Calpine generally supports PJM’s Capacity Performance (CP) initiative; however, with regards to the proposal as submitted, we offer the following thoughts for PJM’s consideration.

1. Under the current proposal, suppliers have the ability to voluntarily offer to sell the CP product. Because of this provision, a resource that is concerned about its ability to meet the increased performance requirements, and the concomitant significant non-performance penalties, can mitigate its risk by choosing not to submit an offer to sell CP. However, to the extent this changes, and a “must offer” requirement is mandated for the CP products, generators must have the ability to submit a sufficiently high “risk adjusted” offer so they are assured of being adequately compensated for their additional performance and exposure to penalties.

2. Calpine also recommends that PJM consider a structure that allocates penalty proceeds collected from underperforming CP generators to those CP generators who over perform, as a means to incent over performance.

3. Reasonable Force Majeure provisions should also be a part of the proposal. An “Act of God” event, outside of a generator’s control (such as hurricanes and floods) that impacts the generator’s ability to operate should be considered as exceptions to the penalty provisions. Additionally, pipeline system failures, such as pipeline ruptures or compressor outages that are beyond the direct control of the resource owner should also be considered as exceptions to the penalty provisions. PJM must also define upper and lower operating temperature thresholds in the determination of the capital expenditure requirements for CONE. When weather-related operating issues arise and these thresholds are exceeded, the event should be considered an exception to the penalty provisions.

4. There is some ambiguity in the proposal regarding how penalties will be determined related to ICAP or UCAP. Penalties should be based on a generator’s UCAP, and the UCAP should be used to determine the sellable level of CP. Further, over performance on one CP resource should be able to offset under performance of another CP resource in the same owner’s portfolio in the same LDA. DR resources should face the same penalty structure as Base Capacity generation regardless of the product offer. To provide better transparency and certainty around performance risk on a forward basis, PJM should consider indexing the penalty stop loss to net CONE, and not to a multiple of annual capacity revenue. Under the current proposal, there is no way for the resource owner to determine its risk exposure prior to the auction, and to price this risk into its capacity offers.

5. Lastly, we generally agree with the qualification standards proposed for CP generation. However, while many base-load resources are capable of running over 6,000 hours per year, they often do not do so because of market economics. For this reason, we believe that base-load resources should be required to have the capability of running for at least 6,000 hours per year. Units should be included as base-load resources based on their capability to run, with market economics determining actual run hours.
Calpine remains very supportive of PJM’s objective in enhancing the Capacity Market, and we appreciate the opportunity to offer these comments for your consideration.