

September 11, 2017

**COMMENTS OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON,
PASADENA, AND RIVERSIDE, CALIFORNIA ON CAISO'S COMMITMENT COST
AND DEFAULT ENERGY BID ENHANCEMENTS 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 August 23, 2017 Draft Final Proposal ("Draft Final Proposal") on Commitment Cost and Default Energy Bid Enhancements:

Suggestion for Immediate Implementation of Enhancements Relating to Reference Level Adjustments and Bid Frequency and Further Analysis of Mitigation Measures Prior to Implementation of Market-Based Bidding for Commitment Costs - - The Six Cities appreciate and support CAISO's efforts in this initiative to enhance suppliers' ability to recover resource commitment costs. To that end, the Six Cities support immediate implementation of the CAISO's proposed enhancements to allow adjustments to reference levels and increased bid frequency so that verified or verifiable commitment costs can be reflected in bids and recovered by suppliers.

The Six Cities also support in concept CAISO's proposal to allow market-based bids for commitment costs subject to a reasonable cost cap and to effective mitigation of market power. The Draft Final Proposal states at page 43 that CAISO's "proposal to pursue market-based commitment cost offers is contingent on the CAISO finalizing a feasibility and costs assessment for dynamic market power mitigation that would have to accompany it." The Six Cities believe that further analysis and testing of market power mitigation measures are necessary and appropriate prior to taking any further steps toward implementing market-based bidding for commitment costs. But the necessary analysis and testing of market power mitigation design should not hold up implementation of the enhancements to allow more accurate and up-to-date capture of verifiable costs through reference level adjustments. The Six Cities, therefore, recommend a phased approach for completion of this initiative, with immediate implementation of enhancements relating to reference level adjustments and bid frequency followed by further analysis of market power mitigation necessary to support market-based bids for commitment costs.

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. (Draft Final Proposal at 49-50).

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 proxy costs for hours when a resource has been committed within the optimization window but did not submit a Minimum Load Cost bid. (Draft Final Proposal at 52).

Intra-day Revision of Start-up Cost Bids - - During the August 3, 2017 Technical Workshop, CAISO explained that it proposes to maintain Start-up Cost bids as a daily value, because the hourly bids for Minimum Load Costs will drive the commitment optimization. However, CAISO also stated during the Workshop that bids for Start-up Costs could be revised within a day, and that the revised bid amount would become the daily value for the remainder of the day. Subject to the ability to revise bids for Start-up Costs intra-day, the Six Cities do not oppose treatment of Start-up Cost bids as daily values.

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. (Draft Final Proposal at 55).

Use of 8:30 a.m. Gas Trade Data to Update Reference Costs - - The Six Cities appreciate CAISO's commitment to "continue to pursue the feasibility" of continuing to use 8:30 a.m. gas trade data to update reference costs. (Draft Final Proposal at 42). Updating reference costs based on 8:30 a.m. gas trade data may reduce the need for suppliers to submit requests for resource-specific reference level adjustments. If, as the Draft Final Proposal suggests, it is not possible to automate this currently-effective feature of the market design, CAISO should consider development of appropriate triggering criteria for applying manual updates under specified circumstances, as occurs today.

Documentation for Reference Level Adjustments - - The Six Cities appreciate and support CAISO's modification and clarification of documentation requirements to support a request for a reference level adjustment. As described at page 58 of the Draft Final Proposal, CAISO would expect 2 to 3 off-ICE price quotes to support a proposed reference level adjustment "but would consider it an eligible 'quote' that reflects scarcity if suppliers document instances in which they solicited offers but were not able to obtain one." The Six Cities support the modified requirements as described at page 58 of the Draft Final Proposal but note that the Guidelines in Appendix C (specifically Appendix Section C.4 at page 95) have not been updated to be consistent with the text of the Draft Final Proposal.

Allowing Risk Margin for Non-Compliance with OFOs in Reference Level Adjustment Requests - - 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. (Draft Final Proposal at 60, 65).

Utilizing Ex Ante Verified Energy Adjustments Above \$2,000/MWh to Establish Dispatch Merit Order While Limiting Market Clearing Price to \$2,000/MWh - - The Six Cities support CAISO's proposed treatment of requests for reference level adjustments for energy above \$2,000/MWh to establish dispatch merit order but to cap market clearing prices at \$2,000/MWh as consistent with FERC Order No. 831. (Draft Final Proposal at 67).

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. (Draft Final Proposal at 67-68).

Cap on Market-Based Commitment Cost Components at 200% of Proxy Costs - - As discussed above, the Six Cities recommend deferring implementation of market-based bidding for commitment cost components pending further analysis and testing of market power mitigation measures. If, however, CAISO decides to propose allowance of market-based bids for commitment costs at the same time other enhancements to commitment cost bids are implemented, the Six Cities support CAISO's proposal to cap such bids, at least initially, at 200% of proxy costs. (Draft Final Proposal at 70, 74).

Submitted by,

Bonnie S. Blair
Thompson Coburn LLP
1909 K Street N.W., Suite 600
Washington, D.C. 20006-1167
bblair@thompsoncoburn.com
202-585-6900

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