August 6, 2015

COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE FLEXIBLE RESOURCE ADEQUACY CRITERIA AND MUST-OFFER OBLIGATION — PHASE 2 TECHNICAL WORKSHOP

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 regarding the ISO's July 22, 2015 Flexible Resource Adequacy Criteria and Must-Offer Obligation – Phase 2 ("FRAC MOO 2")Technical Workshop:

Further Analysis of Need for Revisions to Flexible Capacity Requirements - - The ISO's presentation in the Technical Workshop suggests substantial revisions to the Flexible RA requirements currently in effect. The ISO has not presented a persuasive case that significant modifications to Flexible RA requirements are necessary to maintain reliability. In the absence of a compelling need, the Cities believe that major revisions to the Flexible RA requirements would impose unnecessary costs on LSEs.

With respect to the ISO's suggestion that downward flexible capacity requirements be imposed, the Six Cities share the views previously expressed by other stakeholders that the ISO has not demonstrated a clear need for a downward flexible capacity requirement. The ISO's data indicate that overgeneration conditions can be expected to occur, and perhaps to increase in frequency, during late winter and early spring. But the ISO has not made a persuasive case that a new downward flexible capacity requirement and substantial revisions to the existing Flexible RA design are necessary to resolve anticipated overgeneration conditions. Market alternatives include further adjustment of the bid floor (if necessary), implementation of the Flexible Ramping Product, and modifications to the pricing of intertie transactions to encourage submission of economic bids at the interties, both in HASP and in the FMM. Moreover, on occasions when those market mechanisms do not elicit a response sufficient to reduce generation to match load, it may be more cost-effective to curtail variable energy production for limited periods than to impose a new, on-going capacity obligation. The ISO does not appear to have made any analysis of the relative costs versus benefits of the many potential solutions for the overgeneration problem.

Consideration of Different Attributes for Downward Flexibility - - If the ISO proceeds with the development of a downward flexible capacity requirement, the definition of eligible resources should take into account the differences in the nature of operational needs for less generation as opposed to more generation. As noted by SDG&E in its comments on the FRAC MOO 2 Issue Paper, overgeneration conditions are more predictable than shortfalls in supply due to contingencies. Therefore, resources providing downward flexibility may not need to be able to ramp as quickly as resources relied on for upward flexibility. Because resources that provide downward flexibility would be reducing output, there should be no need to demonstrate firm deliverability, and energy-only resources should qualify to provide downward Flexible RA. If a downward Flexible RA requirement is developed, the Six Cities recommend consideration of separate requirements for upward and downward flexible capacity with distinct criteria for

eligible resources, recognizing, of course, that some resources may satisfy the criteria applicable for both upward and downward flexibility and, therefore, could supply both.

Encouraging Economic Bids at the Interties - - The ISO has documented that the implementation of the FMM design on May 1, 2014 resulted in a dramatic and persistent reduction in the submission of economic bids at the interties. The graph on page 32 of the Workshop presentation indicates that the implementation of the FMM design did not so much lead to an increase in self-scheduled import and export bids after May 1, 2014, but rather resulted in a substantial decrease in economic bids at the interties, both for imports and exports. From the Cities' perspective, the primary reason for the reduction in economic bids at the interties is the increased price risk for hourly imports or exports awarded in the HASP. Bids in the HASP are awarded based on the HASP advisory price but settled on the basis of the average FMM prices. A decremental import bid in HASP may be awarded based on a negative HASP price but then settled at FMM prices that turn out to be positive due to the elimination of congestion attributable to the reduction of the import. In effect, the SC submitting the decremental import bid is charged for having reduced congestion.

The ISO has not taken any steps to address the price risk for economic bids awarded on the basis of HASP prices but settled at potentially very different FMM prices, perhaps because the ISO was hoping that the risk would encourage submission of economic bids at the interties on a fifteen-minute basis. That clearly has not occurred, however, because the volume of economic bids at the interties remains substantially lower than the levels that prevailed prior to the implementation of the FMM. Many of the import resources relied upon by the Six Cities cannot be bid on a fifteen-minute basis due to operational and/or contractual limitations. Allowing HASP awards to be settled at the HASP prices on which the awards are based would enable economic bids for hourly intertie transactions that could help to address anticipated overgeneration conditions, even if they are not as granular as the ISO would prefer. (If, however, virtual bidding at the interties is reinstated, all virtual bids should be settled at the FMM prices, including virtual intertie bids.)

Self-Scheduled Non-RA Capacity - - Page 56 of the Workshop presentation describes three options the ISO is considering to prohibit or discourage self-scheduling by non-RA resources. At this time, the Six Cities strongly oppose implementation of any of the suggested options. There can be many reasons for self-scheduling a resource, whether RA or non-RA, including operational considerations, long-standing contractual provisions, or local reliability needs. Further, a SC may decide not to utilize a resource for RA purposes precisely to preserve operational discretion. The ISO should not impose restrictions on use of non-RA resources absent a clear demonstration of need. In order to evaluate the potential need for limitations on self-scheduling by non-RA resources and to consider appropriately targeted solutions, the Six Cities request that the ISO provide data regarding the volumes and time profiles for self-scheduling by non-RA resources.

Both Option 1 (absolute prohibition on self-scheduling of non-RA capacity) and Option 2 (automatic bidding by the ISO in the real-time markets of non-RA capacity receiving awards in the Day-Ahead market and not re-bid in real-time by the SC) would impose pervasive and intrusive restrictions on the use of non-RA resources that would be unreasonably burdensome and would impair reliability. As described above, there are many reasons why the SC for a non-RA resource may choose or need to self-schedule the resource. Several of the Cities, for

example, are committed to take or pay contracts that require them to take the full output of the resource, or the unit just cannot move in response to a five-minute or fifteen-minute dispatch order. In other situations, the Cities do not control operation of the resource, and if the unit is running, the Cities must take their minimum shares of the output. The Cities do not have the ability to reduce the output on these resources. Magnolia Power Project ("MPP") is a good example of this sort of situation. If the participants in MPP require that unit to be producing, the participating Cities must take their minimum output. Many SCs submit self-schedules for resources because they have to, not because they want to.

Forcing the submission of economic bids under the types of circumstances described above could not and would not change the operation of the resources and, therefore, would not result in any improvement in system reliability. If forced to submit economic bids for such resources (or if the ISO automatically submits economic bids for the resource), the resource would continue to operate as it does now under a self-schedule, but the SC for the resource would incur deviations, imposing unnecessary costs for no reliability benefit. Indeed, compelling submission of economic bids under such circumstances would be likely to reduce predictability of response to dispatch instructions, thereby exacerbating operational challenges. If the ISO sends a dispatch signal in response to an economic bid and expects the resource to move in response, but the resource is unable to respond, the ISO will still have the same operational challenge but with less notice to address it.

Moreover, forcing submission of economic bids would interfere with the Cities' ability to utilize internal resources to maintain reliability of their local distribution systems. Due to limitations on imports into local distribution systems, several of the Cities must utilize internal resources to maintain local reliability under conditions that are not included in the ISO's optimization model and, therefore, must self-schedule the resources when those conditions occur. If self-scheduling is not an option under such conditions, the resource would either have to deviate from the ISO's dispatch orders, or the resource owner would have to find a way to remove the resource from the ISO markets altogether to be able to use the resource as needed to maintain local reliability. Under either of those options, there would be no benefit to ISO system reliability. There is no justification for imposing operating rules that increase reliability risks for local distribution systems, especially when there would be no reliability benefit for the overall system.

Thus, both Option 1 (absolute prohibition on self-scheduling of a non-RA resource) and Option 2 (automatic bidding by the ISO) will increase the price risks for the SCs for non-RA resources without any off-setting reliability benefit. To the contrary, they would make operational challenges more difficult to manage on a system basis and threaten local reliability. It is particularly unreasonable to impose such pervasive and burdensome restrictions on the use of non-RA resources to address overgeneration that is likely to occur only for a limited portion of the year.

The Six Cities also oppose implementation of Option 3 (adjusting the penalty price parameter for non-RA capacity so that non-RA resources would be curtailed prior to curtailment of other resources). Although Option 3 appears to be more focused, it nevertheless would impose significant burdens on non-RA resources. Again, where the SC for a resource does not control its operation, curtailment will not result in a change in the physical operation of the resource but will simply require the SC to find a way to lay off energy or incur deviation

charges. In light of the many other measures available to address overgeneration conditions, the ISO has not justified imposing such burdens. If, however, there is further consideration of an Option 3-type approach, it must be designed to restrict discretion to use non-RA resources only when necessary to maintain reliability and should be fine-tuned as necessary to serve that objective and to minimize the burden on SCs that are subject to take-or-pay obligations. Moreover, any implementation of an Option 3-type approach must accommodate self-scheduling by non-RA resources to the extent necessary to address local reliability needs (*e.g.*, limitations on energy deliveries to specific distribution systems).

Need for Further Explanation of the Inflexible Capacity Allowance Concept - - During the Workshop the ISO presented a general description of an "inflexible capacity allowance" concept that apparently would be applicable only during low load months of the year. As discussed above, the ISO has not adequately justified substantial modifications to flexible capacity requirements at this time. If, nonetheless, development of limits on inflexible capacity moves forward, additional detail regarding the inflexible capacity allowance concept is necessary to allow evaluation of that construct. Questions the Cities currently have include:

- What types of resources would qualify to provide inflexible capacity allowances?
- Would resources providing inflexible capacity allowances be required to demonstrate deliverability?
- Would resources providing inflexible capacity allowances have to satisfy other criteria and/or obligations applicable to RA resources?
- Does the ISO contemplate a separate market for inflexible capacity allowances?
- What analyses has the ISO conducted of the costs versus benefits of the inflexible capacity allowance concept as compared with other potential measures for addressing overgeneration conditions?

The Six Cities take no position at this time with respect to other topics discussed in the Workshop.

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