

COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE ENERGY IMBALANCE MARKET DESIGN STRAW PROPOSAL AND 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 comments on the ISO's April 4, 2013 Energy Imbalance Market Design Straw Proposal and Issue Paper ("the Straw Proposal").

The Six Cities support further exploration of the Energy Imbalance Market ("EIM") concept with the objectives of improving efficiency and enhancing reliability for all EIM participants. However, the Cities are concerned that the Straw Proposal in general gives insufficient attention to the need to ensure that allocation of any and all benefits that result from the EIM is consistent with the allocation of any and all costs associated with the EIM. If there is a disconnect between those who bear the costs of the EIM and those who receive the benefits, the result will be a distortion of efficient market outcomes, not an enhancement.

The Six Cities are particularly concerned with the potential for increased uplifts that may be spread to ISO load. There does not appear to be any reason to assume that the benefits of re-dispatch under an EIM will accrue generally to load across the ISO's BAA. Accordingly, spreading uplift costs resulting from implementation of the EIM to ISO load on a "peanut butter" basis will result in cross-subsidization of the EIM activities. At various points throughout the Straw Proposal, there are references to potential costs that the ISO apparently does not contemplate charging to the entities that cause the costs. For example, at page 19 the Straw Proposal indicates that EIM Participants that choose to submit resource plans to match the Market Operator's forecast would not be subject to charges for under- or over-scheduling. To the extent deviations from the Market Operator's forecast give rise to costs, who will bear them? At page 27 the Straw Proposal states that the ISO does not anticipate major topology or system changes between the execution of the 15-minute process and the 5-minute process for the same binding time interval. To the extent topology or system changes occur and result in increased costs under the EIM, who will bear them? Page 31 of the Straw Proposal suggests allocation of net "marginal congestion revenue from the imbalance energy settlement" through the Real Time Congestion Offset, while noting the possibility of modifying the allocation determinant. Page 36 of the Straw Proposal discusses the potential for an imbalance energy scarcity due to either insufficient energy bids or inadequate ramp capability. It is not clear that the costs associated with addressing the energy scarcity will be allocated in accordance with the cost causation principle. At pages 37-38 the Straw Proposal suggests allocation of neutrality charges associated with load forecast deviations based on the metered demand of the LAP. At pages 38-39 the Straw Proposal suggests that resource deviations from dispatch instructions would not be subject to uninstructed deviation charges. To the extent such deviations result in increased costs, who bears them? Page 40 of the Straw Proposal indicates that "the EIM Entity's LMP differences will be allocated to the EIM Entity's measured demand." The Six Cities question whether this approach is consistent with the cost causation principle. It seems unlikely that the examples identified above include all potential sources of neutrality type costs associated with the EIM,

but they are sufficient to raise significant concerns regarding the balance and distribution of EIM costs versus EIM benefits.

Although the ISO characterizes the EIM as a voluntary market at page 6 of the Straw Proposal, it is not clear to the Six Cities that LSEs within the ISO BAA have the ability to opt out of the EIM or to avoid uplift costs that may be created by the EIM. The Cities urge the ISO to devote more attention to ensuring that responsibility for EIM costs will align with the enjoyment of EIM benefits. In the absence of such alignment of the costs and benefits of the EIM in accordance with the cost causation principle, the EIM will impair, rather than improve, efficiency.

Submitted by,

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