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Mr. Richard Maullin – Chair
Board of Governors
California Independent System Operator Corporation
P.O Box 639014
Folsom, CA 95763-9014

Re: 2017 Stakeholder Initiatives Roadmap

Dear Chair Maullin and Members of the Board:

I am writing on behalf of the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (referred to collectively as the “Six Cities”) regarding the ISO’s 2017 Stakeholder Initiatives Roadmap and recommendations that the Six Cities have made for modifying the process by which initiatives are selected for inclusion in the Roadmap.

The Six Cities appreciate and strongly support the ISO’s commitment to pursue the investigation of Congestion Revenue Rights (“CRR”) auction efficiency in 2017. The ISO’s Department of Market Monitoring has documented that the CRR auction process in 2016 produced \$47.5 million less in auction revenues than the payments made to holders of auctioned CRRs. To place that amount in perspective, the ISO’s quarterly reports quantifying Energy Imbalance Market benefits estimated gross 2016 EIM benefits to ISO market participants of approximately \$28.34 million. Thus, the 2016 cost to ISO LSEs resulting from the CRR auction process exceeded the estimated EIM benefits to ISO market participants in 2016 by 1.7 times. From 2012 through 2016, CRR auctions have resulted in annual revenue deficiencies averaging approximately \$123 million at the expense of LSEs in the ISO area.

The continuing shortfalls in CRR auction revenues as compared with payments made to the holders of auctioned CRRs require prompt attention. The ISO plans to conduct additional analysis, beginning in the third quarter of 2017, of the root causes for CRR auction shortfalls before formally commencing this initiative. Analysis of the causes for the CRR auction revenue shortfalls should commence well before the middle of the year so that an appropriate solution to the CRR auction revenue deficiencies can be implemented prior to the auction for annual CRRs for 2018.

The Six Cities also recommend that the ISO make significant revisions to the process for identifying and prioritizing market design initiatives going forward. The process followed over the past several years has significant defects. Most of the initiatives that end up in the Roadmap for a particular year have not been evaluated through the stakeholder initiatives process but have been commenced by the ISO of its own accord or committed to by the ISO in response to

demands by subsets of stakeholders. In addition, the attempt to quantify the ranking process for initiatives that currently is in effect provokes unproductive controversy and implies a degree of objectivity and precision that is not accurate. The ranking process has led to stakeholder comments amounting to self-interested assessments of the desirability or undesirability of potential initiatives in an effort to shift the ranking scores.

The Six Cities have recommended detailed reform proposals in our written comments to streamline the Stakeholder Initiative process through a bottom-up process that would take place every six months and involve three basic steps: (1) a nomination process, in which any interested stakeholders, the Department of Market Monitoring, and the ISO Staff each could propose no more than five initiatives, and the nominating entity would be expected to explain the expected benefits of a proposed initiative with specificity (*i.e.*, not just conclusory assertions that a proposal would “improve reliability” or “enhance efficiency”); (2) a good faith, qualitative assessment by the ISO Staff of anticipated benefits from the defined array of proposed initiatives; and (3) for initiatives with the highest anticipated benefits, consideration by the ISO Staff of resource intensiveness, complexity, potential for controversy, and potential for impact on other market design elements and selection of a manageable number of “high benefit” initiatives to be pursued in the following six-month period. Unless compelled by the FERC, the ISO should commence a new “non-discretionary” initiative without following the process summarized above only when necessary to address a significant and time-sensitive reliability concern.

Although the reformed process recommended by the Six Cities would rely heavily on the exercise of judgment by the ISO Staff, the Six Cities believe the revised process would be more meaningful, more transparent, and less burdensome for the ISO Staff and stakeholders alike than the existing process. The Six Cities ask that the Board encourage the ISO Staff to consider and propose process revisions as soon as possible, allow opportunities for further input from all interested stakeholders, and adopt process revisions in time to guide the selection of stakeholder initiatives for 2018.

Thank you for your consideration of the Six Cities’ concerns.

Very truly yours,



Bonnie S. Blair

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

Cc: Mr. Ashutosh Bhagwat, Mr. Mark Ferron, Ms. Angelina Galiteva, and Mr. David Olsen
Stephen Berberich, President and Chief Executive Officer
Roger Collanton, Vice President and General Counsel