June 14, 2013

COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE ENERGY IMBALANCE MARKET 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 on the ISO's May 30, 2013 Energy Imbalance Market Revised Straw Proposal ("the Revised Straw Proposal").

The Six Cities continue to support ongoing exploration of the Energy Imbalance Market ("EIM") concept with the objectives of improving efficiency and enhancing reliability for all EIM participants. In addition, the Cities appreciate the ISO's preliminary efforts to address the concerns expressed in the Cities' April 19, 2013 comments regarding the need to ensure that allocation of all costs associated with the EIM is consistent with the receipt of benefits that result from the EIM. However, the Cities remain concerned with the following aspects of the Revised Straw Proposal: (i) the potential that capacity procured by load within the ISO Balancing Authority Area ("BAA") may be used to support EIM Entities without appropriate compensation or reciprocal support; (ii) inequities in the proposed method for allocating Real-Time Market ("RTM") costs resulting from the non-reciprocal use of capacity identified in point (i) and differences in measures of RTM usage, for allocation purposes, between the ISO BAA and EIM Entities; and (iii) the failure to address issues concerning the allocation of RTM uplift costs within the ISO BAA.

With regard to point (i), the ISO acknowledged during the June 6, 2013 stakeholder conference that the ISO could commit capacity within the ISO BAA to satisfy flexible capacity requirements in an EIM Entity's BAA, but it will have no reciprocal ability to commit capacity in the EIM Entity's BAA to meet ISO requirements. The ISO has proposed the imposition of forward flexible capacity obligations for Load Serving Entities ("LSEs") within the ISO BAA. There is no assurance under the Revised Straw Proposal that EIM Entities will contribute flexible capacity in proportion to the incremental requirements the EIM imposes on the ISO system. There may not be sufficient flexible capacity within an EIM Entity BAA, or, even if there is, the ISO will have no ability to call on it for the benefit of the combined EIM area. Under these circumstances, LSEs within the ISO may suffer an unreasonable burden in terms of an expanded flexible capacity procurement obligation, increased utilization of flexible capacity without compensation, or reduction in reliability due to reliance on capacity they have procured to meet the needs of a broader area, or all of the above. The EIM design must include provisions to ensure that LSEs within the ISO BAA are not called upon to support capacity needs of load outside the ISO BAA (either through expanded capacity procurement obligations, increased utilization of flexible capacity without compensation, or degradation of reliability), and that all EIM Entities provide adequate capacity (both in terms of operating reserves and operating characteristics) to support their loads.

With regard to point (ii), the general concept in Section 3.7.8 of the Revised Straw Proposal of allocating RTM costs based on "RTM usage" is likely to lead to inequitable results for several reasons. In general, it does not appear that measurement of "RTM usage" based on gross deviations will result in allocation of RTM costs in a manner that is consistent with the cost causation principle. Consider the following simplified example:

BCR COST ALLOCATION EXAMPLE

ISO BAA		EIM ENTITY	
DA Resources	35,000	Adj. Base Resources	10,000
DA Load	35,000	Adj. Base Load	10,000
RT Resources	35,500	RT Resources	9,500
RT Load	35,000	RT Load	10,000

Assume that the dispatch of the additional 500 MW of resources in the ISO BAA leads to Bid Cost Recovery uplift.

As the Six Cities understand the ISO's allocation proposal, the ISO would attribute 500 MW of gross deviations to the ISO BAA and 500 MW of gross deviations to the EIM BAA, resulting in allocation of 50% of the BCR costs to the ISO BAA and 50% of the BCR costs to the EIM BAA. In this example, neither ISO BAA load nor EIM BAA load contributes to the deviations. Yet the ISO BAA load would be allocated 50% of the uplift cost caused entirely by the negative deviation of one or more EIM Entity resource(s). Such a result is patently unreasonable. Moreover, as discussed in connection with point (i) above, any potential for reciprocal support from the EIM Entity to the ISO BAA would be limited, because the ISO would have no ability to commit additional resources in the EIM Entity BAA.

Furthermore, as the Six Cities understand the Revised Straw Proposal, the ISO does not plan to apply consistent metrics to measure RTM usage for the ISO BAA and for EIM Entities. At pages 43-44 of the Revised Straw Proposal, the ISO indicates that the ISO share of RTM usage is to be based on gross deviations of loads and resources from Day-Ahead schedules. The ISO proposes to calculate RTM usage for EIM Entities, however, based on deviations from the adjusted base schedule. Because adjusted base schedules, including load schedules, are established at 75 minutes prior to each Trading Hour and can be updated as frequently as every 15 minutes until 40 minutes before the start of the relevant 15-minute market, it is reasonable to expect that deviations from adjusted base schedules will be lower in proportion to overall load in the EIM Entity BAA than deviations from Day-Ahead schedules in the ISO BAA. As a result, it appears likely that entities within the ISO will bear a disproportionately high share of RTM costs.

With regard to point (iii), the ISO's failure to address flaws in the allocation of RTM uplift costs within the ISO BAA will compound the inequities associated with the proposed method for allocating RTM costs described above. The Revised Straw Proposal indicates that the ISO intends to continue allocating RTM uplift costs assigned to the ISO BAA based on measured demand. This is unreasonable for at least two reasons. First, it is inconsistent with the cost causation principle, because it ignores the fact that resources also contribute to deviations from Day-Ahead schedules. In the example discussed above, the resource or resources in the EIM Entity that contributed to the negative deviations should be responsible for the BCR uplift paid to the resource or resources in the ISO BAA that provided the necessary energy. It is inconsistent with the cost causation principle to assign any of those uplift costs to the ISO BAA or even to the load in the EIM Entity. In addition, as the Six Cities have commented in the context of other stakeholder processes, it is unreasonable to deny LSEs within the ISO BAA the ability to adjust their Day-Ahead load schedules so as to minimize deviations if other market participants are able to make such adjustments so as to manage their exposure to uplift costs associated with deviations. LSEs within the ISO BAA should have the same ability to adjust their Day-Ahead load schedules so as to minimize deviations as will be available to EIM Entities under the Revised Straw Proposal.

As noted in the Six Cities' April 19, 2013 comments, the market design for the EIM will not satisfy the just and reasonable standard unless the responsibility for EIM costs, including RTM uplift costs, aligns with the enjoyment of EIM benefits, in accordance with the cost causation principle. The failure to provide for consistent capacity requirements and the flaws in the "RTM usage" allocation proposal discussed above are inconsistent with the cost causation principle and the just and reasonable standard. The ISO must address the inconsistency in capacity requirements and develop a method for allocating EIM costs, including all associated RTM uplifts, in a manner that assigns such costs to the entities that cause them, as well as allowing all market participants the opportunity to manage their exposure to such costs.

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