

June 1, 2011

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,  
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA REGARDING  
REDESIGN OF THE REAL-TIME IMBALANCE ENERGY OFFSET**

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 in response to the ISO's May 18, 2011 Revised Straw Proposal and Options for an Intermediate Term Solution on Redesign of the Real-Time Imbalance Energy Offset (the "Revised Straw Proposal").

Threshold for Emergency Filing and Settlement Rule: The Six Cities support the ISO's proposal to submit an emergency filing with FERC to implement a settlement rule to reverse any gains attributable to the differential between HASP and Real-Time prices where a Scheduling Coordinator ("SC") submits balanced and offsetting internal virtual demand and physical/virtual import positions if the 30-day rolling cumulative quantity of real-time imbalance energy offset attributable to balancing and offsetting intertie positions and virtual internal positions reaches a specified threshold, as detailed in Section 4 of the Revised Straw Proposal. However, the \$20 million threshold suggested in the Revised Straw Proposal remains too high and could allow the bidding practice at issue to impose unreasonably inflated real-time imbalance energy offset costs on loads. The Six Cities agree with the California Public Utilities Commission and Southern California Edison Company that the threshold for triggering an emergency filing to implement the revised settlement rule should be \$15 million over a 30-day rolling period. As an alternative to imposition of the suggested settlement rule, the Six Cities recommend that the ISO consider an emergency filing to suspend virtual bidding at the interties if the \$15 million threshold is reached.

Intermediate Term Options to Align HASP-Real-Time Pricing: The Six Cities appreciate and support the ISO's efforts to identify more comprehensive, intermediate solutions to prevent persistent exploitation of differences between HASP and Real-Time prices either through virtual or physical bids and to promote convergence of IFM, HASP and Real-Time prices.

The Six Cities support further consideration of the Pay as Bid option for physical intertie transactions with all virtual intertie transactions liquidated at the Real-Time price. The Six Cities do not support a Pay as Bid or Better approach.

Responsibility for Energy Replacement Costs and Allocation of Imbalance Energy Offset Costs: The Six Cities support the suggestion by Powerex that the ISO charge Scheduling Coordinators that fail to deliver on HASP import awards for replacement energy at the Real-Time price. It is fully consistent with cost causation principles to require a Scheduling Coordinator that does not deliver import energy awarded in HASP to pay the cost for replacement energy at the Real-Time price.

The Six Cities also support further consideration of allocating Real-Time Imbalance Energy Offset costs to all market participants rather than just to measured demand. To the extent Real-Time Imbalance Energy Offsets are attributable to market design imperfections (or exploitation of market design imperfections), the costs should be shared by all entities that participate in and benefit from the markets. Not only would market-wide allocation of offset costs be more consistent with cost causation, it also would reduce incentives to engage in bidding strategies that have the effect of increasing offset costs.

Submitted by

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

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