February 27, 2018

COMMENTS OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON CAISO'S COMMITMENT COST AND DEFAULT ENERGY BID ENHANCEMENTS REVISED DRAFT FINAL PROPOSAL

In response to CAISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") provide the following comments on the January 31, 2018 Revised Draft Final Proposal on Commitment Cost and Default Energy Bid Enhancements ("Revised Draft Final Proposal"):

Cap on Market-Based Commitment Cost Components at 200% of Proxy Costs - - The Six Cities support CAISO's proposal to cap market-based bids for commitment costs at 200% of proxy costs. (Draft Final Proposal at 17). However, the Six Cities strongly oppose CAISO's proposal to provide for an automatic increase in the market-based bid cap to 300% of proxy costs eighteen months after the revised bidding rules for commitment costs take effect. (*Id.*). Although CAISO would have the ability to request FERC to delay the increase in the commitment cost bid cap to 300% of proxy costs, the opportunity to request deferral of a bid cap increase previously approved for automatic implementation is not equivalent to maintaining the initial bid cap unless and until there has been a demonstration that market power mitigation measures are effectively preventing the exercise of market power with respect to commitment costs. The Six Cities would not oppose CAISO's identification of a target date for conducting the necessary analysis to support a conclusion that the market power mitigation process is successfully preventing the exercise of market power over unit commitment. But there should be no prejudgment of the outcome of that analysis nor any presumed date for increasing the cap for market-based commitment cost bids baked into the Tariff.

Hourly Bidding for Minimum Load Costs - - The Six Cities support CAISO's proposal to allow hourly bidding for minimum load costs, with minimum load offers locked at the last offer price level used by the market to initiate a commitment and maintained through the resource's minimum run time or minimum on time. The Six Cities also appreciate the CAISO's clarification that minimum load, start-up, and transition cost bids can be modified intra-day until a resource receives a binding start-up instruction. (Revised Draft Final Proposal at 19-20).

BCR Based on Proxy Costs for Hours in Which No Minimum Load Cost is Bid - - The Six Cities also support CAISO's proposal to settle BCR based on a resource's reference level costs for hours when a resource has been committed within the optimization window but did not submit a Minimum Load Cost bid. (Revised Draft Final Proposal at 23).

Use of Updated Gas Price Data in Calculating Reference Costs - - The Six Cities support CAISO's proposal to continue using an approximation of the next day gas commodity price based on trades in the morning of the day-ahead market run for delivery the following day. (Revised Draft Final Proposal at 32). Using more recent gas trade data in calculating reference costs may reduce the need for suppliers to submit requests for resource-specific reference level adjustments.

Consideration of Fuel Procurement Practices in Negotiated Reference Levels - - The Six Cities support CAISO's proposal to allow consideration of fuel procurement practices or challenges in development of negotiated reference levels. (Revised Draft Final Proposal at 36).

Ex Ante Reference Level Adjustments - - The Six Cities support CAISO's proposal to allow verified ex ante reference level adjustments and generally support CAISO's guidelines regarding documentation to support requests for reference level adjustments. (Revised Draft Final Proposal at 37-41). More specifically, the Six Cities support: (i) CAISO's proposal to require documentation of at least three price quotes to support a proposed reference level adjustment or, alternatively, documentation of conditions that prevented the requesting supplier from obtaining three quotes (Revised Draft Final Proposal at 38); and (ii) CAISO's proposal that it have authority to audit the documentation and justification for reference level adjustments implemented under the ex ante verification process (Revised Draft Final Proposal at 37). In addition, the Six Cities support CAISO's proposal to consider risk margins for non-compliance with OFOs in connection with requests for reference level adjustments for hours ending 17-24 (Revised Draft Final Proposal at 38 and CCDEBE Business Rules at 13); however, the Six Cities request clarification as to where such risks would be recognized in the formulas in Appendix D to the Revised Draft Final Proposal.

Ex Post Verification of Reference Level Adjustments and Cost Recovery - - The Six Cities support CAISO's proposal that ex post verification of reference level adjustments and related cost recovery be based on actual unrecovered costs rather than anticipated costs. (Revised Draft Final Proposal at 42-43). However, the Six Cities do not agree with CAISO's proposal to disallow any recovery for gas balancing penalties or penalties for non-compliance with OFOs resulting from CAISO dispatch. If a supplier incurs gas balancing penalties or other penalties as a result of a CAISO dispatch directive, it should be possible for the supplier to document the circumstances and for the CAISO to confirm that the penalties were attributable to compliance with CAISO dispatch instructions. Where a supplier provides appropriate documentation of such circumstances, it is unjust, unreasonable, and confiscatory to deny cost recovery.

Making Permanent the After-the-Fact Filing Right at FERC for Energy Costs - - The Six Cities support CAISO's proposal to make permanent the currently effective tariff authority for suppliers to file at FERC to recover costs that are incurred but are not covered by the conditions or verification rules that will apply in CAISO's ex ante or ex post review of reference level adjustments. (Revised Draft Final Proposal at 43).

Recalibration of Penalty Price Parameters - - The Six Cities oppose CAISO's proposal to reset penalty price parameters by applying the increase in the energy bid cap (*i.e.*, from $1,000 to $2,000) as a multiplier in setting the revised values for penalty price parameters. The Revised Draft Final Proposal states at 44 that the revised values for penalty parameters proposed by the CAISO reflect "the assumption that the relative difference between the current values for the internal and intertie constraint scheduling parameter relative to the current $1,000/MWh offer cap is the appropriate relationship between these parameters and the cap." The Six Cities believe that CAISO's assumption is unwarranted and that doubling each of the penalty parameter values will lead to excessive prices when the constraints must be relaxed. The relative priorities for constraint relaxation can be maintained by applying the $1,000 increase in the energy bid cap as an adder to each of the existing penalty parameter values (*e.g.*, increasing the IFM penalty value to $6,000) and will not produce such extreme price spikes when the constraints must be relaxed.

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