June 8, 2018

COMMENTS OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE CONGESTION REVENUE RIGHTS AUCTION EFFICIENCY TRACK 1B DRAFT FINAL PROPOSAL ADDENDUM

In response to the CAISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") provide their comments on the May 25, 2018 Congestion Revenue Rights Auction Efficiency Track 1B Draft Final Proposal Addendum (the "Draft Final Proposal Addendum"):

In their May 4, 2018 comments on the Track 1B Straw Proposal, the Six Cities expressed concern that the CAISO's proposal to address CRR revenue insufficiencies by reducing payouts to CRR holders on a constraint-by-constraint basis would undermine the fundamental purpose for CRRs of hedging costs for delivery of energy. The presentation by James Bushnell at the June 7, 2018 Market Surveillance Committee ("MSC") meeting ("the Bushnell Presentation") and the related discussion reinforced the Cities' concerns, analogizing the constraint-by-constraint reduction of CRR payments to a health insurance policy that doesn't pay when the insured is sick. As noted in the MSC discussion, costs for the overall transmission network are recovered on an aggregated basis in recognition of the integrated nature of the transmission network and the variability in usage of discrete elements of the network. For purposes of resolving CRR revenue insufficiencies while preserving to the maximum extent possible the hedging purpose for CRRs, the Six Cities believe that reduction of payouts to CRR holders on a proportional, aggregated basis is most consistent with the hedging function and most equitable.

The Six Cities' May 4, 2018 comments on the Track 1B Straw Proposal recommended an approach for allocating CRR revenue deficiencies proportionally across all market participants with positive net revenue positions based on their overall participation in the CRR market. The approach recommended by the Cities is very similar in concept to the suggestion in the first bullet point at page 6 of the Bushnell Presentation to "Reduce payments to CRRs to guarantee revenue adequacy, but allocate shortfall pro-rata to all (positive revenue) CRRs." The refinement recommended by the Cities is to consider the net revenue positions ("NRP") of CRR holders such that market participants with a negative NRP (based on their overall CRR portfolios) would be excused from paying additional revenues (uplift costs) towards achieving revenue neutrality. This NRP/Proportional Allocation approach would have the effect of collecting revenues to achieve revenue sufficiency in proportion to overall benefits from participation in CRR markets. The Six Cities generally support proportional, aggregate reduction of payouts to CRR holders and urge the CAISO and the MSC to consider the refinement in the NRP/Proportional Allocation approach suggested by the Cities.

The Six Cities also continue to support proposals by Southern California Edison Company ("SCE"), the Department of Market Monitoring ("DMM"), and other stakeholders to pursue modifications to the design of the CRR auctions so as to include participation by willing buyers and willing sellers only, eliminating any obligation for LSEs (or any other non-willing participants) to make up shortfalls between auction revenues and payments to holders of auctioned CRRs.

However, if the CAISO moves forward with the constraint-by-constraint approach for addressing CRR revenue shortfalls, the Six Cities support the determination in the Draft Final Proposal Addendum to adjust only the payout amounts for CRR flows in the prevailing flow direction and agree that it would be inappropriate to reduce payments owed by holders of counterflow CRRs. As noted at page 31 of the Draft Final Proposal Addendum, counterflow CRRs do not contribute to over-subscription of a constraint, and reducing payments due from holders of counterflow CRRs will worsen, rather than alleviate, revenue insufficiency for a constraint.

In addition, if the constraint-by-constraint approach is implemented, the Six Cities also support (1) monthly settlement of CRR payments for each constraint, allowing surplus revenues collected for a constraint during some hours of a month to offset revenue shortfalls incurred on the same constraint during other hours of the same month up to the full target payment value of the affected CRR (Draft Final Proposal Addendum at 31-33), (2) application of the CRR clawback rule based on the current methodology prior to adjustment of payouts to holders of prevailing flow CRRs for a constraint (*Id.* at 32), and (3) distribution of remaining surplus revenue at the end of each month (associated with constraints that collect more surplus over the month than deficits) to Measured Demand (*Id.* at 33).

The Six Cities also urge the CAISO to commit to comprehensive monitoring and reporting of the impacts of the constraint-by constraint adjustment approach. Specifically, if the constraint-by-constraint adjustment approach is implemented, the CAISO should include in the monthly Market Performance Reports data regarding:

a) the reductions in payouts for prevailing flow CRRs by constraint prior to consideration of any off-setting surpluses on each constraint,

b) the amounts of off-setting surpluses by constraint,

c) the net reductions in payments for prevailing flow CRRs (*i.e.*, after consideration of off-setting surpluses), if any, by constraint,

d) the amounts of residual surpluses, by constraint and in total, distributed to Measured Demand,

e) the distribution of CRR payments among different types of CRR holders (including holders of allocated CRRs in general, holders of auctioned CRRs in general, LSEs, generators, traders of physical energy, and financial traders), and

f) the distribution of net reductions in payouts for prevailing flow CRRs among different types of CRR holders (including holders of allocated CRRs in general, holders of auctioned CRRs in general, LSEs, generators, traders of physical energy, and financial traders).

Submitted by,

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