

Stakeholder Comments Template

Subject: Reliability Services

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the Draft Straw Proposal for the Reliability Services initiative that was posted on June 5th, 2014. Upon completion of this template please submit it to RSA@caiso.com. Submissions are requested by close of business on **June 26th, 2014**.

1. Please provide feedback on Part 1: Minimum eligibility criteria and must-offer rules.

a. Comments on proposal portion of section

i. Eligibility criteria

Six Cities' Response: The Six Cities support the ISO's proposal to apply the same availability/eligibility criteria for a resource classification of distributed generation facilities (defined as including all generating resources connected to the Distribution System of a Utility Distribution Company) as those applied to the same resource classification interconnected to the ISO Controlled Grid.

The Six Cities have no comments at this time on the proposed eligibility criteria for non-generator resources and Proxy Demand Resources.

ii. Must-offer requirements

Six Cities' Response: The Six Cities support the ISO's proposal to apply the same must-offer obligations to a resource classification of distributed generation facilities (defined as including all generating resources connected to the Distribution System of a Utility Distribution Company) as those applied to the same resource classification interconnected to the ISO Controlled Grid.

The Six Cities have no comments at this time on the proposed must-offer requirements for non-generator resources.

b. Comments on phase 2 consideration items

i. Intertie resources

Six Cities' Response: The Six Cities encourage the ISO to address in phase 1 of the Reliability Services stakeholder process, rather than deferring until phase 2, the ability of intertie resources to contribute to flexible capacity needs. In general, the ISO should seek to develop Resource Adequacy rules that allow LSEs to maximize the use of existing flexible resources both inside and outside the ISO BAA while maintaining system reliability. Considering the data in Figure 3, it appears that intertie resources dispatchable on a 15-minute basis or even a 60-minute basis could make a substantial contribution toward overall flexibility requirements. The ISO should consider differentiating among flexible capacity requirements to allow resources that are dispatchable on a 15-minute or 60-minute basis, including but not limited to intertie resources, to satisfy portions of flexibility needs while retaining more limited requirements for resources with 5-minute dispatch capability.

ii. Block dispatchable pumping load

Six Cities' Response: The Six Cities have no comments at this time on this portion of the Straw Proposal.

iii. ISO dependence on MCC buckets

Six Cities' Response: The Six Cities have no comments at this time on this portion of the Straw Proposal.

c. Other comments

Six Cities' Response: The Six Cities have no other comments on Part 1 of the Straw Proposal at this time.

2. Please provide feedback on Part 2: Availability Incentive Mechanism.

a. Comments on the general direction of the design

Six Cities' Response: The Six Cities have no comments on this topic at this time.

b. Comments on design features

i. Bid-based assessment

Six Cities' Response: Provided it is clear that submission of a self-schedule for system or local RA capacity satisfies the availability

requirement, the Six Cities generally do not oppose assessment of resource availability based on submission of bids.

ii. Fixed availability percentage band

Six Cities' Response: The Six Cities have no comments at this time on this portion of the Straw Proposal.

iii. Single assessment for flexible and generic overlapping capacity

Six Cities' Response: The Six Cities have no comments at this time on this portion of the Straw Proposal.

iv. Other features

Six Cities' Response: During the June 23, 2014 stakeholder conference call, there was a suggestion to apply the availability performance calculation on a monthly basis rather than a daily basis. The Six Cities support that suggestion, as basing the availability assessment on average monthly performance will mitigate the impact of anomalous events that could have a disproportionate impact on daily performance.

c. Comments on price

Six Cities' Response: The Six Cities have no comments at this time on this portion of the Straw Proposal.

d. Comments on capacity and resource exemptions

Six Cities' Response: The Six Cities support the ISO's proposal to exclude from the availability calculation process use-limited resources that have reached or passed applicable use limitations, including (but not limited to) daily, monthly, or annual restrictions on number of starts or operating hours.

The Six Cities oppose the ISO's proposal to rescind the exemption from availability penalties/payments for currently grandfathered resources subject to resource-specific contracts entered into prior to June 28, 2009. The ISO has not demonstrated that the currently effective exemption for grandfathered resources has resulted in any impairment of system reliability. The grandfathered resource exemption appropriately recognizes that contracts entered into prior to the adoption of availability standards may give rise to additional risks or challenges to avoiding penalties. The ISO should continue to respect pre-existing contractual commitments and limitations and should keep the exemption from availability penalties/payments for grandfathered resources in place unless and until there is a compelling reason, based on a demonstrable reliability concern, to revoke the exemption. The ISO has not demonstrated that such a reason exists.

Two of the Six Cities (Pasadena and Riverside) require the use of internal generation facilities during peak load periods to maintain local reliability as a result of limitations on their ability to import into their UDC areas sufficient energy to serve their maximum loads. To the extent their internal resources are designated for System or Local RA capacity, the Cities assume that self-scheduling such resources would meet the availability test. Where such resources are designated as Flexible RA, however, they should be exempt from the availability assessment process during periods when they must be used to maintain local reliability.

e. Other Comments

Six Cities' Response: The Six Cities support the ISO's proposal that payments to resources for availability more than 2% above the average be funded exclusively through charges to resources for availability lower than 2% below the average. In months when no resources are eligible for availability payments, the revenues from non-availability penalties applied during that month should be distributed to Measured Demand.

3. Please provide feedback on Part 3: Replacement and Substitution.

a. Comments on scope

Six Cities' Response: In light of the existing complexities relating to replacement and substitution issues, the Six Cities suggest that these topics be addressed through a separate stakeholder process focused on reform of the current rules for replacement and substitution as well as the development of replacement and substitution rules applicable to Flexible RA resources.

b. Comments on replacement and substitution issues

i. Complexity

Six Cities' Response: The Six Cities agree that complexity in replacement and substitution rules is a significant problem.

ii. CPM designation risk

Six Cities' Response: The Six Cities have no comments at this time on this issue.

iii. Resource leaning

Six Cities' Response: The Six Cities have no comments at this time on this issue.

iv. Other issues

Six Cities' Response: The Six Cities have no comments on other issues at this time.

c. Comments on flexible replacement proposal

Six Cities' Response: The ISO's proposed terms for replacement of Flexible RA resources are unnecessarily restrictive. For example, it is unreasonable to require a replacement resource to satisfy all of the criteria for the category applicable to the resource to be replaced. In general, 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. 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. In general, the ISO should craft replacement and substitution rules to allow the broadest possible array of resources to satisfy the replacement/substitution requirement consistent with maintaining reliability.

d. Comments on flexible substitution proposal

Six Cities' Response: See the comments on sub-part c above. In addition, the Six Cities encourage the ISO to consider allowing real-time substitution for RA resources (both flexible and generic) with after-the-fact determination regarding the suitability of the substitute resource. Allowing real-time substitution for RA resources would encourage SCs to make resources capable of operating available to the ISO when designated RA resources are subject to forced outage. Although the Cities recognize that it may not be feasible for the ISO to pre-approve a substitution request submitted after the close of the Day-Ahead Market, it is not obvious why advance approval is essential either from the perspective of the ISO or from the perspective of the SC offering the substitute resource. If an SC makes available an alternative resource and requests that it be recognized as a substitute for RA capacity that is not available, and the ISO determines after-the-fact that the substitute resource was useful in meeting the ISO's needs, it would be reasonable to excuse the non-availability penalty otherwise applicable to the original resource. Alternatively, if the proposed substitute resource could not effectively meet the ISO's needs, then the non-availability penalty should apply. An SC offering a substitute resource in the Real-Time Market could not be assured in advance that the substitution would be accepted, but there still would

be an incentive to offer a substitute resource if there was a possibility of avoiding or mitigating a non-availability penalty.

- e. Other comments

Six Cities' Response: The Cities have no other comments at this time.

4. Please provide feedback on Part 4: Capacity Procurement Mechanism.

- a. Comments on index price

Six Cities' Response: The Six Cities have no comments at this time on this portion of the Straw Proposal.

- b. Comments on competitive solicitation process:

Six Cities' Response: Provided that the competitive solicitation approach includes effective measures for mitigating market power, the Six Cities generally support the concept of annual and monthly competitive solicitations with selected resources paid as-bid.

- c. Comments on other changes potentially needed to CPM

Six Cities' Response: The Six Cities suggest that the structure of the competitive solicitation process include the ability for resources to offer capacity for periods of less than thirty days, including weekly or daily capacity, and to vary their offer prices based on the length of the term offered.

- d. Comments on CPM price

Six Cities' Response: The Six Cities support the concept of paying resources procured through the competitive solicitation process based on the as-bid price (as opposed to a uniform clearing price), subject to appropriate market power mitigation measures.

- e. Comments on supply-side market power mitigation measures

Six Cities' Response: The Six Cities support the ISO's proposal to limit bidding flexibility within the competitive solicitation process by precluding changes in capacity offer prices after a deficiency has been identified.

The Six Cities also support assessment of market power based on resource capabilities as well as locational considerations. This is particularly important given the episodic nature of CPM designations and the granularity of reliability concerns that give rise to CPM designations.

The Six Cities also agree that there should be an offer cap on capacity offers submitted in the competitive solicitation process. Because CPM designations apply solely to existing resources, the offer cap should be based on a measure of going-forward costs for existing resources. It would not be appropriate to establish an offer cap based on net CONE, as CPM designations cannot apply to new resources. Further, given the limited occurrence and resource-specific nature of CPM designations, the CPM price cannot be expected to affect development of new resources.

f. Comments on demand-side market power mitigation measures

Six Cities' Response: There is no apparent need for demand-side market power mitigation measures if resources selected through the competitive solicitation process are paid their as-bid price as opposed to a market clearing price. LSEs will have no incentive to offer resources at prices below cost, and resources that are needed and selected will be paid at their offered prices. An artificially determined price floor is unjustified and will only have the effect of unnecessarily increasing costs to ratepayers.

g. Other comments

Six Cities' Response: The Six Cities have no additional comments at this time.