

September 21, 2017

**Opposition by the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California to the Joint Alternative Proposal to Commitment Costs and Default Energy Bid Enhancements Draft Final Proposal**

The Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the “Six Cities”) hereby respond to and oppose the “Joint Alternative Proposal to Commitment Costs and Default Energy Bid Enhancements Draft Final Proposal” submitted by a group of entities identified as “Joint Parties,” dated September 8, 2017, and posted by the ISO on September 12, 2017 (“the Joint Alternative Proposal”). In essence, the Joint Alternative Proposal urges the ISO to implement market-based bidding for commitment costs up to 300% of reference costs premised on an assumption that market power for unit commitment can be mitigated effectively through an unspecified and untested “dynamic local market power mitigation structure.” The Joint Alternative Proposal recommends that the ISO study the effectiveness of market power mitigation for market-based bidding of commitment costs one year after implementation of such market-based bidding. Adoption of the Joint Alternative Proposal would place the cart before the horse and expose California ratepayers to unjustified risks of inflated commitment costs resulting from exercise of market power.

As discussed in their September 11, 2017 comments on the ISO’s Draft Final Proposal in this initiative, the Six Cities support the ISO’s efforts in this initiative to enhance suppliers’ ability to recover resource commitment costs and recommend immediate implementation of the ISO’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 the ISO’s proposal to allow market-based bids for commitment costs but believe that further analysis and testing of market power mitigation measures are necessary and appropriate prior to taking any further steps toward implementing such market-based bidding for commitment costs. The Six Cities September 11<sup>th</sup> comments 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.

The Joint Alternative Proposal urges the ISO to implement market-based bidding for commitment costs up to 300% of reference levels, subject to an unspecified dynamic local market power mitigation structure, and then wait for a year to evaluate whether the market power mitigation structure is effectively preventing the exercise of market power. Contrary to assertions by the Joint Parties, this approach is not necessary to allow more accurate and up-to-date capture of verifiable costs through reference level adjustments, and it will expose ratepayers to risks of substantially inflated commitment costs resulting from exercise of market power.

The Joint Parties assert that “[t]he [ISO’s] proposal as it stands could leave generators *less able* to reflect cost expectations and willingness to supply energy than under the current

rules.” (Emphasis in original). There is no explanation for that statement, and the Six Cities do not believe it is accurate. The ISO’s Draft Final Proposal recommends a number of 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. Moreover, contrary to their self-characterization, the Joint Parties certainly do not constitute a “very diverse set” of market participants. Most of the Joint Parties are generators or representatives of generators that participate in the markets exclusively or predominantly as sellers, and they will bear little or no burden if commitment costs are inflated through the exercise of market power.

To strike the proper balance between allowing resources to recover verifiable commitment costs while protecting ratepayers against the exercise of market power, the ISO should phase the completion of this initiative, as recommended by the Six Cities and by the Department of Market Monitoring, to implement as promptly as possible the enhancements to allow adjustments to reference levels and increased bid frequency while deferring implementation of market-based bidding pending further analysis and testing of market power mitigation measures. The ISO should not adopt the Joint Alternative Proposal, because it would expose ratepayers to substantial risk of inflated commitment costs resulting from the exercise of market power.

Submitted by,

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