

**COMMENTS ON THE ALISO CANYON GAS-ELECTRIC COORDINATION
DRAFT FINAL PROPOSAL ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA,
BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA**

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") submit their comments on the ISO's Draft Final Proposal in the stakeholder proceeding addressing Aliso Canyon Gas-Electric Coordination, posted on April 26, 2016.

The Six Cities appreciate the ISO's efforts to address proactively the reliability and market concerns that may arise as a result of the Aliso Canyon situation and acknowledge that the compelling need to implement responsive measures promptly does not allow time for extended analysis, simulation and testing to identify all potential impacts in advance. In recognition of these time constraints, the Six Cities continue to support the central elements of the Draft Final Proposal. However, many details with respect to the elements of the Draft Final Proposal remain undefined and/or unclear. In addition, the Draft Final Proposal does not address the local reliability issues raised in the Six Cities' April 21, 2016 comments on the Straw Proposal.

A. Reliability Concerns: Greater Clarity Regarding Response to Reliability Issues Caused by Gas Curtailments Remains Necessary.

In both written comments in this stakeholder initiative and during stakeholder meetings and other discussions relating to gas availability limitations resulting from the restricted use of the Aliso Canyon facilities, the Six Cities have repeatedly identified serious reliability concerns to the Pasadena and Riverside municipal electric systems during gas curtailment conditions. Due to the importance of these issues and the fact that addressing them through documented procedures and pre-established curtailment priorities is essential to mitigate the very real outage risks faced by these two Cities, which collectively represent over 800 MW of load in the area affected by the Aliso Canyon situation, the Six Cities reiterate those concerns here and repeat their request that the ISO confirm the specific steps that will be taken to ensure that neither City's system is disproportionately affected by gas curtailment this summer.

As explained previously, Pasadena and Riverside have their own internal, gas-fired generation that is interconnected to their municipal distribution systems. Due to limitations on imports into these Cities' systems at the locations where their distribution systems interconnect with the Southern California Edison Company ("SCE") system, during certain operating conditions – when loads are at high levels – these Cities must run their internal generation in order to avoid shedding internal load. For example, when Riverside load exceeds approximately 575 MW, which occurs during summer peak periods, Riverside must operate 200 MW of internal generation, because limitations at Riverside's 66 kV point of interconnection with the SCE system at the Vista Substation prevent Riverside from importing the full amount of energy needed to meet electrical demand within the city system. There are similar local import

limitations at Pasadena's interconnection to SCE at the TM Goodrich Receiving Station, and Pasadena likewise must run up to 175 MW of its internal units in order to ensure that it can supply the requirements of its customers during peak periods. Thus, a *pro rata* curtailment in gas supply may have a disproportionate impact on these Cities. In contrast to other areas that do not have limitations on ability to serve area load through imports, if Riverside or Pasadena is directed to curtail gas by a specific amount according to a *pro rata* share, the affected City may have to shut down entirely one or more internal generating units and, as a result, shed a proportionately larger amount of load than would be implied by the curtailment instruction.

The Six Cities remain concerned that the reliability impacts to the Pasadena and Riverside systems have not been addressed in sufficient detail to provide the Cities with assurances that there has been (or will be) appropriate coordination among the ISO, SoCalGas, and Pasadena and/or Riverside, as applicable. To the contrary, the proposed "gas availability constraint" described at pages 15 – 17 of the Draft Final Proposal heightens the Cities' concerns. As described in the Draft Final Proposal and the April 27, 2016 stakeholder call, it appears that the gas availability constraint would apply on a uniform basis to all generating units within a gas zone. For the reasons described above, uniform application of the gas availability constraint could result in disproportionate and discriminatory impacts on Pasadena and Riverside customers during high load conditions.

In the "Gas Electric Coordination Process" at Appendix A to the Draft Final Proposal, Step 2 of the process will involve the ISO providing *pro rata* curtailments for individual generators to SoCalGas as well as a second set of curtailment instructions not based on *pro rata* allocations, but based instead on the ISO's preferred allocation of curtailment amounts across the affected area. If this is the point at which the ISO intends to instruct the gas company that Pasadena and Riverside units may be needed to ensure distribution system reliability and should not be curtailed in order to avoid outages within each respective City, the Cities request that the ISO work with SoCalGas (1) to obtain an acknowledgement that a decision by SoCalGas to disregard the ISO's preferred curtailment instructions and curtail the Cities' units anyway based on *pro rata* amounts may well result in a loss of electric service within each City's system, and (2) to establish clear written procedures and communication protocols to avoid disproportionate impacts from curtailments on these Cities. As noted, Pasadena and Riverside loads total more than 800 MW at their summer peaks, and the Cities hope that both the ISO and SoCalGas recognize that losing this quantity of electrical load within the ISO system would be highly undesirable.

With respect to the remaining aspects of the procedure described in Appendix A, the Six Cities agree that a joint procedure to enable generators to consult a single source to understand the relevant process would be useful. (*See* Draft Final Proposal – App. A at 26, #3.) A joint training with generators regarding the procedure would also be useful. (*Id.* at 26, #4.) Finally, the Six Cities agree with the ISO's concern that communications through intermediaries rather than operators during curtailment situations may introduce confusion and uncertainties into the curtailment process. (*Id.* at 23.)

B. Real-Time Gas Price Information: The Six Cities Support Measures to Reflect Real-Time Gas Price Information to Increase Efficiency of Dispatch But Are Concerned that the Proposed Measures May Not Be Sufficient. There Should Be an Opportunity to Decline a Dispatch Instruction that Creates Risk of Balancing Penalties.

The Draft Final Proposal includes at pages 19 – 22 several proposals designed to enhance the ability of generators to reflect real-time gas prices in commitment costs and energy offers. In general, the Six Cities support efforts to use more current gas price information to increase efficiency of dispatch in both the real-time and day-ahead markets.

It is not clear, however, that the increases in the commitment cost bid cap and default energy bid adder described in the Draft Final Proposal will be sufficient to capture actual marginal gas costs (including the risk of incurring balancing penalties) during periods of extreme gas price volatility. And although the Six Cities support allowing an opportunity to submit a filing to FERC for after-the-fact recovery of marginal procurement costs not covered by market revenues (which should include gas balancing penalties incurred to respond to an ISO dispatch instruction), that process will be time-consuming and resource-intensive for all parties involved.

Furthermore, notwithstanding the proposed gas availability constraint and opportunities to revise commitment cost bids, an individual resource in the affected area may be dispatched in a way that results in changes between day-ahead and real-time schedules such that expected versus actual gas burns for that specific resource exceed the tolerance band allowed by the gas company. Individual resources following ISO dispatch instructions should be protected from exposure to noncompliance charges from the gas companies. It would be confiscatory to require a resource to follow ISO dispatch instructions without compensating the resource for all costs incurred to do so. As discussed above, the opportunity for an after-the-fact cost recovery filing with FERC is likely to be too cumbersome to provide effective relief for a resource that incurs penalties in order to comply with ISO dispatch instructions. Accordingly, if an ISO dispatch instruction to an individual resource would cause that resource to incur or risk incurring penalties or charges for violation of gas company requirements applicable to that resource, the resource should be permitted to decline the dispatch instruction without imposition of any uninstructed deviation charge or other charge or penalty by the ISO.

C. Path 26: The Six Cities Support the Proposal to Reserve Transmission Capacity on Path 26.

For the reasons discussed in the Draft Final Proposal (at pages 17 - 18), the Six Cities support the ISO's proposal to reserve capacity on Path 26 in order to address the potential need for additional energy in the area affected by the Aliso Canyon situation.

D. Potential for Market Distortions and Unintended Consequences.

As indicated by the numerous questions raised in the April 27th stakeholder call, there are many aspects of the Draft Final Proposal that remain conceptual in nature and will require further definition. Such significant details include the criteria and process for determining how

much capacity to reserve on Path 26, the methodology for determining LMPs at pricing points affected by the gas availability constraint, the penalty price for the gas availability constraint, the criteria for determining whether to suspend virtual bidding at nodes affected by the gas availability constraint or other Aliso Canyon measures, the criteria and process for determining the “scaling” factors to be applied to gas prices for commitment costs and DEB calculations, and the criteria and process for adjusting monthly CRR releases to reflect the impacts of Aliso Canyon measures. Although the need to refine details is understandable given the circumstances and time constraints driving this stakeholder process, the Six Cities share concerns expressed by other stakeholders that the measures included in the Draft Final Proposal may have far-reaching and unanticipated effects on market efficiency and prices. In addition, there are likely to be enhanced opportunities for market manipulation and gaming. In light of this potential for unintended adverse consequences, the Six Cities urge the ISO (1) to adopt heightened vigilance to detect price distortions and inefficiencies, and (2) to include in its filing with FERC to implement the measures set forth in the Draft Final Proposal a request that FERC explicitly hold open the potential for appropriate remedies to address any unjust and unreasonable market outcomes that may arise as a result of the Aliso Canyon situation.

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