February 28, 2012

COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA REGARDING THE STRAW PROPOSAL ON COST ALLOCATION GUIDING PRINCIPLES

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 February 14, 2012 "Cost Allocation Guiding Principles Straw Proposal" (the "Straw Proposal").

The Six Cities generally support the guiding principles for cost allocation set forth in the Straw Proposal. Of the principles identified in the Straw Proposal, the Six Cities consider most important cost allocation consistent with causation, comparable treatment of similarly situated market participants and resources, provision of appropriate incentives to encourage desired behavior, and structuring cost allocation so as to allow market participants to manage their exposure to costs. These principles all are consistent both with efficiency and with fundamental fairness, and they are mutually reinforcing. The Six Cities do not oppose consideration of the remaining principles identified in the Straw Proposal (alignment with policy, synchronization with billing determinants, and rationality of implementation) but believe these principles are essentially derivative.

During the February 21, 2012 stakeholder call, several commenters suggested that the ISO should slow down the process for development and application of the cost allocation guiding principles. The Six Cities strongly disagree with such suggestions and urge the ISO to move forward promptly not only to identify the guiding principles for cost allocation but to apply those principles as comprehensively as possible to all elements of the ISO's markets. In the Cities' view, consistent application of the principles emphasized above has been long overdue.

Other commenters during the stakeholder call suggested that it is not possible to incentivize particular behavior by variable energy resources through direct charges and that it makes most sense simply to charge all costs to load, on the theory that load ultimately bears all costs for delivered energy. The Six Cities urge the ISO to reject these contentions. First, there are opportunities for variable energy resources to manage performance, and more such opportunities are likely to arise if economic incentives exist to encourage efforts at performance management. Even if a particular type of resource does have limited ability to modify its operating characteristics, however, that is not a justification for spreading the associated costs to other market participants. There are many LSEs within the ISO footprint, and many have adopted different strategies for pursuing renewable portfolio objectives. Innovative solutions to operating challenges are most likely to evolve if those who develop and/or support such solutions are able to enjoy the economic benefits of their efforts. Simply spreading all costs to load is fundamentally inconsistent with cost causation, will interfere with efforts at innovation, and will restrict opportunities for self-determination by LSEs.

Submitted by

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