

BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE
STATE OF CALIFORNIA



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Order Instituting Rulemaking to Oversee the
Resource Adequacy Program, Consider
Program Refinements, and Establish Annual
Local and Flexible Procurement Obligations
for the 2019 and 2020 Compliance Years

R.17-09-020

**OPENING COMMENTS OF SHELL
ENERGY NORTH AMERICA (US), L.P. ON
TRACK 3 PROPOSALS**

John W. Leslie
Dentons US LLP
4655 Executive Drive, Suite 700
San Diego, California 92121
Tel: (619) 699-2536
Fax: (619) 232-8311
E-Mail: john.leslie@dentons.com

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

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In accordance with the Assigned Commissioner’s January 29, 2019 Scoping Memo, Shell Energy North America (US), L.P. (“Shell Energy”) submits its opening comments on “Track 3” proposals that were presented at the workshop on March 12 and 13, 2019.

In its opening comments, Shell Energy addresses the following issues:

- * Shell Energy supports greater coordination between the CEC and this Commission regarding the LSE load forecasting process.
- * Shell Energy supports proposals by SCE, CESA and the Joint DR parties to unbundle the flexible attribute of local and system RA capacity.
- * Shell Energy supports the proposal by SCE and the Energy Division to remove the Path 26 constraint.

- * Shell Energy supports AReM's proposal to align this Commission's RA process and the CAISO's RMR process.
- * While supporting some of the proposed changes to the waiver process for local (and system and flexible) RA procurement, Shell Energy opposes the Energy Division's proposal to require an LSE to file an advice letter when it seeks a waiver of its local RA procurement obligation.

With respect to all these Track 3 proposals, the Commission must establish a means by which to enhance the transparency and liquidity of the bilateral RA capacity market. Shell Energy provides a proposal to improve transparency and limit the potential for capacity withholding.

Shell Energy addresses these matters in greater detail below.

I.

THE COMMISSION MUST TAKE STEPS TO IMPROVE TRANSPARENCY AND LIQUIDITY IN THE LOCAL RA CAPACITY MARKET

The Commission should examine how to improve the transparency and liquidity of the bilateral RA capacity market to provide proper price signals regarding the need for new capacity. Because the IOUs' RA capacity procurement is not transparent, only the Commission can determine whether IOUs have over-procured RA capacity, and whether they have withheld that excess capacity from the market. The Commission should require the IOUs to post all their excess capacity on an electronic bulletin board ("EBB"). (An alternative to an EBB could be a commercially available platform such as Intercontinental Exchange ("ICE")). In addition to posting their excess local RA capacity on an EBB, the Commission should confirm (and enforce) that all excess IOU RA capacity has been offered to the market, to ensure full capacity availability.

The PJM EBB allows users to post bids or offers for power contracts of any duration. The posted bids and offers may be requests to purchase or sell power, and may be for put or call options. The purpose of the EBB is to facilitate power contracting activity. Unfortunately, participation in the EBB is not mandatory for the California IOUs or for any other holders of capacity in the CAISO control area. In order to provide greater transparency and liquidity in the local RA capacity market, all LSEs should be required to post all bids and offers for local RA capacity.

The IOUs should also be required to post their three-year ahead load forecasts on the EBB. Critical to the forward market price transparency provided by an EBB is the simultaneous posting of CAISO forward load requirements, in order to make all LSEs aware of future RA needs. Enhanced transparency will allow multiple sellers and buyers to participate, and price signals will encourage the development of innovative products, including GHG emission free products.

II.

THE COMMISSION SHOULD PAY CLOSE ATTENTION TO THE LOAD FORECAST PROCESS TO ENSURE AN EQUITABLE ALLOCATION OF THE RA PROCUREMENT OBLIGATION AMONG LSEs

A number of parties submitted proposals concerning the RA load forecasting process, including the timeline, calculation of the TAC area monthly coincident peaks, coincidence adjustments, “plausibility” adjustments, load migration assessment, and the pro rata adjustment for unallocated load. Shell Energy does not address these proposals on a comprehensive basis, but Shell Energy provides the following comments:

Shell Energy agrees with CalCCA’s comment that there should be greater coordination between the CEC and this Commission, and at an earlier point in time, in the load forecasting process. LSEs should not be subject to load forecast modifications so late in the process that

they are unable to obtain the incremental (or sell the excess) RA capacity based on a last-minute load forecast modification.

Shell Energy opposes CalCCA's proposal, however, that LSEs should be "penalized" for a "gross under-forecast" of customer load. A large difference between an LSE's actual load and its load forecast does not mean that all customer load is not accounted for in the overall load forecast for a TAC area. Customers that switch from one ESP to another are still accounted for in the overall TAC area load forecast.

There is a finite amount of load in each TAC area. Moreover, load forecasts will vary over time. That variation is a part of the justification for the Commission-approved 15 percent planning reserve margin. A better solution to the forecasting concern raised by CalCCA may be to increase the planning reserve margin.

III.

UNBUNDLE THE "FLEXIBLE" ATTRIBUTE OF LOCAL AND SYSTEM RA

Shell Energy supports the proposal by SCE, CESA and the Joint DR parties to unbundle the flexible RA attribute from local and system RA. Owing to the Commission-imposed flexible RA capacity obligation, the flexible attribute has a value that is distinct from the value of local or system RA. Under current rules, an LSE that has excess flexible RA capacity must use a complex buy/sell (swap) transaction to sell its flexible attribute to another LSE, while maintaining the associated system or local RA. A more efficient approach would be to unbundle the flexible RA attribute and allow LSEs to purchase and sell the unbundled attributes to align the amount of their flexible capacity with Commission-imposed flexible capacity requirements.

IV.

REMOVE THE PATH 26 CONSTRAINT

The Energy Division and SCE propose to remove the Path 26 constraint. Shell Energy supports this proposal. As noted by the Energy Division, the Path 26 allocation has not been fully used in recent years. In those instances in which a Path 26 allocation has been applied, entities have had to engage in complex “netting” arrangements in which a portion of an entity’s NP resources is exchanged for a portion of another entity’s SP resources. The scenarios in which the Path 26 constraint may be used in the future are extremely limited and highly unlikely. Shell Energy agrees that the Path 26 constraint should be removed.

V.

THE RA AND RMR PROCESSES SHOULD BE ALIGNED

Shell Energy supports AReM’s proposal to align the Commission’s RA process with the CAISO’s RMR contract extension process. LSEs should be permitted to complete their bilateral contracting for year-ahead local and system RA capacity before the CAISO acts on RMR extensions. Coordination between the Commission’s RA process and the CAISO’s RMR process will minimize RMR procurement and reduce ratepayer costs.

Shell Energy agrees with AReM’s proposal to require the CAISO to make any determination on an RMR contract extension after (and based upon) the completion of LSEs’ year-ahead RA capacity procurement. This change will enable the CAISO to avoid unnecessary and costly RMR procurement. Contrary to AReM’s proposal, the deadline for LSE procurement of local and system capacity should not be accelerated. Instead, the CAISO must establish a more expeditious process to pursue RMR contract extensions (if necessary).

If RA capacity procurement requirements established by the Commission are not met through a properly functioning bilateral capacity market, the CAISO’s RMR contract is an

appropriate mechanism to encourage retention of local RA resources, including support for continued investment in existing local RA resources. The CAISO's RMR and Capacity Procurement Mechanism ("CPM") processes are intended to be "backstop" provisions for an LSE deficiency. These backstop mechanisms are effective in providing a price signal to developers of new resources and owners/operators of existing resources.

Generators need sufficient revenues to cover their fixed costs. Fixed cost recovery appears to have become the driver for RMR contract requests, and the trigger for the CPM. While the CAISO is presently pursuing a stakeholder process to address the CPM and RMR, the CPM should be viewed as a mechanism to procure capacity on a short term (e.g., monthly) basis to account for short term needs such as a transmission line outage or a plant forced outage. The RMR extension process should only be triggered after LSEs' year-ahead bilateral contracting is complete. In no event should the CAISO be able to adjust its forecasted local RA obligation after the year-ahead deadline for LSEs' RA capacity procurement submissions.

VI.

THE LOCAL RA WAIVER PRICE SHOULD BE MODIFIED, BUT AN LSE SHOULD NOT BE REQUIRED TO SUBMIT AN ADVICE LETTER IF IT SEEKS A LOCAL RA WAIVER

Proposals to modify the local RA waiver process were advanced by SCE, SDG&E and the Energy Division. Shell Energy does not oppose the Energy Division's proposal to increase the local RA waiver price from \$40/kW-year to \$51/kW-year. Current market conditions justify an increase in the local RA waiver price. The Commission-imposed penalty price for local RA capacity signals to the market that if an LSE cannot procure capacity below this price, the LSE does not have to procure local RA capacity, if it can obtain a waiver from the Commission.

It is critical, however, for the Commission to determine if in fact there is a grid (local reliability) problem rather than an "equity" problem among LSEs. Because LSEs can count local

RA capacity to meet their system RA requirements, it is entirely possible that the total amount of local RA capacity that is necessary for grid reliability in a local reliability area is held collectively by LSEs (and is sufficient to meet the overall local RA procurement obligation), but that some of the capacity is held by an LSE other than the LSE that needs the capacity to meet its local RA procurement obligation (and thus is requesting a waiver).

The Commission should modify the waiver price in light of the need to ensure fixed cost recovery for power plants and to ensure sufficient incentive to contract forward. In addition, the Commission should work with the CAISO to address CPM price caps that discourage LSEs from procuring local RA capacity. Through operation of the CPM, the market will provide a signal for the need for new generation or new transmission, whichever is more economical.

Shell Energy also supports SCE's proposal to extend the waiver process used for local RA capacity to system and flexible capacity. If system and/or flexible capacity become constrained, there must be a process (and a price) in place to accommodate waiver requests.

Shell Energy also agrees with the Energy Division's proposal that penalties for system and flexible RA capacity deficiencies (as with the penalties for system and local RA capacity deficiencies) should not be "cumulative." Especially in light of the proposal to "unbundle" the flexible attribute from the system or local attribute, the penalties for failure to procure system and flexible capacity should not be cumulative.

Shell Energy opposes, however, the Energy Division's proposal to require an LSE to submit a Tier 2 advice letter to request a waiver of its local RA procurement obligation. The Energy Division cites the need for "transparency" in its proposal to require submission of an advice letter. However, all of the substantive information provided in an LSE's waiver request is confidential.

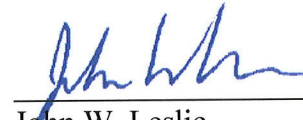
Shell Energy does not oppose the current process in which the identity of LSEs seeking local RA waivers is posted on the Commission's website. Alternatively, the Energy Division could publish a "notice" that a request for waiver has been submitted by an LSE. The name of an LSE seeking a waiver should not be withheld from the public. The LSE's solicitation process, specific capacity requested, and potential counterparties, however, is confidential information and should not be provided through an advice letter.

VII.

CONCLUSION

Shell Energy reserves the right to address parties' opening comments on all Track 3 proposals in its March 29, 2019 reply comments

Respectfully submitted,



John W. Leslie
Dentons US LLP
4655 Executive Drive, Suite 700
San Diego, California 92121
Tel: (619) 699-2536
Fax: (619) 232-8311
E-Mail: john.leslie@dentons.com

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

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