

October 26, 2015

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA REGARDING THE
RELIABILITY SERVICES INITIATIVE PHASE 2 REVISED STRAW 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 October 7, 2015 Reliability Services Initiative Phase 2: Revised Straw Proposal (the "Revised Straw Proposal").

Substitution for Flexible RA Resources:

The Six Cities strongly oppose the ISO's proposal to require that substitute capacity for Flexible RA capacity on outage be provided by a resource in the "same Category or better" as the resource on outage. (Revised Straw Proposal at 15). While the ISO characterizes the "same Category or better" requirement as a clarification (*id.*), the detailed history of the Reliability Services Initiative Phase 1 dialogue on this subject, set forth below, makes clear that it is no such thing; rather, it is a significant additional restriction on substitution for Flexible RA that is not justified to maintain reliability, will impose unnecessary capacity costs on LSEs, and is inconsistent with other initiatives that supposedly will reduce capacity costs by allowing optimal use of capacity resources.

Tariff § 40.9.3.6.1(e)(2) provides that the ISO will allow substitution for Flexible RA capacity if the substitute resource

. . . has adequate deliverable capacity to provide the RA Substitute Capacity, meets the applicable requirements in Sections 40.9.3.6.1(e) and 40.9.3.6(b), and is capable of meeting the must-offer obligation in Section 40.10.6 applicable to the highest quality Flexible Capacity Category for the MWs of the Flexible RA Capacity commitments of the resource on outage and the alternate resource. (Emphasis added).

The underlined language does not say and is not the same as saying that the substitute resource must be in the same Category or better as the resource on outage.

As the Six Cities have asserted throughout the Reliability Services Initiative Phase 1 and Phase 2 to date, the replacement/substitution rules should reflect not only the operating characteristics of the RA capacity affected by an outage (whether planned or forced) but also the duration of the outage. Replacement/substitution rules for RA resources should not impose eligibility requirements more stringent than necessary for the replacement/substitution period nor more onerous than the eligibility requirements for the capacity subject to replacement/substitution during that period. The replacement/substitution rules should allow the broadest possible array of resources to satisfy the replacement/substitution requirement consistent with maintaining reliability.

A requirement that substitute capacity for Flexible RA capacity be “capable of meeting the must-offer obligation” of the RA capacity on outage is consistent with the foregoing principle and reasonably related to maintaining reliability. Requiring substitute capacity to satisfy the must-offer obligation applicable to the capacity on outage for the duration of the substitution will maintain the contribution to reliability that would have been provided by the capacity on outage.

In contrast, a requirement that capacity substituting for Flexible RA capacity be in the same Category or better as the capacity on outage ignores the duration of the outage, is not necessary to maintain reliability, and will simply impose unnecessary costs. For an outage of limited duration, it is unreasonable to require a replacement resource to satisfy all of the eligibility criteria for the Category applicable to the resource to be replaced, as proposed at page 15 of the Revised Straw Proposal. A Category 1 Flexible RA resource must be able to start up at least twice a day to be designated for a month, for a total of 60 starts for the 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 replacement/substitute resource for the seven-day outage, as it will be able to meet the availability requirements for the resource on outage during the outage period. Allowing such substitution will not result in any diminution in reliability.

The ISO’s presentation materials for the October 14, 2015 stakeholder discussion suggested at slide 17 that absent a “same Category or better” requirement for substitute capacity, a Scheduling Coordinator could include a resource eligible for one Category on a monthly RA plan and then substitute for it the next day with a resource that cannot meet the eligibility requirements for the Category. The example at slide 17 implies that a Scheduling Coordinator would seek to substitute a non-eligible resource for the remainder of the month for which the original resource was designated. But that would not be consistent with the requirement in the current tariff language that the substitute capacity be capable of meeting the must-offer obligations applicable to the original resource for the duration of the outage.

During the October 14th stakeholder discussion, ISO representatives also raised a concern regarding the ability to verify a substitute resource’s ability to meet the must-offer requirements applicable to the resource on outage. There is no obvious reason why verification of the operating capabilities of substitute capacity is any more challenging than verifying the eligibility of designated Flexible RA capacity. It is generally the case that the ISO must depend on representations by Scheduling Coordinators, reinforced by market conduct rules and after-the-fact performance data. The RAIM assessment is based on retrospective review of bid submissions. If the Scheduling Coordinator for substitute capacity does not comply with the bidding obligations during the substitution period, it will be subject to RAIM non-availability charges. If substitute capacity is not capable of meeting the must-offer obligation of the capacity on outage for the duration of the substitution period, but the responsible Scheduling Coordinator nevertheless designates the capacity or submits bids knowing that it cannot fulfill its obligations, it would be exposed to potential market conduct violations as well as RAIM charges. Although misrepresentations with regard to the capability of substitute capacity resources could occur, they could occur just as easily with respect to substitute capacity in the same Category as the resource on outage or even with respect to the original designation of the Flexible RA capacity, and a Scheduling Coordinator making such misrepresentations would be subject to market conduct violations as well as RAIM charges.

Imposing a “same Category or better” requirement on substitution for Flexible RA capacity is inconsistent with efficient use of existing capacity resources and will undermine any ostensible capacity savings associated with expanded regional integration. The Energy + Environmental Economics report on Regional Coordination in the West: Benefits of PacifiCorp and California ISO Integration (the “E3 Benefits Report”) estimates present value benefits to ISO customers of \$767 million resulting from lower peak capacity needs. (E3 Benefits Report at 30). Any benefits from reducing peak capacity requirements will be illusory, however, if the ISO imposes unnecessary restrictions on the recognition of flexible capacity attributes such that LSEs must procure additional capacity to provide operating flexibility rather than meeting peak load. The objective of the ISO’s replacement/substitution rules should be to maintain reliability by ensuring availability of capacity sufficient to meet operational needs while avoiding procurement of unnecessary, excess capacity. The requirement in the current tariff language that substitute capacity be capable of meeting the must-offer obligations of the capacity for which it is substituting is consistent with that objective; the proposed “same Category or better” restriction is not.

Finally, contrary to the characterization in the Revised Straw Proposal, imposing a “same Category or better” requirement is not a clarification; it is a reversal of the outcome of the dialogue on this issue in Reliability Services Initiative Phase 1. The timeline for the back-and-forth on this issue in the Phase 1 stakeholder process is as follows:

June 5, 2014 Phase 1 Straw Proposal - - included at page 49 a suggestion for a “same Category or better” requirement for substitution for a flexible resource on outage.

June 26, 2014 - - Six Cities submitted comments challenging the “same Category or better” proposal as unnecessarily restrictive.

August 11, 2014 - - The second Phase 1 Straw Proposal included at pages 48-49 the proposal for a “same Category or better” requirement to substitute for Flexible RA capacity.

September 5, 2014 - - Six Cities submitted comments on the August 11th Straw Proposal again challenging the “same Category or better” requirement as unnecessary and inefficient.

October 22, 2014 - - Consistent with the October 30, 2014 matrix of comments/responses quoted below, the ISO’s Second Revised Draft Straw Proposal for Phase 1 stated at page 61:

In the event of an outage causing flexible RA capacity to be subject to the availability incentive mechanism, the ISO will allow the scheduling coordinator for the capacity to provide forced outage substitute capacity. This capacity must comply with the flexible RA category must-offer requirements of the resource on outage.

October 30, 2014 - - The ISO’s matrix of stakeholder comments and responses on the Second Straw Proposal responded to the Six Cities’ September 5th comments, stating at page 78:

The ISO appreciates Six Cities input on the category restrictions for flexible substitution and has revised the rules to only require that the substitute resource take on the must-offer requirement (or better) of the resource on outage. The ISO will not monitor the minimum category of the substitute resource and will allow scheduling coordinators to determine their own level of risk.

November 19, 2014 - - The Six Cities submitted comments on the October 22nd Second Revised Draft Straw Proposal for Phase 1 supporting the element “[a]llowing substitution for Flexible RA capacity based on the ability of the substitute resource to comply with the Flexible RA category must-offer requirements of the resource on outage.”

December 10, 2014 - - Contrary to the statement in the matrix of stakeholder comments/responses and the language at page 61 of the October 22 Second Revised Straw Proposal, Slide 35 of the presentation for a Reliability Services Working Group discussion indicated that the ISO intended to “Propose category or better substitution rules for flexible RA.”

December 19, 2014 - - The Six Cities submitted comments on the December 10th Working Group discussion highlighting the inconsistency between the statement at Slide 35 of the December 10th presentation and the statement in the October 30th matrix of stakeholder comments/responses and the language at page 61 of the October 22nd Second Revised Straw Proposal and again challenging any “same Category or better” restriction as unnecessary.

January 22, 2015 - - The Phase 1 Draft Final Proposal stated 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 Draft Final Proposal stated that capacity substituting for Flexible RA capacity “must comply with the flexible RA category must-offer requirements of the resource on outage.”

February 12, 2015 - - The Six Cities submitted comments on the January 22nd Draft Final Proposal emphasizing the inconsistency between the “same Category or better” restriction described at page 14 and the language at page 65 focusing on the must-offer requirements of the resource on outage and again challenging any restriction based solely on category.

February 27, 2015 - - The Phase 1 Draft Final Proposal Addendum stated at page 9:

The ISO will require substitution at the same flexible category or better must offer obligation There will be no check for substitution on whether the resource can meet the minimum flexible category over the entire month. (Emphasis added).

At page 60 the Draft Final Proposal Addendum stated:

In the event of an outage causing flexible RA capacity to be subject to the availability incentive mechanism, the ISO will allow the scheduling coordinator for the capacity to provide forced outage substitute capacity. This capacity must comply with the

flexible RA category must-offer requirements of the resource on outage.

May 29, 2015 - - The Phase 1 tariff amendments filed in FERC Docket No. ER15-1825-000 provide at Section 40.9.3.6.2(e)(2):

The CAISO will grant the request [to substitute for a Flexible RA resource subject to a forced outage or de-rate] if the alternate resource has adequate deliverable capacity to provide the RA Substitute Capacity, meets the applicable requirements in Sections 40.9.3.6.1(e) and 40.9.3.6(b), and is capable of meeting the must-offer obligation in Section 40.10.6 applicable to the highest quality Flexible Capacity Category for the MWs of the Flexible RA Capacity commitments of the resource on outage and the alternate resource.

See also page 55 of the Transmittal Letter for the filing in Docket No. ER15-1825-000.

This laborious recitation of the dialogue on the proposed “same Category or better” restriction demonstrates that the current tariff language properly focuses on the ability of a substitute resource to meet the must-offer obligations of the resource on outage, not the Category designation or the general eligibility criteria for the Category designation. The substitution rules should focus on the ability of the substitute resource to perform during the outage period in the same fashion as the resource on outage. Requiring a substitute resource to satisfy the monthly eligibility requirements for the Category of the resource on outage is overly restrictive and inefficient.

Process for Updating Effective Flexible Capacity and/or Operational Parameters:

The Six Cities suggest that the ISO publish the annual Net Qualifying Capacity (“NQC”) and Effective Flexible Capacity (“EFC”) lists by T-45D, where T is the deadline for submitting the annual RA showing. This will allow Scheduling Coordinators sufficient time to enter into capacity contracts where necessary.

The Revised Straw Proposal indicates at pages 22-23 that the ISO will allow updates to NQC and EFC values during the course of the year. The Six Cities support allowing updates to NQC or EFC values, either for increases or decreases, to reflect changes in operating characteristics. Where changes in operating characteristics result in a reduction in NQC or EFC, updating these values will allow the ISO to assess compliance with RA obligations more accurately. Allowing updates to reflect changes in operating characteristics or permit terms that increase NQC or EFC will encourage Scheduling Coordinators to pursue modifications to permits or operating capability that will improve the ability of resources to offer flexible capacity to the ISO markets.

Streamlining Monthly RA Processes:

To streamline the monthly RA processes, the ISO proposes to automatically roll all RA showings made in annual plans into the monthly showings for all LSEs, while allowing LSEs to

modify any monthly showing as necessary to reflect changes from the annual plan. (Revised Straw Proposal at 30). The Six Cities request that the ISO allow the same rollover of annual plans into monthly plans for supply plans as well, subject to revisions to the monthly supply plans at the request of the appropriate Scheduling Coordinator.

Application of RAAIM to Combination Flexible RA Resources:

The Six Cities very much appreciate the ISO's efforts to develop the "pseudo-resource" concept, and it appears to be preferable to the exemption approach suggested previously. The Cities request additional explanation, however, as to the application of the pseudo-resource concept and have the following questions:

Assume the following combination resource consisting of Resources A and B:

Pmax of each resource = 100 MW

Resources A and B each shown separately for 100 MW of System RA

Combination Resource A/B shown for 75 MW of Category 1 Flexible RA.

(1) During Month 1, Resource A is able to meet the must-offer obligation for the 75 MW of Flexible RA, because it is not dispatched enough to exceed its use limitations. Resources A and B each submit either economic bids or self-schedules as required to satisfy the System RA must-offer obligations.

- (a) Would the A/B combination resource have 100% availability for Flexible RA based on the pseudo-resource approach?
- (b) Would Resource A and Resource B each have 100% availability for System RA? If so, would each resource (both A and B) be paid the full RAAIM incentive in settlement comparable to a resource not shown as a combination resource?

(2) During Month 2, Resource A submits economic bids to satisfy the combination Flexible RA must-offer requirement for 20 days of the month, and Resource B submits economic bids to satisfy the Flexible RA must-offer requirement for 10 days of the month. Resource A submits economic bids or self-schedules as required to satisfy its must-offer obligation for 100 MW of System RA. Resource B, however, has an outage for five days and does not provide substitute capacity.

- (a) Would the A/B combination have 100% availability for Flexible RA based on the pseudo-resource approach?
- (b) Would Resource A have 100% availability for System RA? If so, would Resource A receive the full RAAIM incentive in settlement?
- (c) Would Resource B's five day outage result in <100% availability for System RA? If so, would Resource B be charged a RAAIM penalty in settlement?

(3) During Month 3, Resource A submits economic bids to satisfy the combination Flexible RA must-offer requirement for 20 days of the month, and Resource B submits economic bids to satisfy the Flexible RA must-offer requirement for 5 days of the month. Resource A submits economic bids or self-schedules as required to satisfy its must-offer obligation for 100 MW of System RA. Resource B, however, has an outage for 5 days and does not provide substitute capacity.

- (a) Would the A/B Combination have <100% availability based on the failure to meet the 75 MW Flexible RA must-offer obligation for 5 days?
- (b) Would Resource A have 100% availability for System RA?
- (c) Would Resource B have <100% availability for System RA based on its 5 day outage?
- (d) Please explain the final RAAIM settlement for each Resource.

Substitution for Local Capacity Procured for System Requirements:

Based on the description in the Revised Straw Proposal, the ISO's recommended substitution rule for Local capacity that is shown for System RA appears to be fair.

Submitted by

Bonnie S. Blair
Thompson Coburn LLP
1909 K Street N.W.
Suite 600
Washington, D.C. 20006-1167
bblair@thompsoncoburn.com
202-585-6905

Attorney for the Cities of Anaheim, Azusa,
Banning, Colton, Pasadena, and Riverside,
California