April 1, 2010

COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA REGARDING STANDARD CAPACITY PRODUCT II REPLACEMENT RULE AND DISTRIBUTION OF SURPLUS PENALTY REVENUES

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 March 18, 2010 "refined" draft proposal for a Standard Capacity Product Replacement Rule, as set forth in the "Alternative Options for the Availability Standard and Replacements Rule components of the Standard Capacity Product II Initiative." As discussed in greater detail below, the ISO should not impose a Replacement Rule under its Tariff without further analysis and development of detailed criteria for application of a Replacement Rule. Further, the ISO should file promptly tariff amendments to clarify the distribution of surplus revenues from availability penalties to all Demand, including Demand within Metered Sub-systems.

The ISO's March 18th refined proposal for a Replacement Rule is an improvement over the Replacement Rule proposed in the ISO's February 19, 2010 Standard Capacity Product II Draft Final Proposal. The Cities appreciate the ISO's recognition that procurement of ICPM capacity to replace RA capacity that is subject to a planned outage is not justified to meet reliability needs under all circumstances. In general, the Scheduling Coordinator for RA capacity that is scheduled for a planned outage should have an obligation to replace the capacity only if the outage will give rise to a specific, identified reliability concern and should have the option of rescheduling the outage, rather than replacing the capacity, to address any reliability concern that is identified. Although the March 18th refined draft proposal does not appear to conform fully to the principles the Six Cities believe should apply, it represents a move in the right direction.

Further analysis is necessary, however, to permit development of a Replacement Rule for the ISO that will preserve reliability without imposing unnecessary costs on customers. As noted in the Cities' March 3, 2010 comments on this subject, it is not appropriate to adopt or expand the currently effective CPUC replacement rule for the entire ISO grid without evaluating the relationships among different elements of the CPUC's RA program, particularly the RA counting requirements for demand response resources, and how such elements relate to the ISO's RA requirements.

Before adopting an ISO Replacement Rule, the ISO should conduct a thorough analysis to establish that additional costs imposed by a replacement requirement are necessary and reasonable to maintain reliability. Tariff Section 43.1.3 provides that the ISO may make ICPM designations only when there is an overall deficiency in meeting reliability requirements. RA requirements are based upon planning reserve margins that generally take planned outages into account. Further, SCs must coordinate planned outages with the ISO, and the ISO therefore can influence the timing for outages. There is no justification for imposing additional capacity costs on ratepayers, either through required replacement or expanded ICPM designations, when the ISO does not need the additional capacity.

The Six Cities support further evaluation of the need for a Replacement Rule in the context of the total RA resources that support the ISO Balancing Authority Area. Any such Replacement Rule should be based upon clearly defined criteria so as to require procurement of additional capacity only when necessary to maintain reliability. Further, any ISO Replacement Rule should incorporate a process to allow Scheduling Coordinators for RA resources the option to reschedule a planned outage to address a reliability concern rather than procuring (or paying for ISO procurement of) replacement capacity. Of the options identified in the ISO's presentation for the March 24, 2010 conference call, the Cities support extension of the CPUC Replacement Rule if the ISO considers such extension necessary to permit the analyses and development of defined criteria necessary to support any application of an ISO Replacement Rule.

<u>The ISO Should File Promptly Amendments to Clarify Distribution of Surplus Revenues from Availability Penalties:</u>

As discussed in their March 3, 2010 comments, the Six Cities support the ISO's proposal to clarify that surplus revenues from availability penalties (*i.e.*, revenues received from availability penalties in excess of availability incentive payments) will be distributed to all metered ISO Demand. That clarification should be framed in a manner that includes Demand included in a Metered Sub-System as Demand eligible to receive a portion of such surplus revenues. Furthermore, the Six Cities urge the ISO to file necessary tariff amendments to implement that clarification immediately, rather than waiting until other SCP II amendments are expected to be implemented. As the ISO previously noted, the proposed clarification is necessary to conform the tariff language to the original intent of the SCP program, *i.e.*, to distribute surplus penalty revenues to all metered ISO Demand. Delaying the submission of the clarifying amendments will prolong an erroneous and discriminatory distribution method.

Submitted by

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