April 29, 2011

COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA REGARDING DISCUSSION AND SCOPING PAPER ON RENEWABLE INTEGRATION PHASE 2

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 in response to the ISO's April 5, 2011 Discussion and Scoping Paper on Renewable Integration Phase 2 ("the Phase 2 Scoping Paper").

The Six Cities support the concept of developing target end state objectives for the CAISO BAA. Specifying the framework for a desired end state will help to promote incremental market design changes that are constructive and coordinated and to avoid revisions that conflict with each other or with the desired end state.

The Cities also support the objective of identifying specific market design changes that clearly are desirable and can be implemented by the end of 2011. However, the first objective - - developing a framework for the targeted end state - - should control the selection of specific design changes to be considered during 2011. Although there may be some market design changes that clearly will be necessary and appropriate to support any likely end state construct, it makes no sense to devote resources to developing market design changes that may be incompatible with the target end state. In essence, the ISO should seek to identify "least regrets" (or "no regrets") market design revisions to be implemented in the near term and postpone revisions that may not be consistent with the end state framework until that framework has been developed.

In terms of the development of the end state framework, principles for allocation and recovery of integration costs are critical from the Six Cities' perspective. Allocation and recovery of integration costs should reflect both cost causation and distribution of benefits. Additionally, the Six Cities encourage development of methods to assign costs to operational constraints made necessary due to the integration of variable resources and charge those according to the same cost causation and distribution of benefits principles. Further, the Six Cities encourage the ISO to develop *ex ante* approaches for addressing integration costs to the maximum extent possible, such as through interconnection requirements. By doing so, the ISO will provide incentives for investment in technologies that enable variable energy resources to manage their own variability and reduce their impacts on grid operation. Approaches that simply spread integration costs to load in an undifferentiated manner will not promote efficiency.

The Six Cities oppose further consideration of a centralized capacity market or centralized forward reserve market. The bilateral Resource Adequacy construct is working to promote significant development of new capacity in California and other areas of the West. The challenge that appears to be coming to the forefront is to assure that the ISO will have available the right types of capacity in the right places. There is no reason to think that a centralized

capacity market or centralized forward reserve market will do a better job of promoting the development of the right types of capacity in the right places than a bilateral procurement model. Intuitively, guided bilateral procurement appears more likely to produce the desired resource portfolios.

Of the topics identified in the Phase 2 Scoping Paper as potential design changes for consideration in the Renewables Integration Phase 2 process, the Six Cities attach higher priority (not necessarily in any specific order) to the following:

a) An hourly contingency-only election for operating reserves;

b) Modifications to RUC to provide more ramping capability and increased operating flexibility;

c) Modifications to compensation for Regulation service;

d) Establishment of load following reserve;

e) Assuring adequate system inertia and frequency response;

f) Establishment of a System Ramping constraint to ensure an adequate supply of flexible ramping capacity;

g) Development of methods to reflect operating constraints in market prices, and

h) Consideration of a fifteen minute market in real-time.

Those topics all focus on increasing operational flexibility to accommodate intermittent resources and maintain reliability, which inevitably must be incorporated into any foreseeable end state market framework.

Submitted by

Bonnie S. Blair
Thompson Coburn LLP
1909 K Street N.W.
Suite 600
Washington, D.C. 20006-1167
bblair@thompsoncoburn.com
202-585-6905

Attorney for the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California