

December 18, 2008

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,  
COLTON, PASADENA, AND RIVERSIDE ON STANDARD CAPACITY PRODUCT  
PROPOSAL DATED DECEMBER 4, 2008**

The Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (“the Six Cities”) submit the following comments in response to the CAISO’s December 4, 2008 Updated Straw Proposal for a Standard Resource Adequacy Capacity Product:

- 1. Use of the SCP Tag should be optional, not mandatory.** It has become clear through stakeholder conferences that, although most stakeholders support the general concept of a Standard Resource Adequacy Capacity Product (“SCP”), there is no consensus among stakeholders with respect to even the core elements of an SCP. Stakeholders have expressed widely divergent views with respect to the desirability of imposing an availability standard, the basis for such a standard, and the method for enforcing such a standard, among other features of the CAISO’s SCP proposal. In light of the many substantial disagreements among stakeholders regarding the core elements of an SCP, application of the SCP Tag should not be mandatory unless there is a demonstrable and compelling need for the imposition of such a requirement. No such need has been established. Furthermore, application of a mandatory SCP Tag would interfere with the development and implementation of procurement policies by Local Regulatory Authorities, reduce flexibility, and discourage innovation.
- 2. If the SCP Tag is mandatory, existing contracts applicable to RA Resources should be grandfathered for the remaining term of the contract.** If, contrary to the Six Cities’ position, application of the SCP Tag is mandatory, existing contracts applicable to RA Resources should be grandfathered (*i.e.*, exempt from requirements that are either inconsistent with contractual terms or not contemplated by the contracts) for the remaining term of each contract. Existing contracts applicable to RA Resources embody balanced rights and obligations acceptable to the parties to those contracts at the time they were negotiated. Imposing additional obligations likely would upset the negotiated balance and could trigger either termination or forced renegotiation of many contracts. As a result, the parties to the contracts likely would incur significant additional transaction costs, and there may be substantial increases in direct costs for RA capacity as well. There has been no demonstration that implementation of SCP requirements will produce benefits sufficient to justify violating the good faith expectations of parties to existing contracts applicable to RA Resources.
- 3. There should be no increase in credit requirements to cover potential penalties for violation of availability standards.** The CAISO’s December 4, 2008 Updated Straw Proposal indicated at page 21 that the CAISO did not propose to increase credit requirements to cover potential penalties for violation of SCP availability standards. During the December 11 stakeholder conference, however, the CAISO expressed the opposite view, based on the concern that RA Resources that exceed availability standards

will be expecting to receive a bonus for superior performance. The Six Cities oppose any increase in credit obligations to cover potential penalties for failure to meet availability standards. There is no reason why resources that may be eligible for a bonus should assume guaranteed funding for such bonuses. If penalty revenues are insufficient, for whatever reason, to fund bonus payments to resources that exceed the availability standards, then the bonuses should be reduced proportionally or simply calculated on the basis of available funds, as described at page 20 of the December 4 proposal. Imposing additional credit requirements in order to increase potential funding for bonuses is likely to impose widespread additional costs without a sufficient corresponding benefit.

4. **The suggested use of Resource IDs to implement the availability requirement for imports is unworkable.** The December 4 SCP proposal acknowledges at page 20 that application of the availability standard to imports is problematic but suggests possible use of Resource IDs to track availability of imports. That approach appears unworkable for at least two reasons. First, if one source for a System Resource becomes unavailable, it may be possible to maintain the import using a substitute resource. Under those circumstances, basing the availability metric solely on the Resource ID initially indicated would be unreasonable. In addition, it is unclear how the availability metric would be applied to a System Resource that is curtailed due to a transmission derate or outage, as opposed to generator unavailability.
5. **Imposing a manual outage reporting obligation on resources with less than 10 MW of capacity is unjustified.** The December 4 SCP proposal notes at page 19 that the SLIC outage reporting system does not recognize outages for resources with less than 10 MW capacity and suggests that a manual outage reporting requirement should apply to such small resources. Such a manual reporting requirement would impose a significant additional burden on small resources without any demonstration that there would be a meaningful benefit.
6. **If the SCP includes a Must Offer requirement for Ancillary Services, a Scheduling Coordinator whose Energy Self-Schedule is overridden for Ancillary Services should be compensated for all resulting costs.** The December 4 proposal indicates at page 16 that the CAISO will not adjust Energy Self-Schedules if sufficient bids are available to supply Ancillary Services requirements. However, if the CAISO is not able to procure 100% of its Ancillary Services requirements in the Day-Ahead Market, it proposes to override Energy Self-Schedules to the extent necessary to obtain Ancillary Services. The Six Cities do not oppose this method for addressing a shortfall of Ancillary Services, provided that the Scheduling Coordinators whose Energy Self-Schedules are overridden in favor of Ancillary Services are kept whole in terms of the costs of procuring replacement energy and waiver of any penalty provisions. In situations where a Load Serving Entity (“LSE”) has submitted an Energy Self-Schedule for the purpose of serving load, the LSE most likely will have to replace the energy if the Energy Self-Schedule is overridden in favor of Ancillary Services. Although the LSE would receive payment for the Ancillary Services, including Opportunity Cost, it is not certain that the payment for Ancillary Services will be equal to or greater than the cost for replacement energy. In addition, the LSE may be exposed to additional charges from the CAISO,

such as deviation penalties. It would be unjust, unreasonable, and unduly discriminatory to allow the CAISO to override an Energy Self-Schedule in order to procure additional Ancillary Services for the market as a whole without compensating the Scheduling Coordinator whose Energy Self-Schedule is overridden for all costs incurred as a result.

7. **Resource substitution should be permitted.** The December 4 proposal indicates at page 21 that the CAISO is contemplating a provision that would allow a Scheduling Coordinator for an RA Resource that suffers a forced outage to substitute capacity from a pre-approved non-RA Resource and thereby avoid potential imposition of a penalty for failure to meet availability requirements. The Six Cities support the proposal to allow substitution of appropriate non-RA capacity for RA Resources that become unavailable. Such substitution should not be restricted for System RA Resources. With respect to Local RA Resources, any non-RA resource within the same Local Area should be a permissible substitute.

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