to any capacity needed to meet the CAISO’s recommended 20% PRM applied to the gross load peak. The Commission could adjust these upper bounds downward to reflect any viable demand-side measures that can realistically be deployed by next summer to address the reliability gaps the CAISO identified.

To the extent that upgrades to existing gas units are procured, Calpine requests that any limit on the total volume of procurement apply only to the incremental MW associated with the

⁷ D.19-11-016, at 48 (“The purpose of the [CAM recovery] provisions is to avoid a ‘cliff’ where resources drop off of contracts again in the early part of the next decade, creating another system reliability challenge.”).

⁸ See Comments of the California Independent System Operator Corporation on Order Instituting Rulemaking Emergency Reliability, at 3.

upgrades, not any additional amounts of capacity that might be procured from the existing resource in combination with the upgrades.

3. Should procurement that cannot achieve a commercial operation date by June 1, 2021 also be considered in this procurement authorization?

Based on the CAISO's analysis, capacity shortfalls start in July and then increase in August and September, so July 1, 2021 may be a more reasonable target. There also may be some value to capacity that is available as late as September 1, 2021.

4. Are there any additional considerations regarding the procurement type that the Commission should consider in issuing a procurement authorization?

In comments on the OIR, parties suggested that procurement of incremental gas capacity to address near-term reliability issues would be inconsistent with various state policy goals embodied in Senate Bill ("SB") 100 and other laws and regulatory decisions.

To be clear, incremental gas capacity from efficiency upgrades to existing gas units is fully consistent with the state's clean energy goals. The near-term upgrades to yield incremental gas capacity that Calpine is contemplating generally involve efficiency improvements associated with turbine upgrades to existing units. These upgrades would enable the units to produce more output from the same fuel input, which would increase the capacity of the generators without increasing emissions. In fact, for all of the near-term upgrades that Calpine is contemplating, estimated emissions for the upgraded units would still remain within the current limits of the units' air permits.

Calpine anticipates that these environmental considerations would be addressed through the state agency collaboration contemplated in Question 7 below.

5. **Are there additional specific issues the Commission should consider in authorizing procurement to ensure that the procurement is cost-effective under the existing circumstances, would addresses system needs, and be in the public interest?**

No comments.

Questions Regarding Procurement Process:

6. **Are there other expedited processes besides bilateral negotiations or revisiting offers from recent IRP RFO bid stacks that could be used to ensure cost-competitive resources are procured to be online for Summer 2021?**

Calpine believes that bilateral procurement is the only process that is likely to yield contracts to support additional capacity in time for next summer.

7. **Can or should actions be taken to expedite the permitting and interconnection processes associated with this procurement?**

Calpine supports collaboration among the Commission, the California Energy Commission (“CEC”), and local air districts to ensure that upgrades can be completed by next summer. However, as discussed at the December 2, 2020 CEC workshop, Calpine believes that it already has a path to secure all necessary CEC and air district permit modifications or analyses to confirm that upgrades would be consistent with current permit limits, to the extent that any are required.⁹ On a related note, while the question does not address outage scheduling, some coordination with the CAISO to schedule outages so that upgrades can be performed may be required.

Questions Regarding Cost Recovery and Ratemaking Treatment:

⁹ See generally California Energy Commission, *Lead Commissioner Workshop on Incremental Efficiency Improvements to the Natural Gas Powerplant Fleet for Electric System Reliability and Resiliency* (December 2, 2020), recording, https://energy.zoom.us/rec/play/Lj9dC38r2wo0Bcg7yum5fXWmKinHS4D6JXm8_nhoKnLqTCZe6FQ99QMnLAXK6CBVUGyzK5txXP8BZR24.kC_p0ekNMJe04jls?continueMode=true&_x_zm_rtaid=FMkg8ZqBR_iSPAjvFlwhkw.1608068824997.900226edddb72fa7fc780dc7c2119d16&_x_zm_rhtaid=757.

11. Are there any additional considerations regarding cost recovery and ratemaking treatment the Commission should consider in issuing a procurement authorization?

Calpine generally believes that cost recovery and allocation through CAM will be required in order for timely procurement of sufficient term to support upgrades to local resources, because LSEs – both IOUs on behalf of bundled loads as well as non-IOU LSEs – currently appear to be unwilling to undertake procurement of local resources while the central procurement entities (“CPEs”) for local RA are still being implemented.¹⁰ Calpine notes that all of the resources for which it is contemplating upgrades are local resources. Consequently, even if they were not procured for next summer, they likely eventually would be procured by CPEs and subject to CAM.

Questions Regarding Process for Commission Review:

12. Are there any additional considerations regarding the process for commission review that the Commission should consider in issuing a procurement authorization

Calpine supports a Tier 1 Advice Letter approval process for contracts with independent suppliers to meet incremental capacity needs. A Tier 1 Advice Letter process could provide sufficient certainty for suppliers to move forward with upgrades as long as the advice letters are filed and deemed effective by the end of January. Immediate direction from the Commission on the process for procurement and cost recovery of gas upgrades is critical to ensuring such resources can be online by next summer.

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¹⁰ See Calpine Comments, at 4.

Respectfully submitted,

By: /s/_____

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