December 19, 2014

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA RE THE DECEMBER 10, 2014 RELIABILITY SERVICES WORKING GROUP DISCUSSION**

In response to the ISO's December 10, 2014 presentation and Reliability Services Working Group discussion, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") submit the following comments regarding elements of the ISO's Reliability Services proposals.

As noted in their November 19, 2014 comments in this stakeholder proceeding, the Six Cities support the following elements of the ISO's proposal for the Availability Incentive Mechanism:

- Exclusion of use-limited resources from the RAAIM assessment once a use-limitation is reached;
- Monthly assessment of resource availability;
- Exclusion of capacity on a planned outage for which replacement capacity has not been required from the RAAIM assessment;
- Retention of the current 5-hour assessment period for system and local RA resources;
- Capping payments to resources that exceed the performance assessment band at 3 times the RAAIM price;
- Conducting a single assessment for generic and flexible capacity;
- Funding payments to over-performing resources exclusively though charges to under-performing resources;
- Assessing availability based on submission of bids;
- Applying a standard availability performance band of 96.5 +/- 2%; and
- The proposed treatment of pre-June 28, 2009 contracts.

The Six Cities do not object to the ISO's proposal, presented during the December 10$^{th}$ Working Group discussion, to increase the RAAIM penalty price to sixty percent of the Capacity Procurement Mechanism ("CPM") soft offer cap, or \$3.79/kW-mo. initially. However, the Cities are concerned that the proposal to apply an increased RAAIM penalty during a CPM event may create greater complexity, administrative burden, and uncertainty than is justified by whatever increased incentive effect such a provision might have. The December 10$^{th}$ presentation materials at pages 14-15 identify a number of questions regarding how such an increased penalty mechanism would apply, and it would appear to require potentially burdensome evaluation of specific factual contexts by the ISO. Considering the circumstances under which the CPM has been used to date, it seems unlikely that an enhanced penalty provision will have incremental incentive value sufficient to justify the complexities of developing and implementing the provision. If the ISO nevertheless proceeds to adopt an enhanced RAAIM penalty during CPM events, then the incremental revenues resulting from the application of the enhanced penalty should be allocated to measured demand, consistent with the allocation of costs for CPM procurement.

In connection with the Reliability Services Initiative and the Commitment Cost Enhancements Phase 2 proposal, the definition of use-limited resources should be clarified. The proposed definition as worded on page 21 of the December 10 presentation materials incorrectly suggests that the ISO is responsible for establishing use limitations. To clarify the sources of use limitations, the Six Cities suggest the following modifications to the definition:

> A resource with non-economic and non-contractual limitations the CAISO optimization cannot model but for the inclusion of opportunity cost adders. Use limitations may include environmental or operational restrictions established by governmental authorities through statute, regulation, or ordinance and that are included in the ISO's optimization model by means of opportunity cost adders.

In addition, as noted at page 3 of their November 19, 2014 comments, the Six Cities request confirmation that any Super-peak Flexible RA resource may submit a non-environmental use-limit reached outage (if desired) after it has been dispatched for five days in a month.

With respect to the ISO's replacement and substitution proposals, 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.;
- Eliminating any replacement requirement for a previously-approved outage that is moved at the direction of the ISO;
- Allowing Real-Time substitution for system RA;
- Allowing substitution for local RA at a comparable bus;
- Development of rules to allow system resources to provide substitute capacity for local resources not shown as local RA;
- Releasing replacement/substitute capacity from RA obligations if an outage is moved or cancelled; and
- Adjusting the system RA requirement for outage impact assessment purposes by the amount of any system deficiency for which the ISO has determined not to make a CPM designation.

The Six Cities seek clarification of the statement at page 35 of the December 10th presentation materials that the ISO intends to "Propose category or better substitution rules for flexible RA." The October 22, 2014 Second Revised Straw Proposal indicated at page 61 that the ISO would allow 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. The Six Cities support the approach described at page 61 of the Second Revised Straw Proposal and oppose restrictions on substitution based solely on pre-defined categories. As the Cities emphasized in their April 9, 2014 comments on the Second Reliability Services Working Group Meeting, 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 in the Second Revised Straw Proposal that substitution would be allowed if the substitute resource can meet the must-offer requirements applicable to the resource for which it is substituting.

In their November 19, 2014 comments, the Six Cities expressed concern about the statement at page 78 of the Second Revised Straw Proposal that after 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. The December 10th presentation 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 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 Six Cities support the alternative approach included in the December 10th presentation as a reasonable compromise that is more consistent with the cost causation principle than the original proposal to simply apply a last-in/first-out rule without any consideration of LSE long positions.

Submitted by

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