

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA
ON THE COMMITMENT COST ENHANCEMENTS PHASE 3 OPPORTUNITY COST
METHODOLOGY TECHNICAL APPENDIX**

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 questions and comments on the ISO's Commitment Cost Enhancements Phase 3 Opportunity Cost Methodology Technical Appendix, posted on April 22, 2016 ("Technical Appendix"):

- 1) The estimated variable energy cost ("VEC") for each resource incorporates natural gas futures prices. (*See* Technical Appendix page 5. There are no page numbers in the Technical Appendix, but page number references in these comments assume the cover page is page 1. Thus, page 5 is the third page of text in the document.) The Six Cities are concerned that if there is significant gas price volatility, opportunity costs may be distorted. The Technical Appendix states at page 7 that estimated LMPs will "inherently capture real-time price volatility, which will then be used to forecast future prices." Does that statement reflect an assumption that real-time gas price volatility patterns will be comparable over time? If so, the Six Cities suggest that such an assumption is questionable for at least the period of time that the Aliso Canyon facility remains unavailable. The Six Cities request that the ISO evaluate whether there should be an adjustment to the model that might address differences in real-time gas price volatility during different time periods.
- 2) At pages 22 and 25, the Technical Appendix indicates that the same emissions rate (based on natural gas) will be used for all types of resources subject to greenhouse gas costs, because (as stated at page 25) "natural gas resources are assumed to be on the margin." The Six Cities request further explanation regarding the appropriateness of applying the same emissions rate to calculate greenhouse gas costs for all types of resources based on the fact that natural gas resources are likely to be on the margin.

3) At page 23 the Technical Appendix indicates that the natural gas futures prices will be “[b]ased on using the average of several days’ futures prices.” Please explain how the ISO will select the days to be averaged for the purpose of calculating the natural gas futures prices.

Submitted by,

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