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.	R.11-10-023

PHASE I PROPOSAL OF SHELL ENERGY NORTH AMERICA (US), L.P.

John W. Leslie
Luce, Forward, Hamilton & Scripps LLP
600 West Broadway, Suite 2600
San Diego, California 92101
Tel: (619) 699-2536
Fax: (619) 232-8311
E-Mail: jleslie@luce.com

Attorneys for Shell Energy North America (US), L.P.

Date: January 13, 2012

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.	R.11-10-023

PHASE I PROPOSAL OF SHELL ENERGY NORTH AMERICA (US), L.P.

In accordance with the procedural schedule set forth in the "Phase I Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge" ("Scoping Memo") that was issued on December 27, 2011, Shell Energy North America (US), L.P. ("Shell Energy") submits its proposal on Phase I issues. This proposal addresses what the Scoping Memo refers to as the "operational challenges" associated with integrating increased intermittent renewable energy resources into the CAISO control area, as referenced in Items "f" and "g" of the Scoping Memo.

Shell Energy proposes that the Commission reject an incremental "operational" requirement added to the resource adequacy ("RA") compliance requirement. The CAISO's ancillary services market should continue to operate to maintain grid reliability. The Standard Capacity Product ("SCP") that is used for RA compliance should not be encumbered with an additional operational requirement.

If the Commission decides to proceed with consideration of an "operational" requirement as a part of the RA procurement obligation, the two interrelated issues in Items "f" and "g" should be consolidated and addressed in Phase II.

I.

INTRODUCTION

The FERC-approved CAISO tariff provides that the CAISO is "responsible for ensuring that there are sufficient [a]ncillary [s]ervices available to maintain the reliability of the CAISO [c]ontrolled [g]rid . . . ." Tariff Section 8.1. Through the price paid for ancillary services, the CAISO provides incentives for generators to offer "regulation," "spinning reserves," and "non-spinning reserves."[1] The costs of these operational services are paid by all customer load through charges imposed upon Scheduling Coordinators. Ancillary services are provided by generators through a competitive bidding mechanism. See CAISO Tariff, Sections 8.3.6; 8.3.7.

The Scoping Memo identifies two interrelated issues that address the potential need for "operational" capabilities (beyond the features set forth in an SCP) to integrate increased renewable resources in the CAISO-controlled grid. Shell Energy submits that operational requirements should not be added to the RA capacity procurement obligation that is currently imposed on load-serving entities ("LSE"). Adding operational capabilities to an LSE's RA procurement obligations would increase costs to ratepayers and disadvantage the customers of those LSEs that do not own or control generation.

Moreover, imposing additional operational requirements on an LSE with respect to its "local" RA capacity obligation would be complex, difficult to implement, and create market power opportunities for the holders of local RA capacity. The current SCP should be retained as the vehicle through which an LSE's RA procurement obligation is met. An operational requirement should not be added to the SCP.

[1] The CAISO does not currently operate a market for "voltage support" and "black start capability."

II.

ITEMS "F" AND "G" SHOULD BE CONSOLIDATED AND DEFERRED TO PHASE II

The Scoping Memo sets forth as Phase I issues two closely related matters that consider whether an LSE's RA requirement must be modified to meet system reliability needs in the face of increased intermittent renewable generation in California. The first issue (Item "f") asks whether the Commission should adopt additional operational requirements recommended by the CAISO as part of an LSE's RA capacity requirement. See Scoping Memo at p. 4. The second issue (Item "g") includes whether operational requirements should be incorporated in the showing required in the investor-owned utilities' ("IOU") long term procurement plans ("LTPP"). Id. at p.5.

Shell Energy submits that if the Commission addresses these CAISO grid reliability matters in this proceeding, the two interrelated issues ("f" and "g") should be considered together. In view of the complexity of these issues and the difficulty in implementing the proposed changes, however, the Commission should defer consideration of these matters to Phase II of this proceeding. Deferring these matters to Phase II will allow the CAISO to vet these issues through the stakeholder process that was instituted by the CAISO in December 2011.[2] The information and recommendations presented through the CAISO process will inform this Commission's consideration of the issues in this proceeding.

[2] The CAISO is presently conducting a stakeholder process for a new Flexible Capacity Product, which would create a market for suppliers to bid capacity to meet the CAISO's forecasted need for ramping capacity. See http://www.caiso.com/Documents/FlexibleRampingProductSecondRevisedStrawProposal.pdf

III.

THE CAISO'S PROPOSAL TO ADD A "FLEXIBLE CAPACITY" PROCUREMENT OBLIGATION IS NOT NECESSARY

The CAISO proposes that the Commission adopt a requirement that "flexible capacity" must be procured by LSEs and incorporated into their 2013 year-ahead RA compliance filings.[3] The CAISO asserts that incorporating a year-ahead flexible capacity procurement requirement into the RA program will "help to ensure that the RA fleet will have sufficient operational flexibility for the upcoming RA year." Id. at p. 6.

The CAISO has not shown that a flexible capacity procurement obligation is necessary to maintain grid reliability. Moreover, the CAISO has not shown that the current CAISO-administered ancillary services market is not sufficient to maintain grid reliability. The ancillary services market provides a FERC-regulated mechanism through which generators provide load following capability, up and down ramping flexibility, and spinning and non-spinning reserves capability to ensure system reliability. The CAISO is required by FERC to provide these services. If the CAISO believes that additional resources are necessary to provide grid reliability, the CAISO has processes available to consider how to incorporate these resources. No reason exists for this Commission to impose an additional mandate on suppliers of RA capacity.

The financial incentives provided to generators through payments for ancillary services should be sufficient to encourage construction of generation that provides these attributes. Because all customers benefit from these ancillary services, all customers bear the cost for these services through charges imposed on Scheduling Coordinators. Adding a new mandatory

---

[3] R.11-10-023, "Initial Comments of the [CAISO] on the Order Instituting Rulemaking," pp. 5-6 (filed November 7, 2011).

procurement obligation for LSEs to procure operational resources and bid these resources into CAISO markets would be cumbersome and duplicative.

IV.

ADDING AN OPERATIONAL REQUIREMENT TO AN LSE'S RA CAPACITY OBLIGATION WOULD BE COSTLY AND UNREASONABLY COMPLEX

The CAISO's proposal to add operational capabilities to an LSE's RA procurement obligation should be rejected. If adopted, the CAISO's proposal would place a prescriptive burden on LSEs that smacks of a return to the integrated energy resource planning mechanism that pre-dates the State's competitive energy procurement market. The CAISO currently provides price incentives for generators to offer operational capabilities. The Commission should not interpose itself in the competitive ancillary services market to establish an additional mandate for LSEs' RA capacity procurement.

It is not necessary for LSEs to incorporate operational capabilities in their year-ahead RA compliance filings. Imposing an obligation on an LSE to purchase operational characteristics in addition to local RA capacity would add further complexity and substantial cost that would be passed through to end-use customers. The market for local RA capacity is extremely "thin" in certain local RA areas. The IOUs own or control most of the local RA capacity that is available to meet LSEs' local RA capacity obligations and/or the operational requirements for local reliability. Adding a layer of procurement to an LSE's existing local RA capacity requirement would present the opportunity for the IOUs to exercise market power due to the scarcity of resources in these areas.

A further concern relates to the unfair competitive advantage that would be enjoyed by those LSEs that own or control generation that can be used for ancillary services. LSEs that own or control generation would be able to provide operational services for their load at little or no additional cost. LSEs that would be required to procure relatively scarce operational services to meet an incremental RA obligation would be competitively disadvantaged. The Commission should not impose an additional RA obligation that presents the potential for discrimination against direct access and community choice aggregation customers.

V.

CONCLUSION

The CAISO has the operational resources necessary to integrate increased intermittent renewable resources into the CAISO control area. The CAISO's ancillary services market provides a competitive, FERC-approved mechanism that offers proper pricing incentives for generators to provide these operational capabilities.

The Commission should not impose an additional burden on LSEs and their customers by adding a layer of complexity and cost to the RA procurement obligation. The current SCP provides a proper vehicle for meeting an LSE's RA obligation. The proposal to add an operational requirement to an LSE's RA procurement obligation should be rejected.

If the Commission decides to consider an "operational" requirement as an added RA procurement obligation, the Commission should consolidate Items "f" and "g" and defer these issues to Phase 2 of this proceeding. Shell Energy looks forward to discussing these matters at the workshop that is scheduled for January 26-27, 2012.

Respectfully submitted,

John W. Leslie
Luce, Forward, Hamilton & Scripps LLP
600 West Broadway, Suite 2600
San Diego, California 92101
Tel: (619) 699-2536
Fax: (619) 232-8311
E-Mail: jleslie@luce.com

Attorneys for Shell Energy North America (US) L.P.

Date: January 13, 2012

101764731.2