

September 1, 2015

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE SECOND
TECHNICAL WORKSHOP FOR FLEXIBLE RESOURCE ADEQUACY CRITERIA
AND MUST-OFFER OBLIGATION — PHASE 2**

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 ISO's August 18, 2015 Flexible Resource Adequacy Criteria and Must-Offer Obligation – Phase 2 ("FRAC MOO 2") Technical Workshop ("Second Workshop"):

The ISO Has Not Demonstrated a Need for Substantial Revisions to Flexible Capacity Requirements - - The discussion in the Second Workshop made clear that there is no immediate nor even near-term need to implement substantial revisions to the Flexible RA requirements currently in effect. ISO representatives acknowledged that the ISO's suggestions for significant modifications to Flexible RA requirements are based on problems that may (or may not) arise several years from now and may (or may not) be mitigated by intervening developments in the markets, such as the introduction of the Flexible Ramping Product, expanding the Short-Term Unit Commitment ("STUC") horizon, and possible further reduction of the minimum bid price.

With respect to the ISO's concerns about overgeneration, the ISO still has not made a persuasive case that a new downward flexible capacity requirement and substantial revisions to the existing Flexible RA design are necessary to resolve anticipated overgeneration conditions. Market alternatives include further adjustment of the bid floor (if necessary), implementation of the Flexible Ramping Product, and, as discussed further below, modifications to the pricing of intertie transactions to encourage submission of economic bids at the interties, both in HASP and in the FMM. If, on occasion, those market mechanisms do not elicit a response sufficient to reduce generation to match load, it may be more cost-effective to curtail variable energy production for limited periods than to impose a new, on-going capacity obligation or other significant market design changes. The ISO has not presented any analysis of the relative costs versus benefits of the many potential solutions to address sporadic overgeneration conditions.

In sum, the Six Cities share the views expressed by many stakeholders that the ISO should not impose increasingly complicated and burdensome flexible capacity requirements without allowing time to assess the effectiveness of less complicated and/or more incremental measures to maintain reliability.

The Six Cities Support Further Detailed Consideration of SCE's Alternative Approach to a Durable Flexible RA Construct - - At the Second Workshop SCE outlined an approach for a durable Flexible RA construct that would simplify the procurement of Flexible RA as compared with the currently-effective requirements. In addition, SCE described its analysis showing that procuring resources based on a single three-hour product would be likely to result in a portfolio of resources available to the ISO that would satisfy both shorter and longer-term ramping needs. Under SCE's proposed approach, the ISO would evaluate the capabilities of the shown portfolio using multiple flexibility criteria. In the event the ISO identified a deficiency in the shown portfolio, LSEs would have the opportunity to procure additional capacity to meet the deficiency,

followed, if necessary, by backstop procurement by the ISO. The SCE proposal also includes elimination of the requirement that Flexible RA resources submit economic bids to satisfy the must-offer obligation.

Time constraints prevented a thorough discussion of SCE's proposal during the Second Workshop, but the Six Cities see significant positive features in the approach outlined by SCE. It would simplify application of Flexible RA requirements for all LSEs and would require procurement of additional capacity with specific attributes only when shown to be necessary to meet reliability needs. By simplifying the eligibility criteria and reducing the burdens associated with Flexible RA designation, the SCE approach would be likely to expand the pool of flexible resources available to the ISO. The ISO should engage in a thorough and open-minded evaluation of the SCE proposal, should identify for consideration by all stakeholders any concerns it may have with the SCE proposal, and should set aside sufficient time at the next workshop for a full discussion of the SCE proposal.

The ISO Should Explore Incremental Measures to Encourage Economic Bidding: It Should Not Simply Prohibit Self-Scheduling or Curtail Self-Schedules - - Several commenters in the Second Workshop supplemented and reinforced the Cities' position that broad prohibitions or restrictions on self-scheduling will not enhance reliability but will simply impose burdens on SCs without producing any reliability benefit. Other stakeholders confirmed that self-scheduling occurs for a variety of reasons that often are outside the control of the SCs engaged in self-scheduling. Forcing the submission of economic bids under those circumstances cannot and will not change the operation of the resources and, therefore, will not result in any improvement in system reliability. If forced to submit economic bids for such resources (or if the ISO automatically submits economic bids for the resources), the resources would continue to operate as they do now under self-schedules, but the SCs for the resources would incur deviations, imposing unnecessary costs for no reliability benefit. Indeed, compelling submission of economic bids under such circumstances would be likely to reduce predictability of response to dispatch instructions, thereby exacerbating operational challenges. If the ISO sends a dispatch signal in response to an economic bid and expects the resource to move in response, but the resource is unable to respond, the ISO will still have the same operational challenge but with less notice to address it. Moreover, it would be unreasonable to impose pervasive and burdensome restrictions on self-scheduling to address overgeneration conditions that are likely to occur only for a limited portion of the year.

The Cities also reemphasize that forcing submission of economic bids would interfere with the Cities' ability to utilize internal resources to maintain reliability of their local distribution systems. Due to limitations on imports into local distribution systems, several of the Cities must utilize internal resources to maintain local reliability under conditions that are not included in the ISO's optimization model and, therefore, must self-schedule the resources when those conditions occur. If self-scheduling is not an option under such conditions, the resource would either have to deviate from the ISO's dispatch orders, or the resource owner would have to find a way to remove the resource from the ISO markets altogether to be able to use the resource as needed to maintain local reliability. Under either of those options, there would be no benefit to ISO system reliability. There is no justification for imposing operating rules that increase reliability risks for local distribution systems, especially when there would be no reliability benefit for the overall system.

Although the Cities strongly oppose broad restrictions on self-scheduling for the reasons described above, they support consideration of incremental measures to address needs for flexibility and to encourage economic bidding. The Cities support further consideration of extending the timeline for STUC and further reducing the minimum bid price. In addition, the ISO should consider including forecast output for VERs in the Day Ahead RUC process to help limit the potential for overgeneration.

As another example, the Second Workshop included discussion of the dramatic reduction in economic bids at the interties following implementation of the FMM design on May 1, 2014. A representative from the City of Pasadena described in detail the increased price risk for hourly imports or exports awarded in the HASP due to the fact that, following the implementation of the FMM, bids in the HASP are awarded based on the HASP advisory price but settled on the basis of the average FMM prices. A decremental import bid in HASP may be awarded based on a negative HASP price but then settled at FMM prices that turn out to be positive due to the elimination of congestion attributable to the reduction of the import. In effect, the SC submitting the decremental import bid is charged for having reduced congestion. An Iberdrola representative confirmed that Iberdrola does not submit economic bids at the interties due to this price risk. The Six Cities urge the ISO to consider allowing HASP awards to be settled at the HASP prices on which the awards are based. This would enable economic bids for hourly intertie transactions that could help to address anticipated overgeneration conditions, even if they are not as granular as the ISO would prefer. (If, however, virtual bidding at the interties is reinstated, all virtual bids should be settled at the FMM prices, including virtual intertie bids.)

The Inflexible Capacity Allowance Concept Remains Murky - - Although the Second Workshop included a discussion of some examples of how inflexible capacity allowances might be applied, the concept is still unclear to the Six Cities. Fundamental questions that remain unanswered include:

- Would resources providing inflexible capacity allowances be required to demonstrate deliverability?
- Would resources providing inflexible capacity allowances have to satisfy all other criteria and/or obligations applicable to RA resources?
- If a resource is eligible to provide inflexible capacity allowances, what would be the advantage of using the resource to provide allowances rather than just showing the resource as flexible capacity?
- Does the ISO contemplate a separate market for inflexible capacity allowances? If so, how would it work?
- What analyses has the ISO conducted of the costs versus benefits of the inflexible capacity allowance concept as compared with other potential measures for addressing needs for flexible capacity, including specifically the approach proposed by SCE.

The Six Cities take no position at this time with respect to other topics discussed in the Second Workshop.

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