

July 2, 2013

COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE REVISED STRAW PROPOSAL ON CONTINGENCY MODELING ENHANCEMENTS

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 June 18, 2013 Revised Straw Proposal on Contingency Modeling Enhancements (the "Revised Proposal").

The Six Cities appreciate the ISO's commitment at page 47 of the Revised Proposal to develop a prototype model for the Contingency Modeling Enhancements and apply it to a saved production level case so as to provide additional information on how the proposed preventive-corrective constraint will function and impact the market. The Cities note, however, that the anticipated date for completion of this analysis, approximately mid-August, falls several weeks after the date that the ISO plans to post a Draft Final Proposal and even after the due date for stakeholder comments on the Draft Final Proposal. For the prototype analysis to be meaningful, the ISO must be prepared to consider modifications to the Draft Final Proposal based on the outcome of the analysis, and it should commit to do so.

If the prototype analysis supports the ISO's expectations concerning the feasibility and utility of the preventive-corrective optimization process, the Six Cities support the ISO's determinations at pages 44-45 of the Revised Proposal to not allow bidding for the supply of corrective capacity and to discontinue bid-based ramping rates. The Cities agree with the ISO's concerns that allowing bids for corrective capacity and for varying ramp rates could provide opportunities for gaming or the exercise of market power.

The Revised Proposal does not respond adequately to the issue raised in the Cities' May 28, 2013 comments on the Straw Proposal regarding the effects of convergence bidding on the ability of the contingency modeling changes to satisfy the objective of enhancing the probability that the ISO will be able to recover from an N-1-1 contingency within the required thirty minute period. As discussed in the Cities' previous comments, the requirements for post-contingency recovery are flow-based, but convergence bidding results in virtual flows that may either add to or offset physical flows. If virtual bids are included in the optimization used to select resources for corrective capacity under the proposed contingency modeling approach, it is not clear how the ISO can be confident that the selected resources will be effective in recovering from an actual contingency leading to a post-contingency topology that may be very different from the combination of virtual and physical flows utilized in the optimization process. The Department of Market Monitoring comments on the Straw Proposal "noted that virtual bids in the IFM may distort the commitment and positioning of resources to meet the corrective constraints." The Revised Proposal asserts at page 48 that virtual bids in the IFM currently affect constraints and products in the IFM, "so there is no change." The change, however, is that the ISO now proposes to rely on automated selection of resources to meet the corrective constraints and to make capacity payments to those resources. If, as the DMM recognizes, virtual bids distort the positioning of resources to meet the corrective constraint, load will be required to pay for capacity that will not meet

the intended purpose. While the Revised Proposal emphasizes at page 48 that “only physical supply will be used to meet the constraint in RUC,” the DMM comments state that “[t]he RUC market may help with the commitment issues, but not the positioning issues created by virtual bidding.” The ISO’s evaluation of the prototype analysis should include careful consideration of the impact of virtual flows on the outcome of the preventive-corrective optimization process and the likely effectiveness of selected resources on the ISO’s ability to meet SOL requirements.

The Six Cities’ May 28 comments also recommended that the ISO develop enforceable performance requirements for the resources selected to provide corrective capacity. Although the ISO’s matrix of responses to stakeholder comments indicates at page 28 that it will consider implementation of a penalty for non-performance, the Revised Proposal does not address this point. Resources that receive a capacity payment premised on their availability to satisfy SOL requirements in the event of a contingency should be expected to perform. If they do not, they should be responsible for any penalty imposed on the ISO for failure to meet SOL requirements, should have the capacity payment rescinded for the period in which they failed to perform, and should be disqualified from receiving any payments for corrective capacity for a period of twelve months from the date of the failure to perform.

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