

June 28, 2016

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,  
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE  
BID COST RECOVERY ENHANCEMENTS STRAW PROPOSAL**

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") hereby comment on the Bid Cost Recovery Enhancements Straw Proposal posted on June 3, 2016 (the "Straw Proposal").

Two-Tier Real-Time Uplift Charge Allocation - - The Six Cities support further efforts to develop a methodology for allocating Real-Time BCR costs that is aligned with cost causation, rather than continuing the current approach of allocating Real-Time BCR costs to measured demand. The Straw Proposal identifies two reasons to consider simply retaining the current allocation method. First, the ISO suggests at page 17 of the Straw Proposal that introduction of the Flexible Ramping Product may reduce Real-Time BCR costs by substantial amounts, perhaps as much as by 50 percent. However, even 50 percent of the approximately \$50 million in annual Real-Time BCR costs incurred in both 2014 and 2015 remains a significant amount - - approximately \$25 million annually. That amount (which is more than the estimated gross benefits to the ISO to date of participating in the Energy Imbalance Market) is large enough to justify efforts to allocate the costs in a manner that is more consistent with cost causation than simply charging measured demand.

The ISO's second reason for considering retention of the current allocation method is the suggestion that load would continue to be allocated a large share of the Real-Time BCR costs under the two-tiered allocation method outlined in the Straw Proposal. Straw Proposal at 17. The Straw Proposal does not explain the basis for that suggestion, and it is not obvious from the discussion of factors that contribute to Real-Time BCR costs. The Six Cities request that the ISO provide an explanation for the suggestion that load would continue to be responsible for the bulk of Real-Time BCR costs under the two-tiered allocation proposal and provide any supporting data.

However, even if the ISO's suggestion is correct, and load on an overall basis would remain responsible for most Real-Time BCR costs under the two-tiered allocation approach described in the Straw Proposal, allocation of costs within the load "bucket" could be different under the two-tiered approach. The two-tiered methodology outlined in the Straw Proposal would allocate costs within the load bucket based on proportional net negative deviations, rather than simply measured demand. Straw Proposal at 16. It would be helpful to understand whether that change in the allocation methodology would have significant impacts, *i.e.*, whether there are substantial differences in patterns of net negative deviations among Scheduling Coordinators for load and exports. Moreover, the Six Cities note that the Straw Proposal at pages 10-11 concludes that there is not a strong correlation between deviations and Real-Time BCR uplift, which raises a question whether it would be consistent with cost causation to allocate Real-Time BCR costs within the load bucket based on net negative deviations.

In sum, it is not appropriate at this time to abandon the effort to develop a method for allocating Real-Time BCR costs that is aligned more closely with the factors that contribute to those costs than the current method of charging the costs to measured demand. However, further information and analysis are necessary to evaluate whether the two-tiered approach outlined in the Straw Proposal is most likely to achieve the goals of the effort.

IFM Tier 1 Uplift Cost Allocation Modification - - Under the currently effective Tariff provisions, the first tier of IFM BCR uplift is allocated to Scheduling Coordinators based on the portion of their demand that is not served by self-scheduled generation and/or self-scheduled imports but is served by demand, including virtual demand, supplied through the IFM. The Straw Proposal at pages 18-19 recommends modifying the allocation of Tier 1 IFM BCR such that self-scheduled generation and imports would be included for purposes of allocating Tier 1 IFM BCR. The Six Cities support the allocation of BCR costs in accordance with cost causation principles. However, the recommendation in the Straw Proposal to allocate first tier IFM BCR to self-schedules is based entirely on assumptions and supposition rather than any data demonstrating the extent to which self-schedules actually contribute to BCR costs in the IFM. Furthermore, to the extent the ISO hopes to discourage self-scheduling by allocating IFM BCR costs to self-schedules, that objective presumes, incorrectly, that Scheduling Coordinators always have the ability to substitute economic bids for self-schedules. The Six Cities oppose modification of the IFM Tier 1 Uplift cost allocation methodology absent a demonstration, based on data, that the additional charges the ISO proposes to apply to self-schedules are commensurate with the actual contribution of self-schedules to BCR costs in the IFM.

As noted at page 18 of the Straw Proposal, the “rationale for the first tier’s [current] allocation is that the demand allocated the first tier costs is the portion of the demand causing commitment costs; it is the demand using generation committed and scheduled by the market . . . .” The Straw Proposal goes on to “question” the rationale. Straw Proposal at 19. Because of the ISO’s increasing need for flexibility, the Straw Proposal claims that “self-scheduled generation and imports *may be* contributing to, rather than minimizing, commitment of other resources,” and the rationale for excluding self-schedules from the Tier 1 BCR allocation “*may be* outdated.” *Id.*, emphasis added. There is a hypothetical figure illustrating “how self-scheduled generation and imports *may be* contributing to commitment of other resources.” *Id.*, emphasis added. There are absolutely no data even purporting to demonstrate that the BCR costs the ISO proposes to impose on self-schedules would be commensurate with the actual BCR costs in the IFM attributable to self-schedules.

The Straw Proposal also opines that “[t]he current [allocation] practice *may* provide an adverse behavioral incentive for market participants to self-schedule resources to avoid uplift charges . . . .” *Id.*, emphasis added. That supposition is certainly not correct as applied generally to self-schedules. There are circumstances in which self-scheduling is necessary, not optional. As one example, Pasadena and Riverside have internal generation that is interconnected to their municipal distribution systems. Due to limitations on imports into these Cities’ systems at the locations where their distribution systems interconnect with the Southern California Edison Company (“SCE”) system, during certain operating conditions – when loads are at high levels, particularly during the summer – these Cities *must* run their internal generation in order to avoid shedding internal load. For example, when Riverside load exceeds approximately 575 MW,

which occurs during summer peak periods, Riverside must operate 200 MW of internal generation, because limitations at Riverside's 66 kV point of interconnection with the SCE system at the Vista Substation prevent Riverside from importing the full amount of energy needed to meet electrical demand within the city system. There are similar local import limitations at Pasadena's interconnection to SCE at the TM Goodrich Receiving Station, and Pasadena likewise must run up to 175 MW of its internal units in order to ensure that it can supply the requirements of its customers during peak periods. Under these circumstances, self-scheduling of these resources is necessary to maintain local reliability.

In addition to the circumstances where self-scheduling is necessary to maintain local reliability, some of the Cities' contracts with resources include off-take obligations and/or scheduling requirements that effectively compel self-scheduling for delivery of the resource. The ISO's presumption that allocating Tier 1 IFM BCR costs to self-schedules will reduce the incidence of self-scheduling ignores other factors that contribute to self-scheduling, including situations in which self-scheduling is not a choice but rather a necessity.

As noted above, the Six Cities support the allocation of costs based on cost causation. If and when the ISO demonstrates, based on empirical data, that allocating Tier 1 BCR costs to self-schedules would be commensurate with resource commitment costs that self-schedules cause the ISO to incur in the IFM, revision of the allocation method for Tier 1 BCR costs would be appropriate. The Straw Proposal, however, makes no such demonstration.

BCR for Units Operating Across 24-hour Periods - - The Straw Proposal at pages 19-21 explains that conceptually, the current method of accounting for start-up costs in the BCR calculations could result in inflated BCR payments where a resource is committed in one trade day and continues to operate into the next trade day. However, based on the magnitude of BCR payments made to resources that operated across two trade dates from May 2014 to April 2016, the Straw Proposal concludes at page 21 that the costs of modifying the existing settlement systems for both the ISO and market participants to address this issue would far outweigh the potential benefits of doing so. Based on the BCR payment data provided by the ISO, the Six Cities agree with the ISO's proposal to retain the current consideration of start-up costs in the BCR payment calculation. The Six Cities request, however, that the ISO periodically review the magnitude of BCR payments made to resources that operate across two trade dates and revisit this issue if BCR payments to such resources increase.

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