

August 14, 2009

**Comments by the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside,
California on Proxy Demand Resource Proposal**

The Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (the “Six Cities”) submit the following comments on the version of the “Draft Final Proposal for the Design of Proxy Demand Resource (PDR)” posted by the CAISO on August 5, 2009 (“August 5 PDR Proposal”). As discussed in more detail below, the Six Cities believe that the measures described in the August 5 PDR Proposal for deterring and mitigating gaming opportunities are not adequate.

As acknowledged at pages 11-12 of the August 5 PDR Proposal, the CAISO’s economic consultants (LECG), have expressed significant concerns that the type of PDR model the CAISO proposes to adopt, which allows compensation for PDRs at a Custom LAP while demand purchases energy at the Default LAP, will give rise to gaming opportunities, potentially resulting in payments to PDRs for no reduction in demand. The CAISO’s Market Surveillance Committee likewise expressed concern that the form of PDR proposed by the CAISO would create gaming opportunities. See August 5 PDR Proposal at 12-13. Although the CAISO expresses the view at page 11 of the August 5 PDR Proposal that gaming opportunities are “very limited,” the August 5 PDR Proposal acknowledges at page 13 that PDR will create a “system that is inherently prone to gaming, in addition (sic) to traditional data errors.”

The August 5 PDR Proposal sets forth at pages 16-17 the CAISO’s recommendations to address the gaming concerns. The anti-gaming measures recommended by the CAISO are both unduly limited and inadequate. In particular, the CAISO fails to provide any logical reason for omitting a revenue cap or bid floor to limit the potential adverse effects of gaming. The July 21, 2009 version of the PDR Proposal included a proposal for a bid floor, but the August 5 PDR Proposal abandons the bid floor concept without any real explanation. The August 5 PDR Proposal observes at page 14 that “[c]aps . . . carry the negative connotation that the market design is potentially flawed in some way that requires a protective measure.” That hardly represents a logical objection in the context of the CAISO’s admission that PDR constitutes a “system that is inherently prone to gaming.” The potential for gaming exists, and mitigation measures should not be rejected on the basis of cosmetic concerns.

In contrast to a revenue cap or bid floor, which are clear and measurable, most of the measures to address gaming that the CAISO recommends at pages 16-17 of the August 5 PDR Proposal are vaguely defined and likely unenforceable. The CAISO proposes to include “good faith” language in the PDR Agreement or Participating Load Agreement “if it is determined that separate agreements are required.” That measure obviously will have no impact at all if separate agreements are not required. More importantly, however, any such “good faith” language would add nothing to the market conduct rules already incorporated in the CAISO Tariff and would be especially difficult to enforce in the context of the PDR program. A “good faith” requirement is not likely to be effective when there is no clear, comprehensive, and widely understood definition of what constitutes gaming under the PDR program. For the same reason, the CAISO’s proposal at page 17 of the August 5 PDR Proposal to conduct market monitoring

studies if a PDR resource “repeatedly” (undefined) falls outside of “identified ranges” (also undefined) is likely to be ineffectual.

A “system that is inherently prone to gaming” should include anti-gaming measures that have teeth. The August 5 PDR Proposal fails that test and should be revised to include both a bid floor and a PDR revenue cap.

Submitted by

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