

August 2, 2018

**COMMENTS OF THE CITIES OF ANAHEIM, AZUSA,
BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA
ON THE EIM OFFER RULES WORKSHOP**

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 issues discussed during the July 19, 2018 workshop addressing EIM Offer Rules.

During the workshop, participants discussed concerns relating to EIM participation with respect to pumped hydroelectric resources. According to Powerex, the applicable market power mitigation rules inappropriately result in mitigation of hydroelectric resources in circumstances that Powerex asserts do not represent attempts to exercise market power. Among other consequences, mitigated resources are then subjected to Default Energy Bid ("DEB") pricing that Powerex alleges does not provide adequate compensation to mitigated resources and leads to inefficient dispatch decisions and possible operational challenges.

To correct these issues, Powerex suggests changing the market power mitigation rules to either use a "conduct and impact" test that is employed in other regional markets and/or permit entities with no customers exposed to LMPs to opt out of market power mitigation. To resolve its concerns about the formulation of DEBs, Powerex recommends adoption of a "fourth DEB option" for energy-limited EIM participating resources that, as the Six Cities understand the proposal, would be based on the greater of either 250% of the ICE day-ahead on-peak index price or 200% of the average on-peak forward prices at the nearest trading hub to the relevant resource. As noted by the Department of Market Monitoring, the proposed DEB methodology for hydroelectric resources participating in EIM would produce DEB values higher than market prices for EIM and the CAISO in nearly all intervals.

While proponents of the fourth DEB option state that modifications to the market power mitigation rules would not resolve all of their concerns, the Six Cities believe that there may be value in exploring whether changes to these rules are in fact needed before adopting new DEB methodologies. The Six Cities take no position on such potential modifications at this time, but if the issue arises as a result of the market power mitigation rules, then it would seem appropriate to assess whether those rules are properly formulated or should be revised. Of course, it is critical that, in the event there is a need to consider changes to the market power mitigation rules to address Powerex's concerns, protection of consumers from unjust and unreasonable prices resulting from the exercise of market power remains the core policy objective.

As to the need for alternative DEB methodologies, the Six Cities question whether a fourth approach is needed and appropriate, particularly given opportunities for negotiated DEBs. If additional parameters for negotiated DEB formulation are needed to address issues that are unique to particular technology types, then those parameters could be explored.

Finally, the Six Cities are concerned about the development of EIM exceptions to market policies or specially-applicable EIM market rules that would provide advantages to EIM

resources. The Six Cities support uniform application of market rules to internal and external resources to avoid concerns about potential discrimination or market distortion.

Submitted by,

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