

December 16, 2011

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA
REGARDING THE CALIFORNIA ISO REPORT ON BASIS AND NEED FOR
CPM DESIGNATION FOR SUTTER ENERGY CENTER**

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 December 6, 2011 "California ISO Report on Basis and Need for CPM Designation for Sutter Energy Center" (the "Report").

Based on the limited information provided in the Report, the Six Cities strongly oppose the ISO's proposal to request a waiver of applicable Tariff provisions to allow a Capacity Procurement Mechanism ("CPM") designation for the Sutter Energy Center ("Sutter") for 2012 to address potential reliability needs in 2017-2018 under a possible high load scenario. The Report simply does not justify the substantial costs that such a designation would impose on LSEs within the ISO's BAA.

The Report acknowledges that the "Risk of Retirement" provisions in § 43.2.6 of the ISO's Tariff do not permit a CPM designation under the circumstances discussed in the Report. In accepting the risk of retirement designation category included in the Tariff, the FERC emphasized that "the purpose of the risk of retirement category is to allow CAISO to procure needed capacity, as a last resort, in the event that state or local procurement plans do not meet CAISO's operational and reliability needs." 134 FERC ¶ 61,211 at P 126 (emphasis added). The Report does not even come close to demonstrating that the proposed CPM designation for the Sutter plant is necessary as a last resort due to a failure of state or local procurement plans. Rather, the Report simply presumes, without any supporting analysis, that state and local procurement plans will be inadequate to meet a need that might arise in 2017-2018 under a load scenario that might occur. The waiver of Tariff requirements proposed in the Report is not a mere waiver regarding technical details. It is, instead, a fundamental change in the CPM designation paradigm that is completely inconsistent with the rationale and representations that the ISO relied upon in persuading the FERC to accept the risk of retirement designation category.

The Six Cities understand that increasing reliance on Variable Energy Resources will require support from other resources with flexible operating characteristics. The ISO has initiated several stakeholder processes to address those anticipated operational challenges proactively, and the Cities are participating in those processes. But the proposal in the Report effectively seeks to hijack the procurement process before state and local regulatory authorities have even had a chance to respond and to impose considerable costs on ISO customers without any consideration of alternatives. Moreover, there is no reason to think that the burden on ISO customers would be limited to the considerable costs of a CPM designation for the Sutter plant. To the contrary, there is every reason to expect that the action proposed by the Report would

invite threats of retirement and demands for a CPM designation from every generating resource that has not secured a Resource Adequacy contract for whatever reason.

The Six Cities also agree with and support the comments by the California Municipal Utilities Association (“CMUA”) concerning the Report and join CMUA in urging the ISO to reconsider its plan to request a waiver of the Tariff requirements to permit a risk of retirement CPM designation of the Sutter plant and to address the long-terms needs for operational flexibility in a more constructive manner through existing and/or new stakeholder processes.

Submitted by

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