

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

**REPLY COMMENTS OF
SHELL ENERGY NORTH
AMERICA (US), L.P.**

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In accordance with the procedural schedule adopted by the Presiding Administrative Law Judge, Shell Energy North America (US), L.P. (“Shell Energy”) submits its reply comments on Phase 1 issues addressed at the workshops held on January 26-27 and March 30, 2012. Shell Energy addresses two issues raised in the opening comments, as follows:

First, contrary to the opening comments of PG&E and DRA, the Commission should address, in Phase 1, the current “system average” coincidence adjustment factor that is used to establish the RA procurement obligations for all LSEs. The “system average” coincidence adjustment must be modified to eliminate cross-subsidies between bundled sales customers and direct access customers. As set forth in the December 27, 2011 Scoping Memo, Phase 1 provides the opportunity to develop a “robust record” on this issue.

Second, in view of the opening comments addressing the Energy Division’s MCC bucket proposal and the CAISO’s flexible capacity procurement proposal, it is apparent that a flexible capacity procurement obligation is not needed for the RA program in the short term. Moreover, it is clear that the ED and CAISO proposals require additional analysis. The Commission should explore, in the long term procurement planning (“LTPP”) proceeding (R.12-03-014), whether the IOUs should include a multi-year forward commitment for flexible capacity in their long term

procurement plans. If the Commission decides that flexible capacity products should be purchased to meet the IOUs' RA capacity obligations, the CAISO can identify products that the IOUs can purchase through bilateral transactions on a forward basis.

In support of its position on these matters, Shell Energy states the following:

I.

**THE COINCIDENCE ADJUSTMENT FACTOR
SHOULD BE ADDRESSED IN PHASE 1**

The December 27, 2011 Scoping Memo stated that Phase 1 of this proceeding "will provide an opportunity to develop a robust record" on possible modifications to the current system average coincidence adjustment factor that is used to establish all LSEs' RA procurement obligations. See Scoping Memo at p. 3. In its June 2011 RA decision (D.11-06-022), the Commission directed the Energy Division and the CEC staff to provide a recommendation on a modified coincidence adjustment factor for this RA proceeding for "possible implementation in 2013." See Decision at p. 17.

Notwithstanding these Commission directives, and notwithstanding an updated proposal advanced by AReM in its April 11 opening comments (AReM Comments at pp. 4-5), at least two parties - - PG&E and DRA - - ask the Commission to defer consideration of changes to the coincidence adjustment factor. DRA asserts that additional analysis is required before a modification can be adopted. See DRA Comments at p. 7. PG&E claims that the increase in intermittent generation may affect the allocation of load diversity, and as a result, the Commission may want to wait to address the coincidence adjustment factor until after it addresses flexible capacity procurement. See PG&E Comments at p. 6.

DRA and PG&E's request to defer consideration of this issue should be rejected. The concerns raised by DRA and PG&E can be addressed as the Commission considers the merits of proposed changes to the coincidence adjustment factor. The CEC's analysis confirms that a

single average coincidence adjustment factor shifts RA capacity costs from the IOUs' bundled sales customers to direct access customers. Inasmuch as DRA "supports the principle whereby all LSEs should face costs consistent with cost causation" (DRA Comments at p. 7), DRA should not wish to perpetuate a coincidence adjustment factor that creates cross-subsidies. The Commission should proceed to address the merits of AReM's proposal in Phase 1.

II.

FLEXIBLE CAPACITY PROCUREMENT SHOULD BE ADDRESSED IN THE LTPP PROCEEDING

Most of the parties' April 11 opening comments focused on the ED's MCC bucket proposal and the CAISO's flexible capacity procurement proposal. The opening comments reveal a broad consensus around the following principles:

First, there is no immediate need to modify the RA procurement rules to include a flexible procurement requirement. See PG&E Comments at p. 3; SCE Comments at p. 3. The commenters note that flexible capacity resources are available in 2013 and likely in 2014, as well. Full consideration of a flexible capacity procurement requirement can be addressed through a comprehensive review in a separate phase of this proceeding, in the LTPP proceeding, or in a new OIR proceeding.

Second, questions abound regarding the details of the ED proposal and the CAISO proposal. See, e.g., SCE Comments at pp. 6-8, 9-10; Calpine Comments at pp. 2-4. Areas of uncertainty have been highlighted in the opening comments of a number of parties. Neither of these proposals can be adopted or implemented until these issues are resolved.

Third, there appears to be general agreement that the ED proposal and the CAISO proposal reflect two sides of the same coin, both of which seek to mandate the purchase of flexible capacity. See PG&E Comments at p. 3; SDG&E Comments at p. 6. The ED proposal would limit LSEs' ability to purchase certain resources as part of their RA portfolio supplies; and

the CAISO's proposal would require LSEs to purchase a minimum quantity of certain flexible capacity resources. Analysis of the resources that would qualify (or be limited) under each proposal shows that there is more than adequate flexible capacity to meet system reliability requirements in the next two to three years, at least.

Fourth, although there is no agreement as to whether a flexible procurement obligation is appropriate or necessary for the RA program, parties recognize that flexible capacity products can be identified by the CAISO. See SCE Comments at p. 12. Once flexible capacity products are identified, LSEs can elect whether to purchase these products on a forward basis or bear the cost of CAISO procurement through its own market.

In view of the broad consensus on these four issues, and in view of the concerns raised in the opening comments, the Commission should assess the need for flexible capacity procurement in the LTPP proceeding. If a need for flexible capacity is found to exist on a long term (multi-year) basis, the Commission should provide an opportunity for the IOUs to procure flexible capacity on a forward basis through the bilateral market as a part of their long term procurement plans.

No justification has been established to impose a multi-year forward procurement obligation for flexible capacity under the RA program. Based upon a "need" assessment in the LTPP proceeding, the CAISO can develop a market for flexible capacity products. The CAISO can identify the flexible capacity products to be purchased based on its obligation to ensure that ancillary services remain available to maintain grid reliability.

III.

CONCLUSION

The Commission should not impose a flexible capacity procurement obligation as a part of an LSE's RA procurement obligation. Proposals to address the need for flexible capacity procurement should be discussed in greater detail in the LTPP proceeding.

In Phase 1 of this proceeding, the Commission should address AReM's proposal to modify the system average coincidence adjustment factor that is applied to all LSEs' RA procurement obligations. This issue should be addressed in Phase 1 in order to eliminate existing cross-subsidies that unfairly burden ESPs and their customers.

Respectfully submitted,



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