February 26, 2013

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE REVISED STRAW PROPOSAL ON FERC ORDER 764 COMPLIANCE 15-MINUTE SCHEDULING AND SETTLEMENT**

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 5, 2013 Revised Straw Proposal on FERC Order 764 Compliance 15-Minute Scheduling and Settlement ("the Revised Straw Proposal").

Consistent with their November 19, 2012 preliminary comments and their January 8, 2013 Supplemental Comments on the original Straw Proposal, the Six Cities generally continue to support the implementation of 15-minute scheduling. The Cities also support the following specific elements of the Revised Straw Proposal:

(i) the proposal to apply the 15-minute scheduling and settlements processes to both intertie and internal resources;

(ii) the proposal to eliminate the Participating Intermittent Resource Program ("PIRP") when 15-minute scheduling is implemented;

(iii) the proposal to not allow convergence bidding between the 15-minute market and Real-Time Dispatch ("RTD");

(iv) the determination in the Revised Straw Proposal to omit the previously proposed transmission reservation process from the market design changes; and

(v) the proposal to allow submission of Hourly Block Schedules.

The Six Cities are extremely concerned, however, that the Revised Straw Proposal fails to provide sufficient protection against expanded accumulation of excessive uplift costs. That failure is particularly problematic with respect to the ISO's proposal to reinstate Convergence Bidding at the interties simultaneously with the adoption of the 15-minute scheduling processes and the failure to include in the market redesign proposal adequate measures to discourage deviations from the ISO's dispatch instructions.

Order No. 764 does not address convergence bidding, and compliance with Order No. 764 does not require reinstatement of convergence bidding at the interties. During 2012, convergence bidding at nodes internal to the ISO's BAA resulted in approximately$60 million in net uplift costs imposed on load. Department of Market Monitoring Q4 2012 Report on Market Issues and Performance at 23 (Feb. 12, 2013). Even when internal Virtual Bids and intertie Virtual Bids are settled on the same basis, it seems probable that reinstatement of convergence bidding at the interties will inflate uplift costs even further at the expense of load. Resumption of convergence bidding at the interties is not necessary to

implement 15-minute scheduling, and it should not occur as a matter of course when 15-minute scheduling is implemented. Instead, there should be an independent reevaluation of the convergence bidding structure both for internal nodes and for the interties with the objective of identifying and implementing revisions to the convergence bidding design to ensure that load is not forced to continue to support profits for convergence bidders through excessive uplift payments.

With respect to measures for discouraging deviations from ISO dispatch instructions, the ISO has emphasized the operational challenges that will occur as more Variable Energy Resources ("VERS") are integrated into the system. Given these anticipated operational challenges, it appears that compliance with the ISO's dispatch instructions will become increasingly more important to operational reliability. The ISO's Department of Market Monitoring and a number of stakeholders (SCE, Powerex, the Six Cities, and SDG&E) have urged the ISO to apply "worse of" pricing to intertie deviations from ISO instructions. The ISO has rejected those suggestions out-of-hand, apparently based on reluctance to depart from the market optimization results. However, deviations from the ISO's dispatch instructions are themselves departures from the market optimization results, and significant deviations may result both in unreasonable and unfair economic outcomes and in threats to reliability. In addition, while the ISO does not intend to allow convergence bidding between the 15-minute market and RTD, failure to implement a "worse of" pricing rule will have the effect of permitting implicit Virtual Bids between the 15-minute market and RTD, as several stakeholders have noted. Although the ISO's responses to the stakeholder comments suggest potential development of generally applicable penalties for uninstructed deviations at some unspecified time in the future, such vague temporizing is not good enough. Implementation of "worse of" pricing appears to be the most administratively straightforward measure for discouraging deviations from dispatch instructions. But if the ISO prefers consideration of deviation penalties on a comprehensive basis, that initiative should proceed in parallel with development of the 15-minute scheduling framework, and measures to avoid adverse incentives should be implemented prior to or at the same time as 15-minute scheduling.

In addition, although the Six Cities support the ISO's proposal to allow Hourly Block Schedules, the Cities do not support Bid Cost Recovery for hourly schedules. This is another example of unnecessarily expanding the potential for uplift costs. Because the option to submit 15-minute bids will be available and because 15-minute bids will provide greater value in meeting the ISO's operational needs, there is no apparent reason to extend Bid Cost Recovery to Hourly Block Bids.

The Six Cities also continue to recommend that LSEs be allowed the opportunity to adjust Demand schedules in the 15-minute market, providing LSEs the same opportunity to mitigate costs and manage exposure to allocated charges as the ISO proposes to make available to other market participants. The ISO's original response indicated that because the 15-minute process is part of the Real-Time market, allowing adjustment of Demand schedules would undermine reliability of service. The Cities noted in their January 8, 2013 Supplemental Comments, however, that even if the ISO's load forecast is the correct target against which to balance supply in Real-Time, it does not necessarily follow that allowing adjustments to Demand schedules in the 15-minute process would be inappropriate or undesirable. Allowing adjustments to Demand as part of the 15-minute process could create favorable incentives and enable allocation of cost responsibility that aligns better with cost causation. When the ISO is expanding opportunities for all other types of market participants to manage their exposure to costs through the 15-minute scheduling process, it is unreasonable to reject implementation of similar opportunities for load.

In their January 8, 2013 Supplemental Comments, the Cities advocated as a general principle that, in developing the details of the 15-minute scheduling process, the ISO should strive to apply cost allocation mechanisms that both encourage desired behaviors (*e.g.*, compliance with dispatch instructions and approved schedules) and comport with the cost causation principle, with the objective of minimizing "peanut butter" treatment of undifferentiated uplift costs to the maximum extent possible. Although the ISO's response to the Cities' comments agreed with that principle, the Revised Straw Proposal does not come close enough to satisfying the principle.

Submitted by,

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