

March 28, 2016

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE
FREQUENCY RESPONSE DRAFT TARIFF LANGUAGE**

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 Frequency Response Draft Tariff Language.

Section 11.34

The Six Cities are unclear as to the purpose of Section 11.34. Section 11.34 appears to create a separate invoicing process, apart from the standard CAISO settlements process, framed in general language. However, this process was not discussed in the Frequency Response Draft Final Proposal ("Draft Final Proposal"). While Section 11.34 includes general language, by referencing Section 11.34 in Section 11.35, it appears that the ISO intends that these sections are linked. The Six Cities request that the ISO clarify why this section is needed and explain why it is written in general terms if it is intended to only relate to Section 11.35.

While the ISO has not made the purpose of Section 11.34 clear in the Draft Final Proposal or through the proposed tariff language, the Six Cities assume that the ISO may have added Section 11.34 to create a separate invoicing process related to Transferred Frequency Response in light of the expected temporary nature of the Transferred Frequency Response procurement process. If this is in fact the purpose of this section – to set forth an invoicing process separate from the ISO settlements process so that it can sunset after the 2017 compliance period – then the language should be revised to clarify that (a) Section 11.34 is limited to costs related to the procurement of Transferred Frequency Response; or (b) Section 11.34 is intended to be temporary and will become ineffective should the ISO no longer need to obtain Transferred Frequency Response (*i.e.*, after Phase 2 of the Frequency Response Initiative is completed and a long-term solution to meeting the ISO's frequency response obligation is in place).

Section 42.2.1

The ISO's proposed tariff language regarding the process used for procuring Transferred Frequency Response from other Balancing Authorities as provided in Section 42.2.1 is lacking. This process was outlined in detail in the Draft Final Proposal and explained on the related stakeholder call. Yet, few of these details are included in the ISO's proposed tariff language, and the language as written is inconsistent with the Draft Final Proposal.

First, the draft tariff language appears to give the ISO discretion to consider alternatives for meeting its frequency response obligation beyond simply procuring Transferred Frequency Response. Indeed, Section 42.2.1 states that the ISO may "take such steps as it considers necessary to ensure compliance" with applicable reliability criteria, and that the "steps *may* include the negotiation of contracts for Transferred Frequency Response" (emphasis supplied).

This language contemplates that there are options beyond procuring Transferred Frequency Response. With the exception of using exceptional dispatch (discussed in more detail, below), other options for meeting the ISO's frequency response obligation, should bid-in resources be insufficient, were not outlined in the Draft Final Proposal, nor were they discussed on the most recent stakeholder call. As drafted, Section 42.2.1 gives the ISO too much discretion to meet its obligation in any manner it chooses, including in ways that were not vetted through the Frequency Response Initiative stakeholder process.

Next, with regard to the actual process for procuring Transferred Frequency Response, the ISO provides no detail beyond that it will "solicit bids for contracts" and "shall select the bids that permit the CAISO to satisfy Applicable Reliability Criteria." For example, the Draft Final Proposal states that "the ISO will select the RFP winner *through a least cost evaluation* consistent with the ISO's tariff language in Section 42 which outlines if contracts are required . . . the ISO shall select bids enable [sic] ISO to meet applicable reliability criteria at the lowest cost." Draft Final Proposal at 21 (emphasis supplied). However, no such language regarding this evaluation has been added to Section 42. Likewise, while the ISO stated it would include a solicitation process in the tariff (*see* Draft Final Proposal at 20), the draft tariff language only states that the ISO will solicit bids, not the process the ISO will use for doing so.

Further, in its Draft Final Proposal, the ISO explained that it would evaluate offers for Transferred Frequency Response "based on its expectation of costs through committing additional generation on-line through exceptional dispatches." Draft Final Proposal at 22. According to the ISO, it "can choose to not award a winner if all the offers are excessive" (*id.*), and, as described on the stakeholder call regarding the Draft Final Proposal, the ISO would find as excessive, and thus reject, any bids from external BAs that are higher than the cost of using exceptional dispatch to meet the frequency response obligation. The Six Cities supported this concept in their comments on the Draft Final Proposal.

The ISO's proposed tariff language in Section 42.2.1 fails to include this metric for determining whether a bid is excessive, and it instead states only that "[t]he CAISO shall select the bids that permit the CAISO to satisfy Applicable Reliability Criteria." This language neither reflects the concept outlined in the Draft Final Proposal for determining whether a bid is excessive, nor does it provide an objective measure for determining whether a bid is reasonable. Instead, it potentially obligates the ISO to accept one or more bids, and it fails to cap the acceptable cost at the cost of exceptional dispatch, as previously promised. This language creates the risk that the ISO may obtain Transferred Frequency Response at a cost that could be more than the cost of using internal resources for meeting the frequency response obligation.

Finally, Section 42.2.1 states that the ISO will solicit bids for Transferred Frequency Response "[t]o the extent time permits." The ISO should revise the tariff language to include a description of how the ISO will meet its obligation if time does *not* permit the use of a competitive solicitation process.

Section 42.2.2

Subject to their previous comments on Sections 11.34 and 11.35, the Six Cities request that the ISO revise tariff Section 42.2.2 to clarify that it applies only to contracts for Transferred Frequency Response. To that end, the Six Cities recommend adding the words “for Transferred Frequency Response” after the word “contract” in the first line. With that revision, Section 42.2.2 will read as follows:

The costs incurred by the CAISO for any contract **for Transferred Frequency Response** under Section 42.2.1 are recovered from Scheduling Coordinators pursuant to Section 11.35.

Transferred Frequency Response Definition

In its Draft Final Proposal, the ISO stated that it would refine its description of Transferred Frequency Response “to state that since [Transferred Frequency Response] is a compliance instrument there is no exchange of physical services between BAs.” Draft Final Proposal at 21. While this fact must be inferred from the definition of Transferred Frequency Response, given the confusion with this concept on the most recent stakeholder call regarding the Draft Final Proposal, the Six Cities request that the ISO include in the definition express language that Transferred Frequency Response is (a) a compliance instrument, and (b) does not involve a physical exchange of services between Balancing Authorities.

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