

October 2, 2009

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA REGARDING MITIGATION AND ALLOCATION OF REAL-TIME IMBALANCE ENERGY OFFSET COSTS**

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California ("Six Cities") submit the following comments on the ISO's September 23, 2009 Straw Proposal concerning Mitigation and Allocation of Real-Time Imbalance Energy Offset Costs (CC 6477) ("Proposal"). As described in greater detail below, the Six Cities urge the ISO to devote its resources to the analysis and mitigation of conditions that contribute to substantial Real-Time Imbalance Energy Offset costs rather than modifying the methodology for allocating such costs.

In its Proposal and in the presentation for the September 28, 2009 stakeholder meeting, the ISO reported that significant Real-Time Imbalance Energy Offset Costs were incurred in May, June, and July. Although the magnitude of such costs appears to be trending downwards, there is at least a potential for substantial CC 6477 costs going forward. The Proposal identifies two issues relating to these costs. First, the root causes underlying the costs are not entirely clear. Second, given the magnitude of the CC 6477 costs, questions have been raised regarding the appropriateness of the current method for allocating and recovering such costs.

With respect to the first issue, the Proposal reports that the CC 6477 costs are driven by occurrences when prices in HASP are significantly lower than prices in Real-Time, and large volumes of energy are sold in HASP as exports. Proposal at 3. The Proposal acknowledges, however, that such occurrences are attributable to a variety of different causes, including load forecasting differences, biasing of HASP load to address over-generation conditions, over-scheduling by loads, and loss of generation in Real-Time Dispatch. *Id.* at 3-4. The Proposal at 4 identifies a number of steps that the ISO plans to take in an effort to minimize the occurrence of large HASP/RTD price differences. The Six Cities support such efforts.

With respect to the allocation of CC 6477 costs, the Six Cities support retention of the current allocation method (*i.e.*, allocation of such costs to Measured Demand). Because the factors that contribute to the HASP/RTD price differences have varied, and because future contributing factors are not necessarily predictable, the Six Cities are concerned that a different allocation method (such as the two-tier allocation method outlined at pages 5-6 of the Proposal) may not result in allocation outcomes that are more consistent with cost causation in fact and, to the contrary, may lead to unintended consequences or perverse incentives. For example, allocating tier-1 costs to positive UIE for loads, as suggested in the Proposal, may lead to a higher incidence of negative UIE for loads, which could have an adverse impact on reliability. Given the uncertainties associated with the causes for HASP/RTD price differences, the Six Cities believe that it will be more constructive to focus on efforts to minimize such price

differences and resulting costs rather than committing resources to an attempt to fine tune the method for allocating the costs.

Submitted by

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