

## DOCKETED

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**Comments of Shell Energy North America (US), L.P. on Joint Agency IEPR Workshop on Risk of Economic Retirement of California Power Plants**

*Additional submitted attachment is included below.*

Via CEC Electronic Commenting System

May 8, 2017

California Energy Commission  
Dockets Office, MS-4  
1516 Ninth Street  
Sacramento, CA 95814-5512

Re: Docket No. 17-IEPR-14: Comments of Shell Energy North America (US), L.P.  
on Joint Agency IEPR Workshop on Risk of Economic Retirement of California  
Power Plants

To: California Energy Commission:

On April 24, 2017, the CEC hosted a joint agency workshop along with the CAISO and the CPUC to address risk of economic retirements for power plants located in California, as part of the 2017 IEPR proceeding.

The morning session consisted of presentations by the CPUC and the CAISO regarding the status of the RA program, an overview of grid capacity and units under long term contracts, the status of renewables and growth of renewable resources, and CAISO limitations respecting resources procurement.

The afternoon session consisted of a panel of generation owners and representatives from utilities, with panelists from the generation community indicating a desire to have longer term contracts, and possibly longer term RA obligations. The IOUs expressed willingness to make procurement decisions on behalf of all consumers, conditioned upon assured cost recovery.

The meeting was a good first step in the discussion of why existing generation units are not receiving sufficient revenues to cover future costs, and how those plants are looking at potential mothballing or retirements. Going forward, Shell Energy North America (US), L.P. ("Shell Energy") encourages the CEC to invite other affected market participants, including consumer representatives and marketers, who could provide additional perspectives regarding how the market should operate to provide sufficient revenues to power plants to maintain grid reliability, while aligning with consumer desires for annual energy commitments, overall cost to California consumers and the ongoing success of the annual bilateral RA capacity market.

Revenue sufficiency has also been addressed in similar CPUC proceedings and FERC conferences, such as the Forward Looking Reliability Requirements (“FLRR”) proceeding, which was a proposal by the CAISO to possibly procure capacity. To avoid redundancy and ensure parties are fully informed, the record in this IEPR proceeding should incorporate the records in these other proceedings.

Significant emphasis at the April 24 workshop focused on the perceived need for a multi-year RA procurement obligation. Reasons identified were that some plants will have to shut down and that the State may play a role in choosing which plants shut down. It was suggested that an interim solution could be for the State or the CAISO to pay a “minimum wage” to units such as “peakers,” which are not able to cover their costs in the market but are determined by a State agency to be needed. Such a determination would deem the plant eligible for a “minimum wage,” which would likely be very similar to a Reliability Must Run (“RMR”) contract. To date, the State has discouraged RMR agreements and should be careful about picking winners and losers.

Shell Energy suggests future IEPR workshops on the revenue sufficiency topic that broaden the scope to include the topics listed below. Addressing these issues would also help ensure power plant revenue sufficiency and well-functioning markets.

- (1) Better definition of well-functioning markets: The rapid transition to high renewables penetration in response to State mandates (accelerating and increasing the RPS) is expected to reduce energy revenues to fossil plants through lower LMP prices. If a plant is needed for reserves to firm renewables, the market needs to provide compensation in the form of reserves, regulation or flexible capacity revenues to ensure revenue sufficiency. Part of the solution should examine the reserves market and reserves pricing. A panelist at the FERC technical conference on state policies affecting wholesale energy markets on May 1 stated that the extreme divergent prices in California represent a failed market, noting an average 3 cent/kwh wholesale cost versus a 40 cent/kwh retail cost. The president of ELCON (at the same conference) stated that his members believe that ERCOT is the best market structure for competitive prices. A further discussion of what makes a well-functioning market would be beneficial to discussions regarding future decisions assuring revenue sufficiency.
- (2) Transparent pricing for LCR areas: The CAISO tariff provides “zones” for transmission congested areas, to provide a signal for a need for new transmission. This concept is valuable for capacity markets as well. The State has combined smaller “capacity restricted” areas into a single procurement requirement to mitigate market power. Different structures -- providing price signals to the areas needing additional capacity -- should be considered. The CAISO rules that look at energy prices to determine new

zones could be applied to the capacity construct to reflect capacity prices to incent new generation in deficient areas. Alternatively, the CAISO could focus on new transmission to the constrained LCR areas to resolve the grid reliability issues it has identified.

- (3) What is a “minimum wage” and will it help: A proposal for a “minimum wage” to be paid to peakers and generation needed for reliability is essentially a euphemism for an RMR contract. Under an RMR contract, a generator is paid its fixed costs plus a 10% return and then bids its energy into the market at cost, crediting all revenues over variable cost against the fixed costs billed to the Transmission Owner on a monthly basis. The State of California has discouraged RMR agreements, and has encouraged well-functioning competitive RA markets. A new “minimum wage” is a slippery slope, which may lead to preferential contracts. The IEPR should explore solutions that do not guarantee payments under which the State chooses winners and losers.
- (4) Where are multi-year capacity markets working well and could California use these market structures as models: Future discussions of revenue sufficiency should include explanations of where multi-year capacity markets are working and how they are structured. While the Northeast has had multi-year capacity markets for many years, the rules continue to change, and additional capacity is not being built as a result. Multiple market participants point to the ERCOT market as more stable and a preferred market. Additional considerations concerning multi-year RA markets are; jurisdiction - state or federal; annual auctions - central or bilateral; ability of direct access providers and CCAs to support the credit requirements to procure long-term capacity; and impacts on a growing California economy.
- (5) Does a bifurcated RA procurement market cause winners and losers: Electric utilities’ RA procurement -- consisting of new generation capacity such as the Carlsbad Energy Center, Pio Pico, and the AES Alamosa repower -- results in payments to suppliers under long-term (10 plus-year) contracts that are much higher than RA bilateral market contracts with existing power plants. The IEPR should explore the impacts of bifurcated RA procurement and should consider changes to RA procurement rules to reduce preferential treatment afforded to only certain RA long term contracts for new resources.

The increase in renewables as a zero or negative priced energy supply is causing problems with fossil fired power plants obtaining sufficient revenues from energy markets to supplement capacity revenues. History has demonstrated that bifurcated RA procurement results in new power plants obtaining significantly higher revenues than those older existing power plants operating in bilateral capacity markets. As the CEC moves forward in its 2017 IEPR workshops, revenue sufficiency is a critical aspect to ensuring grid reliability.

Workshops should focus on well-functioning markets, pricing of reserve or flexibility products and how capacity markets will cover more fixed costs of power plants to ensure they will stay in operation. The State and the CAISO should continue to focus on market-based solutions and minimize out-of-market contracts and payments which may provide preference to select generation units.

Finally, the discussion at the workshop failed to consider the importance of time-of-use (“TOU”) rates in establishing the value of capacity; in particular, the value of capacity that is needed to integrate renewables into LSEs’ procurement portfolios. The joint agencies should devote greater attention to the value of TOU rates in addressing issues related to the economic retirement of existing capacity.

Shell Energy looks forward to future workshops as the issues of revenue sufficiency and possible solutions are developed.

Sincerely,



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