

February 12, 2015

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE
RELIABILITY SERVICES DRAFT FINAL PROPOSAL**

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 January 22, 2015 Reliability Services Draft Final Proposal ("Final Proposal"):

I. MSS Load Following Flexible Capacity Requirements - - The Six Cities support in concept the ISO's proposal to require Load Following Metered Subsystems ("MSSs") to provide Flexible RA capacity to support Variable Energy Resources ("VERs") that are not included in the MSS resource portfolio used to follow the MSS load. (Final Proposal at 24-26). However, it would be unjust, unreasonable, and unduly discriminatory to limit this requirement to VERs contracted to Load Following MSSs that are not included in the load following resource portfolio while failing to apply such a requirement to VERs that are contracted to serve load outside the ISO's Balancing Authority Area ("BAA"). Just as VERs contracted to a Load Following MSS but not included in the load following resource portfolio may impose variability on the ISO system that is not addressed through the MSS's load following process, VERs used to supply load outside the ISO BAA impose variability on the ISO system that is not compensated for under the Flexible RA requirements. There is no principled reason for treating such resources differently. In the FRAC-MOO process, the ISO declined to address the variability effects imposed by VERs contracted to serve load outside the ISO BAA. *See, e.g.*, the ISO's Comments/Response Matrix on the Fifth Revised Straw Proposal Stakeholder Comments. The ISO has not provided any analysis showing that VERs contracted to Load Following MSSs but not included in the load following resource portfolios impose any greater variability on the ISO system than VERs contracted to serve load outside the ISO BAA or that there is any other legitimate basis for differential treatment of such resources. Consistent rules should apply to compensation for variability, either through provision of Flexible RA capacity or under a load following portfolio, for all VERs located in the ISO BAA.

II. Availability Incentive Mechanism - - As noted in comments submitted previously in this stakeholder proceeding, the Six Cities support the following elements of the ISO's proposal for the Availability Incentive Mechanism ("RAAIM"):

- Exclusion of use-limited resources from the RAAIM assessment once a use-limitation is reached (Final Proposal at 51-52);
- Monthly assessment of resource availability (Final Proposal at 33, 37);
- Exclusion of capacity on a planned outage for which replacement capacity has not been required from the RAAIM assessment (Final Proposal at 51);
- Retention of the current 5-hour assessment period for system and local RA resources (Final Proposal at 36);

- Capping payments to resources that exceed the performance assessment band at three times the RAAIM price (Final Proposal at 50);
- Conducting a single assessment for generic and flexible capacity (Final Proposal at 33);
- Funding payments to over-performing resources exclusively through charges to under-performing resources (Final Proposal at 34);
- Assessing availability based on submission of bids (Final Proposal at 13, 33);
- Applying a standard availability performance band of 96.5 +/- 2% (Final Proposal at 45-47);
- The proposed treatment of pre-June 28, 2009 contracts (Final Proposal at 57); and
- Adoption of a RAAIM penalty price set at sixty percent of the Capacity Procurement Mechanism (“CPM”) soft offer cap, or \$3.79/kW-mo. initially (Final Proposal at 13, 49).

In addition, the Six Cities support the following elements of the ISO’s RAAIM proposal as described in the Final Proposal:

- Establishment of a three month advisory period for the RAAIM beginning with the implementation date (Final Proposal at 5, 13);
- Exemption from the RAAIM of all capacity types of load following MSS capacity shown by a load following MSS LSE (Final Proposal at 6);

The Six Cities have identified the following concerns with the RAAIM portion of the Draft Final Proposal:

II-A The Draft Final Proposal indicates at page 54 that a PDR resource shown as a Super-peak Flexible RA resource may submit a non-environmental use-limit reached outage once it has been dispatched for five days in a month. As noted at page 3 of the Six Cities’ November 19, 2014 comments, any Super-peak Flexible RA resource should be eligible to submit a non-environmental use-limit reached outage (if desired) after it has been dispatched for five days in a month. There is no justification for limiting eligibility to submit outages under such circumstances only to PDR resources.

II-B As noted above, the Six Cities support the proposed treatment of pre-June 28, 2009 contracts (relabelled in the Final Proposal as “acquired resources”) and do not oppose the substantive elements of the proposed certification to support the exemption. However, the Six Cities do not support a requirement for annual recertification to retain status as an “acquired resource.” Most of the contracts for the Cities’ “acquired resources” have been in place for decades. A requirement for annual recertification is unduly burdensome and unjustified, especially if there are no changes to the relevant contracts. Additionally, the Six Cities recommend including a provision obligating the ISO to respond in a timely manner to all requests for acquired resource status. A timely manner would be at least 30 days before the beginning of the compliance period for which a resource is to be shown as an “acquired resource.”

III. Replacement and Substitution - - The Six Cities support the ISO's efforts to reduce complexity in the replacement and substitution rules and generally support revision of the replacement/substitution timeline to separate the monthly RA process (in which LSEs will be responsible for necessary replacement) and the outage management process (in which suppliers will be responsible for replacement or substitution). The Six Cities specifically support the following proposals relating to replacement/substitution:

- Changing the deadline for submission of Day-Ahead substitute capacity to 8:00 a.m. (Final Proposal at 64);
- Eliminating any replacement requirement for a previously-approved outage that is moved at the direction of the ISO (Final Proposal at 7);
- Allowing Real-Time substitution for system RA (Final Proposal at 14, 64);
- Development of automated capability to allow many-to-many substitutions (Final Proposal at 64);
- Allowing substitution for local RA at a comparable bus (Final Proposal at 65);
- Development of rules to allow system resources to provide substitute capacity for local resources not shown as local RA (Final Proposal at 83);
- Releasing replacement/substitute capacity from RA obligations if an outage is moved or cancelled (Final Proposal at 14, 66, 83);
- Capping an LSE's local capacity requirement at that LSE's system requirement (Final Proposal at 78);

The Six Cities have concerns with and/or oppose the following elements in the Replacement/Substitution portion of the Final Proposal:

III-A The Final Proposal states at page 14 that the "ISO will require substitution [for flexible RA resources] "at the same flexible category or better" At page 65, however, the Final Proposal states that capacity substituting for Flexible RA capacity "must comply with the flexible RA category must-offer requirements of the resource on outage." The requirement stated at page 65 of the Final Proposal is appropriate provided that it is limited to the substitution time period. The Six Cities oppose restrictions on substitution based solely on pre-defined categories. As the Cities have emphasized in multiple sets of comments in this stakeholder proceeding, replacement and substitution rules for RA resources should not impose eligibility requirements more stringent than necessary for the replacement or substitution period or more onerous than the eligibility requirements for the capacity subject to replacement or substitution. 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. This would be consistent with the indication at page 65 of the Final Proposal that substitution will be allowed if the substitute resource can meet the must-offer requirements applicable to the resource for which it is substituting. If the reference to "same flexible category or better" at page 14 of the Final Proposal suggests an additional, category-based requirement, the Six Cities oppose any such requirement as arbitrary, unnecessarily restrictive, and unreasonable.

III-B The Final Proposal indicates at page 82 that in the outage impact assessment process (beginning at T-25 when the replacement/substitution responsibility shifts to suppliers), the ISO will not consider whether the LSE that has contracted for a resource is short or long but will stack outages on a last-in/first-out basis and require replacement until the system is no longer short. A consequence of this is that an LSE may be required to provide replacement or substitute capacity for a resource on an outage even if it has enough other capacity to satisfy its RA requirements. The Six Cities oppose the ISO's proposal to disregard an LSE's capacity in excess of its RA obligations in evaluating whether to require replacement or substitution for a resource on an outage. In addition to being unfair and inconsistent with the cost causation principle, this could encourage LSEs to refrain from designating any resources as RA above their minimum RA requirements. The ISO's presentation for the December 10, 2014 Reliability Services workshop at page 43 outlines an alternative approach that would create two last-in/first-out stacks, one for outages not covered by any LSE long position and a second last-in/first-out stack for outages covered by an LSE long position (*i.e.*, capacity up to the long position). Although the alternative approach still could require an LSE to provide replacement or substitute capacity for a resource on an outage even if it has enough other capacity to satisfy its RA requirements, that would occur only after outages attributed to LSEs that do not have long positions have been replaced and only if other LSEs with long positions provided earlier notice for their outages to the ISO. The Final Proposal does not explain why the ISO abandoned the alternative approach included in the December 10, 2014 presentation, which is a reasonable compromise more consistent with the cost causation principle than the Final Proposal's plan to simply apply a last-in/first-out rule without any consideration of LSE long positions. The Six Cities urge the ISO to adopt the alternative approach included in the December 10, 2014 presentation.

III-C The implementation timeline for changes to the replacement and substitution rules is unclear. The chart at page 61 of the Final Proposal is inconsistent with the text in the paragraph that immediately follows the chart.

Submitted by

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