

May 13, 2011

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA REGARDING IMPACT OF
CONVERGENCE BIDDING ON REAL-TIME IMBALANCE ENERGY OFFSET**

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 in response to the ISO's April 27, 2011 Issue Paper and Straw Proposal on the Impact of Convergence Bidding on Real-Time Imbalance Energy Offset (the "Straw Proposal").

The Six Cities share the ISO's concern that the practice of submitting balanced virtual bids for internal demand offset by virtual or physical bids for supply at the interties is inflating Imbalance Energy Offset costs. As an interim measure, the Cities support the ISO's proposal to apply a settlement rule to reverse any gains attributable to the differential between the HASP and Real-Time prices where a Scheduling Coordinator ("SC") submits balanced and offsetting internal virtual demand and physical/virtual import positions. Further, the Six Cities urge the ISO to take steps to implement the proposed rule as quickly as possible.

As noted in stakeholder discussions, however, the ability to arbitrage differences between HASP and Real-Time prices is not limited to virtual bids. In addition to implementing the settlement rule described in the Straw Proposal, the Cities urge the ISO to intensify efforts to develop a more comprehensive solution to prevent persistent exploitation of differences between HASP and Real-Time prices either through virtual or physical bids.

Submitted by

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