

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

Comments to CAISO Commitment Cost Enhancements Phase 2 Straw Proposal, December 22, 2014

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Shell Energy appreciates the opportunity to provide comments to the revised CAISO Commitment Cost Enhancements Phase 2 Straw Proposal. Our previous comments on November 19, 2014 that the CAISO is creating a very complex process by controlling a supplier's start-up and minimum load bid costs are still relevant, and we encourage the CAISO to consider that if the CAISO simply allowed a bidder to include their costs into their bids, including start-up and minimum load, that they would be able to recover the many cost components that the CAISO is trying to quantify, and that in fact, suppliers do want to be dispatched and have incentives to provide competitive bids into the CAISO markets so that they are dispatched, operate and receive revenues from the energy markets.

Our comments here focus on: recognition of contractual limitations; possible impacts to units operated under the Cost Allocation Mechanism (CAM); continued concern regarding the ability to calculate an opportunity cost based on a backcast of real time prices; and support for the inclusion of major maintenance cost adders in the opportunity cost calculation.

The CAISO indicated (page 9, Table 4) that a contractual limitation based on a PPA or tolling agreement was not a valid limitation on use of the resource, and that the ISO could continue to dispatch a unit beyond its contractual limitations, if those limitations were not of a statutory, regulatory air permit or operational nature, and that the consequences for excessive CAISO dispatch of a unit such as a peaker, would be that the SC would no longer be able to count the unit's RA attributes, and would then be required to go back to the market and procure additional RA.

We encourage the ISO to consider that contract limitations are equivalent to statutory or regulatory limitations already accepted by the CAISO, and that these represent actual limitations on how often a unit can be started and in some cases, how many hours the units may be operated. The PPAs and tolls were negotiated with a certain cost recovery defined in the agreement based on the projected operations of the units, and with the expectations that the toller would operate within those limitations. In fact, in the RA process, the state has recognized these limitations as "buckets", defining some units as having valid limitations on the number of hours in which it can operate. We ask that the ISO recognize contractual limitations as a valid limitation on a unit, and also recognize that there are numerous contracts in the industry, and not just contracts which have received CPUC approval.

Similarly, IOU's have procured over 10,000 MW of new capacity under the CAM, or Cost Allocation Mechanism, in which the IOU procures the tolling assets under a tolling agreement, then bids out the operations or the energy commodity from the unit, with the obligation to abide by the CAISO and CPUC obligations. However, the ratepayers in the IOU service area pay for the net fixed costs of the toll and

obtain the RA benefits of the capacity. If the ISO were to over-dispatch those CAM units, the ratepayers would lose the RA benefits, and they would be obligated to procure additional RA capacity for the balance of the year. We encourage the ISO to again recognize contractual limitations to a tolling agreement and use the bucket assignment mechanism to manage any limitations of a unit, should the ISO determine that the limitations be of concern.

Next, we again reiterate that historical prices will not be reflective of forward prices, and in particular, on page 19, the ISO plans to simulate real-time prices essentially based on the same time period from the previous year. Real-time prices are volatile, and do not replicate consistently. In fact, for peakers, much of the revenue requirement for the unit is obtained during scarce periods when real time prices are sufficiently high to provide some fixed cost recovery to those units. We do not have a recommended method to forecast real-time prices, and do not believe that the ISO has this ability. We again suggest that the ISO allow generation owners to submit their bids as to the costs that they need to recover.

Finally, we support the ISO proposal to include major maintenance adders in start-up costs and point out that a start is tracked by a gas turbine manufacturer in "equivalent hours". Thus, it is reasonable that major maintenance costs would be attributable to operational hours and included in the variable O&M cost component as well as the start-up costs. We also support a default adder, with the option for an SC to negotiate specific costs for their units. We believe that there is significant consistency in major maintenance costs, and that the ISO could fairly poll the major gas turbine suppliers and work with them to establish a default major maintenance adder based on the manufacturer's budgets for major overhauls. We also note that this information is likely to be confidential to the gas turbine manufacturers, and that the ISO may have to spend some time and resources to obtain this data. Finally, the ISO should recognize contract costs as a valid cost that the SC incurs when tolling a power plant, and we encourage the ISO to accept contract costs when applicable in a PPA or toll.