February 12, 2014

COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE REVISED 2013 STAKEHOLDER INITIATIVES CATALOG

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 revised 2013 Stakeholder Initiatives Catalog posted by the ISO on January 28, 2014 ("the 2013 Catalog"):

Failure to Evaluate and Consider Reformation of Methods for Allocating Uplift Costs (Items 11.4 and 17.1)[1] - - The Six Cities are extremely disappointed that the ISO once again refuses to undertake an evaluation of the methods for allocating uplift costs to consider whether the existing allocation methods are consistent with the ISO's adopted cost allocation principles and reform them if they are not. The ISO promised a comprehensive evaluation of existing cost allocation methodologies when it adopted the general cost allocation principles and repeatedly has refused to consider allocation issues relating to specific costs on the grounds that a comprehensive evaluation of allocation methods would be more appropriate. Indeed, the ISO included an overall review of existing cost allocation methodologies for consistency with the cost allocation principles as a Non-discretionary initiative in the 2012 Stakeholder Initiatives Catalog (Item 11.4). Having been re-classified by the ISO as a discretionary initiative in the 2013 Stakeholder Initiatives Catalog, re-evaluation of allocation methodologies for real-time energy imbalance uplifts (including convergence bidding uplifts) and real-time congestion uplifts received high rankings from multiple LSEs and the CPUC. Nonetheless, the 2013 catalog once again declines to initiate a review of uplift allocation methodologies on the grounds that initiatives are underway to address root causes of various types of costs.

Initiatives to address root causes are desirable, but they are not an adequate substitute for reformation of cost allocation methods that do not comport with cost causation and other allocation principles. While efforts to address root causes have yielded positive results in several instances, uplift costs continue to be substantial. According to the Q4 2013 Report on Market Issues and Performance, real-time imbalance costs (including real-time energy imbalance costs and real-time congestion imbalance costs) totalled $176 million in 2013. While that amount represents a welcome reduction from the $235 million in uplift costs experienced in 2012, it is still a large number, and uplift costs continue to be unreasonably allocated only to load. Recognizing that allocation issues are difficult, the ISO's continuing refusal to confront them suggests that the adopted allocation principles are simply window dressing.

The ISO's continuing refusal to re-evaluate allocation methodologies for consistency with the allocation principles is especially frustrating in light of on-going plans to implement far-reaching changes in the ISO's market designs, including 15-minute Scheduling, Full Network

[1] In these comments, the Item number references are to sections in the body of the January 28, 2014 version of the 2013 Catalog. The ranking summary at page 9 refers to section numbers that are not consistent with the section numbers used in the latest version of the catalog.

Model Expansion, and the Energy Imbalance Market. While the Six Cities share the ISO's hopes that these design changes will be beneficial, there is an undeniable risk of unintended consequences, including increased uplift costs. By refusing even to consider allocation issues, the ISO blindly imposes all of these risks on load, thereby violating the allocation principles as well as undermining the integrity of the Stakeholder Initiatives Catalog process. Further, as the operator of the restructured markets established pursuant to AB 1890, it is the ISO's responsibility to pursue the objectives of that legislation to provide "competitive, low cost and reliable electric service" to the "citizens and businesses" of California. *See* AB 1890 Section 1. Continuing to allocate uplift costs to load in a manner that is inconsistent with cost causation violates the ISO's responsibilities under AB 1890 as well.

Protocol(s) for Simulation and Testing of New Models, Design Changes, or Products (Item 15.13) - - In previous comments, the Six Cities recommended that the ISO establish an initiative to develop standard protocols and parameters for testing and/or simulation of market bid/offer/take patterns for any market design change, change in modeling, or new product prior to implementation of the design change, modeling change, or product. Although the ISO conducts testing and simulations for some design or model changes or new products, it does not do so through an open process in all cases, and the Cities are not aware of any defined criteria for when testing and simulations are conducted or what protocols are applied. Establishing standard criteria, protocols, and parameters for testing and/or simulation would improve transparency in the ISO's markets and provide a systematic process for evaluating anticipated impacts of market modifications.

Despite the fact that SCE, SDG&E, and the Six Cities all ranked this initiative in their top five selections, the ISO, without explanation, proposes to omit this item from the chosen initiatives, while including several others (*e.g.*, Item 9.2 - Blackstart and System Restoration and Item 7.2 – Bidding Rules) that were not ranked among the top five selections by any stakeholders that submitted comments. The Six Cities urge the ISO to reconsider and include this initiative in the 2014 schedule, especially in light of the extensive market design changes that are in progress.

Multi-Year RA Import Allocation - - The 2012 Stakeholder Initiatives Catalog included an initiative to develop multi-year RA import allocations, and the Six Cities and several other stakeholders ranked this as a high priority initiative. Based on the description at page 48 of the 2013 Catalog, the Six Cities understand that multi-year RA import allocations will be considered as part of the Non-discretionary Reliability Services initiative (Item 12.4).

Permitting multi-year RA import allocations will facilitate forward contracting by LSEs for renewable resources and flexible capacity resources located outside the ISO's Balancing Authority Area ("BAA") and bring more parity with similar resources internal to the ISO's BAA. This should increase the pool of external resources available to provide operational flexibility needed to manage the grid more effectively while achieving the state's Renewable Portfolio Standard goals and improve grid reliability. By providing greater assurance that external resources will be deliverable for RA purposes, forward contracts for external RA resources should be both more desirable and easier to administer, as well as involving less risk both for the external resource and for the purchasing LSE. For these reasons, the Cities strongly support consideration of multi-year RA import allocations as part of the Reliability Services initiative.

Submitted by,

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