

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE STEPPED
CONSTRAINT PARAMETERS ISSUE PAPER**

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 on the ISO's Stepped Constraint Parameters Issue Paper, posted on May 5, 2016 ("Issue Paper"):

The Six Cities generally support consideration of stepped penalty parameters as proposed in the Issue Paper. However, as discussed below, the Six Cities oppose the ISO's proposal to substitute economic penalties for restrictions on transfers into or out of an EIM Entity BAA that fails the resource sufficiency test and request further investigation and justification for the ISO's proposal to reduce the energy bid floor.

The ISO Should Continue to Limit Transfers into or out of an EIM Entity BAA that Fails the Resource Sufficiency Test. - - Under the current tariff provisions applicable to the Energy Imbalance Market, the ISO limits energy transfers into or out of a BAA participating in the EIM when that BAA does not meet the resource sufficiency test. These provisions are designed to prevent a BAA participating in the EIM from leaning on other BAAs for capacity. The Issue Paper at pages 9-10 recommends implementing a penalty structure to apply when a BAA participating in the EIM fails the resource sufficiency test rather than restricting transfers into or out of the BAA. The Six Cities do not support substitution of penalties in place of transfer restrictions when a BAA participating in the EIM fails the resource sufficiency test. The currently applicable transfer restrictions effectively prevent a BAA that does not provide sufficient resources from leaning on capacity procured and paid for by other BAAs. Applying penalties instead would allow a resource-deficient BAA to lean on the capacity of other BAAs so long as it was willing to pay the penalty price. It is entirely conceivable that the estimated penalty price for failing the resource sufficiency test could be less than the cost of procuring or committing capacity to ensure resource sufficiency. It is not appropriate to convert a physical restriction against leaning on capacity of others into an economic choice. Moreover, the ISO's recommendation to substitute penalties for transfer restrictions does not appear to include any mechanism for compensating the entities that pay for capacity used to meet the needs of resource-deficient BAAs for the costs of providing that capacity. For all of the foregoing reasons, the Six Cities oppose the ISO's recommendation to apply penalties when a BAA participating in the EIM fails the resource sufficiency test rather than restricting transfers into or out of that BAA.

The Six Cities Request Further Investigation and Justification for the ISO's Proposal to Reduce the Energy Bid Floor to -\$1,000. - - The Issue Paper at pages 10 – 11 requests comments on the appropriateness of reducing the energy bid floor to as low as -\$1,000/MWh to be symmetrical with the \$1,000/MWh cap on energy bids. The Issue Paper provides no empirical

analysis of the need for or potential impacts of such a dramatic reduction in the bid floor. The Six Cities request that the ISO, at a minimum, conduct simulations to evaluate the potential impacts (both positive and/or negative) of reducing the bid floor.

Submitted by,

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