February 29, 2016

COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE BIDDING RULES ENHANCEMENTS GENERATOR COMMITMENT COST IMPROVEMENTS DRAFT FINAL PROPOSAL

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 February 10, 2016 Bidding Rules Enhancements Generator Commitment Cost Improvements Draft Final Proposal (the "Draft Final Proposal"):

<u>After-the-Fact Recovery of Actual Costs that Exceed the Proxy Cost Cap</u> - - The Six Cities support the proposal to allow recovery of gas costs for commitment costs, Default Energy Bids, and generated bids that exceed the 125% proxy cost allowance based on after-the-fact documentation. (See Draft Final Proposal at 14). The Six Cities appreciate and support the ISO's clarification that after-the-fact recovery of costs in excess of 125% of proxy costs will be limited to incremental costs above the 125% proxy cost allowance incurred to respond to ISO real-time dispatch instructions. (*Id.* at Appendix B, page 26).

<u>Unreasonable Limitations on Costs Eligible for After-the-Fact Recovery</u> - - The Six Cities continue to object to the ISO's exclusion of certain costs directly attributable to resource compliance with ISO dispatch instructions from eligibility for after-the-fact cost recovery.

First, in addition to incremental gas costs required to respond to real-time dispatch instructions, resources should be able to recover stranded costs of gas procured to respond to an ISO dispatch that subsequently is exceptionally dispatched down or off. The Draft Final Proposal asserts at page 6 that the 125% proxy cost allowance adequately covers the risk of such losses. By definition, however, the process for after-the-fact cost recovery is available only when costs for complying with ISO dispatch instructions exceed 125% of proxy costs. In the infrequent situations where the 125% proxy cost allowance is not adequate to cover cash-out losses, there is no justification for refusing to consider such costs.

Second, balancing penalties should be eligible for recovery in the after-the-fact process to the extent the penalty is a result of an ISO real-time dispatch that is one-half hour prior to the close of the last gas trading/scheduling cycle or later. The close of gas scheduling is currently 3:00 pm on the flow day. (The timing will change somewhat on April 1, 2016, due to FERC Order No. 809). Therefore, Scheduling Coordinators should be able to recover penalties for real-time burns/dispatches on or after 2:30 pm on the flow day, since 2:30 pm-3:00 pm may not be enough time to trade and schedule before the gas scheduling cycle closes at 3:00 pm. Once gas scheduling closes at 3:00 pm on the flow day, there is no way to avoid penalties that result from ISO real-time dispatches. The SoCalGas Low OFO penalties for burning gas during a Stage 2 through Stage 5 Low OFO or EFO are so high that they will exceed the 125% commitment cost allowance. In addition to the Low OFO penalty, when a Low OFO is called intra-day, the intra-day gas price will trade at a premium, which also will eat into the 25% headroom on the commitment costs.

Also, once a LOW OFO is called by the SoCalGas Company, SoCalGas can continue to increase which Low OFO stage is in effect. Even if a Scheduling Coordinator had room left in the 125% cap to increase its bid due to increasing Low OFO stage penalties, the inability to change commitment cost bids once a unit has been committed will prevent the Scheduling Coordinator from reacting to cover increasing OFO penalties. As indicated by the chart below, OFO penalties become extremely costly at the more severe OFO stages.

• Low OFO Stages

Stage	Tolerance	Noncompliance Charge
1	Up to -25%	$0.25 / mmbtu
2	Up to -20%	$1.00 / mmbtu
3	Up to -15%	$5.00 / mmbtu
4	Up to -5%	$25.00 / mmbtu
5	Up to -5%	$25.00/ mmbtu plus daily balancing standby rate*
EFO	-0-	$50.00/ mmbtu plus daily balancing standby rate*

* Daily Balancing Standby Rate: Socal Citygate Day Ahead Index from ICE rounded up to the next whole dollar

The ISO noted during the February 22, 2016 stakeholder conference call that the gas companies have opposed allowing cost recovery for OFO penalties because they are concerned that allowing recovery will discourage compliance with OFO orders. But the narrowly defined situations for which the Six Cities request cost recovery involve circumstances where a resource cannot comply with both an OFO and an ISO dispatch instruction. If the resource complies with the ISO's dispatch instruction in the circumstances identified by the Cities (which the ISO presumably wants the resource to do and which may be important to maintain electric reliability), then the resource necessarily must violate the OFO. Conversely, in the circumstances described, the only way that the resource can comply with the OFO as desired by the gas companies is to fail to respond to the ISO's dispatch instruction. It is fundamentally unfair to impose on resources such a Hobson's choice. Moreover, where OFO penalties are a result of complying with ISO real-time dispatch instructions and are not avoidable, it is confiscatory to deny recovery.

<u>Rebidding of Commitment Costs for Resources Without a Day-Ahead Schedule</u> - - The Six Cities support the ISO's proposal to allow resources without day-ahead market schedules to update and rebid their commitment costs in the real-time market until such time as the resource is committed. (See Draft Final Proposal at 12-13 and Appendix B, page 24). The Six Cities request, however, that the ISO clarify that if a short-start resource is dispatched on and then off

again within a day, the resource may update and rebid its commitment costs after it is dispatched off and until such time as it is dispatched on again during the day.

Six Cities Support Other Elements of the Revised Straw Proposal - - The Six Cities support the following elements of the Revised Straw Proposal:

- Not generating bids in STUC for non-RA resources (Draft Final Proposal at 9, 12, 13);
- Allowing selection of gas fuel regions to provide more accurate gas transportation adders and differentiating gas rates paid by covered entities and non-covered entities under GHG regulations (Draft Final Proposal at 14, 19); and
- Establishing a standardized approach for calculating the cost of start-up auxiliary energy (Draft Final Proposal at 14, 20-21).

Submitted by,

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