April 21, 2016

COMMENTS ON THE ALISO CANYON GAS-ELECTRIC COORDINATION STRAW PROPOSAL ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") submit their comments on the ISO's Straw Proposal in the stakeholder proceeding addressing Aliso Canyon Gas-Electric Coordination. In general, the Six Cities support the ISO's Straw Proposal and the ISO's objective of ensuring that gas availability limitations this summer are managed appropriately, and they also recognize that the ISO is trying to develop and implement these measures according to an extremely tight timeframe. While they appreciate the measures in the Straw Proposal and view them as a step in the right direction, additional attention to reliability issues – particularly local issues affecting two of the Six Cities – is still needed. These reliability issues can arise when the gas system is operating normally, but are exacerbated as a result of limited operations at Aliso Canyon.

A. <u>Reliability Concerns</u>: Greater Clarity Regarding Response to Reliability Issues Caused by Gas Curtailments is Necessary.

In both written comments in this stakeholder initiative and during stakeholder meetings and other discussions relating to gas availability limitations resulting from the restricted use of the Aliso Canyon facilities, the Six Cities have previously identified serious reliability concerns to the Pasadena and Riverside municipal electric systems during gas curtailment conditions. Due to the importance of these issues and the fact that addressing them through documented procedures and pre-established curtailment priorities is essential to mitigate the very real outage risks faced by these two Cities, which collectively represent over 800 MW of load in the area affected by the Aliso Canyon situation, the Six Cities reiterate those concerns here and repeat their request that the ISO confirm the specific steps that will be taken to ensure that neither City's system is disproportionately affected by gas curtailment this summer.

As explained previously, Pasadena and Riverside have their own internal, gas-fired generation that is interconnected to their municipal distribution systems. Due to limitations on imports into these Cities' systems at the locations where their distribution systems interconnect with the Southern California Edison Company ("SCE") system, during certain operating conditions – when loads are at high levels – these Cities <u>must</u> run their internal generation in order to avoid shedding internal load. For example, when Riverside load exceeds approximately 575 MW, which occurs during summer peak periods, Riverside must operate 200 MW of internal generation, because limitations at Riverside's 66 kV point of interconnection with the SCE system at the Vista Substation prevent Riverside from importing the full amount of energy needed to meet electrical demand within the city system. There are similar local import limitations at Pasadena's interconnection to SCE at the TM Goodrich Receiving Station, and Pasadena likewise must run up to 175 MW of its internal units in order to ensure that it can supply the requirements of its customers during peak periods. Thus, a *pro rata* curtailment in

gas supply may have a disproportionate impact on these Cities; if directed to curtail gas by a specific amount according to a *pro rata* share, these Cities may have to shut down entirely one or more of their generating units and shed a proportionately larger amount of load than would be implied by the curtailment instruction.

The Six Cities remain concerned that the reliability impacts to the Pasadena and Riverside systems have not been addressed in sufficient detail to provide the Cities with assurances that there has been (or will be) appropriate coordination among the ISO, SoCalGas, and Pasadena and/or Riverside, as applicable. In the "Gas Electric Coordination Process" at Appendix A to the Straw Proposal, Step 2 of the process will involve the ISO providing *pro rata* curtailments for individual generators to SoCalGas as well as a second set of curtailment instructions not based on *pro rata* allocations, but based instead on the ISO's preferred allocation of curtailment amounts across the affected area. Is this the point at which the ISO intends to instruct the gas company that Pasadena and Riverside units may be needed to ensure distribution system reliability and should not be curtailed in order to avoid outages within each respective City? If so, the Cities request that the ISO work with SoCalGas to obtain an acknowledgement that a decision by SoCalGas to disregard the ISO's preferred curtailment instructions and curtail the Cities' units anyway based on *pro rata* amounts may well result in a loss of electric service within each City's system. As noted, Pasadena and Riverside loads total more than 800 MW at their summer peaks, and the Cities hope that both the ISO and SoCalGas recognize that losing this quantity of electrical load within the ISO system would be highly undesirable.

With respect to the remaining aspects of the procedure described in Appendix A, the Six Cities agree that a joint procedure to enable generators to consult a single source to understand the relevant process would be useful. (*See* Straw Proposal – App. A at 26, #3.) A joint training with generators regarding the procedure would also be useful. (*Id*. at 26, #4.) Finally, the Six Cities agree with the ISO's concern that communications through intermediaries rather than operators during curtailment situations may introduce confusion and uncertainties into the curtailment process. (*Id*. at 26.)

B. Gas Balancing Constraint: The ISO Should Establish Mechanisms to Protect Individual Resources From Exposure to Noncompliance Charges Notwithstanding the Area Balancing Constraint.

With the objective of maintaining both gas system reliability and electric system reliability, the Straw Proposal recommends implementation of a gas balancing constraint in the real-time market that would limit the change in gas burn relative to burn under day-ahead schedules to within a balancing range for gas-fired generation within the SoCalGas and SDG&E gas operating zones. As the Six Cities understand the gas balancing constraint proposal, the constraint would apply on an aggregate basis to all gas-fired generation within the affected area. Although the Six Cities support the implementation of the proposed gas balancing constraint (subject to resolution of the local reliability issues discussed above), the proposal is incomplete in the absence of mechanisms to protect individual resources from exposure to non-compliance charges that may be imposed by the gas companies.

Implementation of the proposed gas balancing constraint will protect reliability of the gas system by limiting the aggregate change in gas burns between day-ahead and real-time schedules within the specified tolerance band. However, because the constraint is applied on an aggregate basis, an individual resource in the affected area may be dispatched in a way that results in changes between day-ahead and real-time schedules such that expected versus actual gas burns for that specific resource exceed the tolerance band. The Straw Proposal explains at page 20 that applying the gas balancing constraint on an area basis is important to maintain efficient dispatch of available gas supply. The Six Cities agree, but efficiency and fairness can only be maintained if individual resources following ISO dispatch instructions are protected from exposure to noncompliance charges from the gas companies. Accordingly, if an ISO dispatch instruction to an individual resource would cause that resource to incur or risk incurring penalties or charges for violation of gas company requirements applicable to that resource, the resource should either (1) be permitted to decline the dispatch instruction, or (2) be permitted to recover from the ISO market the actual penalties or noncompliance charges incurred by the resource. It would be confiscatory to require a resource to follow ISO dispatch instructions without compensating the resource for all costs incurred to do so.

C. Real-Time Gas Price Information: The Six Cities Support Use of Real-Time Gas Price Information to Increase Efficiency of Dispatch and Prefer Option 1 (Submission of Gas Price Bids by Generators Based on Marginal Gas Prices).

The Straw Proposal includes discussion of options for improving the efficiency of ISO dispatch in Sections 7 (as to real-time dispatch) and 9 (as to day-ahead dispatch). Option 1 under each of those sections would allow generators to submit bids based on their marginal cost of gas. Option 2 under each section would base the ISO's proxy cost calculation on a volume weighted average price using trades observed in ICE for intraday and same day gas transactions. The Six Cities support use of real-time gas price information to increase efficiency of dispatch in both the real-time and day-ahead markets, and either option would be preferable to continuing reliance on the non-current gas price information presently used by the ISO.

Of the two options discussed in the Straw Proposal, the Six Cities prefer Option 1 for two reasons. First, Option 1 will allow bids to reflect most closely the actual marginal gas costs experienced by generators. A specific generator may or may not be able to procure gas at prices similar to a volume weighted average price and, therefore, may or may not be able to recover its costs if its bids are limited by the average price. Second, the ISO would be able to audit the validity of bids based on actual marginal gas costs under Option 1 and would be able to investigate and recommend remedies if generators submit bids that exceed their marginal gas costs. According to the Straw Proposal, the ISO does not have access to information to allow auditing of prices for transactions reported by ICE, and, therefore, the ability to verify the reasonableness of the volume weighted average transaction prices would be more limited. For these reasons, Option 1 is more likely to result in efficient dispatch of resources based on actual marginal gas costs.

D. Path 26: The Six Cities Support the Proposal to Reserve Transmission Capacity on Path 26.

For the reasons discussed in the Straw Proposal (at page 16), the Six Cities support the ISO's proposal to reserve capacity on Path 26 in order to address the potential need for additional energy in the area affected by the Aliso Canyon situation.

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