

December 3, 2012

COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA REGARDING THE SECOND REVISED DRAFT FINAL PROPOSAL ON FLEXIBLE RAMPING PRODUCTS

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 regarding the October 24, 2012 Second Revised Draft Final Proposal on Flexible Ramping Products (the "2nd Revised Final Proposal").

Based on the discussion and the presentation at the October 30, 2012 Combined Meeting on Flexible Ramping Products and Order No. 764 Market Changes, the Six Cities understand that the Flexible Ramping Products initiative effectively is on hold until approximately the end of the second quarter or beginning of the third quarter of 2013 to allow for appropriate coordination between development and implementation of the Flexible Ramping Products ("FRP") and development and implementation of market design changes to comply with FERC's Order No. 764. The Six Cities agree with this sequencing of stakeholder activities and urge the ISO to remain open to modification of the FRP features incorporated in the 2nd Revised Final Proposal as necessary to dovetail with the market design changes to comply with Order No. 764. The Cities encourage the ISO to utilize the analysis that led to the 2nd Revised Final Proposal to the extent possible, in recognition of the constructive efforts by the ISO and the stakeholders to reach that point. However, the evolution of the Order No. 764 market design changes may require reconsideration of the FRP design reflected in the 2nd Revised Final Proposal, and those design features should not be considered to be cast in concrete.

At this stage, however, the Cities wish to reiterate their concerns with the cost allocation methodology reflected in the 2nd Revised Final Proposal. The cost allocation approach included in the 2nd Revised Final Proposal does not align adequately with the cost causation principle. However the design of the FRP may evolve, the allocation of costs should track the market conditions that drive the procurement of FRP. The Six Cities agree with the comments by Jeffrey Nelson at the October 30th meeting that to the extent variation in output of VERS drives the amount of FRP purchased by the ISO, the associated costs should be allocated to VERS.

Submitted by

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