October 21, 2011

COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA REGARDING RENEWABLE INTEGRATION MARKET VISION AND ROADMAP

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 in response to the ISO's October 11, 2011 Renewable Integration Market Vision and Roadmap (the "Roadmap").

The Roadmap provides a general description of various near-term and intermediate-term initiatives that the ISO plans to facilitate integration of renewable resources, summarizing the status of various stakeholder initiatives that are in progress, describing other initiatives that the ISO proposes to undertake during the next several years, and providing a rough timeline for when the ISO hopes to implement the various initiatives. The Six Cities have participated actively, through submission of multiple rounds of comments and participation in stakeholder web conferences, in the initiatives that already are under way. With regard to the substance of those pending initiatives, the Cities rely upon their comments submitted previously.

With regard to initiatives described in the Roadmap that still are in the conceptual planning stage, the Six Cities, with the exception discussed below, will await the posting of a more detailed issue papers or straw proposals. The Roadmap generally does not provide sufficient detail to allow the development of substantive comments at this point.

However, the Six Cities take this opportunity to express their views regarding the ISO's plan, described in general terms in the Roadmap, to develop (1) an "interim" administrative mechanism to procure capacity with flexible operating characteristics the ISO deems necessary, apparently on a forward, multi-year basis, and (2) a permanent "market-based" mechanism for procuring capacity with flexible operating characteristics, also on a forward, multi-year basis. Although the Roadmap provides no details on the contemplated procurement mechanisms, the reference to an "administrative" interim mechanism suggests a centralized approach for procurement by the ISO. As expressed on multiple previous occasions, the Six Cities strongly oppose a mandatory centralized capacity market, which appears to be what the ISO contemplates. Centralized capacity markets have resulted in grossly excessive capacity prices to consumers in other areas of the country and have failed to stimulate needed investment in new generating resources.

Mandatory capacity procurement through a centralized market would interfere with the Cities' ability to plan for resources to best meet the needs of their citizen customers. Publicly-owned utilities such as the Cities have important obligations to plan and manage their resource portfolios to serve their customer-owners reliably and cost-effectively. This includes integrating renewable resources to meet reliability requirements at least cost. If the ISO sets up 'market mechanisms' that restrict Cities' ability to compare alternatives and make choices in the best interests of their customer-owners, that will impinge upon the Cities' ability to fulfill their obligations.

Furthermore, there is no basis to assume that a mandatory centralized process for procurement of capacity with flexible operating characteristics will be successful in promoting necessary investment in new resources. A bilateral contract model can provide support for new generation resources for periods long enough to support project financing (*e.g.*, life of project or 15-20 years). Long-term power purchase arrangements can provide both greater price certainty for customers and greater revenue certainty for capacity developers than a centralized capacity procurement mechanism with a shorter term.

The Six Cities support procurement mechanisms that provide alternatives both for LSEs and for resource developers and facilitate informed choices by LSEs. Mandatory centralized capacity markets provide no alternatives and give LSEs no choices and no ability to manage procurement costs and portfolios. In a mandatory centralized market, LSEs simply must buy, and they must pay the posted price. The Six Cities view such a paradigm to be fundamentally antithetical to the interests of their customers.

Submitted by

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