

March 7, 2014

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,  
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA  
ON THE RELIABILITY SERVICES WORKING GROUP MEETING**

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 discussion at the Reliability Services Working Group meeting on February 24, 2014 :

**Request Permission to Extend the CPM and Defer Consideration of a Residual Market Mechanism** - - In light of the discussion at the workshop and information presented in the presentations, the Six Cities urge the ISO to postpone the commitment of ISO and stakeholder resources to the development of a residual market mechanism. As several stakeholders commented on the Issue Paper, the existing RA framework has worked well for California. Generic capacity reserves are ample. LSEs have been diligent in satisfying RA requirements, and use of the CPM for backstop procurement by the ISO has occurred primarily, if not exclusively, to meet unanticipated, "unsystematic" needs. While the Six Cities recognize that patterns of backstop procurement to date may not necessarily carry forward as system needs evolve, there is no justification for simply presuming that backstop procurement needs will become more systematic as opposed to remaining unsystematic. As the Six Cities emphasized in their comments on the Issue Paper, the ISO plans to implement at least four major revisions to market structures and processes over the next eighteen months, *i.e.*, 15-Minute Scheduling, the Full Network Model Expansion, the Energy Imbalance Market, and Flexible Resource Adequacy requirements. Until there is practical experience with how these substantial changes in market design will affect both RA requirements and the operational availability of RA resources, an effort to design a residual procurement market may be unjustified from a cost/benefit perspective or, worse yet, counter-productive. The Six Cities urge the ISO to request a two-year extension of the existing CPM provisions (including the annual percentage increase in the CPM price) until February 2018 and to defer consideration of a residual market mechanism until approximately the first quarter of 2016, which should allow a full year's experience with the market design changes to be implemented later this year and in early 2015.

**Develop or Adapt Energy and Ancillary Services Products and RA Replacement/Substitution Rules to Maximize Availability and Use of Existing and Anticipated Capacity Resources** - - The limited application of the CPM to date to address episodic and unsystematic capacity needs confirms that the existing RA framework effectively satisfies needs for system and local RA resources. Because Flexible RA requirements are not yet in place, there is no direct market experience on which to draw. The information at page 26 of the ISO's workshop presentation, however, indicates that the existing RA resource fleet contains approximately 25,000 MW of flexible capacity that has been operationally available to the ISO through economic bids and more than 20,000 MW of additional RA capacity with flexible attributes that could be made operationally available to the ISO. The Six Cities agree with SCE that it makes the most sense to allow the spot markets to allocate the available capacity and

flexibility attributes. Measures to encourage economic bidding by RA resources (as well as non-RA resources) appear to offer access to low-hanging fruit and ought to be the focus of near-term efforts by the ISO and stakeholders.

Although the ISO's proposed Must-Offer requirements will compel economic bidding by resources capable of meeting the Category 1 eligibility requirements and designated as Category 1 Flexible RA resources, there are additional resources with flexible attributes that will not be able to satisfy the demanding Category 1 criteria and, therefore, will not be subject to the associated Must-Offer requirements. The ISO should seek to identify and develop measures that will encourage System and Local RA and non-RA resources with flexible attributes to participate through economic bidding on a spot market or shorter-term basis. One such measure is the Flexible Capacity Product, which the Cities urge the ISO to develop promptly and to craft in a way to invite participation by as broad an array of resources as possible. In addition, replacement and substitution rules for Flexible RA resources should not impose eligibility requirements more stringent than necessary for the replacement or substitution period. For example, the ISO proposes that a Category 1 Flexible RA resource must be able to start up at least twice a day to be designated for a month. But if a designated Category 1 Flexible RA resource is subject to an outage (either planned or forced) for a week during a month, a use-limited resource with 15 allowed start-ups (as well as sufficient energy availability) should be eligible to serve as a substitute or replacement resource for the seven-day outage.

**Neither a Voluntary/Mandatory Residual Capacity Market nor Increased Standardization Offer Value at This Time** - - The Six Cities discuss under the first topic above the reasons why the uncertain potential benefits of attempting to design a residual capacity market at this time do not justify the costs of doing so. With specific reference to the ISO's workshop presentation, the suggested construct of a voluntary residual capacity market followed by a mandatory residual capacity market appears unlikely to produce benefits. As described by the ISO, the mandatory market would incorporate uncleared bids from the voluntary market. But if there is no requirement that suppliers bid into the voluntary market, there would seem to be no assurance that sufficient bids would be available to meet residual capacity requirements. Under such circumstances, it would appear to be necessary to have a mechanism (such as a CPM) to backstop the voluntary/mandatory residual procurement markets. In addition, some version of a CPM would appear to be necessary to backstop for unsystematic residual capacity needs - - the only residual needs we know are likely to arise from time to time and which are not susceptible to procurement through a market mechanism due to their episodic and specialized qualities. Extending the CPM to allow further experience with the nature of RA backstop needs following implementation of the impending market design changes as recommended above makes more sense than making the effort to work out the details of a residual procurement market that may or may not meet the needs that arise.

For similar reasons, it is unjustified and potentially counter-productive to devote efforts to increasing standardization of capacity products at this time. The unsystematic residual capacity needs that are likely to arise on occasion may involve attributes that are specific to the situation and, hence, may not be resolved by procurement of a standardized capacity product. In addition, as discussed under the second topic above, short-term replacement or substitution resources should not be required to have all the attributes of the RA resources for which they are

standing in - - only those required for the period of replacement/substitution. Increased standardization may impede cost-effective use of available capacity resources to meet non-standardized or short-term needs, which may end up being the only backstop needs that occur.

**Cost Allocation for Backstop Procurement Should Track Cost Causation - -**

Whatever backstop procurement mechanism the ISO considers, allocation of the associated costs should be based strictly on cost causation principles. If resource performance characteristics lead to backstop procurement costs, the relevant resources should bear the associated costs, whether the resources in question are preferred or traditional in nature. To promote both transparency of market processes and fundamental fairness, the ISO should avoid socialization of backstop procurement costs to the maximum extent possible.

Submitted by,

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