

**To:** Energy Division and  
Parties in R-11-10-023

**FROM:** Shell Energy North America (US), L.P.

**DATE:** October 31, 2013

**RE:** Informal Comments on Flexible Capacity and Use-Limited  
Resources

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Shell Energy North America (US), L.P. ("Shell Energy") submits its informal comments on the treatment of use-limited resources to meet a flexible RA capacity requirement. Shell Energy responds briefly to matters raised in the October 15, 2013 presentations by the CAISO (Karl Meeusen) and DECA (Aram Shumaron).

As a threshold matter, the Energy Division's focus at this time should be whether a need has been established for a separate flexible capacity procurement obligation for the 2015 RA compliance year. In D.13-06-024 (June 27, 2013), the Commission concluded that "it is not reasonable to impose a new requirement on LSEs for flexible capacity in the 2014 RA year which would increase costs without a clear benefit." Decision at p. 39. The Commission acknowledged that it "do[es] not know exactly when flexible capacity needs may exceed currently-available flexible capacity resources. . . ." *Id.* at p. 41. The Commission stated that beginning in 2015, "there is a reasonable likelihood that additional flexible resources will need to be available to the ISO through a new RA requirement." *Id.* The Commission also stated, however, that "the amount of flexible capacity needed for 2015 (and beyond) will be determined in future proceedings." *Id.* at p. 42 (emphasis added).

The first step in this phase of the proceeding, therefore, should be for the Commission to determine whether a need exists for a separate flexible capacity procurement obligation in the 2015 RA compliance year. As the Commission has acknowledged, imposing a flexible capacity procurement obligation on LSEs "will cause additional costs for ratepayers in direct relationship to the additional flexibility needs of the system." D.13-06-024 at p. 43. If a legitimate need for additional flexible capacity is not shown

to exist in 2015, costs should not be incurred by LSEs (and ratepayers) for a flexible capacity procurement requirement.

The first step in the assessment of whether a flexible capacity need exists in 2015 may be for the Commission to analyze LSEs' 2014 RA compliance reports to "count" the qualified flexible resources identified in these submissions. The Commission should compare the flexible capacity disclosed in LSE's 2014 RA reports against the flexible capacity "need" identified by the CAISO for 2015.

As noted above, Shell Energy has brief comments on the proposals submitted by the CAISO and DECA regarding the ability to rely upon use-limited resources to meet an LSE's flexible capacity procurement obligation. Specifically, Shell Energy has concerns regarding the CAISO's proposed approach that would assign a greater value ("higher accounting") to resources that are available "more frequently." (CAISO Presentation at Slide No. 12). Such an approach would de-value some resources that provide significant flexible capacity benefits. Such an approach would also "splinter" the RA capacity market, making it difficult to negotiate a price for resources to be used to meet an LSE's flexible capacity requirement.

Similarly, the CAISO's proposal to value use-limited flexible capacity resources based upon various "incentives" (Slide No. 13) would be cumbersome and difficult to administer. Finally, although variable energy resources should be allowed to qualify to meet flexible capacity requirements, these resources should not be subject to different, more lenient criteria or standards as compared to other use-limited resources. Because the objective of a flexible capacity procurement obligation is to ensure the reliable operation of the grid, resources should count for flexible capacity only if and to the extent they meet uniform standard(s) for flexible capacity eligibility.

In contrast to the complex structure advanced by the CAISO, DECA proposes minor modifications to the "MCC bucket" approach, which has been a part of the RA program for many years. Shell Energy agrees with DECA that for purposes of establishing a flexible RA procurement requirement, the Commission should build upon the MCC bucket approach and apply the buckets to those months with the greatest flexible capacity need.

Shell Energy appreciates the opportunity to submit these informal comments and looks forward to participating further in this proceeding.