December 17, 2015

COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE REVISED STRAW PROPOSAL ON BIDDING RULES ENHANCEMENTS

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 December 3, 2015 Revised Straw Proposal on Bidding Rules Enhancements, Version 2 (the "Revised Straw 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 Revised Straw Proposal at 34-36). As noted in the Cities' May 14, 2015 comments on the Straw Proposal, the ISO's review and validation process should limit after-the-fact adjustments to the volume of gas necessary to respond to real-time dispatch. In addition to incremental gas costs required to respond to real-time dispatch instructions, the Six Cities support recovery of the stranded costs of gas procured to respond to an ISO dispatch that subsequently is exceptionally dispatched down or off.

In addition, 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 within the day would prevent the Scheduling Coordinator from reacting to cover increasing OFO penalties. Under current rules and as the ISO maintains in the Revised Straw Proposal, Scheduling Coordinators cannot change their commitment cost bids hourly. 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

Where such penalties are a result of ISO real-time dispatch instructions and are not avoidable, it is confiscatory to deny recovery.

The process of reviewing requests and supporting documentation for after-the-fact cost recovery should take place at the ISO rather than requiring a filing with FERC. Based on the Department of Market Monitoring study of gas price volatility, the ISO anticipates that actual costs in excess of the 125% proxy cost allowance will occur only rarely. In light of that expectation, it should not impose a substantial burden on ISO resources to review the documentation to support recovery of gas costs in excess of the 125% allowance, and it strikes a reasonable balance by allowing suppliers to seek recovery of actual costs through a less burdensome process than a formal FERC proceeding. The documentation requirements, however, should be established in advance and set forth clearly in the appropriate Business Practice Manual.

Hourly or Intra-Day Modification of Commitment Cost Bids - - The Six Cities' May 14th comments on the Straw Proposal in this initiative noted that gas prices can change significantly within a flow day and urged the ISO to allow updating of commitment cost bids on an hourly basis in the real-time market. Because short-start resources can be dispatched on and off throughout a day in the real-time market, hourly bidding for commitment costs (subject to the 125% headroom limit or other effective mitigation measure) will allow more accurate reflection of costs for gas purchased to respond to real-time commitments in the commitment cost bids.

Although the Revised Straw Proposal will allow re-bidding of commitment costs in the real-time market to be effective for the Trade Day (see revised Straw Proposal at 26), the ISO rejected the Six Cities' suggestion for hourly re-bidding of commitment costs based on difficulties of implementation, although there is no specific identification of the implementation challenges. (See *Id.* and Appendix C, page 57). The Six Cities urge the ISO to reconsider and to allow re-bidding of commitment costs (subject to the 125% headroom limit) intra-day. If implementation challenges prevent immediate adoption of hourly re-bidding for commitment costs, the Six Cities request that the ISO revisit hourly re-bidding in a subsequent stakeholder initiative.

Modification to Bids After Resource Commitment - - The April 22, 2015 Straw Proposal in this stakeholder initiative proposed to address situations in which a Scheduling Coordinator for a resource changes bids after a commitment decision has been made and during an inter-temporal constraint that would prevent the resource from complying with a dispatch instruction in response to the changed bid by settling the energy based on the bid that led to the binding commitment. At page 21 of the Revised Straw Proposal, however, the ISO states that it has not identified any instances of BCR having been inflated through such conduct. The Revised Straw Proposal at pages 21-22 requests comments on whether the ISO should (i) continue to monitor for such situations and consider resources significantly lowering bid prices during inter-temporal constraints to be engaging in market manipulation, or (ii) introduce bidding requirements to submit a daily profile of real-time market energy bids to which the price range of bids will be limited. The ISO requests input regarding similar options for bid changes after a commitment decision without an inter-temporal constraint at pages 22-23 of the Revised Straw Proposal. The Six Cities do not support requirements to submit a daily bid profile to which real-time energy bids would be limited. At this time, the ISO has not provided any empirical evidence that changes in bids after commitment decisions are inflating BCR or having any material effect on market efficiency. In the absence of such evidence, introduction of new bidding requirements and restrictions is not justified. The ISO should continue to monitor the frequency and impacts of bid changes after a commitment decision and treat any such changes that inflate BCR during an inter-temporal constraint as market manipulation.

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

- Retention of the 125% proxy cost allowance for all components of commitment costs, rather than establishing separate allowances for individual cost components (Revised Straw Proposal at 18-19);

- Calculating commitment costs after a Pmin re-rate based on Default Energy Bid amounts (Straw Proposal at 24-25);

- Allowing resources that do not receive a day-ahead award to re-bid commitment costs for the real-time market (Straw Proposal at 26);

- Not generating bids in STUC for non-RA resources (Straw Proposal at 26-27);

- Using the ICE index for day-ahead gas proxy costs (Revised Straw Proposal at 4 and 27);

- 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 (Straw Proposal at 36-39);

- Establishing a standardized approach for calculating the cost of start-up auxiliary energy (Straw Proposal at 39); and

- Recognizing “market characteristics” for starts and ramping submitted to Master Files for normal operations (Straw Proposal at 40-42).

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