

February 21, 2014

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE DRAFT FINAL PROPOSAL ON FLEXIBLE RESOURCE ADEQUACY CRITERIA AND MUST-OFFER OBLIGATION**

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") submit the following comments on the ISO's February 7, 2014 Draft Final Proposal on Flexible Resource Adequacy Criteria and Must-Offer Obligation ("the Draft Final Proposal").

The Six Cities appreciate the ISO's on-going efforts to address stakeholder concerns as reflected in the Draft Final Proposal and support a number of the elements of the Draft Final Proposal. Specifically, the Six Cities support the ISO's proposed methodology for allocating Flexible RA requirements among Local Regulatory Authorities. The Cities also support the ISO's determination to defer adoption of rules defining a Standard Flexible Capacity Product, implementing opportunity cost bidding for use-limited resources, and establishing substitution requirements for Flexible RA resources.

In addition, the Six Cities generally support the concept of establishing categories of Flexible RA capacity with different showing and Must-Offer obligations for the different categories. However, the Cities are concerned that the eligibility criteria for Category 1 are unduly restrictive and offer below a suggestion for allowing bundling or aggregation of resources to meet the Category 1 criteria.

With regard to the Category 1 eligibility criteria, the Six Cities appreciate the ISO's reconsideration of its previous proposal (in the Fifth Revised Straw Proposal) to exclude use-limited resources entirely from Category 1. Even as revised, however, the eligibility criteria for Category 1 are unnecessarily restrictive and likely to exclude many use-limited resources that can provide substantial flexible capacity to the ISO during many or most hours when it is needed.

Excluding resources from qualification for Category 1 will have at least two adverse impacts on market efficiency. First, the ISO's analyses indicate that flexible ramping requirements are likely to be greatest at times when system loads are not at peak levels. During such shoulder periods when flexible capacity requirements are expected to be greatest, there is likely to be excess system and local capacity available. Restricting the extent to which available system and local capacity can count toward flexible capacity requirements will drive up capacity requirements on an overall basis and impose additional capacity costs on LSEs. Second, to the extent the ISO dispatches for ramping purposes capacity resources that can operate flexibly but do not qualify to count toward flexible capacity requirements, such resources will not receive value for the flexible attributes utilized by the ISO. It is especially problematic to impose such adverse effects during the transition to a more durable and forward-looking RA construct as currently envisioned in the Reliability Services initiative and Joint Reliability Framework. The ISO should make every effort to ensure that the transition is smooth and to avoid imposing on LSEs additional costs that do not enhance operational flexibility or reliability in fact.

The Six Cities offer two suggestions for mitigating the adverse effects of the expansive qualification criteria proposed for Category 1 flexible resources. First, the ISO should permit bundling

or aggregation of use-limited resources in order to meet the Category 1 criteria and allow partial credit for use-limited resources that cannot satisfy the criteria on an individual basis. For example, consider two use-limited resources, each having a Pmax of 50 MW and thirty allowed starts per month. Individually, these resources would not be eligible for designation as Category 1 flexible resources under the proposed start-up criteria, but together they could provide the required number of starts. Provided that the resources together also could provide sufficient energy to satisfy the Category 1 requirements, the ISO should permit the two resources in this example to be aggregated and designated for 50 MW of Category 1 flexible capacity. This approach appropriately would allow resources to receive partial credit for flexible attributes, would expand the pool of resources eligible to provide flexible capacity, and could partially mitigate the cost impact on LSEs of having to procure additional capacity for non-peak periods. The ability to bundle or aggregate resources to provide flexible capacity should not diminish the ISO's operating flexibility or reduce reliability, because the capacity counted as being available to meet the Category 1 requirements in aggregate would satisfy the applicable criteria.

The Six Cities' second suggestion for moderating the adverse effects of the Category 1 qualification criteria is to expedite development and implementation of the Flexible Ramping Product. Properly structured, the Flexible Ramping Product should provide some revenue opportunities for resources that can provide flexible capacity on a more limited basis than required to meet the Category 1 criteria.

With respect to satisfaction of Must-Offer requirements, the Six Cities request that the ISO explicitly clarify, consistent with the guidance provided during the stakeholder conference call on February 13, 2014, that once a resource has responded to dispatch instructions for the number of hours in a day required for that category (*i.e.*, six hours for Category 1 as proposed by the ISO and three hours for Categories 2 and 3), the resource is not obligated to submit economic bids for the remainder of that day. Similarly, the ISO should clarify that once a Category 3 resource has been dispatched five times during a month, it is not obligated to submit economic bids for the remainder of that month.

Finally, in their December 9, 2013 comments on the ISO's November 25, 2013 presentation on Assessing the Flexible Capacity Requirements for 2015, the Six Cities explained that they do not have load data or data on VER generation at the level of granularity proposed by the ISO. The Draft Final Proposal does not respond to the data availability problem identified by the Cities. Because the ISO proposes to begin data collection and analysis imminently, prompt resolution of the data granularity problem is necessary.

Submitted by,

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