January 8, 2013

SUPPLEMENTAL COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE 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 supplemental comments concerning issues identified in comments and stakeholder discussions regarding the ISO's October 23, 2012 Straw Proposal on FERC Order 764 Compliance 15-Minute Scheduling and Settlement ("the Straw Proposal").

Consistent with their November 19, 2012 preliminary comments on the Straw Proposal, the Six Cities continue to support the following elements of the 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; and

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

While the Six Cities generally support the implementation of 15-minute scheduling and share the expectation that it is likely to help reduce uplift costs overall, the Six Cities are concerned that some elements of the Straw Proposal may give rise to unintended consequences and/or adverse incentives that may impose unreasonable costs on other market participants:

(a) The ISO's Department of Market Monitoring ("DMM") identified several features of the 15-minute scheduling framework that could result in uplift costs and/or encourage deviations from the ISO's dispatch instructions or tagging requirements. The Six Cities urge the ISO to take steps both to minimize adverse incentives and to mitigate the cost impact on other market participants. In particular, the Six Cities support suggestions by the DMM and SCE that "worse of" pricing should apply to intertie deviations from ISO instructions. In its responses to stakeholder comments, the ISO indicated that it was considering development of generally applicable penalties for uninstructed deviations. The Six Cities support consideration of deviation penalties on a comprehensive basis, but 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, the ISO should establish damage control mechanisms (*e.g.*, reinstituting suspension of convergence bidding at the interties) if uplift costs reach a pre-defined triggering level.

(b) In their November 19, 2012 comments, the Six Cities recommended 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 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. Even if the ISO's load forecast is the correct target against which to balance supply in Real-Time, however, it does not necessarily follow that allowing adjustments to Demand schedules in the 15-minute process would be inappropriate. 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.

(c) More generally, 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. The ISO should minimize "peanut butter" treatment of undifferentiated uplift costs to the maximum extent possible

Submitted by,

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