

February 8, 2019

**COMMENTS OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON,
PASADENA, AND RIVERSIDE, CALIFORNIA ON THE LOCAL MARKET POWER
MITIGATION ENHANCEMENTS DRAFT FINAL PROPOSAL**

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") provide their comments on the January 31, 2019 Local Market Power Mitigation Enhancements Draft Final Proposal (Updated) (the "Draft Final Proposal"):

The Six Cities generally support the Draft Final Proposal and specifically support the following elements of the Draft Final Proposal, which the Cities understand will apply both within the ISO BAA and within Energy Imbalance Market ("EIM") BAAs:

- The proposal to calculate competitive LMPs in each fifteen-minute market run of the Fifteen-Minute Market ("FMM") and to eliminate the current rule that a resource mitigated in one interval is mitigated for the balance of the hour. (Draft Final Proposal at pages 22-23).
- The proposal to update the mitigated bid price in each interval based on the current competitive locational marginal price. (*Id.*).
- The proposal to eliminate the current rules (1) that if a resource is mitigated in the FMM, it is automatically mitigated in the five-minute Real-Time Dispatch ("RTD"), and (2) that if a resource is mitigated in the first or second five-minute interval in RTD, it will be mitigated for the remaining five-minute interval(s) in the given fifteen-minute interval. (*Id.*).
- The proposal to offer an alternative Default Energy Bid calculation for hydro resources with storage based on opportunity costs for such resources. (Draft Final Proposal at pages 32-42).
- The proposals (1) to review same-day gas prices available between 8:00 and 9:00 a.m. and to update automatically the reasonableness threshold for a fuel region where there has been a greater than 10% change from the gas price index for the previous evening, and (2) to allow resource owners to request a manual consultation when same-day gas prices are more than 10% or \$0.50, whichever is highest, more than the gas price index used in the prior day. (Draft Final Proposal at pages 43-46).
- The proposal to use a Monday-only index for the gas prices in the Day-Ahead Market for Monday Trade Days. (Draft Final Proposal at page 47).

- The proposal to allow the gas price index to be determined with as few as one index available from the various index providers. (*Id.*).

With respect to the proposals for updating gas prices used for various market calculations (summarized in the fifth through seventh bullet points above), the Six Cities support the use of the most up-to-date gas prices available for market calculations and recommend that the ISO frame its policy for selection of the appropriate index and the implementing tariff language in terms of utilizing an available index that best approximates gas prices likely to apply for the Trade Day at issue.

For example, for a normal weekend (non-holiday included), natural gas is traded as a weekend package including Saturday, Sunday, and Monday. ICE has a Monday-only product because Monday has a completely different supply/demand relationship for both natural gas and power than Saturdays and Sundays; operators of gas-fired resources have traditionally looked for a Monday-only product to be able to match supply and demand and to mitigate the potential impact to daily balancing (and associated penalties) within the gas supplier's system for Saturday and Sunday. When a holiday falls on a Monday, that Monday typically looks closer to a Saturday and Sunday supply/demand profile, and gas will typically trade through Tuesday as a weekend package when that occurs. However, in that situation, Tuesday looks like the day the Monday-only index was developed to address. To the extent the market recognizes this and pushes ICE to develop a Tuesday-only product, the ISO should be able to use that more up-to-date index. Similarly, if ICE or another index publisher should develop a more general "Day-After-Holiday" index, the tariff language should allow use of such an index if the ISO concludes that it provides the most up-to-date information on anticipated prices for Trade Days that follow holidays.

The Six Cities note that in the stakeholder initiative on temporary use of the Monday-only gas index, the ISO has indicated that it does not see a need for a change to the gas indices used on days after a holiday, because it applies a 25% adder to the reference gas prices for such days. However, although a 25% adder may mitigate the impacts of abrupt increases in gas prices following a holiday, the adder is less likely to be as effective in tracking gas price volatility as use of a more recent price index and may result either in under-recovery or over-recovery of gas costs as compared with a more up-to-date index. The 25% adder could and should continue to be applied if a more up-to-date index is not available.

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