April 16, 2009

COMMENTS ON DRAFT TARIFF LANGUAGE
FOR STANDARD CAPACITY PRODUCT REVISIONS

The Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside (collectively, "the Six Cities") submit the following comments on the draft Tariff language, posted on April 9, 2009, to implement the ISO's Standard Capacity Product ("SCP") proposal. The Six Cities previously have submitted comments concerning the conceptual elements of the ISO's SCP proposal, some of which the ISO has reflected in the draft Tariff language, and some of which it has not. The following comments on the draft Tariff language do not repeat the Cities' views on conceptual issues previously identified by the Cities but (apparently) rejected by the ISO. The Cities, however, reserve all rights to raise such issues in a protest of or comments on the ISO's ultimate filing of the SCP amendments with the FERC.

Provisions for Overriding Self-Schedules for Energy to Provide Ancillary Services Must Respect Local Reliability Requirements: Sections 40.5.1(1)(iv), 40.6.1(4), and 40.6.2 of the draft Tariff language provide that the ISO may curtail Energy Self-Schedules in order to procure Ancillary Services if it cannot otherwise satisfy 100% of its Ancillary Services requirements. The Tariff provisions must be modified to provide that such curtailments will not be made if an Energy Self-Schedule is necessary to satisfy the internal reliability requirements of the LSE that submitted the Self-Schedule. Several of the Cities require the energy from internal generating resources to serve their loads during peak periods due to limitations on the transfer capability of their interconnections with the CAISO Controlled Grid. If the ISO curtails Energy Self-Schedules from such resources at such times in order to procure Ancillary Services, the Cities will be unable to serve their loads reliably. The Tariff language must provide that curtailments of Energy Self-Schedules in order to use capacity for Ancillary Services will not occur when such curtailment would interfere with an LSE's ability to serve its load, and the ISO must establish an operating procedure or scheduling flag to ensure that Energy Self-Schedules will not be curtailed under such circumstances.

The Draft Provisions for Compensating Scheduling Coordinators Whose Self-Schedules for Energy Are Overridden for Ancillary Services Would Require Unduly Burdensome Procedures and Should Be Clarified With Respect to Recoverable Costs: The Six Cities acknowledge and appreciate the ISO's efforts to address the Cities' previously submitted comments concerning compensation for Scheduling Coordinators whose Energy Self-Schedules are overridden for Ancillary Services. The Six Cities, however, have two concerns with the draft Tariff language regarding such compensation. First, the proposal to require submission of all claims for compensation to FERC is unduly burdensome. Second, the Tariff provisions relating to such compensation should specify the elements for such compensation that can be submitted to and verified by the ISO.

(i) In the draft Tariff language, the ISO proposes to permit Scheduling Coordinators to recover their opportunity costs associated with curtailment of Energy Self-Schedules by the ISO

to satisfy Ancillary Services requirements. (*See* Tariff §§ 40.5.1(1)(iv), 40.6.1(4).) In the event that Scheduling Coordinators seeking to recover such costs believe that compensation based upon the Default Energy Bid ("DEB") of a particular Resource will not be sufficient to compensate for the curtailment of an Energy Self-Schedule, then the proposed Tariff language requires "a detailed breakdown of the component costs justifying the increased amount" to be submitted to both the ISO and FERC. Requiring a filing with FERC in the first instance to recover uncompensated costs resulting from curtailments of Energy Self-Schedules is inappropriately burdensome. The Six Cities propose instead that any cost recovery proposal be submitted to (and approved by) the ISO in most circumstances. The ISO should have sufficient market information to verify whether the alternate methodology appropriately compensates the Scheduling Coordinator for the costs of obtaining replacement Energy in the event a Self-Schedule is curtailed. Only if the ISO and the Scheduling Coordinator cannot reach an agreement as to the appropriate compensation mechanism and/or amount utilizing the dispute resolution provisions of the Tariff (set forth in Article 13) should a filing with FERC be necessary.

(ii) When the ISO curtails an Energy Self-Schedule in order to procure Ancillary Services, the Scheduling Coordinator whose Energy Self-Schedule has been curtailed should be compensated to the extent that the costs it incurs to replace the energy exceed the revenues it receives for the Ancillary Services. The references in the draft Tariff language to "actual opportunity costs" are not sufficiently clear and detailed and may be unduly limited. The Tariff language should specify that compensation will be provided if the Scheduling Coordinator whose Energy Self-Schedule has been curtailed for Ancillary Services demonstrates that the costs for replacement energy (including, but not necessarily limited to, incremental energy costs, unhedged incremental congestion charges, incremental charges for losses, and any under-scheduling or deviation penalties imposed by the ISO) exceed the revenues paid by the ISO for the Ancillary Services. As discussed above, if the ISO is able to verify the components of the Scheduling Coordinator's claim for compensation, as it should be able to do in most instances, no further procedures should be necessary.

<u>The Tariff Language Relating to Exemptions for Previously Executed Contracts is Unduly Limited:</u> Section 40.9.2(2) of the draft Tariff language would impose several unreasonable restrictions on the exemption for capacity procured under contracts that pre-date January 1, 2009.

As drafted, it appears that the exemption would apply to capacity procured under pre-existing contracts only to the extent such capacity was identified as Resource Adequacy Capacity prior to January 1, 2009. Such a limitation is unduly restrictive in at least two respects. First, to the extent the restriction would require identification of the capacity as "Resource Adequacy Capacity" in the contract itself, it would eliminate the exemption for capacity subject to long-standing contracts that were entered into long before the Resource Adequacy concept even existed. Second, if the restriction is interpreted to apply more generally to the identification of the capacity at issue as Resource Adequacy Capacity prior to January 1, 2009, it nevertheless would impose an unreasonable restriction on the ability of LSEs to utilize capacity procured under pre-existing contracts as Resource Adequacy Capacity. In southern California, Local Capacity Area Requirements currently constitute a high percentage of LSEs' overall Resource Adequacy Capacity Requirements. Under these circumstances, it has not been possible for at

least some LSEs to utilize all of their imported capacity resources procured under pre-existing contracts to meet Resource Adequacy requirements. If, however, changes in the topography of the transmission system reduce the proportion of Local Capacity Area Requirements in relation to total Resource Adequacy Capacity Requirements, LSEs should be able to utilize capacity from imported resources procured under pre-existing contracts as Resource Adequacy Capacity while continuing to honor the terms and conditions of such contracts.

In addition, there can be increases in the capacity available from resources pursuant to pre-existing contracts due to uprates or facilities modifications. Such capacity increases frequently are subject to the original terms of the previously executed resource contract. LSEs that receive entitlements to additional capacity pursuant to contracts executed prior to January 1, 2009 for resources that are eligible to provide Resource Adequacy Capacity exempt from the availability penalties and incentives should be permitted to utilize such increased capacity as Resource Adequacy Capacity consistent with the terms of the applicable contracts and the exemption for the original capacity available under such contracts.

Section 40.9.3 Should be Clarified to State that the Availability Assessment Hours are Limited to Five Hours Per Day: As currently drafted, Section 40.9.3 explains that the Availability Assessment Hours will be determined by the ISO on an annual basis prior to the start of each Resource Adequacy Compliance Year and that they will be specified in a Business Practice Manual. Notwithstanding that the Availability Assessment Hours are significant terms and conditions, the Six Cities recognize that putting such information in the Tariff each year would be burdensome from an administrative standpoint. Therefore, the Six Cities do not oppose the ISO's proposal to reflect the annual availability requirements in the Business Practice Manual, provided that Section 40.9.3 is revised to state explicitly the parameters of the ISO's discretion to establish the Availability Assessment Hours. Specifically, Section 40.9.3 should state that the Availability Assessment Hours shall be limited to a range of five hours per day. The Six Cities suggest that the final sentence of Section 40.9.3 be revised as follows:

> The CAISO shall determine the five-hour range for the Availability Assessment Hours on an annual basis prior to the start of each Resource Adequacy Compliance Year and shall specify them in the Business Practice Manual.

Pre-qualification Criteria for Substitute Resources Are Unduly Restrictive: Section 40.9.4.2.1(1) of the draft Tariff language sets forth criteria for qualifying in advance capacity resources that may be used to substitute for Local Capacity Area Resources that are unavailable. The criteria for pre-qualification of substitute resources, which would require the proposed substitute resource to be located at the same bus as the Local Capacity Area Resource, are unreasonably restrictive. Instead, the criteria for pre-qualification of substitute resources should be the same as those set forth in the last section of Section 40.9.4.2.1(1), which the ISO proposes to apply in evaluating requests for substitution of non-pre-qualified resources following an outage or derate of a Local Capacity Area Resource. Since pre-qualification of substitute resources will reduce the administrative burden on the ISO and uncertainty for LSEs, there is no justification for imposing criteria for pre-qualification that are more restrictive than the criteria that would be applied to a request to substitute following an outage.

Any Outage Reporting Requirements for Resources Rated at Fewer than 10 MW Should Be Set Forth in the Tariff: The Six Cities previously submitted comments objecting to the excessively broad and burdensome outage reporting requirements for certain Resource Adequacy Resources that are smaller than 10 MW. Based upon Section 40.9.5 of the draft Tariff language, it appears that the ISO has rejected the Six Cities' proposal to limit these outage reporting requirements such that the obligation to provide availability data to the ISO for this narrow class of small resources is limited to those resources that wish to be eligible for incentive payments. To the extent that the ISO continues to propose that all Generating Units and Resource-Specific System Resources that are also Resource Adequacy Resources rated at fewer than 10 MW must submit availability-related information to the ISO, such reporting requirements should be set forth in detail in the Tariff and should not be relegated to a Business Practice Manual.

Submitted by:

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