

March 3, 2010

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA REGARDING
STANDARD CAPACITY PRODUCT II 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 on the ISO's February 19, 2010 Standard Capacity Product II Draft Final Proposal ("SCP II Proposal").

Replacement Rule for Planned Outages of RA Resources:

The Six Cities strongly oppose the adoption of a Replacement Rule for RA resources on planned outages as that rule is framed in the SCP II Proposal. The Replacement Rule as proposed would: (1) impose requirements more onerous than the current replacement rule in effect for entities subject to the jurisdiction of the California Public Utilities Commission ("CPUC"), (2) inappropriately generalize one element of the CPUC's RA structure without regard to its relationship with other elements, (3) impose additional capacity costs on consumers without any demonstration that such costs are necessary to maintain reliability, and (4) inappropriately and unnecessarily discourage planned maintenance.

The proposed Replacement Rule was not initially a part of the SCP II process but apparently was added at the suggestion of some participants in CPUC proceedings relating to the CPUC's RA program. The CPUC currently applies a different form of replacement rule to the entities subject to its jurisdiction. The Replacement Rule in the SCP II proposal would impose requirements that are more onerous than the CPUC replacement rule and, moreover, would generalize inappropriately one element of the CPUC's RA framework in isolation from other elements.

Based on the descriptions of the CPUC's replacement rule set forth in comments by other stakeholders, the CPUC's rule does not require replacement of Local RA capacity with capacity resources from the same Local area. In contrast, the proposed Replacement Rule in the SCP II Proposal would require the Scheduling Coordinator for a Local RA resource on a planned outage to replace that resource with capacity from the same Local area or pay for ICPM capacity designated by the ISO. The ISO's proposal thus goes beyond the CPUC's replacement rule by imposing significantly more onerous replacement requirements than will be necessary to maintain reliability if the CPUC eliminates its current replacement rule.

More fundamentally, it is inappropriate for the ISO to adopt (and expand) one element of the CPUC's RA program in isolation without considering the relationship between that element and other features of the CPUC's RA framework. The CPUC's current replacement requirement is part of a construct that allows CPUC jurisdictional entities to count toward RA requirements 115 percent of participation in demand response programs. The RA counting rules adopted by other Local Regulatory Authorities may or may not address demand response programs in the same

fashion, and LSEs may not rely on demand response programs for RA capacity to the same degree. Treating entities that are similarly situated differently is unduly discriminatory, but it may be equally discriminatory to treat entities that are different the same. The ISO has not made available any analysis evaluating the relationships among the different elements of the CPUC's RA program and the appropriateness of applying any replacement rule, much less a more onerous replacement rule, in the broader context of the total RA resources supporting the ISO Balancing Authority Area.

The SCP II Proposal does not demonstrate that the additional costs that the Replacement Rule will impose are necessary and reasonable to maintain reliability and, indeed, represents a fundamental change in the scope of ICPM designations. Tariff Section 43.1.3 provides that the ISO may make ICPM designations only when there is an overall deficiency in meeting reliability requirements. RA requirements are based upon planning reserve margins that generally take planned outages into account. Further, SCs must coordinate planned outages with the ISO, and the ISO therefore can influence the timing for outages. When the minimum designation period for ICPM capacity is one month, why should the ISO insist upon replacing capacity that may not even be needed during the scheduled outage period? Indeed, the Replacement Rule as proposed is likely to create an undesirable incentive to minimize scheduled maintenance, which could have an adverse effect on reliability.

The SCP II Proposal reveals no analysis demonstrating that an expanded replacement rule is both necessary to maintain reliability and a cost effective means for doing so. There is no justification for imposing additional capacity costs on ratepayers, either through required replacement or expanded ICPM designations, when the ISO does not need the additional capacity, as would be the apparent result under the Replacement Rule as framed in the SCP II Proposal.

Clarification Regarding Distribution of Surplus Revenues from Availability Penalties:

The Six Cities support the ISO's proposal to clarify that surplus revenues from availability penalties (*i.e.*, revenues received from availability penalties in excess of availability incentive payments) will be distributed to all metered ISO Demand. That clarification should be framed in a manner that includes Demand included in a Metered Sub-System as Demand eligible to receive a portion of such surplus revenues. Furthermore, the Six Cities urge the ISO to file necessary tariff amendments to implement that clarification immediately, rather than waiting until the other SCP II amendments are expected to be implemented. As the ISO noted, the proposed clarification is necessary to conform the tariff language to the original intent of the SCP program, *i.e.*, to distribute surplus penalty revenues to all metered ISO Demand. Delaying the submission of the clarifying amendments will prolong an erroneous and discriminatory distribution method.

Deferral of Issues Relating to Non-Resource Specific RA Resources:

The Six Cities support the ISO's proposal to remove from the SCP II stakeholder process issues relating to availability metrics for Non-Resource Specific RA ("NRS-RA") resources so that such issues can be addressed in a coordinated manner, along with all other implementation issues

relating to NRS-RA resources, in the stakeholder process on “Bids and Outage Reporting for Non-Resource Specific Resource Adequacy Resources.”

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