

February 28, 2018

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

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") provide their comments on the February 8, 2018 Congestion Revenue Rights Auction Efficiency Track 1 Draft Final Proposal ("Track 1 Proposal"):

Further Consideration of Track 1 Changes Should Not Delay Implementation of Fundamental Changes in the CRR Auction Design - -

Payments to holders of auctioned CRRs that exceed auction revenues continue to impose massive uplift costs on CAISO load. In the fourth quarter of 2017, such uplift costs were approximately \$61 million, bringing the total ratepayer losses from the CRR auctions since the market began in 2009 to approximately \$730 million. *See* the ISO Department of Market Monitoring Q4 2017 Report on Market Issues and Performance dated February 14, 2018, at pages 28-29. As discussed below, it appears that several of the design changes in the Track 1 proposal have the potential to reduce the overall differences between payments to holders of auctioned CRRs and the CRR auction revenues. Although such an outcome would be desirable, the modifications discussed in the Track 1 Proposal still do not address the fundamental flaw with the CRR auction design, *i.e.*, the forced sale of auctioned CRRs by ratepayers who have no ability to avoid obligations to holders of auctioned CRRs or to ensure that the revenues paid by purchasers of auctioned CRRs bear a reasonable relationship to payments ratepayers may be obligated to make to such purchasers. The primary focus for this stakeholder initiative should be correction of that fundamental flaw, and the incremental improvements discussed in the Track 1 Proposal should not divert attention or resources from that objective.

The Six Cities previously have expressed support for suggestions by SCE 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. Market participants that wish to participate in CRR auctions (whether for purposes of hedging or for speculation) would have the ability to do so. Implementation of a willing buyer/willing seller CRR auction design should proceed immediately.

Comments on Modifications Suggested in the Track 1 Proposal - -

With respect to the specific elements of the Track 1 Proposal:

- The Six Cities support further consideration of an annual outage reporting process to improve the congestion revenue rights model used in the annual congestion revenue rights allocation and auction processes. However, given the lapse of time between the development of the annual congestion revenue rights model and the occurrence of system conditions that give rise to congestion payments, it is unclear whether additional year-ahead outage reporting will result in any significant improvement in the alignment between the annual CRR model and system conditions.
- The Six Cities support reduced disclosure of the details of the CRR models as described at page 28 of the Track 1 Proposal in order to reduce the ability of speculators to identify and exploit potential inconsistencies between the CRR models and the models expected to be utilized in the day-ahead market.
- The Six Cities strongly oppose any reduction in the percentage of system capacity available in the annual allocation process. The ISO's analyses have demonstrated that allocated CRRs in total have been very close to revenue sufficient and have not resulted in substantial uplift costs. LSEs eligible to participate in the annual allocation rely on allocated CRRs for their intended purpose - - to provide price certainty for the physical delivery of energy to load. Reducing the percentage of system capacity available for allocation to LSEs will increase exposure of LSEs to congestion risks without providing any substantial reduction in uplift costs. Six Cities would not oppose reduction of the percentage of system capacity offered in the annual CRR auction and, indeed, would support the elimination of any reservation of system capacity for the annual CRR auction.
- Under the current structure of the CRR auctions, the Six Cities see potential benefits in limiting allowable source and sink pairs to only those associated with physical supply delivery, as described more specifically at pages 36-37 of the Track 1 Proposal. However, it is the Cities' understanding that such restrictions on source/sink pairs would be unnecessary under a willing seller/willing buyer auction framework and, indeed, would be incompatible with the willing seller/willing buyer construct. Therefore, the Six Cities would support implementation of the restrictions on source/sink pairs to only those associated with supply delivery as an interim measure but on the condition that the restrictions be reversible with adoption of a willing buyer/willing seller auction framework.

Submitted by,

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