

January 11, 2017

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE
FREQUENCY RESPONSE PHASE 2 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 responses to the questions posed by the ISO regarding its December 15, 2016 Frequency Response Phase 2 Issue Paper.

As an initial matter, the ISO's Issue Paper is unclear with regard to the nature of the problem with the ISO's frequency response market design. In the Issue Paper, at 27-28, the ISO raised the question of whether the current "market design produces price signals that would incent investments on resources to be frequency responsive since requirements for frequency responsive equipment alone have not been shown to produce sufficient frequency response performance." It is unclear from this statement whether (a) the ISO's requirements for frequency responsive equipment are insufficient, *or* (b) frequency responsive equipment is unable to comply or simply not complying with the ISO's requirements, resulting in insufficient frequency response performance. Without knowing whether the focus is the sufficiency of the equipment itself or a lack of compliance with the requirements, it is difficult to ascertain whether the current market design does or does not incent investments for resources to be frequency responsive.

With regard to the question of compensation for the capability to provide frequency response, the Six Cities urge the ISO not to compensate new generators for having primary frequency response capability. As a general matter, the Six Cities oppose separate compensation for frequency response capability for new generation. The ISO imposes a number of interconnection requirements on generators for which recovery of capital costs and operating expenses are not necessarily ensured. An investment in frequency response capability should not be carved out and treated differently than other capital investments. For the development of new generators, resource developers will have the opportunity to recover capital costs for primary frequency response capability in the same ways they recover other capital costs associated with generation resources, and they have the ability to factor the costs for primary frequency response into their economic assessment of project viability under anticipated market conditions and into their negotiations for capacity sales.

If the ISO should conclude that a requirement to have primary frequency response should be applicable to existing resources *and* existing resources are able to demonstrate that having primary frequency response capability imposes a significant additional cost, then the Six Cities believe it would be appropriate to consider a mechanism for compensation in this scenario. Existing generators do not have the same opportunity as new generators to account for the costs of primary frequency response capability, and thus should be provided an opportunity to recover additional costs related to the capability to provide primary frequency response if those costs are significant.

While the Six Cities do not support compensating new generators for frequency response capability, should the ISO determine compensation for primary frequency response capability is necessary, the Six Cities question what type of mechanism the ISO would contemplate to provide for cost recovery of the costs for equipment needed to provide frequency response capability and request additional information regarding possible compensation mechanisms.

For the provision of frequency response service, if the ISO determines that compensation is appropriate, it should focus on demonstrable incremental variable costs, including, *i.e.*, opportunity costs, and develop an appropriate mechanism to compensate for those costs.

Submitted by,

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