

**COMMENTS OF SHELL ENERGY ON THE CAISO's FEBRUARY 6, 2008
WHITE PAPER ON STANDARD RESOURCE ADEQUACY CAPACITY
PRODUCT**

February 20, 2009

Shell Energy provides the following comments to the CAISO SCP White Paper (February 6, 2009) and the CAISO conference call on February 13, 2009. We address the potential for all units in an LRA to provide unit substitution for local RA and the use of criteria established in Section 11. 24.3 (a) for establishing when a unit should be exempted from the availability calculation due to Uncontrollable Force associated with extreme ambient conditions.

1. Unit Substitution for Local RA – We are pleased that the CAISO has supported the concept of allowing unit substitution to help an RA supplier mitigate its risk in providing RA capacity and reduce its exposure to non-availability charges, while ensuring reliability to the grid by allowing the RA supplier to replace the capacity. We believe this proposal will result in overall lower costs to consumers. However, the CAISO's proposal appears to limit the units which could provide unit substitution services for local RA.

The current proposal for local RA includes provisions that require pre-qualification and include requirements that a substitute unit be “connected at the same bus or otherwise suitable.”

We suggest that the CAISO could clarify the definition of those units that could provide local RA unit substitution services by stating that *those non-RA units located in the same LRA would qualify to provide unit substitution services for local RA*. This clarification could reduce CAISO work load needed to pre-approve units and/or approve units on a short term basis when the need arises, especially in or close to real time, allows market participants greater certainty regarding which units that could provide substitute services, and allows more units to provide those local RA units, resulting in more competitive procurement costs for substitute units, all while maintaining the same local reliability requirements as the original unit.

2. Extraordinary Ambient Conditions and Uncontrollable Forces – The CAISO acknowledges the difficulty of predicting ambient conditions and thus unit performance as much as 18 months in advance. Page 8 of the February 6 white paper appropriately states: “*Ambient Outages caused by Uncontrollable Forces will not be counted against availability.*” Under the SCP proposal, which essentially changes a “Planning Reserve” obligation to an “Operating Reserve” obligation, a generation owner must predict the monthly peak ambient temperature for the next year, then provide to the CAISO the monthly NQC in July of the preceding year. This can be done based on a historical ambient data, however, extreme ambient temperature excursions will affect unit output, and will disproportionately affect different units in the RA fleet, thus causing some units

to be exposed to non-availability payments for not meeting availability targets, with no way to manage this risk.

For example, a nuclear unit or a thermal unit along the coast, which uses sea water for condenser cooling, will experience a relatively similar, more predictable performance year after year, or summer after summer, even during extreme ambient conditions. However, a gas turbine based combined cycle plant will experience a much more significant excursion due to an extreme ambient temperature event, and a gas turbine based peaker will experience an even greater impact. This disparity in the RA fleet will likely result in non-availability charges to gas turbine based units and availability credits to units using sea water cooling.

We agree that it is critical for a unit to nominate the RA capacity that it is able to deliver, however, if the ISO rules ignore extreme weather conditions, generation owners will be forced to guess the most extreme ambient conditions and adopt overly conservative unit ratings, reducing capacity that would otherwise be available for LSE compliance. This will have the effect of over-procurement and result in higher costs for the consumers of the state.

We suggest that the CAISO use the helpful work that was conducted in discussions regarding the Interim Scheduling Charge (Section 11.24.2 & 3). During these discussions, SCs representing load discussed the difficulty of predicting extreme ambient temperature conditions and the subsequent variations to load forecasts. In (MRTU) tariff Section 11.24.3 (a), the CAISO agreed on criteria which would establish an unusual ambient event, in which CAISO forecast demand is 95% or less of actual demand. During these events, the CAISO will not apply the interim scheduling charge.

We suggest that the CAISO use this same criteria for acknowledging an extreme ambient condition when Uncontrollable Force language would be appropriately used for the SCP availability calculation. For a day when the Section 11.2.3 (a) exemption was used, a similar exemption would be used for the calculation of SCP availability. Simply put, days when Section 11.2.3 (a) applied would be omitted from the availability calculation.

Thank you.

Mike Evans
Shell Energy