

Shell Energy Comments regarding the reclassification of certain transmission facilities to distribution level per the CAISO's Market Notice of June 27, 2012 "ISO Intention to Release Transmission Lines and Associated Facilities from Operational Control"

Mike Evans, Shell Energy, [michael.evans@shell.com](mailto:michael.evans@shell.com), 858-526-2103

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Shell Energy North America (US), L.P. ("Shell Energy") submits these comments in response to the CAISO's market notice of June 27, 2012 indicating that: "The ISO intends to relinquish operational control over certain 115kV transmission lines and facilities of Southern California Edison (SCE)." We understand from this market notice that the 115kV facilities affected by the SCE Devers - Mirage split project will be reclassified from transmission to distribution facilities.

While the construct of the Independent System Operator anticipated the transfer of grid facilities between the TO and the ISO, we believe the intent of these provisions was to allow for those lines which were solely providing transmission services, or lines which did not affect generation facilities. For example, high voltage lines which connect to and between high voltage substations might be allowed to transfer control from the TO to the ISO or vice versa. However, when generation facilities are connected to those ISO controlled transmission lines, different criteria needs to be considered in whether transmission facilities should be transferred, or in this instance, reclassified as distribution. The market impacts due to the inability to deliver energy into the grid, conflicting directives, and new agreements which may inhibit the ability to deliver energy or ancillary services may be cause to disallow the transfer of ISO controlled transmission to distribution service controlled by the TO.

Shell Energy is party to an Energy Conversion Agreement with Indigo Generation LLC ("Indigo"). The Indigo facility is directly interconnected to the CAISO via the Devers-Garnet-Indigo Transmission Line. This transmission line is one of the lines that will be affected by the SCE Devers-Mirage split project.

Shell Energy is very concerned about how this change from transmission to distribution will affect Indigo's operations, dispatch, control, market prospects, revenues and costs of delivery. Shell Energy would like to further understand what impact the reclassification of those lines would have to the control of the grid before withdrawing our objection. For example, while the CAISO now has operational control of the transmission lines, how does the proposed change allow multiple parties, such as both the CAISO and SCE to instruct the interconnected generation units on or off? The Indigo facility currently provides RA and other ancillary service attributes that Shell Energy sells in the CA market. How will these attributes be affected by the change? What will be the procedure to follow when the CAISO issues a dispatch instruction to operate the unit and SCE orders the Indigo facility to shut down? Will real time dispatch of energy from ancillary services be a timing or communications problem? If a unit's operation is restricted by SCE's instruction after the CAISO issues a dispatch order, how will that work? What node will Indigo be settled at following the change?

Shell Energy requests that the CAISO provide further information that will allow us to determine the extent to which market operations will be adversely affected by the change, and objects to the removal of these facilities until such information has been provided.

Further, Shell Energy would like to understand how the CAISO envisions the California energy and ancillary services markets will be affected by the reclassification of these lines from transmission to distribution. There are several generation facilities that are interconnected to the lines in question that will be impacted. This could result in removing other generation from the market or differences in operational control. How will SCE prioritize dispatch if not all generation is able to deliver their full output? In our opinion, the CAISO request referenced in this letter is different from a request to reclassify or transfer a transmission line that does not have generation facilities connected to it, and thus requires a higher level of need.

The CAISO should provide additional information on the anticipated change in costs that generators and market participants will shoulder, impacts to congestion management and congestion pricing and whether they will face new costs imposed directly by SCE.

New agreements may take time to negotiate. It would be important that there was adequate time allocated to ensure that any new agreements are able to be put in place in the appropriate timeframe and that interim operational measures are defined until any new agreements are in place.

Finally, Shell Energy would like to suggest that generation units which have executed interconnection agreements at the transmission level are grandfathered from having to obtain and pay for distribution services from SCE and do not require new agreements for this requested change of line classification to distribution level. When a generator has paid for system costs to interconnect to the ISO grid, it would be inappropriate to then charge a generator for additional Wholesale Distribution Access Tariff (WDAT) costs. In the case of the Indigo facility, at the time the plant was built, Indigo and SCE entered an Interconnection Facilities Agreement by which Indigo paid for upgrades to the SCE system so that the facility could be directly interconnected to the CAISO transmission system. In other words, the Indigo facility was built as a generation facility interconnected directly to the CAISO.

Shell Energy would be pleased to review any additional information and to discuss these issues further with you in order to fully consider our objection.

Thank you for your consideration.